

PD-APL-465

**TRADE AND INVESTMENT PROJECT**

**497-0363**

**USAID/JAKARTA**

**March, 1993**

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Indonesia

3. PROJECT NUMBER

497-0363

4. BUREAU/OFFICE

ASIA

5. PROJECT TITLE (maximum 40 characters)

Trade and Investment

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
 09 30 98

7. ESTIMATED DATE OF OBLIGATION

(Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 93 B. Quarter 3 C. Final FY 97

8. COSTS (\$000 OR EQUIVALENT SI = 2,050 )

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( 1,400 )	( )	( )	( 15,000 )
(Loan)	( )	( )	( 1,400 )	( )	( )	( 15,000 )
Other						
U.S. 1.						
2. U.S. Private			500			4,900
Host Country Government			207			1,900
Host Country Private			131			2,400
TOTALS			2,338			24,200

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)						15,000		15,000	
(2)									
(3)									
(4)									
TOTALS						15,000		15,000	

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 improve the trade policy environment and access to business services conducive to increased trade and investment.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
 09 95 06 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  941  Local  Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)

17. APPROVED BY

Signature

Charles F. Weden

Title

Mission Director  
 USAID/Indonesia

Date Signed

MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

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## LIST OF ACRONYMS

ABLE	- American Business Linkage Enterprise
ADC	- Agricultural Development Center
AEE	- Office of Agro-Enterprise and Environment, USAID/Indonesia
APEC	- Asia Pacific Economic Cooperation
ARSSP	- Agricultural and Rural Sector Support Program, USAID/Indonesia
ASEAN	- Association of South East Asian Nations
ASIA/TR	- Asia Bureau, Office of Asia Technical Resources, AID/Washington
BAPPENAS	- National Development and Planning Agency
BKPM	- Capital Investment Coordinating Board
CY	- Calendar Year
DGDT	- Directorate General for Domestic Trade, Ministry of Trade
EIA	- Environmental Impact Assessment
EKUIIN	- Coordinating Ministry for Economic, Finance and Industrial Affairs and Development Supervision
EPSO	- Office of Economic Policy Support
FAS	- U.S. Foreign Agricultural Service
FCS	- U.S. Foreign Commercial Service
FY	- Fiscal Year
FSN	- Foreign Service National
GATT	- General Agreement on Tariffs and Trade
GOI	- Government of Indonesia
IABC	- Indonesian-American Business Center
IEE	- Initial Environmental Examination
IESC	- International Executive Service Corps
IG	- Inspector General
IQC	- Indefinite Quantity Contract
KADIN	- Indonesian Chamber of Commerce and Industry
KANWIL	- Regional office
MBSP	- Multiple Business Service Program
MOT	- Ministry of Trade
NAFED	- National Agency for Export Development
PACD	- Project Assistance Completion Date
PED	- Office of Private Enterprise Development, USAID/Indonesia
PID	- Project Identification Document
PIL	- Project Implementation Letter
PITO	- Private Investment and Trade Opportunities Project, USAID/ASEAN
PM	- Person Months
PPS	- Office of Program and Project Support, USAID/Indonesia
PRISM	- Program Performance and Information System for Strategic Management
PROAG	- Project Agreement

REPELITA	-	GOI Five-Year Development Plan
RLA	-	Regional Legal Advisor
TIPP	-	Trade Implementation and Policy Program
TIS	-	Trade and Investment Services
USAID	-	United States Agency for International Development
USDH	-	United States Direct Hire Employee
UNDP/ITC	-	United Nation Development Programme
USG	-	United States Government
VE	-	Volunteer Executive
WID	-	Women in Development
YP	-	Young Professionals

## EXECUTIVE SUMMARY

### Trade and Investment Project (TIP)

**BACKGROUND:** The Indonesian government, through a series of deregulation packages initiated in the mid 1980's, has begun the task of establishing market-oriented policies conducive to more efficient economic growth. With increased market freedom and other fiscal and economic incentives, the Indonesian private sector is expected to lead the country's economic growth in the 1990's. To be able to assume this role, the private sector requires an efficient and dynamic business environment; an environment which enhances the productivity of Indonesian industry and traders and ultimately the attractiveness of increased investments in Indonesia's productive sectors.

The Trade and Investment Project (TIP) is designed to address key areas which remain bottlenecks to dynamic private sector trade and investment. Private and public sector institutional development have lagged behind policy reform, perpetuating implementation obstacles which significantly curb the potential benefits of economic reform. In the public sector, this is particularly evident where government institutions, whose primary function traditionally has been to regulate business decisions, are now expected to promote business initiatives. The private sector still suffers from information and managerial handicaps which limit its performance. This is especially true for smaller firms. Weak intermediary institutions, such as trade and producer organizations, rarely are capable of providing needed assistance and representation in a timely manner. Additionally, access to services and information about potential trade and investment opportunities is extremely poor.

A Project Identification Document (PID) for the Trade and Investment Project (TIP) was developed in 1989 to address some of these problems. However, as Project Paper (PP) design work progressed, it became clear that the identified GOI lead agency was not appropriate for implementation of the project. Accordingly, the project was placed in a holding pattern while issues related to GOI involvement were being resolved.

In the interim, USAID initiated a number of building block activities in the trade and investment arena with the Ministry of Trade (MOT). These have been either fully developed or vetted and are now being melded into this \$15 million (grant), five-year Trade and Investment Project. The term "investment" is included in the title of project in recognition that investment-related decisions often flow from improved trade transactions, however, the main focus of TIP is on trade facilitation.

**SUMMARY PROJECT DESCRIPTION:** Key officials within the MOT expressed strong interest in working with the Mission to complete design of a TIP project. The proposed project balances the need to strengthen the ability of both public and private sectors to contribute to a dynamic trade environment which will accelerate Indonesia's economic

growth and development. This balance between public and private is achieved through a combination of three project components. The **Trade Implementation and Policy Program (TIPP)** component provides direct support to enhance the MOT's staff capabilities to analyze, develop and implement market-oriented policies and practices. The second and third component, the International Executive Service Corps' **Multiple Business Services Program (MBSP)** and the establishment of an **Indonesian-American Business Center (IABC or Center)** will operate in a complementary way to facilitate access to services and information and enhance the private sector's ability to assume a leadership position in the field of trade and investment. Specifically, these latter two activities parallel and complement the MOT's Export Support Board program and the National Agency for Export Development (NAFED) activities.

The goal of TIP is to broaden and increase private trade and investment in Indonesia. The project purpose is to improve the trade policy environment and access to business services conducive to increased trade and investment. The project goal and purpose parallel USAID/Jakarta's Strategic Objective of "Broadened and increased private investment and trade" and related program outcomes.

The three project components to be implemented under TIP are described below.

**(1) The Trade Implementation and Policy Program (TIPP):** The TIPP component intends to further the rapidly expanding GOI trade deregulation effort, both in terms of advancing trade policy reforms and in terms of developing the institutional and human resource capacity to implement trade deregulation on an effective and sustained basis, with a special emphasis on Ministry of Trade activities. This component will: improve MOT's in-house training programs; upgrade MOT's capacity in international negotiations; advance foreign trade deregulation; promote domestic trade deregulation and small business development; promote exports; and improve donor coordination.

Four long-term advisors will implement the TIPP activity: an international negotiations expert, an advisor on foreign trade deregulation, a domestic trade deregulation advisor, and a program leader for MOT's in-house training program.

TIPP is a key element of the trade development strategy of the MOT. TIPP is an expansion of the pilot Young Professional's (YP) Program funded under the Mission's Agricultural and Rural Sector Support Program (ARSSP). The YP Program focused on strengthening the analytical, computer, and English language capabilities of mid-level Ministry of Trade (MOT) professionals and has already helped the Ministry start shifting its role from a regulator of trade to a facilitator of trade. The TIPP component is the logical extension of this pilot effort. The project will fund TIPP program activities starting in year two. In the interim, TIPP activities will continue to be funded under ARSSP.

**(2) Multiple Services Business Program (MBSP):** A.I.D. has provided support over the years to the International Executive Service Corps (IESC) to assist Indonesian businesses obtain technical advice and trade and investment services. Provision of sustained support to IESC over a five year period will enable the development of the Multiple Services Business Program. Thus, in addition to providing needed expertise to individual firms, IESC will be in a position to develop a program to strengthen business associations which in the long run will be capable of providing services to these firms. Enhancing the performance level of Indonesian businesses is one of the necessary elements for increased foreign and domestic trade in Indonesia and thus a key component of the trade and investment strategy.

In March, 1992, the Mission reviewed an unsolicited IESC grant proposal to establish a five-year Multiple Businesses Service Program in Indonesia to provide four types of services to local business: (1) business association strengthening, (2) trade and investment services, (3) market and technology information research, and (4) direct technical assistance to companies. The aim of the MBSP is to strengthen the competitiveness of selected segments of Indonesia's private sector. The project will test a series of different fee generating approaches to providing services to move service delivery towards self financing.

Aside from the range of IESC volunteers who form the cornerstone of IESC activities, this component will support a MBSP office manager, a trade and investment business services manager, and, except for the first year of activity, a trade and promotion program manager. The MBSP will be located in the IABC (see below). The project will fund a five-year cooperative agreement with IESC to implement this program.

**(3) Indonesia - American Business Center (IABC or Center):** Both the GOI and the Indonesian private sector regard the U.S. as a major supplier of technology, equipment and services. From the U.S. business person's perspective, Indonesia offers a potentially huge market in Asia (with a population smaller only than India and China), diverse and rich natural resources, relatively prudent fiscal and monetary policies, and political stability.

The purpose of the IABC will be to promote and facilitate commercial linkages between the two countries through a one-stop facility. The Center will be a focal point for U.S. and Indonesian businesses to obtain information and assistance related to U.S. and Indonesian trade, investment and partnership opportunities. The IABC will bring together the services and expertise available to private firms through housing USG and GOI trade related agencies, USAID project representatives and/or other organizations which offer assistance to businesses. Additionally, the Center will include office space and seminar/exhibition space which will be available for rent by business firms or individuals.

A contractor will be responsible for space rental and required procurement, overall management and administration of the Center's facilities, promotion of the Center, and expansion of the Center's tenant base and fee services which will be available to interested clients (such as secretarial, translation, printing and communication services). Each prospective tenant, e.g., US & FCS, FAS, NAFED, ESP, IESC, ASEAN PITO and EIA

project representatives and others, will staff its own offices and implement its own programs independently. Each of the tenant organizations will benefit from general reception services, meeting and exhibition spaces as well as the additional contacts provided by co-location of trade and business service organizations. Co-location of these representatives will make a wide range of information (including data bases and the US & FCS library), services and technical expertise more accessible to Indonesian and American entrepreneurs interested in commercial linkages.

The Center is being designed as an initial three-year experimental effort. It is expected to generate revenues to cover a portion of its operating costs in those three years and should achieve a positive cash flow by the end of year five.

Continued grant support for the IABC beyond three years will, however, depend on the results of the Center's financial performance. At the conclusion of the third year of operation, the Center should document annual revenues in excess of \$150,000 to receive further TIP support. For planning purposes, a fourth and fifth year of support are included in the budget calculation.

PROJECT ADMINISTRATION: There will be a separate institutional contractor or grantee for each of the project components. Robert Nathan and Associates has been awarded the contract for the TIPP component under ARSSP. IESC will implement the MSBP under a cooperative agreement and an 8-a firm will be the contractor for management of the IABC.

**The Ministry of Trade** will be the counterpart, implementing GOI agency. A comprehensive TIP project of the type now being proposed will provide a framework to implement policy reforms and also directly involve the private sector which is intended to benefit from such reforms. The balanced approach being proposed is expected to generate a synergy between policy and practice which should further improve the MOT's performance as a service organization and result in expanded trade and investment.

**USAID/Jakarta's Private Enterprise Development (PED) Office** will have overall project responsibility. PED will work closely with the Economic Policy Support Office (EPSO) which will continue to provide project management support for the TIPP component.

The project will be under the guidance of a **GOI-US AID TIP Project Steering Committee**. This committee will provide policy guidance to the project but may assign working level committees to review and approve annual workplans (in the case of IABC, business plans) for each of the components.

FINANCIAL REQUIREMENTS: USAID intends to authorize a grant of \$15 million to support the TIP project. The Indonesian and U.S. private sectors will provide \$2.4 million and \$4.9 million respectively in the form of financial fees and in-kind services. The GOI will contribute \$1.9 million, largely in support of the TIPP component.

After authorization in Fiscal Year (FY) 1993, the Mission intends to obligate a total of \$1.4 million under the new TIP project to finance the start up of the IABC and the IESC grant. The Mission's ARSSP project has already obligated \$1.6 million in FY 1992 for the TIPP component. TIP obligations for this component will commence in FY 1994.

## TRADE AND INVESTMENT PROJECT

### I. PROJECT CONTEXT

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#### A. The Development Context

Indonesia is a country in economic transition, with sound prospects for joining the ranks of newly-industrializing nations by the end of the decade. Several years of strong economic growth have transformed the national economic mood from apprehension to cautious optimism.

Over the past decade the Government of Indonesia (GOI) has shifted from an inward-oriented trade focus to a vigorous outward-oriented trade regime aimed at increasing the international competitiveness of the economy and attracting investment. Major policy reform efforts have been applied in the trade and investment sectors, the financial and capital markets, and the tax system. Key trade policy reforms include maintaining a competitive real exchange rate, replacing non-tariff barriers with tariffs, the gradual reduction of tariff rates, and providing a duty drawback scheme for importing inputs used to produce exports. As a consequence of these and other reform efforts, some of the costs of operating businesses caused by government regulations have been reduced. The government has acted convincingly in its aim to establish market-oriented policies more conducive to efficient economic growth.

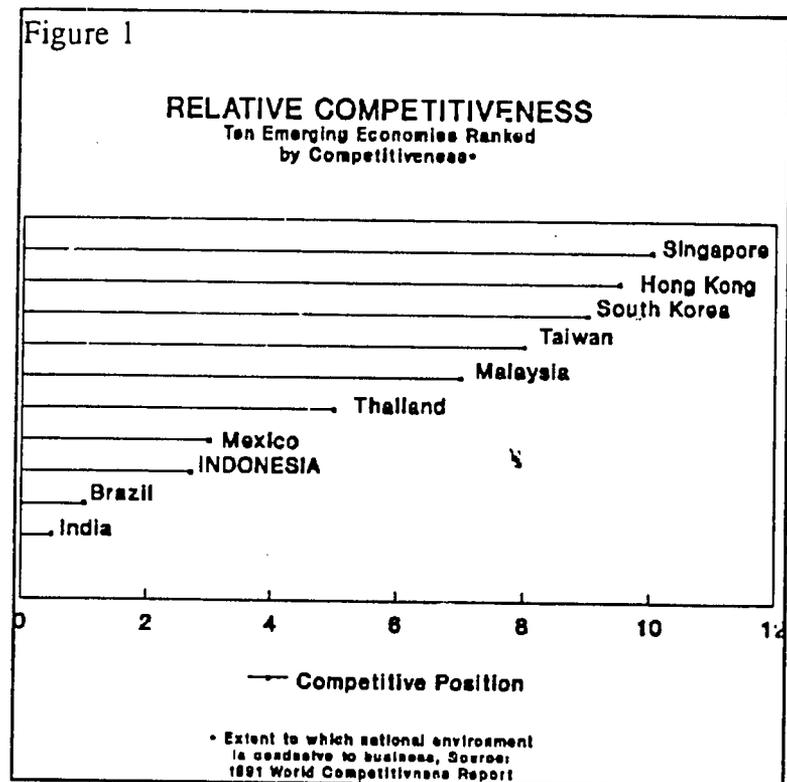
Of course, short-term success creates other challenges. Indonesia is still a relatively poor country, with one of the lowest per capita income of any ASEAN country. It continues to face the daunting challenge of evenly distributing the fruits of development to all segments of its huge population -- now the world's fourth largest. Foreign and domestic private enterprises face a wide range of problems in Indonesia: inadequate telecommunications, electricity supply and physical infrastructure; weak commercial law code and practices; land titling difficulties; inefficient manufacturing and processing systems; poor quality control systems, which give Indonesia a reputation for producing low-quality goods; and an educational system which is strained to fulfill the requirements of a rapidly industrializing economy. In addition, the growth in private sector activity has focused attention on the inadequacy of existing business services and the GOI's need to strengthen its institutional capability to analyze rapidly changing conditions and design and implement appropriate policy responses. Shortcomings in these areas are increasingly evident as the country strives to improve the efficiency and competitiveness of Indonesian enterprises, particularly with respect to their ability to attract and mobilize investment and to trade products and services in the international marketplace.

## B. Project Rationale and Problem Statement

Indonesia's efforts to promote private sector growth during the current five-year development plan (REPELITA V) have been assisted by the various GOI reform programs and deregulation packages which have been introduced in recent years. For the most part, such initiatives have succeeded in not only attracting new investment but also promoting a degree of openness, competitiveness, and private sector initiative in what has long been considered an overprotected, high-cost economy.

Indonesia's deregulation and outward-oriented development strategy has produced real results. From 1988 to 1991, the non-oil manufacturing sector expanded at an average annual rate of approximately 12 percent and non-oil exports grew at an average annual rate of over 15 percent. Moreover, the benefits deriving from the structural changes and concomitant growth have been widely distributed throughout the economy. According to the World Bank, *"the strong growth in the non-oil economy created productive, new job opportunities that reduced unemployment, raised real wages, increased real incomes and consumption, and contributed to a reduction in poverty."*<sup>1</sup>: Figures released by the Central Bureau of Statistics reinforce this view: the percent of population in real poverty has declined from 40.1% in 1976 to 15.1% in 1990.

Yet, despite these efforts, Indonesia still lags behind other emerging economies in terms of its relative competitive position (see Figure 1). In order to pursue an export-led growth strategy, which evidence shows has a much higher impact on job creation than does import-substitution-led growth, Indonesia must keep moving forward with steps to increase the competitiveness of the nation's private enterprises. This will be essential in order to achieve the economic growth rates required by this populous nation to reach middle income status, especially as competition for trade and investment capital among the world's emerging economies increases.



<sup>1</sup> "Indonesia: Developing Private Enterprise," Report No. 9498-INP, May 9, 1991 pg.vii.

However, while the deregulation program has been remarkably successful, its promise has yet to be fully realized. In addition, achieving broad-based private sector growth over the next decade brings a continuing set of challenges. It requires, in the first instance, that the momentum of the reform effort be sustained. Further improvements in the incentive regime will require, *inter alia*, continued progress in reducing barriers to foreign and domestic trade, improving information flows within the private sector (as well as between the public and private sector), and strengthening the private sector's ability to provide a wide array of services essential to enhancing both productivity and marketability of Indonesia's goods and services.

The current problem, which TIP addresses, is that private and public sector institutional development has lagged behind policy reform, perpetuating implementation obstacles that curb significantly the potential developmental benefits of economic reform. In the public sector, this is particularly evident where government institutions whose primary function traditionally has been to regulate business decisions are now expected to promote market-driven business initiatives. Even when government policy implementation is effective, the Indonesian private sector still suffers from information and managerial handicaps that limit trade and investment performance. Intermediary private institutions, such as trade and producer organizations, are currently too weak to provide the assistance and representation these firms and workers require.

The business services infrastructure essential to the fair and efficient operations of a free market economy are not yet well enough established to keep up with the potential pace of commercial activity. These impediments reduce the productivity, quality of output and efficiency of private enterprises which must therefore forego opportunities for business expansion and increased trade and investment. Thus, there are a number of business sectors and individual enterprises which are not yet capable of taking full advantage of Indonesia's improved business environment. This is especially true for small and medium size firms.

Properly directed technical assistance and support for outreach activities can help overcome constraints which still hamper the attainment of the full developmental potential of deregulation by institutionalizing the ability of the GOI to advance market-oriented policies, by assisting a wide range of firms increase their productivity and by improving private sector access to opportunities for increased participation in the economy. This is the approach proposed in this Trade and Investment Project.

It is considered crucial to work simultaneously with the public sector, which is the locus of policy decisions, and with the private sector, the action agents, in order to present the positions of businessmen to government regulators and policy makers. It is assumed that a broader consensus will make it easier to solve the particular problems and constraints faced by both the public and private sectors and thereby develop better policies. Successful results of this partnership will be: further the deregulation of trade and investment through policy reform, promotion of efficient and effective means of implementing these policies, and provision of information and services which facilitate appropriate business responses to the newly deregulated trade and investment environment.

### **C. Relationship to GOI's Development Strategy**

Indonesia's strategy for development increasingly depends upon a dynamic private sector capable of providing the levels of investment and production required to sustain growth at projected rates contained in the GOI's Five-Year Development Plans. To address such constraints, the current plan, REPELITA V, in its chapter on business development, notes:

*"Deregulation and debureaucratization policies in various sectors relating to the activities of business production, trade and investment will be continued and improved, with attention given to the implementation of those policies in the field. In addition, closely related to the establishment of a stable, sound and attractive undertaking climate is development of physical and institutional infrastructure which is adequate and can support the fast developing business world."*

The TIP Project is fully consistent with and supportive of the GOI's overall objectives to enhance the business climate in Indonesia and to improve the private sector's competitiveness, efficiency and productivity in order to take advantage of domestic and international trade opportunities. In this regard the Project recognizes the existing gap in the institutional ability to provide ongoing policy analysis and in essential business services and the critical need for improvement in both spheres. In addition, the Project will address the GOI's concerns regarding equitable trade and investment opportunities for all business firms.

The three components of the TIP project have been discussed with the Ministry of Trade in meetings between MOT and USAID staff. Based upon this Project Paper, the MOT will work with BAPPENAS in finalizing, in cooperation with USAID, the exact responsibilities and composition of the GOI/USAID TIP Steering Committee.

### **D. Relationship to A.I.D. Strategies and Activities**

The A.I.D. Policy Paper on "Private Enterprise Development" outlines the Agency's commitment to expanding the role of the private sector in development through a three-pronged approach: by promoting a policy climate conducive to private sector activity; by developing viable, competitive markets; and by fostering greater reliance on market forces.

The Paper also addresses the Agency's concern regarding commercial risk constraints affecting development through the availability and cost of investment funds. Among these commercial risk constraints are the lack of necessary business services, the lack of qualified human resources, and the resulting inadequacy on the part of firms to meet production targets, delivery schedules and quality standards.

In late 1992 USAID/Jakarta initiated a Program Performance Information System for Strategic Management (PRISM) exercise which identified "broad-based and sustainable economic growth" in Indonesia as its Program Goal. One of the USAID/Jakarta's four

Strategic Objectives is "broadened and increased private trade and investment," which corresponds to the goal of the TIP project. TIP project purposes are synonymous with the two Program Outcomes for this PRISM Strategic Objective, namely: "Improved enabling environment for private sector economic growth "and" improved institutional capacity of the private sector to respond to economic opportunities."

TIP complements existing Mission support to activities which are geared to enhancing the enabling environment for private sector economic growth and improved institutional capacity of the private sector to respond to economic opportunities. The most notable ongoing activities are in: the finance sector, through ARSSP (referred to above), Financial Intermediary Development (FID) and the Financial Markets Project (FMP); in the urban sector, through the Private Participation in Urban Services (PURSE) project; and in the agricultural sector, through ARSSP and the Agribusiness Development Project (ADP or Agribusiness Project). Additionally, the Economic Law and Improved Procurement Systems (ELIPS) project is working with the Coordinating Ministry for Economic, Finance and Industrial Affairs and Development Supervision (EKUIN) on the development and modernization of necessary laws for an improved environment for commercial activities. TIP expands these activities to the trade arena, through its concentration on the enabling environment for trade, and through its direct assistance to firms and organizations to increase their both productivity and their exposure to domestic and U.S. trade and investment opportunities.

The Agricultural Development Center (ADC), sponsored through the Agribusiness project, will assist agricultural producers and processors to increase their productivity and marketing capabilities. The ADC can benefit directly through the synergy of co-location with the proposed IABC. Clients will be able to obtain, at the same location, additional information and assistance related to trade and investment opportunities. The services will be especially advantageous to small and medium size firms whose limited staff and resources can be optimized through this one-stop facility.

The design of TIP also takes into account lessons learned from previous USAID/Indonesia and other A.I.D. activities.

First, the TIPP component builds directly on the success of the ongoing ARSSP-supported Young Professionals (YP) program with the Ministry of Trade. The ARSSP project provides resources for pilot testing innovative activities. If an activity is successful and requires longer term resources for a sustained and/or expanded effort, it is to be spun off into a project. Such is the case with the YP program which provided the foundation for the TIPP component of the proposed project. TIPP is already fully designed, agreed to by the GOI, contracted and in the initial phase of implementation. Inclusion of TIPP as a component of the proposed project moves this activity from the multi sector ARSSP project to a project which will link trade policy decision makers directly with private sector entities which, through their real world responses, will test the effectiveness of the policies.

Second, the MBSP component is shaped by experience gained through long A.I.D. support to

the International Executive Service Corps (IESC). On a yearly basis, the Mission has funded approximately 15-20 short-term Volunteer Executive (VE) industry experts who have helped Indonesian firms improve management, productivity and marketing. The Mission, while recognizing the value of such VE assignments, has concluded that this is inadequate to the scale of the need. If IESC is to have a lasting impact, there must be a more proactive and systematic approach to providing business services which generate long-term business linkages. Thus, IESC through the MBSP component will address not only enterprise specific problems but also spur the development of local business organizations which, in the long run, will provide valued services to their members on a systematic, sustainable basis.

The Mission reviewed the IESC proposal for the MBSP in light of the experience of the Export Support Board (ESB), which was established by the Government of Indonesia with loan funds from the World Bank. The ESB provides technical assistance and training to small- and medium-sized Indonesian firms seeking to export. Assistance is focused on improving production processes, quality control and marketing. A major problem experienced by the ESB has been its operational mode of only being allowed to work with individual enterprises. This has limited the ability of the ESB to multiply the assistance provided by expatriate and domestic consultants and has made such assistance relatively expensive in terms of cost/benefit. The TIP design has noted this weakness; hence the project, through the MBSP, will also support the development of business organizations and groups of businesses. Additionally, IESC will be able to provide assistance, mostly in the form of on-the-job training, to ESB to improve its productivity as a service provider.

Third, USAID/Indonesia has incorporated lessons learned from experience elsewhere, such as USAID/Jordan's Private Services Sector Project (PSSD) an activity signed in 1987. An evaluation of the project in 1991 noted two major problems. First was a lack of consistent government support for the role of the private sector in economic growth. Second, the project encountered serious implementation difficulties by attempting to deliver a wide range of business services through a single technical assistance contract. To rectify this problem, the evaluation recommended against a design utilizing "wholesale" procurement to cover the entire services program. The TIP design and context is responsive to these weaknesses. First, the GOI is solidly committed to nurturing the growth of private sector services. This is most evident in the steps the GOI has taken to invigorate the growth of the financial services sector over the past five years. All indications are that the GOI will continue to place a strong emphasis on the role of the private sector in the provision of business services. Second, TIP's design of two contracts and one grant to manage the three discrete components has taken into account USAID/Jordan's PSSD experience in which too many services were implemented through one contractor.

Finally, the proliferating number of regional and centrally supported programs dealing with trade, investment, environment and other issues has led to some confusion as to what is available to whom and how Indonesia can effectively access and leverage the resources these programs offer. Other experience indicates that a one-stop facility helps government officials and business clients keep abreast of the opportunities offered by this expanding array of information, assistance and partnership linkage opportunities. A.I.D. activities are becoming

more interrelated as we focus on issues such as the private sector, economic growth, trade and environment. The IABC is based on the concept of bringing together, under one roof and in an accessible location, available programs which have their own objectives but which often overlap. Indonesian and American business persons will be able to go to one location and avail themselves of multiple services. IABC tenants benefit from learning about the services provided by other tenants which may complement theirs. Finally, the USG and the GOI will benefit from more efficient use of available program resources.

## II. PROJECT DESCRIPTION

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### A. Overall Description, Goal, and Purpose

The top priority of the project is to stimulate trade in Indonesia, including both foreign exports and imports, and internal trade within and among provinces. An inefficient trading system is widely held to be a primary contributor to Indonesia's high-cost economy. Also, expanding trade opportunities encourage investment and technology transfer, since marketing prospects help determine the profit incentives that drive business investment and technology decisions. At the same time, once domestic production capacity is fully employed, as is the case now in many manufacturing sectors in Indonesia, growth in trade cannot occur without new investment. The project, therefore, also addresses promotion of investment in Indonesia, from both domestic and foreign sources. These two highly interdependent economic activities -- trade and investment-- are key elements in the GOI deregulation effort and contribute vitally to achievement of top GOI economic development priorities, especially increasing non-oil export, employment and income growth.

The Trade and Investment Project (TIP) has three components. It is a five-year effort, and includes a life-of-project A.I.D. funding level of \$15 million (grant). The goal of the project is to broaden and increase private trade and investment in Indonesia. The purpose of the project is to improve the trade policy environment and access to business services conducive to increased trade and investment. More specifically, the project outputs are: 1) improved institutional capacity of the Ministry of Trade to analyze, formulate and espouse market-oriented trade policies; 2) increased number of competitive local enterprises and private business associations providing highly-valued services to members and clients; and 3) increased access by U.S. and Indonesian businesses to information, services and trade and investment opportunities.

### B. Project Components

Developing the institutional commitment and capacity within the GOI to support trade deregulation is a key step toward achieving a sustainable, enabling economic environment for private sector development and economic growth. This project will work with the Ministry of Trade (MOT), which will serve as the counterpart GOI agency. Improvement of the MOT's capacity to support the trade deregulation effort will be funded under the **Trade Implementation and Policy Program (TIPP)** component. Institutional support for the private sector to promote appropriate business responses to the deregulated trade and investment environment will be developed through the **Multiple Business Services Program (MBSP)** component and the establishment of an **Indonesia-American Business Center (IABC)** in Jakarta. The MBSP will complement and augment the work of the GOI institutions such as the Export Support Board (ESB). The IABC represents an effort to expand the outreach of various U.S. and Indonesian Government programs aimed at bringing the Indonesian and U.S. private sectors together: in particular, US-FCS of the Department of Commerce and the Export Development Agency (NAFED) a division of the MOT.

The following provides a description of each of these three components.

## **1. Trade Implementation and Policy Program (TIPP)**

By all accounts, Indonesia's deregulation program has been enormously successful. Its effects have been to unleash vigorous private sector activity, increase domestic and foreign investment, and greatly reduce reliance on oil as a source of government revenue and export earnings. Non-oil exports now account for about two-thirds of all merchandise trade receipts, compared to just about one-third in the early 1980s. Non-oil exports and imports have nearly doubled over this period, helping to stimulate rapid economic growth. Despite these notable successes, transformation of the economy from a "high cost" to an "enabling" business environment is not yet complete. Further progress in trade deregulation requires both sound policy reforms and the institutional and human resource capacity to implement those policies effectively. In particular, this trade deregulation mandate, coupled with the resulting economic transformations brought about by past deregulation, introduces a number of new challenges for the GOI. These include the following: Defining and mobilizing the role of government in a deregulated economic environment; advancing trade policy deregulation and developing effective policy formation procedures; accommodating the shift toward manufacturing and services and away from traditional commodities; managing the ever-increasing globalization of the Indonesian economy; fostering a more competitive and dynamic domestic trade environment; and advancing growth with equity.

Helping the GOI to meet these challenges forms the broad mandate for the Trade Implementation and Policy Program (TIPP) component of the TIP project. TIPP focuses on furthering the GOI's trade deregulation efforts. The TIPP component intends to increase the productivity, and thus the competitiveness, of producers and traders operating in Indonesia by creating an enabling, pro-trade business environment that stimulates sustained increases in both domestic and foreign trade flows.

The activities proposed under the TIPP component will further the rapidly progressing GOI trade deregulation effort, both in terms of advancing trade policy reforms and in terms of developing the institutional and human resource capacity to implement trade deregulation on an effective and sustained basis, with a special emphasis on Ministry of Trade activities.

TIPP will focus its resources on helping the Ministry of Trade (MOT) improve its capacity to support the trade deregulation effort. The MOT is targeted because of its key role in setting and implementing both domestic and foreign trade policy, and because of its desire to shift aggressively its operating role away from regulating business and toward providing services that facilitate and support business activity and private sector development. The Ministry of Trade has initiated a program to modernize its operations to reflect better the deregulation and globalization of the Indonesian economy. In particular, the MOT is developing the human resource and institutional capacities that are needed:

- a) to shift its primary functions away from licensing and regulating business and toward facilitating the non-oil export drive and growth in the private sector;
- b) to reflect the structural shift of the economy toward the growth of manufacturing and modern service sectors relative to the traditional commodity sectors;
- c) to support further advances in the trade (both domestic and foreign) deregulation drive, including improving policy implementation; and,
- d) to manage effectively the new demands arising from the globalization of the Indonesian economy, such as to defend and advance Indonesian commercial interests in international economic relations and to promote Indonesian business pursuits in world markets.

TIPP will work to promote a more enabling, pro-trade economic environment based on market incentives, both in terms of trade policy reform and the improved capacity to implement and support an open-market policy environment over time. Both foreign and domestic trade issues will be addressed. Special attention will be directed toward improving the economic environment in which smaller business can flourish. The seven program objectives of TIPP are outlined below. (See Annex E, TIPP Component, for a description of the activities to accomplish these objectives).

1. Institutional Development and Reorganization

TIPP will help complete and implement the MOT's Institutional Development and Reorganization Plan. This plan will establish a new MOT Mission, with appropriate supportive organizational restructuring, and policy and administrative priorities. The driving force for this plan is to develop an institutional structure in the MOT that strongly supports the GOI's goal of deregulation and debureaucratization.

2. Human Resource Development: Expanding the Young Professional's (YP) Program

For a reorganization to be successful, a systematic human resource development effort is needed to upgrade the staff's capability to perform their new duties competently. TIPP will contribute to this effort by extending and expanding the YP Program, which has been operating for two years. The YP Program is, and will continue to be, the cornerstone of USAID's support for MOT staff development. In addition to the YP Program, which stresses in-house classroom and on-the-job training, it is anticipated that the USAID General Participant Training Project will continue to fund short-term overseas training opportunities for MOT staff. USAID will also work with the contract team to mobilize other donors and internal MOT training resources.

3. Foreign Trade Deregulation: Advancing Policy Reform and Policy Formation Procedures, and Improving Policy Implementation

TIPP will work to develop the institutional and staff capability to support further deregulation of foreign trade (both export and import) policies, with a focus on developing transparent and rigorous trade policy formulation procedures, both within the MOT and with Team Tariff and EKUIN.

4. Domestic Trade Deregulation and Small Business Development

TIP will work to develop the institutional and staff capability to identify and promote deregulation of the domestic trade environment, with the expressed goal of stimulating the development of efficient small scale industries and increasing the economic spread effect of growth in exports.

5. International Negotiations: Upgrading the Capacity for Participating Effectively in International Negotiations

TIPP will work to develop the institutional and staff capability to advance Indonesian commercial interests in international negotiations. Activities include promoting active participation in multilateral trade negotiations such as the GATT and upgrading capabilities related to bilateral and regional negotiations.

6. Export Promotion

TIP will work to develop in conjunction with other donor-assisted (especially UNDP/ITC and German) programs, the ability of the MOT to promote Indonesian exports, with a special emphasis on developing a strategy for the National Agency for Export Development (NAFED) to mobilize most effectively private-sector resources in this area.

7. Donor Coordination

TIP will assist MOT leadership mobilize and coordinate effectively the range of donor assistance provided to support the MOT development program.

TIPP is designed as a five-year program to be implemented under the auspices of the Ministry of Trade. The MOT will provide the overall leadership, office support and requisite staff time, funds for computer hardware and software, and funds for a range of program support activities such as seminars, all of which will be needed to meet program objectives. USAID will provide an array of technical advisors and training support. USAID advisors will emphasize on-the-job training so that MOT staff will be able to maintain program activities on a sustainable basis once USAID funding has ceased. USAID will also take the lead in helping the MOT to coordinate other donor efforts to assist the MOT.

The Technical Assistance Team: The Technical Assistance (TA) Team consists of four resident experts, 60 person-months of short-term TA, and local hire support staff. The prime contractor (Robert Nathan and Associates, which won the contract award for the TIPP activity under the ARSSP project) will provide the TA for this component. The TA team consists of: technical experts on International Negotiations, Foreign Trade Deregulation, Domestic Trade Deregulation, a Young Professional's Program Leader, local hire Program Administrator/Computer Specialist, and a secretary as well as short term technical experts, local and international, to provide specialized skills. (See Annex E.1 for more detail). The long term experts will be phased down in the last years of the program as MOT staff become increasingly versed in the analytical skills needed for policy development.

TIPP accomplishments: By the end of the project, TIPP will have provided assistance to the MOT which will result in:

- 1) A fully operational institutional and human resource development plan implement for several major areas of interest, which includes the developmental of MOT staff capabilities to conduct sound analytical and empirical research.
- 2) Twenty significant research and policy studies completed. Research studies will include such topics as the following: analyzing the economic welfare effects of various trade restrictions; identifying domestic barriers to trade and analyzing their economic impact; identifying constraints to small business development and means to relax them; investigating means of expanding women's participation in trade-related activities; and analyzing the competitiveness of Indonesia's industries within regional and global markets.
- 3) Five years of full operation of the YP Program, an integration of the YP Program into the MOT personnel system, and a fully operational YP Library and information system.
- 4) Full updating and development of data and information bases on foreign and domestic trade flows and policies. MOT staff will be trained to operate the systems, and administer the overall MOT information and computer systems program.
- 5) A fully operational and well-trained Permanent Team on Dispute Settlements.
- 6) A fully operational and well-trained MOT program for participating effectively in the Team Tariff process.
- 7) An upgraded Trade Policy Review Mechanism.
- 8) Production of Commodity Trade Situation Reports prepared for at least six sets of commodities.

- 9) Advanced implementation of a NAFED strategy for export promotion.
- 10) A draft completed and implementation begun on a MOT strategy for small business development.
- 11) A new strategy for the Directorate General for Domestic Trade's activities, drafted and implementation underway.
- 12) An upgraded capacity for developing MOT policy positions for several international commodity agreements.

## 2. Multiple Business Services Program (MBSP)

At the same time as the TIPP component is striving to meet the first part of the project purpose, to improve the trade policy environment, the remaining two components seek to provide approaches which enable the Indonesian private industry to take advantage of the improved policy environment and trade and investment opportunities. Working with both the public and private sectors -- the policy decision makers and the action agents -- is crucial to achieving the project purpose.

The key problem to be addressed by the Multiple Business Services Program (MBSP) component, to be implemented by the International Executive Service Corps (IESC), is the need to increase the competitiveness of Indonesia's private sector. A number of constraints contribute to the difficulty of increasing competitiveness in Indonesia:

- a. Business Services and Sectoral Constraints Although much progress has been made in the area of developing Indonesia's essential business services, there are still critical weaknesses in the overall business services support system (e.g., management consulting, accounting, financial services, etc.). At the sectoral level, ranging from agribusiness to manufacturing, the Indonesian private sector needs to establish closer links with overseas experts, buyers, suppliers, and potential business partners in order to address general weaknesses in the utilization of new and/or improved technologies, management practices and marketing networks.
- b. Trade and Investment Constraints Both U.S. and Indonesia have much to gain in increasing trade and investment flows. Yet the U.S. and Indonesian private sectors have been slow in identifying mutually-beneficial opportunities due to limited knowledge of markets and available technology.
- c. Enterprise-Level Constraints Small- and medium-sized enterprises in Indonesia have difficulty in accessing essential business services and lack sufficient in-house technical and managerial skills to compete with larger firms. This constraint is a major impediment to expanded trade and investment opportunities for such firms, especially if they plan to enter export markets.

- d. Business Associations' Constraints There is a general lack of strong private sector business associations in Indonesia which can provide crucial services to their members and/or clients. Because business associations are weak and ineffective, many small- and medium-sized firms in Indonesia lack much-needed access to a whole range of cost-effective, sectoral-specific business services.

To overcome these constraints and take advantage of the GOI's improved trade policies, the International Executive Service Corps five-year Multiple Business Services Program (MBSP) Program will support the development of broadly-based business expansion. The tailored mix of business development services offered through MBSP builds on IESC's experience in Indonesia since 1968.

IESC will provide the resources of its more than 12,400 volunteer industry experts and world-wide business networks to deliver a balanced, comprehensive program of business services to the Indonesian private sector. Volunteers will address major private sector business constraints related to management, technology, production and marketing practices.

Specifically, the aim of MBSP is to strengthen the competitiveness of selected Indonesian private business sectors and enterprises. To this end MBSP will offer a combined package of mutually reinforcing business services, including technical assistance, trade and investment services, market information/research services, and business and trade association strengthening in order to accomplish the following:

- 1) Develop an on-going trade and investment network that forms linkages between Indonesian, U.S. and other foreign enterprises.
- 2) Assist and strengthen the ability of business and trade associations in Indonesia to access and deliver industry-specific business services. By enabling private sector business support organizations to offer IESC's services to members, MBSP will increase an organization's ability to provide useful business services to its members.
- 3) Provide Indonesian firms with mechanisms to obtain low cost, rapid and reliable information on international technology, market conditions and potential U.S. and foreign business partners.
- 4) Improve planning, productivity, technology, profitability and management for individual Indonesian firms.

(More details on the activities to be carried out are included in ANNEX E.2, MBSP component).

The MBSP will be proactive and systematic. It will concentrate on four business sectors per year. It will produce four *Business Sector Assessment Surveys* annually, based on work by MBSP Volunteer Executives and professional staff. During the sector assessments, volunteer

executive industry experts will visit from 20 to 30 representative firms in each sector in order to assess short and long-term needs, potential for improving operations and entering into various types of business linkages.

Business sectors will be selected by the TIP Steering Committee or its sub-committee for the MBSP component (see Section III). Criteria for sector selection shall include such factors as: development impact; potential for catalytic impact; need for IESC-type support; opportunities for U.S.-Indonesian trade; and, areas of sensitive import/export restrictions in Indonesia and in the U.S. such as Section 599 concerns.

MBSP will provide the following cost-shared business development and linkage services to Indonesian firms and associations:

- 1) Association Strengthening -- A key objective of MBSP is to strengthen *Indonesian business and trade associations* by providing access to IESC services. Assistance will be provided through IESC Volunteer Executive technical and managerial assistance projects to improve the services offered to members by such associations.
- 2) Trade and Investment Services (TIS) -- This will involve establishing trade and *trade and investment promotion initiatives* which will target Indonesian business and trade associations and small- and medium-sized firms. This will include long-term assistance to help create and foster trade and investment linkages and commercial transactions between foreign (primarily U.S.) and Indonesian firms.
- 3) Market & Technology Information Services -- IESC already operates a market research/information service which produces *American Business Linkage Enterprise (ABLE)* studies. These low-cost, custom-tailored ABLE studies provide Indonesian firms with industry and client-specific information on international markets and technology (including partner searches and equipment sourcing).
- 4) Technical Assistance (TA) -- *Individual Indonesian firms* primarily small- and medium-sized firms) and business and trade associations identified by IESC volunteers and staff will be provided with short-term assistance through IESC's traditional technical assistance projects conducted by IESC Volunteer Executives.

IESC will test new forms of fees-for-services associated with investment results, exports, etc. These may take the form of royalties, success bonuses, and intermediation charges associated with the expected value of assistance delivered. Fees paid will be remitted directly to the MBSP program to fund future or additional programming.

The Technical Assistance Team: The technical assistance team in Indonesia will consist of an office manager, promotion manager, administrator, planning and contract officer and a business services manager. More detail included in Annex E.2). In addition, the project will fund 360 p/m of consultancies and about 8% of the IESC Executive Manager's time. In

the U.S., IESC will provide the part time services of a project manager, a recruiter for volunteers and other staff to work on marketing support and accounting.

MBSP Accomplishments: At the end of five years, it is anticipated that, as a result of MBSP activities, selected business and trade associations will have increased their ability to access and deliver professional business development services to member firms and Indonesian firms in targeted sectors will be more competitive. These targeted organizations, once strengthened, will be able to better regulate industry business standards and practices and provide other high-value services to member firms and serve as positive demonstration models for other industry groups.

The following activities will be completed:

- 1) 20 Business Sector Assessment Surveys.
- 2) 10 Indonesian business and trade associations will be strengthened and will be providing better business services to members.
- 3) 20 Trade and Investment workshops or seminars in Indonesia.
- 4) 50 ABLE market information/research reports completed for Indonesia firms.
- 5) 150 Indonesia firms will have received MBSP services, including technical assistance and training, trade and investment services and market information with special attention given to small firms and female owned businesses.
- 6) 2,500 U.S. firms will have been contacted to obtain information on U.S.-Indonesian trade and investment opportunities.
- 7) 40 business venture linkages or commercial transactions between Indonesian and foreign firms will have been completed.
- 8) 20 marketing pieces -- newsletters and promotional brochures, materials, and advertisements.

### **3. Indonesia-American Business Center (IABC)**

The third component of the TIP project -- the establishment of the Indonesia-American Business Center (IABC or Center) -- aims to provide additional impetus to the development of critical business services needed to support business expansion and to improve Indonesian-U.S. trade flows. Rather than attempting to provide such services directly to business clients, the IABC will support a number of existing service providers -- including selected GOI, USG, and private organizations -- by offering expanded facilities and support services

that will improve business access to information and services and promote synergy among various service providers to foster improved efficiencies and specialization.

Although the supply of services available to support private sector business and U.S.-Indonesian trade development is growing, in response to expanded opportunities arising from improved policy conditions and entrepreneurial efforts, the existing array of services are scattered and unorganized. Business representatives requiring specialized services and information need to devote unnecessary time and resources to identify and contact reliable service suppliers. This is especially true for smaller firms. These firms lack the access to essential information and services which large firms are often able to provide internally or purchase from overseas. The problem is exacerbated in a setting such as Jakarta where growing traffic problems create increasing difficulties for business people attempting to fit demanding meeting requirements into tight time schedules.

To foster improved access to various trade development services currently being offered in Jakarta, including current GOI and USG funded programs as well as services offered by private suppliers, the TIP will support the establishment of an Indonesian-American Business Center (IABC or Center). The purposes of the IABC will be:

- a. to group some of the services currently available in a convenient, high profile facility in order to make it easier for business people to locate needed services;
- b. to provide support to Center tenants to enable them to offer services more effectively and efficiently;
- c. to provide a readily identifiable point of first contact for business people to enable them to identify information sources and services that are available to support business development and U.S.-Indonesia trade opportunities;
- d. to raise the profile of U.S.-Indonesian trade relations and help promote key public and private services;
- e. to stimulate the growth and diversification of critical trade development services by helping to identify service needs and link firms requiring services with competent suppliers.

Structure of Center -- Participating Organizations: The IABC will provide high profile facilities to a number of official USG programs, GOI trade promotion organizations, and private services providers -- including both for-profit and non-profit groups.

On the U.S. side, the Center will support an expanded outreach program by the U.S. Foreign Commercial Service (FCS). The Center will provide space to relocate the Commercial Library maintained by the FCS which provides a variety of information sources to help Indonesian businesses identify American suppliers, partners and customers. The

Center will also provide the FCS with access to expanded seminar rooms and facilities to help them conduct an expanded program of catalog shows, seminars, and special trade promotion events. FCS will be an anchor occupant which will provide revenue through rental of the seminar rooms for these activities. In addition, the Center will house FCS trade promotion and market research staff in facilities that will permit greatly improved access by businesses to FCS services -- reducing the obstacles to access that the current FCS location within the Embassy compound creates and significantly improving the ability of the FCS to offer effective business facilitation services on a fee-for-service basis.

To further support the official U.S. participation in the Center, it is envisaged that the IABC would provide space to the Foreign Agricultural Service (FAS) to establish an Agricultural Trade Office to support the rapidly expanding trade in U.S. agricultural commodities that is growing out of Indonesia's successful efforts to deregulate trade. In addition to office space for FAS trade promotion staff, the FAS would have access on a fee basis to the showroom facilities and other business services offered by the Center. Additional space would be available for U.S. agricultural cooperator groups, such as the U.S. Feed Grains Council etc., if such groups elect to be represented at the Center.

The Center will also house and support a number of USAID sponsored programs, including IESC's Multiple Business Service Program and various other A.I.D.-funded programs with trade and business development components. Other prospective A.I.D.-funded program participants include the Agribusiness Development Center funded under USAID's new Agribusiness Development Project; the PITO office of the U.S.-ASEAN Council; the Indonesian representative for the ASEAN/Environmental Improvement Project; representatives of the U.S.-Asia Environmental Partnership; the World Environment Center representative; staff from Winrock International Foundation, Environmental Enterprises of Indonesia, and other groups. These groups provide a range of services including specialized information, technical assistance, training and financing. Most of these groups target small and medium size Indonesia businesses or entrepreneurs and many focus their services on environmental aspects of business development.

On the Indonesian side, it is envisaged that the Center will provide space for representatives of some MOT operations, including NAFED and the Export Support Board. The nature of MOT participation in the Center is expected to vary over the LOP.

Initially, the Center will serve as an outreach office for selected MOT programs, providing a first point of contact for U.S. and Indonesian businesses to obtain information on MOT programs, promotional materials, and referrals to appropriate GOI offices and representatives. As part of the promotional efforts of the Center, the Center management group could work with MOT organizations, such as NAFED and the Export Support Board, to develop joint promotional materials. The Center could also provide on-line computer access to MOT/NAFED trade data bases, and office space for part-time on-site representation by the MOT and facilities to meet with visiting U.S. businesses and trade organizations.

Over time, the Center might develop other functions in collaboration with MOT trade development efforts, such as serving as a marketing office/booking office for MOT exhibition and conference facilities or events, or housing additional outreach programs and full-time staff representatives from the MOT.

In addition to housing representatives of governmental organizations and government-funded programs or groups, the Center will also offer space to independent for-profit and non-profit Indonesian and U.S. organizations concerned with bi-lateral trade between the two countries. Prospective private participants include AMCHAM, Kadin (Indonesian Chamber of Commerce), Indonesian and U.S. trade associations, and private firms offering trade promotion or facilitation services.

Special provision will be made for providing Center facilities and services to smaller businesses, including women-owned firms, smaller trade associations, and business organizations providing services to particular business groups that the TIP is interested in promoting. Such services would be provided on a space-available basis and scheduled so they would not conflict with the business functions of the Center needed to maintain sustainable operations.

Scope of Services to be Provided: Services offered through the Center will include the support services offered by the contracted Center Manager group responsible for Center operations and the individual services offered by Center tenants. The core support services and facilities to be provided by the Center Manager will include:

- 1) High profile office space -- on a temporary, short-term, and long-term basis to meet the diverse needs of organizations and firms and entrepreneurs (on a fee basis).
- 2) Conference facilities, show room space, and meeting rooms to accommodate a variety of activities such as smaller-scale promotional events (e.g. catalog shows), business meetings and seminars (on a fee basis).
- 3) State-of-the-art communications facilities to meet the communications needs of Center tenants and their clients (pro rata charge on occupancy).
- 4) Business services designed to support the operations of Center tenants, including:
  - Developing a directory of local service suppliers, including Center tenants and outside groups that offer specialized assistance to U.S. and Indonesian businesses and facilitation services.
  - Providing copying, binding, and document preparation services (on a fee basis-cost plus).

- Providing computer, graphics, and data management support (on a fee basis-cost plus).
- Arranging translation services (on a fee basis-cost plus).
- Arranging logistical support such as express mail and courier services, car rentals, travel reservations, etc. (on a fee basis-cost plus).

Management and Oversight: The core operations and services of the IABC, including start-up and continuing management, will be the responsibility of a firm selected to serve as the Center Manager. The firm will be retained for an initial period of three years. If IABC operations are successful and prove that they can be made to be financially viable the TIP project will fund an additional two years of service at a decreased level of support.

The role of the Center Manager will be to manage the physical facilities of the IABC and to develop and supply a set of business services that support the programs of the IABC participants. Each individual organization housed in the IABC will manage its own individual programs and activities, drawing upon the Center's common services facilities as needed. The Center Manager, will develop a fee schedule for facilities and services that will be charged to Center tenants and other users.

A Board of Advisors for the Center will be organized to provide guidance on operational policies and procedures for the Center and oversee financial operations. The Board of Advisors will include representatives of the USG (FCS, USAID, and FAS), the GOI, and organizations participating in the Center.

Promoting and Monitoring Center Operations: During the initial three years of the project, an important function of the Center Manager will be to develop an effective promotional strategy for the IABC. This will include developing promotional materials that support the marketing efforts of individual Center tenants, as well as creating a broad-based awareness of Center services among U.S. and Indonesian business groups. Promotional efforts will include special outreach programs to business organizations and firms providing services to special interest groups such as smaller firms and women-owned and managed businesses.

As part of its efforts to monitor the effectiveness and impact of IABC services, the Center Manager will collect baseline data from firms and organizations participating in the Center to gauge the level of initial services being offered. This information will be updated periodically during the LOP through surveys that will assess the effectiveness and impact of Center services and operations on the overall set of services being provided by organizations participating in the Center.

The Center Manager will also carry out annual management reviews and performance evaluations to ensure compliance with A.I.D. contract and financial management procedures, maintain quality control, and to assist with project reporting and evaluation requirements.

Financial Management and Sustainability: A key function of the Center Manager will be to develop fee structures and billing procedures to enable the Center to capture revenue generated from a variety of Center facilities and services. Expected sources of revenue include: rental of short-term office facilities, leasing of conference rooms and exhibition facilities; contact address/mailbox services; equipment rental; telecommunication services; and provision of secretarial support and other business services (typing, translation, document preparation, photocopying, and binding). The Center Manager will establish accounting and control procedures to manage and account for Center revenues. Such revenues will be used offset contract costs and will be dedicated from payment vouchers submitted to USAID by the Center Manager. By the end of year 5, the Center is expected to be operating on a fully sustainable basis. (See Annex E.3 for detail)

Required Inputs: The principal inputs required to launch and operate the IABC for the initial three year period are as follows:

- 1) Start-up and Promotional Costs
  - Staff time -- final business plan, site selection, development of initial promotional materials, collection of baseline data.
  - Initial and Ongoing Promotional Expenses -- U.S. and Indonesian outreach, advertising costs, development of promotional materials, preparation of press releases, etc.
- 2) Funding for initial fixed costs including
  - Build-out of Center facilities
  - Furnishings and equipment (computers, fax machines, phone system, copier, vehicle, other office furnishings and equipment)
- 3) Management and support staff for Center
  - Center Director (expatriate) -- 36 pm
  - Office Manager (local hire) -- 36 pm
  - Executive secretary -- 36 pm
  - Receptionist -- 36 pm
  - Clerk -- 36 pm
  - Driver -- 36 pm
- 4) Operational budget to fund
  - Core office space, conference room, meeting rooms, and showroom/large conference room
  - Initial operating expenses (to be replenished from Center revenues)

5) Funding for management oversight, internal audits, and evaluation

- Outside accounting/auditing services
- Home office oversight and management audits
- Annual performance evaluations

Expected Outputs and Accomplishments: The principal accomplishments that the IABC is expected to produce include:

- 1) Increased synergy among various trade promotion and business services (public and private) available in Indonesia to support business development, resulting in improved efficiency and specialization.
- 2) A higher profile for U.S.-Indonesian trade relations that will facilitate the expansion of commercial ties and support the continued improvement in bilateral trade policies.
- 3) An expansion and strengthening of trade facilitation services available in Indonesia to promote domestic trade and linkages with U.S. firms and business organizations.
- 4) A viable set of business support services that will be able to continue functioning on a sustainable basis after the project ends.

The Center operations are expected to produce visible, measurable improvements in the operations of organizations participating in the Center. For example, as a result of the expanded facilities and services that the Center will offer:

- The USFCS and FAS are expected to be able to expand their current array of trade promotion events by upwards of 50%, resulting in improved access by Indonesian firms to U.S. products, services, technologies and markets.
- The Indonesian MOT will be able to offer significantly improved access for U.S. firms to MOT trade promotion and business outreach services (through NAFED and the Export Support Board), resulting in expanded Indonesian exports by U.S. and Indonesian firms.

Over the five year life of project, the IABC services and operations are expected to contribute to an expansion of U.S.-Indonesian trade flows -- for agricultural and non-agricultural products -- of approximately \$200-\$300 million -- or roughly 75-100 times the total amount of funding required for start-up and continuing operations during this five year period.

### III. PROJECT MANAGEMENT AND IMPLEMENTATION

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#### A. Management

TIP will have a jointly-chaired GOI-USAID policy-level project Steering Committee supported by sub-committees for implementation of its components. This two-tiered structure enables the creation of a manageably-sized forum for policy guidance and the establishment of feedback loops among the three components while allowing for more specialized representation, as appropriate, for each component activity. It separates policy from implementation and enables a broader range of direct project participation. Sub-committees will provide the Steering Committee with information on problems encountered by their clients or participants and potential remedies. This ensures that experience gained through the activities of any one component can be effectively aired. Thus, the particular problems and constraints faced by both the private and public sectors can be considered by decision makers, resulting in the development of better policies.

TIP Steering Committee: The policy-level TIP Steering Committee will, on the Indonesian side, include the Secretary-General and his designees from the Ministry of Trade and the Head of the Bureau of Trade and Industry of BAPPENAS. Additional representation will be sought from EKUIN and BKPM, the Capital Investment Coordinating Board. On the U.S. side, USAID would be represented by both the Private Enterprise Development and Economic Policy Support Offices of USAID.

In the first year of implementation, the Steering Committee will meet fairly frequently to designate members of the sub-committees and establish operating procedures. After the program is in operation this policy level organization will meet about twice a year to review project progress, provide policy guidance for work plan preparation, and establish guidelines and criteria for project evaluations.

Sub Committees: While the Steering Committee will provide overall policy guidance, TIP envisions working level sub-committees to oversee each project component and review and approve annual workplans.

The first sub-committee would deal with the recently initiated TIPP program. Its membership will consist of representatives from the MOT and USAID. When required, contractor representatives will be asked to participate. This sub-committee will approve annual workplans, monitor general implementation progress, contractor performance and the end of program output targets. Major policy issues will be referred to the project Steering Committee for its review and resolution.

The working level sub-committee for the MBSP component will agree on criteria for business sector selection and firm level participation; select four business sectors annually based on the established criteria; and approve IESC's annual workplans. The committee will consist of representatives from the MOT, USAID, IESC and the Indonesian private sector (at

least one of which will represent a women owned and managed firm or association and at least one other which will represent a small business or small business association). Day-to-day implementation will be handled in conjunction with the Mission's Project Manager. The Project Manager will maintain a close relationship with the IESC but not to the point of interfering with daily operations. Case-by-case approvals will not be required by the sub-committee. IESC will formally submit to the Mission quarterly reports which will provide the basis for management review of any major problems and assure that the criteria established by the sub-committee are being met.

The final implementation sub-committee would be related to the Indonesian-American Business Center. If the IABC is to be successful, it must, to the extent consistent with each nations policies, meet the needs and desires of its users. This sub-committee, or Board of Advisors, will be composed of IABC tenants. It will include representatives from the Ministry of Trade, USAID, the Commercial Counselor, the Center Manager, the IESC and other tenants of the Center and will meet quarterly to advise the users of the plans of the Center. At the same time, management will be responsible for working with its clients on their problems and suggestions for improvement.

## **B. Implementation**

Table 1 on the following page provides an illustrative time table for project implementation. Project administration and obligation mechanisms are discussed below.

One component of the TIP project, the Trade Implementation and Policy Program, is already under way and the responsibilities of the GOI and USAID are already known and being executed. The Multiple Business Services Program, under a grant to IESC, will expand upon ongoing activities which have received support from a variety of A.I.D. sources over the years. The one completely new component is the establishment of the IABC.

The principal GOI counterpart agency will be the Ministry of Trade. It possesses the authorities to execute the government's trade policies and has already shown its effectiveness in implementing A.I.D.-funded activities in its ongoing Young Professionals program and the initial phase of the TIPP activity funded under ARSSP. The overall management, coordination and policy guidance for the project will come from the Joint U.S.-Indonesian TIP Steering Committee and its implementation-level sub-committees described in section A above. A great deal of both U.S. and Indonesian staff time will be devoted initially to establishing overall project guidance, determining the content of Project Implementation Letters, establishing the sub-committees and defining operating procedures. In later years the workload will focus on reviewing project accomplishments, determining future policy directions, and approving annual work plans and conducting the evaluations.

On the USAID side overall responsibility for the project will reside in the Private Enterprise Development (PED) Office. A Project Management Team will be established to oversee implementation. It will include representatives from the PED, EPSO and PPS offices. Other Mission Officers from the Controller, Contract Management, Legal and Executive Offices will be invited to participate on an as-needed basis.

TABLE 1  
ILLUSTRATIVE TIME SCHEDULE

1.	PP COMPLETED/SENT TO GOI	FEB 93
2.	PP SENT TO AID/W	FEB 93
3.	A.I.D./W APPROVAL RECEIVED	MONTH 1
4.	AUTHORIZATION AND PROAG SIGNED	1
5.	CONDITIONS PRECEDENT MET AND INITIAL PILs ISSUED	2
6.	IESC GRANT EXECUTED	2
7.	8A SET-ASIDE EXECUTED FOR IABC CONTRACT	2
8.	TIP STEERING COMMITTEE FUNCTIONING	3
9.	IABC CONTRACTOR MOBILIZED	4
10.	SUB COMMITTEES FUNCTIONING	5
11.	SPACE RENTED AND IABC FUNCTIONING	6
12.	CONTRACT AMENDMENT -- TIPP	10
13.	1ST ANNUAL REVIEW BY STEERING COMMITTEE	12
14.	AUDIT- IABC	24
15.	MID-TERM EVALUATION	30
16.	CONTRACT RENEWAL-IABC	36
17.	GRANT EXTENSION-IESC	36
18.	NEAR-FINAL EVALUATION	45
19.	FINAL AUDIT	57
20.	PACD	60

A PED USDH Project Officer will have overall project responsibility working together with a PED FSN professional and the Program Economist in EPSO who will continue to manage the TIPP component. For the first year the project will occupy an estimated 20% of the Director of PED's time, about 45% of the Project Officer's and FSN professional's time, and 25% of the EPSO's Program Economist's time. During this period the project Steering Committee and component sub-committees will be established. Also adequate procedures and criteria will have to be developed and agreed to. From 1994 to the PACD, their time allocated to TIP should average about 10%, 35% and 25% respectively.

TIPP Component: A long-term contract has been signed and the TIPP team is in the process of mobilization. The EPSO Program Economist will continue to manage and be substantively involved in TIPP activities over the life of the project.

MBSP Component: The design work has been done. IESC submitted its proposal to the Mission in the spring of 1992. After much work, a draft grant agreement has been completed. It will, of course, be modified depending on changes made during the approval process of this PP, grant negotiations, and resolution of upstanding audit recommendations on the world-wide grant managed out of A.I.D./W. The PED Project Officer for the overall TIP project will also oversee the IESC grant.

IABC Component: The demands on Mission personnel will be more intensive initially than in the other components. In the first year, an institutional contract will have to be awarded. The contractor will have to secure commitments from tenants, lease long term space, start up the center up and develop a long-term business plan. The PED Project Officer will be in charge of overseeing this effort.

Funding for the TIPP and IABC components will be obligated through a Project Grant Agreement with the GOI. Funding for the MBSP component will be obligated through a direct grant to IESC. IESC has a long standing country agreement with the GOI and their operations will continue to be guided by the terms of this agreement.

### C. Procurement Plan

The project will consist of two institutional contracts and one grant (cooperative agreement) to implement the three project components. Evaluations will be contracted separately through buy-ins, Indefinite Quantity Contracts or direct contracts. Additionally any project funded outside audits will be awarded to U.S. certified public accounting firms. (See Table 4, Methods of Implementation and Financing).

A direct contract for the TIPP component has already been competed and awarded, using ARSSP funds for FY 93 activities for a two year contract with the possibility of extension for up to a total of five years. Before the current two year contract ends, an extension to the contract will be negotiated for technical assistance and training to be provided to the MOT in

order to increase the analytical abilities of MOT staff and improve trade policies in support of expanded trade.

USAID has received and reviewed an unsolicited application for development of a Multiple Business Services Program (MBSP) in Indonesia from the International Executive Service Corps (IESC) which has a long, successful record of achievement in the country. Directly after project authorization, and A.I.D./W clearance indicating that all outstanding IESC audit issues have been resolved, the Mission will undertake negotiations with IESC based on their unsolicited application to award a Cooperative Agreement to implement Multiple Business Services Program which focuses on strengthening the competitiveness of Indonesian enterprises and enhancing the services provided by local business associations.

Promptly after Project Authorization, USAID will undertake negotiations for award of a direct contract to a small and/or economically and socially disadvantaged firm for the management of the Indonesia-American Business Center. The contractor will establish and operate the business promotion center in a conspicuous, easily accessible location rented in downtown Jakarta. The contractor will be responsible for space rental and required procurement activities, overall management and administration of the Center's facilities, promotion of the Center, and expansion of the Center's tenant base and fee services which will be available to interested clients (such as secretarial, translation, printing and communications services). The Center's business plan will task the contractor to derive income from the above Center services.

See Annex H for procurement details.

#### **D. Monitoring, Evaluation and Audit**

##### **1. Monitoring:**

Routine project monitoring will be based on the review of quarterly reports to be submitted by the contractors and grantee. The sub-committees will monitor annual project progress based on annual work plan targets for each component while the Steering Committee will monitor overall project progress toward the purpose level targets (end of project status). No funds are budgeted for these monitoring activities.

The monitoring plan focuses on three aspects of TIP's implementation for each of the major components, TIPP, MBSP, and IABC: timing of implementation tasks (inputs and outputs), financial inputs and operations (including tracking of host country and counterpart private sector contributions), and quality of results as related to project purposes and linked to baseline datasets. Sex-disaggregated baseline data for several key indicators are not yet available and must be collected immediately. An management information system (MIS) will be designed and instituted upon project start-up to collect and update these data and facilitate management, review, and analysis. The core of the MIS will be the implementation plan

with timeliness and assignments of responsibility, and specified indicators with targets for achievement. This MIS will provide data for Mission issue identification and discussion in quarterly and annual implementation reviews, and evaluations.

## 2. Evaluations:

In the TIP budget, \$200,000 is programmed for two project-level evaluations. In coordination with the TIP Steering Committee, USAID will undertake an interim evaluation of the entire project with the primary focus on the financial sustainability and economic benefits of the IABC as well as the functioning of the TIP Steering Committee and its implementation committees. A near-final project-level evaluation, with equal emphasis on all three components, will be undertaken approximately 15 months before the PACD. This will afford the project time to act on evaluation recommendations. The timing of these evaluations may be changed if project monitoring indicates a significant informational requirement which cannot be met by the regular MIS or if warranted by major social, economic, or political changes in Indonesia.

By the time of the first evaluation, implementation of all three components will be well underway. This evaluation will focus on how effectively and efficiently the components (and their associated committees), individually and jointly, are operating; the answers to these questions will be based on the monitoring data regarding the timing, finances, and quality of inputs and achievement of indicators. The evaluation team will conduct a beneficiary and participant analysis (including a gender analysis) as a way of assessing if the operation and apparent impact of the components is in line with the project purpose. The midterm evaluation will consider the relevance of the project to Indonesia's economic and business climate to assess whether any changes in design or operation of the components are called for. Preliminary assessments of the likely sustainability of the project activities, especially the IABC, will be made. Lastly, the evaluation team will propose any "lessons learned" from the experience in setting up, implementing and coordinating these components.

This first project-level evaluation will be scheduled to coincide with the end of the IABC's 24th month of full operation. Center-specific items to evaluate include: 1) actual occupancy rates vs. projected rates; 2) tenant contact and client survey data; 3) actual revenues during the second year compared to a projected level of over \$100,000; and 4) projected revenues. Continued grant support for the IABC component beyond the third year will depend on the demand Center's services using the indicator of financial performance. At the conclusion of the third year of operation, the Center must demonstrate annual revenues in excess of \$150,000 and produce cash flow projections which indicate the Center will begin to experience a positive cash flow during its fifth full year of operation in order to receive further TIP support.

The second and final evaluation will reconsider the effectiveness, efficiency, impact, and relevance of the project components, jointly and severally. It will closely assess the prospects for sustainability of the IABC as a free-standing unit and of the various improved systems introduced to the business and trade associations; the evaluation team will

recommend any final design or operation amendments which can help to ensure the project produces sustainable results. It will propose and analyze overall "lessons learned" from the project's efforts to balance the needs of both the public and the private sectors. Any significant corrections to particular components, or overall, will be identified.

3. Audit:

A total of \$50,000 has been included in the overall project budget for outside audits. The two contractors and one grantee for the project components will all be from the U.S. Thus they will be incorporated into A.I.D.'s overall tracking system and audit list of U.S. contractors/grantees. Once the contracts and grant are signed they will be added to USAID/Indonesia's tracking system and forwarded to A.I.D.'s Office of Procurement (OP). OP will then provide USAID/Indonesia with a quarterly status report of all U.S. contractors and grantees in Indonesia. OP will be responsible for outside auditing of these TIP contractors and grantees, except for special issues which may arise that USAID/Indonesia deems to merit special attention. The \$50,000, noted above, is to handle such cases. In particular we envision an audit of the IABC (an income generating operation), at the end of the second year of the project.

In addition, all contract and grant awards valued over \$25,000 require that annual internal audits be undertaken. Funds for these internal audits will be included in the individual contracts and grant. To minimize vulnerability, the Mission Controller will conduct periodic examinations of contractor and grantee records, and will review GOI accounting procedures and documentation relating to host country contributions.

#### IV. COST ESTIMATE AND FINANCIAL PLAN

##### A. Total Cost Estimate

The total estimated cost of TIP is \$24.2 million consisting of USAID grant funding of \$15.0 million, GOI funding of approximately \$1.9 million value in cash and in-kind, and private sector contributions of \$7.3 million. Of the private sector contributions, about two-third's represent the value of volunteer business executives from the U.S. and the balance represents cash contributions by Indonesian businesses to help defray the costs of receiving U.S. business advisors.

A summary breakdown by TIP Project component is provided in Table 2 below entitled "TIP Project Resource Requirements". Detailed project budget tables are provided in Annex G.

TABLE 2

##### TIP Project Resource Requirements\* (\$000)

COMPONENT	USAID GRANT	GOI	PRIVATE SECTOR		TOTAL
			Indonesia	U.S.	
IABC	3,300	400	300	500	4,500
MBSP	6,000	0	2,100	4,400	12,500
TIPP	4,700	1,500	0	0	6,200
Evaluation & Audit	250	0	0	0	250
Contingency	750	0	0	0	750
<b>TOTAL</b>	<b>15,000</b>	<b>1,900</b>	<b>2,400</b>	<b>4,900</b>	<b>24,200</b>

\* Figures are rounded.

##### B. USAID Contributions

USAID/Indonesia will provide a total of \$15.0 million in grant funds over a five year period to implement the three project components, as described in previous sections of this paper. This contribution includes funds for evaluations, audits and contingencies.

The following obligation table depicts USAID's annual flow of financial resources to support TIP.

TABLE 3

**TIP Grant Obligation Schedule**  
(\$000)

Fiscal Year	<u>93</u>	<u>94</u>	<u>95</u>	<u>96</u>	<u>97</u>	<u>98</u>	<u>Total</u>
	1,400	3,500	3,650	3,100	2,250	1,100	15,000

Methods of implementation and financing are summarized below in Table 4.

TABLE 4

**Methods of Implementation and Financing**

PROJECT COMPONENT	IMPLEMENTATION METHOD	FINANCING METHOD	TOTAL \$(000)
TIPP	<i>A.I.D. - DIRECT CONTRACT</i>	<i>A.I.D. DIRECT PMT</i>	4,700
IABC	<i>A.I.D. - DIRECT CONTRACT</i>	<i>A.I.D. DIRECT PMT</i>	3,300
IESC	<i>COOPERATIVE AGREEMENT</i>	<i>A.I.D. DIRECT PMT ADVANCES</i>	6,000
EVALUATION & AUDIT	<i>BUY-IN IQC OR A.I.D. DIRECT CONTRACT</i>	<i>A.I.D. DIRECT PMT</i>	250
CONTINGENCY	<i>VARIOUS</i>	<i>VARIOUS</i>	750

**C. Contributions from Other U.S. Government Agencies and Programs**

Several U.S. Government agencies and programs will be tenants in the Indonesia-American Business Center. Each tenant will staff its own office and implement its own programs independently. The value of the tenants' staff time and effort are considered contributions to the overall success of the project. U.S. Government tenants will include the United States Foreign Agricultural Service (FAS) and the United States and Foreign Commercial Service (US&FCS) which will provide access to its library and data bases as well as its trade staff. A.I.D.-funded projects supported by its Association of South-East Asian Nations' (ASEAN) Mission and Washington offices will also be located in the IABC.

**D. Indonesian Contribution: GOI**

The bulk of the GOI contribution of just under \$1.9 million is derived from the MOT's support for the TIPP component. We estimate that about \$0.3 million, valued largely in-kind, will be provided in support of the IABC in the form of representation offices for the Export Promotion Board and NAFED.

**E. Indonesian Contribution: Private Sector**

In the past, Indonesian businesses have helped cover the expenses of IESC-sponsored U.S. executives who have volunteered their expertise to strengthen Indonesian businesses and to forge trade links in new U.S. markets. This tradition will continue on a larger scale via IESC's Cooperative Grant Agreement for the MBSP. The equivalent of almost \$2.1 million dollars (in both Rupiahs and Dollars) will be disbursed to cover the logistics costs for over 350 work-months of volunteer executive time. Indonesian businesses are also expected to seek the services offered by the IABC. These contributions are conservatively estimated at \$0.3 million over the first five years of Center operation.

**F. U.S. Private Sector Contribution**

The bulk of contributions to the TIP project from the U.S. private sector comes in the form of over 350 work-months of volunteer executive time under the IESC Cooperative Grant Agreement for the MBSP. Audits of similar skill mixes available at full cost indicate that the value of this volunteer effort is about \$4.4 million. Also, U.S. businesses are expected to seek the services at the IABC. These contributions which will help support Business Center operations are conservatively estimated at \$0.5 million over the life-of-project.

## V. PID ISSUES AND AID/W CONCERNS

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### A. PID Issues Raised in 1989

#### Issue No. 1: Development of private sector leadership.

AID/W recommended in (89) STATE 331581 that TIP provide a mechanism for developing private sector leadership. They saw a "potentially major role for the U.S. private sector in establishing Indonesian and U.S. business institutions." They advised that the project should also provide a means for "the private sector to push the government into needed reforms" and went on to say that the Bureau was "particularly concerned that there is no up-front, explicit U.S. private sector role in the PID."

#### Resolution to PID issue No. 1

The inclusion of the Indonesia-American Business Center in the PP design will add transactional realism to the project and will, of course, give U.S. businesses a chance to voice their concerns and to promote their business interests in Indonesia. Likewise, the IESC proposal to strengthen Indonesian business associations, will encourage Indonesian private business associations to represent their interests to government in an objective and responsible manner.

#### Issue no. 2: New trade promotion role for the MOT and how long it will need USAID assistance.

AID/W asked in (89) STATE 331581 that the PP assess how to distinguish between neutralizing ill effects of GOI agency operations, from support for prolonging their institutional existence. The response requested was a discussion in the PP of how USAID would disengage from these GOI entities by the end of the project. AID/W expressed preference for continuing the private sector components of TIP through the end-of-project. In contrast, it wanted to end support for ordinary operations of GOI agencies as early in the project as possible.

#### Resolution to PID issue no. 2

The MOT has played a key role in the GOI's deregulation and debureaucratization program launched in 1983. Previously charged with regulating foreign and domestic trade, the MOT's new mandate is to transform itself into a facilitator of trade with the aim of unleashing dynamic private sector growth and exposing Indonesian firms to the competitive vigor of the global marketplace. This internal reform process is now underway.

Already the GOI has significantly reduced both the range and average rate of import tariffs, relaxed import licensing requirements, removed many quantitative restrictions and converted others to tariffs, and eased export restrictions. While protectionist interests remain formidable in some sectors, the MOT has increasingly recognized the net efficiency costs of trade barriers and is now widely considered to be one of the chief GOI advocates of free trade.

However, to fulfill its new role as a facilitator of trade, the MOT needs to strengthen its capacity to formulate and implement rational policy reforms based on sound economic analysis. The MOT is also encouraging the private sector to assume greater responsibility in spurring productivity growth and improving product quality by, for example, strengthening private trade and business associations.

Given these new relationships, the pivotal role being played by the MOT, and the MOT's commitment to shifting from regulator to facilitator, we feel that A.I.D. assistance to the MOT is crucial to the success of the project. Given the institutional reform and strengthening character of the project, we do not believe that fewer than five years assistance to the MOT will be adequate. The last years of activity under the TIPP component call for a shift from predominantly long-term advisors to short-term consultants. This shift to TDY assistance will ensure that the lessons learned can be progressively implemented by independent MOT staff with only limited recourse to resident advisors.

Annex A provides copies of (89) STATE 331581 as well as (92) STATE 415538 which provides AID/W approval for the Mission to move forward with PP design.

#### **B. IABC's Financial Sustainability**

Para 2.C. of 92 STATE 415538 expresses concern about the financial sustainability of the IABC. The Bureau discussions of the IABC component in October, 1992 noted that while the IABC was expected to generate income, it was not expected to be able to be financially self-supporting in the initial years of operation. At that time a commitment was made to assess the extent of its financial sustainability after three years of operations. The Mission now plans to assess the Center's financial performance against specific revenue targets after its second and third years of operation.

After three years of operation the center is expected to show substantial progress toward achieving a positive cash flow so that after year five the Center will be self-sustaining. Indicators for baseline data will include the average number of contacts made and promotional events held by clients which have such data (e.g. FCS) prior to moving into the Center. Progress reports will compare this to the number of contacts and events while located in the Center. The measures for cost-benefit will be the revenues generated from the Center's operation and the Center's cash flow position. After three years of operation the Center should be generating sufficient operating revenues to cover at least promotion, operating expenses and any equipment replacement. In year five the revenues should cover the above plus personnel and all space costs and generate a small positive cash flow. (See Annex E.3 for budget details and III D.2. above for evaluation criteria).

### C. Section 599 Considerations

Initial funding for the project will be provided from Fiscal Year 1993 funds, which are subject to the restrictions set forth in Section 599 of the FY93 Appropriations Act relating to the provision of assistance which would have an adverse impact on jobs in the United States. Section 599 prohibits assistance which would (1) provide a financial incentive to any business enterprise located in the United States to relocate productive facilities overseas when such would result in the loss of jobs in the U.S.; (2) assist with the establishment or development of export promotion zones; or (3) contribute to the violation of internationally recognized workers' rights. A.I.D. has issued initial guidelines for application of Section 599 to its assistance activities (STATE 383986, 11/26/92). It is anticipated that these guidelines will be revised following the completion of an agency-wide portfolio review currently in progress.

Annex K contains an analysis of the Section 599 concerns with respect to each major component of the project. The principal concerns are with regard to the proposed Multiple Business Services Program component and the Indonesian American Business Center, as both of these components will provide assistance, directly and indirectly, to Indonesian and U.S. businesses. A number of actions are proposed in the annex, including appropriate covenants in the project grant agreement and in contracts and other implementing agreements, as well as AID reviews and approvals of procedures for identifying potential problems and, in some cases, specific assistance decisions. While all of these measures will require significant management effort to successfully implement, the proposed actions are considered feasible and should reasonably ensure that Section 599 limitations are adhered to by all participants in the project.

## VI. PROJECT ANALYSES

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### A. Institutional Analysis

The MOT is the lead GOI counterpart in recognition of its mandate to set and implement both domestic and foreign trade policy and because of its ongoing efforts to move from regulating business and toward providing services that facilitate and support private sector development.

The cooperation of other agencies, e.g., the Badan Koordinasi Penanaman Modal (BKPM) and the Economic Coordinating Ministry (EKUIN) is essential to the project's success. Close coordination and consultation among these agencies, the MOT, and USAID will be ensured via their representation on the TIP Steering Committee. BKPM is included because of its role in facilitating foreign and domestic investment, while EKUIN is included because most major trade policy changes are formulated in an inter-departmental forum facilitated by EKUIN.

The goals of the MOT's institutional reform program are reflected in its Mission and Vision statement "... to enhance the contribution of trade to the achievement of the National Development objectives." The MOT's Vision for the future is "...to transform the MOT into a significant institution which is respected by the domestic and foreign business community, as well as by other government agencies, and in which leadership positions are held by active, flexible, creative, and innovative individuals."

Top leaders within the MOT fully recognize the challenges and difficulties involved in reorienting the MOT's role towards one of trade facilitation. The deregulation efforts have increased the need for skills and capabilities in certain analytical and monitoring areas, while reducing the need for other activities, specifically those associated with the regulation and licensing of businesses. To deal with these changing demands, the Ministry has undertaken a comprehensive human resource and institutional development program.

In addition to enhancing the skills and abilities of its staff, the MOT also has plans to restructure its organization to reflect its changing functional responsibilities. While the reorganization plan has yet to be finalized, its main thrust is to move away from a sectoral-oriented structure towards one which accommodates private sector development across product lines. This approach is consistent with the MOT's goal of reducing government intervention in specific markets.

A more detailed institutional analysis is found in Annex D.1.

### B. Economic and Financial Analysis

Annex D.2 provides a detailed economic and analysis. This analysis includes the following sections: recent economic developments in Indonesia, economic rationale for the project, the

relationship between exports and economic growth, the methodology used in the project economic analysis, the calculated net present value and internal rate of return of the project, summary and concluding remarks, and tables of the figures used in the analysis of the TIP project. The formal cost-benefit analysis of the TIP project focuses solely on the benefits derived from increased Indonesian export growth, and consequently produces a conservative estimate of the project's net present value (NPV) and internal rate of return (IRR). The estimated NPV and IRR for the project are \$17,784 and 35.3 percent, respectively, thus indicating that the project is clearly acceptable. The analysis concludes that the project should generate an overall expansion in bilateral trade between the U.S. and Indonesia resulting in substantial economic welfare gains to both economies.

### C. Social Soundness Analysis

Sociocultural Feasibility: Our basic analysis suggest this intervention has a very high probability of success. This analysis indicates that the three project components are highly complimentary of each other further increasing the likelihood of overall success. Indonesia's track record in accelerating economic development has been dramatic for a country of its size and level of development; for example, poverty has declined in Indonesia from 42.5% in 1976 to 15.21% in 1990. We, therefore, expect that Indonesia will take full advantage of the developmental opportunities offered by the project.

There are no issues concerning the feasibility and intended impact of two of the three components of the project: TIPP and MBSP. Both are congruent with current MOT's policy of encouragement for small and medium sized business development, and the GOI's long-term objective of attaining a per capita income of \$1000 by the year 2000. An emphasis on small and medium-sized businesses is compatible with achieving broader equity objectives within the Indonesian business environment, on and off the major island of Java. Currently, the policies and practices of the Indonesian business environment are structured to favor large, well-established firms, biasing business opportunities against small and medium-sized firms. Both are essentially modified continuations and refinements of ongoing USAID-funded programs which have received good evaluations.

The third component, the establishment of the IABC, is new for USAID in Indonesia. Its fit and feasibility is somewhat less certain. However, similar business centers sponsored by other donors have been successful. The Mission concluded that the fit of such service centers with Indonesian business culture is appropriate, needed, desired and feasible.

A more in-depth discussion of the socio-cultural context in which this project will be implemented is included in the Social Soundness Analysis Annex (Annex D.3).

Beneficiaries: Through the policy dimension of the project, the MOT's commitment to encouraging small and medium-sized businesses will increase these firms' access to project-related benefits. The necessarily limited information and service activities directly provided to small and medium-sized businesses and associations will be in sectors having a high potential for national

applications. Thus, these activities offer the prospect of broad secondary beneficiary impact. Studies of business expansion indicate that small and medium-sized enterprises generate the majority of new employment opportunities. Therefore, where TIP focuses on small and medium sized firms beneficiary impact will be enhanced.

Gender Considerations: Gender targets have been established for each of the components of TIP. Baseline data will be collected where it is not already available, and the beneficiaries and participants in TIP activities will be tracked by gender. Proactive measures will be taken as opportunities arise during project implementation. The Social Soundness Analysis Annex (Annex D.3) provides a more detailed discussion of constraints and identifies specific gender related targets.

Sustainability and Spread Effect: The major potential for sustainability and spread effect within the TIPP component lies in the successful development of improved trade and investment policies, especially those having a positive impact on the viability and expansion potential of small and medium businesses. Also important to the sustainability and spread of the Ministry reform program is continued MOT commitment to in-house training, and to ministry-wide reform.

Within the MBSP component, the strong emphasis on IESC support to business associations will broaden the developmental impact of scarce business consultant resources. To the extent business associations stay in tune with demand, and continue to provide services that are valued by client businesses, viability of these associations should be assured. Businesses taking advantage of the MBSP services will improve their ability to generate profits and new jobs, provided the overall economic climate continues to be favorable.

Sustainability of the IABC is largely dependent on its ability to generate fees for services rendered, and its ability to demonstrate its usefulness to U.S. interests and local businesses. The possible spread of developmental impacts derived from the IABC--i.e., increased income and job creation--is difficult to assess at this time, but it is likely to be considerable as trade and investment opportunities expand. It is unlikely that the IABC will be replicated in other geographic locations of Indonesia until the Center demonstrates its value and viability operating out of Jakarta.

#### **D. Technical Analysis**

Enhanced trade and investment flows require three mutually reinforcing elements:

(1) implementing open trade policies, (2) lowering barriers to market entry, and (3) improving competitiveness of individual enterprises. These three elements are discussed below in the context of the choices which the Mission and GOI considered in their design of the TIP project.

##### **1) Implementing Open Trade Policies**

Thanks largely to the success of its "Young Professionals" training program, USAID has a strong working relationship with the MOT. The training element of the TIPP component is very realistic

and cost-effective: in-country training within the very ministry in which trainees will work. Because the program is an in-house activity, graduates of the Young Professional' program identify with the MOT and its objectives. This training approach avoids several disadvantages associated with overseas training programs: temporary loss of staff, the risk of studying irrelevant case studies, the higher price of scholarships, and distance from families.

The structure and operations of the TIPP component are tried and proven. Dealing with the MOT and its affiliated agencies, such as NAFED, appears to be the most efficient way for USAID to continue its support for reform of the GOI's trade policy. Additional discussion of the MOT is included in the Institutional Analysis Annex. (Annex D.1).

## 2) Lowering Barriers to Market Entry

This element is represented in all three components. However, the centerpiece to demonstrate and test the efficacy of lower barriers to trade is the Indonesia-American Business Center. The IABC will serve as a laboratory in which trade policies and practices are subject to daily feedback by those for whom they were made, and test policies in the real world of entrepreneurs and to garner rapid feed-back and comment from those affected. Companies responding to new open trade policies will pursue them at a transactional level at the IABC. Issues and possible avenues to resolve them will be placed, as necessary, on the agenda of the TIP project Steering Committee.

The IABC concept permits a continuing interface between the public support side of TIP and the more transactional private side of the project. In this way, there will be ongoing dialogue opened among Indonesian businesses, U.S. partners, and GOI trade officials.

## 3) Improving the Competitiveness of Individual Enterprises

To take advantage of open market trade policies, Indonesian companies need to improve quality standards and apply new technologies. Limitations in project budget and management capacity call for a program that targets key sectors of the trade economy and, within them, seeks to improve local business associations so that they can make a stronger contribution in support of individual enterprises. The development orientation of USAID argues for a focus on small and medium-sized firms which will readily expand production and employment when given the resources and opportunity.

The IESC has pioneered a number of projects in countries in which business associations are the vehicle for reform and greater openness. IESC's long roster of experts and capacity for rapid mobilization of volunteers to satisfy a wide range of possible consultancies offers distinct advantages over the kind of technical assistance provided under a contractor.

The MBSP component plans on conducting about 150 consultancies for individual firms. IESC will also strengthen local business associations so that they become more service-oriented. Broadened membership and a greater range of services to association members will indirectly help local enterprises be more competitive and help test and implement more open trade and investment policies established by the GOI.

## **E. Administrative Analysis**

There is no question that principal organizations responsible for implementing component activities have the requisite administrative capacity, and that participating organizations identified are the best among alternatives for carrying out the functions required. Detailed discussion of the role of USAID staff, the MOT, and the project Steering Committee and the three subcommittees responsible for providing oversight and tracking project implementation is included in Section III of the Project Paper, "Project Management and Implementation". This discussion covers the four basic functions and tasks called for in the analysis of administrative elements of the project, namely: project management, financial management, contracting, and monitoring/reporting.

Detailed discussion of the capacity, track record, and commitment of the Ministry of Trade, to carry out its functions as lead GOI counterpart is included in the Institutional Analysis Annex (Annex D.1). The long track record of the IESC in providing voluntary business service activities for discrete businesses in Indonesia, and more recently, and to a lesser extent, to business associations, has been reviewed in the Project Description. The IESC has long worked in close partnership with USAID and has a good record of meeting the obligations assigned to it. The potential of the IABC to carry out its functions is similarly discussed in the Project Description. As a newly established organization, the IABC will receive close monitoring by the USAID Project Officer, as outlined in Section III. The IABC subcommittee, and the system of quarterly reports and annual workplans, will be the key means to ensure that the IABC and the IABC contractor successfully carry out its basic administrative functions: project management, financial management, and reporting. The interim evaluation will enable USAID to gain an early assessment of progress with the Center both as a concept and as an organization implementing its annual workplan to achieve broader project objectives.

## VII. CONDITIONS AND COVENANTS

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The following conditions and covenants will be included in the project authorization:

### A. Condition Precedent to Obligation:

Prior to obligation of funds by signature of a cooperative agreement with the International Executive Service Corps (IESC), IESC shall provide evidence acceptable to A.I.D. that it has satisfactorily resolved all outstanding A.I.D. audit recommendations bearing upon its capability to properly receive, manage, and account for A.I.D. grant funds.

### B. Conditions Precedent to Disbursement of Funds Granted to GOI:

1. Prior to the first disbursement of funds under the Project to the Government of Indonesia (GOI), or to the issuance of any commitment documents with respect thereto, the GOI will provide, in form and substance satisfactory to A.I.D., a list of the names and specimen signatures of the authorized representatives of the Host Country for the Project.
2. Prior to the disbursement of funds under the Project to the GOI, or to the issuance of commitment documents with respect thereto, the GOI shall provide to A.I.D., in form and substance satisfactory to A.I.D., a list of the GOI officials assigned to the Project Steering Committee and the name of the designated GOI Co-Chair for the Project Steering Committee.

### C. Covenants:

#### 1. Project Grant Agreement

- a) The Host Country will agree to establish an evaluation program for the project that will:
  - (1) identify a set of indicators and a means to measure progress against such indicators;
  - (2) evaluate progress toward attaining TIP Project objectives
  - (3) identify problem areas or constraints to achieving these objectives;
  - (4) develop solutions to overcome these problems and constraints; and
  - (5) evaluate, to the extent practicable, the overall development impact of the Project.
- b) The Host Country will agree to provide all personnel required to implement the Trade Implementation and Policy Program (TIPP) component of the Project in a timely manner.

- c) The Host Country will covenant that none of the funds provided under the Project Grant Agreement will be used to fund activities prohibited under Sections 520 and 599 of the FY93 Appropriations Act(Bumpers, Lautenberg, and Impact on Jobs provisions) and A.I.D. policy guidance related thereto, as revised from time to time.

## **2. Agreement for MBSP Component**

The grantee for the MBSP component will be required to covenant that:

- a) it will not provide any assistance under the MBSP component of the project that is prohibited under the provisions of Sections 520 and 599 of the FY93 Appropriations Act and A.I.D. policy guidance related thereto, as revised from time to time; and
- b) before providing assistance to any business under the MBSP component, it will establish procedures, approved by A.I.D., for assuring that any assistance provided by it does not violate the legal prohibitions referred to in a) above.

## **D. General**

Contractors and other implementing agencies funded under the Project which provide assistance, directly or indirectly, to Indonesian and U.S. businesses will be required, before providing any such assistance, to develop and implement procedures acceptable to A.I.D. to ensure that no assistance is provided which violates the provisions of Sections 520 and 599 of the FY93 Appropriations Act and A.I.D. guidelines relating thereto, as revised from time to time.

**ANNEX A**

**PID COMMENTS**

**AND**

**PP DESIGN GUIDANCE CABLES**

Trade & Investment Project

497-0363

Binder (B)

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TAGS:

SUBJECT: INDONESIA TRADE AND INVESTMENT PROJECT  
(497-2363) - ANPAC REVIEW OF PROJECT IDENTIFICATION  
DOCUMENT (PID)

1. ANE BUREAU APPROVES THE TRADE AND INVESTMENT PID SO THAT PROJECT DESIGN CAN PROCEED AND THE PROJECT CAN BE APPROVED AND AUTHORIZED IN THE FIELD SUBJECT TO SATISFACTORY RESOLUTION OF TWO MAJOR ISSUES:

- A. WE WANT THE PROJECT TO PROVIDE A MECHANISM FOR DEVELOPING PRIVATE SECTOR LEADERSHIP IN IMPROVING THE INVESTMENT CLIMATE. MOREOVER, WE SEE A POTENTIALLY MAJOR ROLE FOR THE U.S. PRIVATE SECTOR IN ESTABLISHING INDONESIAN AND U.S. BUSINESS INSTITUTIONS AND WORKING RELATIONS TO IMPROVE TRADE AND INVESTMENT OPERATIONS IN INDONESIA. TO THIS END, USAID EFFORTS SHOULD BE COMPLEMENTARY TO THE AID-ASEAN NEW PRIVATE INVESTMENT AND TRADE OPPORTUNITIES PROJECT.

THE MISSION HAS ASKED FOR HELP IN FINAL PROJECT DESIGN TO WORK WITH THE PRIVATE SECTOR ROLE IN POLICY FORMULATION AND APPLICATION, AND ANE IS PREPARED TO

PROVIDE IT. ANE/PSD WILL TAKE THE LEAD IN THIS COLLABORATIVE EFFORT, INVOLVING OTHER BUREAU ELEMENTS AS APPROPRIATE. WE ANTICIPATE THAT CLOSE COLLABORATION WITH BUREAU IN PREPARING THE PP IN THE FIELD WILL BE SUFFICIENT TO RESOLVE ISSUES WITHOUT FURTHER REVIEW IN AID/W.

- B. REVIEW WITH MISSION REPRESENTATIVES AGREED THAT PROPOSED ASSISTANCE TO GOI AGENCIES IS DESIGNED TO REMOVE OBSTACLES THESE AGENCIES HAVE PRESENTED TO TRADE AND INVESTMENT, BUT THERE IS NO EXPECTATION THAT THESE AGENCIES WILL BECOME EFFECTIVE STIMULATORS OF INVESTMENT. HOWEVER, THE PID SEEMS TO INDICATE THAT DEVELOPING THESE AGENCIES INTO TRADE AND INVESTMENT PROMOTION ENTITIES IS THE PURPOSE OF THE PROJECT.

WE ASK THAT, BEFORE APPROVING THE PP, YOU DETERMINE HOW MUCH OF OUR ASSISTANCE WILL GO TO HELP OVERCOME PRESENT



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OBSTACLES CAUSED BY THE GOI AGENCIES WE WOULD ASSIST -- WHICH WE ACCEPT IS A WORTHWHILE OBJECTIVE -- AND HOW MUCH IS TO BE USED TO FIND A NEW ROLE FOR THE AGENCIES. WE WANT TO KNOW WHAT SUSTAINABLE OUTCOME IS EXPECTED AT THE END OF THE PROJECT. PARTICULARLY WHETHER A CONSTRUCTIVE ROLE FOR THESE AGENCIES IS EXPECTED WITHOUT FURTHER A.I.D. INPUTS.

2. WITH RESPECT TO THE FIRST ISSUE, AID/W REVIEWERS AND MISSION REPRESENTATIVES AGREED THAT, IN GENERAL, GOVERNMENT PROMOTIONAL ACTIVITIES WITHOUT ACTIVE PRIVATE SECTOR PARTICIPATION ARE NOT EFFECTIVE IN STIMULATING PRIVATE INVESTMENT. WHAT IS NEEDED IS FOR THE PRIVATE SECTOR TO PUSH THE GOVERNMENT INTO NEEDED REFORMS: SOME MECHANISMS FOR ASSISTING THIS KIND OF PRIVATE SECTOR ACTION HAVE BEEN DEVELOPED IN OTHER MISSIONS, AND ANE/PSD CAN HELP THE MISSION FIND MECHANISMS APPROPRIATE FOR INDONESIAN CIRCUMSTANCES.

WE ARE PARTICULARLY CONCERNED THAT THERE IS NO UP-FRONT, EXPLICIT U.S. PRIVATE SECTOR ROLE IN THE PID. MISSION REPRESENTATIVES EXPLAINED THAT AN INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC) ROLE IS EXPECTED, WHICH WE ENDORSE. THEY ALSO PLAN TO HAVE TECHNICAL ASSISTANCE DIRECTLY MAKE U.S. FIRMS' NEEDS KNOWN TO KEY GOI DECISION-MAKERS. HOWEVER, THERE ARE ALSO OTHER WAYS TO BRING IN U.S. BUSINESS ORGANIZATIONS AND FIRMS TO RESOLVE IDENTIFIED CONSTRAINTS WHICH SHOULD BE EXPLORED URGENTLY.

FURTHER DESIGN ANALYSIS MIGHT ALSO CONSIDER U.S. PRIVATE SECTOR TECHNOLOGY TRANSFER (E.G., THE PACT MODEL) AND THE ROLE OF STANDARDS DEVELOPMENT IN FACILITATING TRADE AND INVESTMENT.

ANE/PSD WILL SEPARATELY WORK OUT WITH THE MISSION A SCHEDULE FOR ASSISTANCE IN ADDRESSING DESIGN OF PRIVATE SECTOR INTERVENTIONS.

3. WITH RESPECT TO THE SECOND ISSUE, WE FIND IT IS NOT TOO PRODUCTIVE TO PUT MORE RESOURCES INTO GOVERNMENT ORGANIZATIONS WHICH WE DO NOT EXPECT TO BECOME NET CONTRIBUTORS TO DEVELOPMENT OF TRADE AND INVESTMENT. OUR DILEMMA IS THAT WE WANT TO REMOVE NEGATIVE ASPECTS OF THESE AGENCIES' OPERATIONS, BUT WE DON'T WANT TO BECOME RESPONSIBLE FOR FINDING USES FOR THEM WHEN IMPLEMENTATION OF POLICY REFORM MAKES THEM SUPERFLUOUS.

ACCORDINGLY, WE ASK THAT YOU ASSESS HOW YOU WILL DISTINGUISH BETWEEN NEUTRALIZING ILL EFFECTS OF THESE AGENCIES' OPERATIONS FROM SUPPORT FOR PROLONGING THEIR INSTITUTIONAL EXISTENCE. THIS SHOULD TAKE THE FORM OF A  
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~~CONCEPT OF HOW WE WILL DISENGAGE FROM THESE ENTITIES AT THE END OF THE PROJECT -- OR SOONER, WE WANT TO CONTINUE THE PRIVATE SECTOR COMPONENTS OF THE PROJECT THROUGH END-OF-PROJECT, BUT WE WANT TO END SUPPORT FOR ORDINARY OPERATIONS OF THESE AGENCIES AS EARLY IN THE PROJECT AS POSSIBLE.~~

4. WE WERE ALSO CONCERNED THAT THE PID ITSELF DID NOT GIVE A CLEAR PICTURE OF DESIGN EXPECTATIONS WITH RESPECT TO ASSISTANCE TO GOI ENTITIES. IT WAS NECESSARY FOR MISSION REPRESENTATIVES TO INTERPRET AND SUPPLEMENT THE PID BEFORE THE NATURE OF THE PROJECT WAS CLEAR. WE NOTE, HOWEVER, THAT THEY MUCH FACILITATED THE PROJECT REVIEW.

WE ACCEPT THAT A PID MAY NOT BE THE APPROPRIATE CHANNEL FOR COMMUNICATING SENSITIVE ASPECTS OF THE PROJECT SITUATION, BUT IN THE FUTURE WE EXPECT THAT A SUPPLEMENTAL MESSAGE WILL PROVIDE AID/W REVIEWERS A MORE ACCURATE PICTURE OF THE PROJECT IF A PID CANNOT DO SO. PID LENGTH SHOULD ALSO BE REDUCED TO FACILITATE REVIEW.

5. THE PID ALSO DID NOT ADEQUATELY ADDRESS THE ENVIRONMENTAL EFFECTS OF THE TRADE AND INVESTMENT POLICY REFORMS THAT MAY BE PROMOTED BY THE PROJECT FOR A DECISION ON THE INITIAL ENVIRONMENTAL EXAMINATION

(IEE). THE MISSION'S OWN ENVIRONMENT AND NATURAL RESOURCES STRATEGY REPORT DOCUMENTS THE IMPORTANCE OF IMPLEMENTING APPROPRIATE INDUSTRIAL AND TRADE POLICIES. ACCORDINGLY, FURTHER ANALYSIS IS NEEDED DURING PP PREPARATION TO SUPPORT SUBMISSION OF AN IEE COVERING THESE POLICIES AT A LATER DATE. EAGLEBUEGER  
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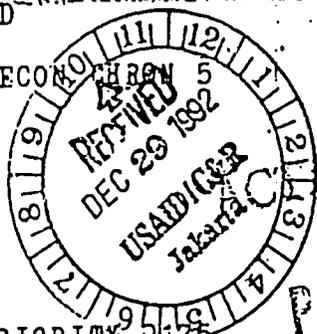
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TAGS:

SUBJECT: INDONESIA TRADE AND INVESTMENT PROJECT (497-7363)

REF: (A) FAX WEDEH/BOYD, DTD 10/8/92 (B) FAX BECKMAN/BOYD, DTD 6/2/92, (C) (89) STATE 331581, DTD 10/17/89 (D) STATE 383986, DTD 11/25/92; (E) FAX BISSON/SCOTT, DTD 12/16/92



1. ACTING ASSISTANT ADMINISTRATOR AUTHORIZES MISSION DIRECTOR TO MOVE FORWARD WITH DEVELOPMENT OF TRADE AND INVESTMENT FP. BECAUSE OF SECTION 599 AND OTHER CONCERNS, PLEASE SEND PP TO AID/W FOR REVIEW PRIOR TO AUTHORIZATION. DECISION TO PROCEED IS BASED ON ANALYSIS OF ORIGINAL PID, PID APPROVAL CABLE (REF C), AND RESTRUCTURING OF PROJECT ELEMENTS AS OUTLINED IN REF A.

2. SUBSEQUENT PARAGRAPHS PROVIDE UPDATED PP PREPARATION GUIDANCE:

A. ASIA BUREAU RECOGNIZES THAT ONLY INTERIM GUIDANCE (REF. D) EXISTS RE SECTION 599. YOU SHOULD PROCEED WITH PP FOLLOWING THIS GUIDANCE. WE WILL BE SCrupuLOUSLY REVIEWING ALL PROJECTS THAT HAVE SECTION 599 IMPLICATIONS. ALL COMPONENTS OF SUBJECT PROJECT SHOULD BE REVIEWED IN

RELATION TO SECTION 599.

B. AS MISSION IS AWARE, EARLY CONSULTATION WITH THE HILL IS IMPORTANT FOR THIS PROJECT. SINCE YOU EXPECT TO COMPLETE THE PP QUICKLY (LATE JANUARY) WE WANT TO WAIT FOR THE PP BEFORE INITIATING HILL DIALOGUE AS PART OF THE CN PROCESS. THE PP DETAILS WILL BE HELPFUL IN THE PROCESS. THE MORE INFORMATION WE HAVE THE BETTER WE WILL BE ABLE TO RESPOND TO THE HILL.

C. WE ARE CONCERNED ABOUT THE AMERICAN BUSINESS CENTER ACHIEVING FINANCIAL SUSTAINABILITY BY END OF THIRD YEAR. THE PP SHOULD IDENTIFY INDICATORS THAT WILL BE USED IN (1) COLLECTING BASELINE DATA, (2) PERIODIC REPORTS ON PROGRESS INDICATORS, AND (3) THE EVALUATION WHICH MEASURE BENEFITS AGAINST COST EFFECTIVENESS.

D. DA FUNDING IS ANOTHER CONCERN WITH RESPECT TO THE TRADE

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PROMOTION AND INVESTMENT ACTIVITIES OF THIS PROJECT. WE FEEL THAT THIS ASPECT OF THE PROJECT HAS NOT BEEN ADEQUATELY ADDRESSED IN YOUR RECENT SUBMISSIONS. OUR CONCERN HERE IS THAT DA IS NOT AVAILABLE IN AND OF ITSELF TO ASSIST TRADE AND INVESTMENT. TO USE SUCH FUNDS TO FACILITATE UNITED STATES TRADE AND PRIVATE INVESTMENT ACTIVITIES REQUIRES SPECIFIC ANALYSIS OF EACH PROJECT COMPONENT FOR DEVELOPMENTAL SOUNDNESS AND SUSTAINABILITY BASED UPON THE PURPOSES OF THE DA ACCOUNT OR FARMARK SELECTED. WITH RESPECT TO THE ESTABLISHMENT OF AN AMERICAN BUSINESS CENTER UNDER THE PROJECT, IT WOULD APPEAR THAT THE RECENTLY ENACTED "JOBS THROUGH EXPORT ACT OF 1992" WOULD REQUIRE THE FCS TO TAKE THE LEAD IN ESTABLISHING SUCH A CENTER, WITH A.I.D. PROJECT FUNDING TO BE TRANSFERRED TO THE ABC VIA INTERAGENCY AGREEMENT (REF E).

E. REVISED PROJECT INCLUDES BOTH NEW ELEMENTS AND ELEMENTS FROM PREVIOUSLY APPROVED PID. PP DESIGN TEAM SHOULD REFER TO PID APPROVAL CABLE (REF C) FOR GUIDANCE ON PREVIOUSLY APPROVED ELEMENTS. XANTER

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**ANNEX B**

**REQUEST FOR ASSISTANCE**

**Trade & Investment Project**

**497-0363**

**ANNEX C**

**LOGICAL FRAMEWORK**

**Trade & Investment Project**

**497-0363**

**LOGICAL FRAMEWORK  
TRADE AND INVESTMENT PROJECT 497-0363**

Annex C

NARRATIVE SUMMARY GOAL:	OBJECTIVELY VERIFIABLE INDICATORS MEASURES OF ACHIEVEMENT:	MEANS OF VERIFICATION METHODS/SOURCES OF VERIFICATION:	IMPORTANT ASSUMPTIONS ASSUMPTIONS FOR SUCCESS:
To broaden and increase private trade & investment in Indonesia.	Increased flows of trade & investment compared to 1992 baseline data: - Increased total value of trade and investment. - Increased diversification of exports (and imports). - Increased number of exporters and importers. - Increased number of new investment projects.	BPS and MOT data: Indikator Ekonomi, Bulletin Ringkas, Statistik Perdagangan. (a, b) BKPM data: Monthly and Annual Reports. (a, d) Membership listings in Importers and Exporters Associations. (c) USAID research reports and Other Donor Studies. (a,b,c,d)	Private sector willing and able to respond to policy signals. Continued GOI support to deregulate & expand the private sector. Political and economic stability both domestically and internationally.
PURPOSE: To improve the trade policy environment and access to business services conducive to increased trade and investment.	END OF PROJECT STATUS (EOPB): 1. Decreased barriers to domestic and foreign trade.  2. Clients served by IESC, business associations, and MOT have increased levels of trade and investment.  3. Demand for trade and business services creates a cash flow sufficient for a self-sustaining Indonesia-American Business Center.	METHODS/SOURCES OF VERIFICATION: 1. Qualitative evaluation of GOI Decrees and Executive Orders Public responses as reported in journals and discussed in DPR.  2. Qualitative and quantitative evaluation of: - MOT publications; contractor/grantee reports; - Project reports; business association reports; - Interviews with selected enterprises.  3. IABC financial records.	ASSUMPTIONS FOR SUCCESS: Top GOI officials remain committed to advancing the deregulation and de-bureaucratization program.  Private sector industries, organizations, and firms have incentive to use improved business services and they are willing to provide data about their firms.  GOI remains receptive to an expanded role for the private sector in economic development.
OUTPUTS: 1. Improved institutional capacity of the Ministry of Trade to analyze, formulate and espouse market-oriented trade policies.  2. An increase in the number of competitive local enterprises and private business associations providing highly valued services to members and clients.  3. Increased access by U.S. & Indonesian businesses to information services and trade and investment opportunities.	MEASURES OF ACHIEVEMENT: 1.1. Improved MOT Institutional & Organizational Structure 1.2. Improved MOT capability to conduct sound policy analysis. 1.3. Expanded MOT's Young Professionals' Program 1.4. Upgraded Capacity of MOT to Participate in Inter'l Negotiations 1.5. Increased MOT ability to advance trade policy reforms, policy formulation procedures, & to improve its trade policy implementation  2.1. Enterprises benefitting from improved business services have: - Increase in number. - Increase business turnover. - Increase worker productivity and production efficiency. - Improve quality of output (goods and services)  2.2. Increased activities and/or number of private sector business service organizations providing new and/or improved services to members/clients on a sustainable basis and adopting and enforcing own professional standards and ethics.  3. Establish a one-stop business information clearinghouse: 3.1. Better Access to Business Information and Promotional Material. 3.2. Business Linkages Are More Easily Facilitated. 3.3. Intermediary business organizations help more clients to identify consultants and brokers for prospective partners. 3.4. Greater number of businesses receiving early USG and/or GOI assistance. 3.5 Increased access - at lower cost - to new technology, especially for small and medium-sized firms 3.6. Easier access to market information	METHODS/SOURCES OF VERIFICATION: Periodic project evaluations Quarterly progress reports from contractor. MOT decrees, regulations, internal orders Growing public record of MOT initiatives. Record of MOT publications.  2.1. Qualitative & quantitative evaluations of improved performance of targeted private sector enterprises, including: - number of businesses supported by the project - production and sales data - decreased rejection and increased compliance with new or improved industry standards and practices.  2.2. Project monitoring of (a) expanded services of business associations, (b) increased membership/clients, (c) improved financial sustainability, and (d) improved member compliance with professional conducts.  3. Operational Indonesia-American Business Center: - Visitors log - Attendance at promotional seminars - Contractor's quarterly reports - Comments from local business associations and MOT - Advisors' records of business deals facilitated - Project evaluations - Client surveys	ASSUMPTIONS FOR SUCCESS: New GOI administration starting 4/93 is receptive to reform agenda. MOT able and willing to finance implied recurrent costs  Minimal bureaucratic inertia within MOT and cooperating agencies to proposed restructuring and reforms.  2.1. Local private sector enterprises have a need for market information other services in order to expand business. Technical assistance provided by the IESC is channeled to appropriate recipients.  2.2. Technical assistance provided by the IESC is channeled to appropriate business service organizations.  3. Indonesia-American Business Center: Lower cost access to market information and other business services offered by the IABC creates and/or expand U.S.-Indonesian business ventures.  Businesses are willing to finance part of the IABC's operations.

**LOGICAL FRAMEWORK  
TRADE AND INVESTMENT PROJECT 497-0363**

NARRATIVE SUMMARY INPUTS:	OBJECTIVELY VERIFIABLE INDICATORS MEASURES OF ACHIEVEMENT:					MEANS OF VERIFICATION METHODS/SOURCE OF VERIFICATION:	IMPORTANT ASSUMPTIONS ASSUMPTIONS FOR SUCCESS:
	USAID	GOI	(3000s) Indo. Private	U.S. Private	Total		
<b>1. Trade Implementation &amp; Policy Program:</b> 1.1. Long-Term Advisors: 4 resident experts over 5 years (240 p/m) 1.2. Short-Term Advisors: 60 p/m over 5 years 1.3. Program Admin./Computer Spec.: 60 p/m over five years. 1.4. MOT counterparts, PCs, offices, photocopier, and funds for project support and publishing	1. 4,700	1,500	0	0	6,200	Contractor, Grantee, and MOT accounts/payroll records  Site visits by Project Officer.	1. MOT willing to assume an increasingly larger share of program costs as the project component comes to a close.
<b>2. Multiple Business Services Program:</b> 2.1. Multiple Business Services Office Manager - 60 p/m 2.2. Exec. Mgt (1 p/m per year); T&I Promo Mgr. - 48 p/m over last 4 years; admin/planning/control - 54 p/m over 5 years. 2.3. Services: 2.3.1. T&I Business Services Manager - 60 p/m 2.3.2. 148 "projects" with VEs for local private businesses - 296 p/m 2.3.3. 20 VE Sector Assessment Surveys - 40 p/m 2.3.4. Ten Business Association strengthening projects - 20 p/m 2.3.5. 50 ABLE Studies; 20 seminars in Indonesia, 20 marketing pieces (brochures, etc.) 2.4. Minibus, 2 computers/printers/fax, photocopier, library, miscel.	2. 8,000	0	2100	4400	12,500	Quarterly Implementation reports.  Lease Agreements  Commodity purchases	2.1. Sufficiently strong and representative associations can be identified.  2.2. Private sector financial resources are provided as planned.
<b>3. Expanding U.S.-Indonesian Trade &amp; Investment:</b> 3.1. commercial office space comprised of private offices, a library, independent carrel units, seminar/exhibit space, and a reception area. 3.2. Manager of the IABC - first 36 months 3.3. Foreign Commercial Service personnel 3.5. Equipment, furnishings, and utilities for the IABC	3. 3,300	400	300	600	4,600		3.1. IABC can become self-supporting in fifth year of operation.  3.2. Businesses are willing to pay for "one stop" access to information  3.3. Local business support services do not have access to information
4. Evaluations (2)	4. 250	0	0	0	250	Evaluation and Audit Reports	
6. Contingency:	5. 750	0	0	0	750		
	18,000	1,900	2,400	4,800	24,200		

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## **ANNEX D**

### **ANALYSES**

- D.1. Institutional**
- D.2. Economic and Financial**
- D.3. Social Soundness**

**Trade & Investment Project**

**497-0363**

## **ANNEX D.1. Institutional Analysis**

The Ministry of Trade (MOT) is proposed as the lead counterpart agency within the GOI for implementation of the Trade and Investment Project (TIP). The MOT was chosen as the home site for the project because of its key role in setting and implementing both domestic and foreign trade policy and because of its ongoing efforts to shift its operating role away from regulating business and toward providing services that facilitate and support business activity and private sector development. The MOT was also selected because of the collaborative and productive relationship which has developed between USAID the MOT and which has served to advance the GOI's deregulatory program and its institutional and human resource development goals.

While the MOT is designated as the lead counterpart agency, cooperation of other agencies, e.g., the Badan Koordinasi Penanaman Modal (BKPM) and the Economic Coordinating Ministry (EKUIN), are essential to the project's success. Close coordination and consultation among these agencies, the MOT, and USAID will be ensured via their representation on the TIP Steering Committee. BKPM is included because of its role in facilitating foreign and domestic investment, while EKUIN is included because most major trade policy changes are formulated in an inter-departmental forum facilitated by EKUIN.

### **The Ministry of Trade and the Indonesian Economy**

The Indonesian Government's reform efforts began in 1983 with the deregulation of financial markets. Reforms directed at the real sector were initiated a few years later largely in response to external shocks to the economy. The fall in oil prices in the mid 1980s created a fiscal and balance of payments crisis within the Indonesian government and led to the realization ~~that~~ Indonesia could no longer be dependent on oil and natural gas as a steady source of government and export revenues. It was recognized that major efforts would have to be taken to increase non-traditional exports and to encourage foreign investment, both of which are essential to diversifying the economy's productive base and stimulating the growth required to absorb the estimated 2.5 million new entrants into the labor market every year.

This policy shift was aggressively implemented through the launching of internal and external trade deregulation and the encouragement of foreign investment. Some of the more important measures taken include the following:

- Across-the-board reductions in nominal import tariffs - March, 1985
- Reductions in import/export licensing requirements and a shift to tariffs as the principal instrument of import policy - October, 1986
- Investment Priority List converted from a long Positive list to a short Negative list

- The elimination of many non-tariff barriers on important agricultural products such as edible oils, soybean meal, poultry and other meats, and fruit and nuts.

The MOT has played a key role in advancing and implementing these trade policy reforms. Prior to the deregulation and debureaucratization mandate, the MOT's main functions were to issue business, import, and export licenses as well as to enforce tariffs and non-tariff restrictions on trade. In the mid-80s, a serious internal reform process was initiated which involved redefining the role of the MOT, reorganizing its structure, and retraining its staff, all with the express purpose of developing the Ministry's capacity to assume its new responsibility as a facilitator and promoter of private trade and business activity.

### **The MOT's New Mission**

In accordance with the GOI's "deregulation and debureaucratization" program initiated in 1983, the MOT has been striving to reform itself from an institution primarily tasked with regulating trade activities to one fully capable of facilitating and promoting foreign and domestic trade. The goals of the MOT's institutional reform program are reflected in its Mission and Vision statement. The Mission of the MOT is *"to enhance the contribution of trade to the achievement of the National Development objectives."* The MOT's Vision for the future is *"to transform the MOT into a significant institution which is respected by the domestic and foreign business community, as well as by other government agencies, and in which leadership positions are held by active, flexible, creative, and innovative individuals."*

Top leaders within the MOT fully recognize the challenges and difficulties involved in reorienting the MOT's role towards one of trade facilitation. The deregulation efforts have increased the need for skills and capabilities in certain activities, such as trade policy analysis, market analysis, international negotiation skills, and data and information management, while reducing the need for other activities, specifically those associated with the regulation and licensing of businesses. To deal with these changing demands, the Ministry has undertaken a comprehensive human resource and institutional development program designed to equip its staff with the analytical, computer, and English language skills they need to manage the diverse and increasingly complex trade issues encountered in the move towards a more open, freely competitive economy.

USAID/Indonesia has contributed to the achievement of the MOT's goals in the area of institutional development through its support for and participation in the Young Professionals Program, the MOT's in-house program for strengthening the capabilities of mid-level professionals. The purpose of the YP program is to develop the capacity of the MOT to operate with professional skills in devising and responding to new policy needs and requirements related to the deregulation and promotion of internal and external trade. A recent evaluation of the program concluded that

The YP program in all its various elements is an effective program within the Ministry of Trade and is regarded by officials and participants as successful and important. The program should continue. The training and the professionalization of Ministerial staff, both by study abroad and within the Ministry, are regarded by the officials as critical to furthering diversified non-energy exports by deregulating both internal and external trade.

In addition to focusing on enhancing the skills and abilities of its staff, the MOT also has plans to restructure its organization to better reflect its changing responsibilities. While the reorganization plan has yet to be finalized, the main thrust of the plan is to move away from a sectoral-oriented structure towards one which accomodates market private sector development across product lines. This approach is consistent with the goal of reducing government intervention in specific markets.

### **MOT Institutional Constraints and USAID-MOT Collaboration**

While significant gains have been achieved to date in reforming the MOT and in strengthening its capacity to support open, competitive market development, formidable challenges lie ahead in its drive to continue the reform process. Details of the new reorganization plan have yet to be worked out and approved by the appropriate authorities. In all likelihood, finalization and implementation of the restructuring plan will have to await the Cabinet reshuffling which will occur in March-April, 1993. Even more importantly, the Ministry remains severely constrained by the lack of adequately trained personnel. Especially lacking are staff equipped with the analytical and information processing skills required to conduct rigorous policy-related research, track market trends, compile and manipulate data bases, and other tasks on which the formulation and implementation of rational policies are dependent.

The TIPP component of the TIP is designed to assist the MOT in strengthening its in-house capacity to perform these increasingly complex functions. The Ministry of Trade has been highly receptive to and appreciative of USAID's contributions in this area and its staff are keen to continue the collaborative relationship. Top leaders within the Ministry have also expressed their strong support for expanding U.S.-Indonesian trade and business relations via the establishment of the Indonesian-American Business Center whose main purpose is to improve communication and information flows between Indonesian and American businesspersons. Finally, Ministry officials fully recognize the importance of strengthening the private sector's ability to provide support services, e.g., quality control programs, market development, technical production assistance to burgeoning enterprises--the kinds of activities which will be undertaken in the MBSP component of the Trade and Investment Project.

In sum, the Ministry of Trade has made impressive progress towards reforming itself into an institution fully capable of fulfilling its new role as a facilitator and promoter of trade. By building on its past successes and forging ahead with new initiatives, there is tremendous

potential for continued progress in the near future. Ministry officials and staff have amply demonstrated their commitment to establishing a climate in which private business activity can prosper. They have also shown their willingness and desire to work with A.I.D. in the pursuit of this objective.



## D.2. Economic and Financial Analysis<sup>1</sup>

### A. Project Context: Recent Economic Developments in Indonesia

Over the past decade, the Indonesian economy has been undergoing a major transformation. Faced with sharply falling oil prices in the first half of the 1980s, Indonesia initiated a wide-ranging series of structural reforms aimed at reducing the economy's dependence on oil as a source of export and government revenues. It was realized that in order to diversify and strengthen the economy's production and export base, the private sector would have to be given a much freer rein to seek and avail itself of profitable opportunities to expand production and establish new markets in products in which Indonesia could compete on world markets.<sup>2</sup> It was this realization which induced the Government to launch its ongoing program of "deregulation and debureaucratization." The primary aim of the self-imposed program is to identify and dismantle regulatory barriers and interventions which serve to dampen private sector initiative, create disincentives for productive private investment activity, and impede the private sector's ability to seize profitable production and trade opportunities.

The program began with liberalization of the financial sector. Reforms entailed the removal of interest rate ceilings, the dismantling of selective credit policy, and the introduction of market-oriented instruments of monetary control. Another package of reforms, introduced in 1988, enhanced competition in the banking sector by opening up the market to new entrants, both foreign and domestic. Measures to further improve supervision of financial institutions, including compliance with BIS guidelines, were introduced in 1991.

Subsequent reform measures were directed at the real sector. The trade regime has been progressively liberalized via across-the-board reductions in nominal tariffs, removal of many NTBs, and major deregulation of the import licensing system. In the most recent deregulation packages, released in June 1991 and July 1992, the Government reduced duties on hundreds of categories of imports and eased or eliminated trade barriers to a number of other goods, including various iron and steel products and some classes of used machinery

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<sup>1</sup>Technically, project economic analyses differ from financial analyses in the following ways: First, economic analyses do not treat transfer payments, e.g., taxes and subsidies, as real resource commitments since (from society's point of view) they do not constitute real costs or benefits to the country. Second, economic analyses typically attempt to account for external effects, i.e., cost (benefits) to society which are generated by the project but which are not incurred (do not accrue to) the economic agents undertaking the project. Finally, in economic analyses, resources are valued in terms of their opportunity cost (what must be foregone to obtain the resource) rather than in terms of their market prices. For purposes of tractability, in this analysis we do not draw a sharp distinction between financial and economic costs. (It should be noted, however that the costs reflected in the estimated GOI contributions do include the opportunity cost of resources used to support the project.) Furthermore, while we expect the project to generate positive external effects, externalities are always extremely difficult to specify, and even more difficult to quantify. Hence, we are forced to ignore these effects but recognize that this exclusion may serve to underestimate the true benefits which result from the project. In sum, then, this analysis serves as both the financial and economic analysis.

<sup>2</sup>For an excellent report on the progress of and constraints to private enterprise development in Indonesia, see The World Bank's "Indonesia: Developing Private Enterprise," Report No. 9498-IND, May 9, 1991. Also see M. Pangestu, "The Role of the Private Sector in Indonesia: Deregulation and Privatization," (Centre for Strategic and International Studies, Jakarta, Indonesia.)

and capital plant. Complementing these efforts, conditions governing foreign investment have been eased considerably: in May 1989 the government replaced the long and cumbersome "positive" list of investment areas by a relatively short "negative" list. In June 1991, the negative list was shortened and investment licensing procedures were further streamlined.

The deregulation movement has had far-reaching effects. The private sector has responded vigorously to the new incentive regime. Foreign investment approvals nearly doubled over the period 1988-1991, while domestic investment approvals nearly tripled. Over the same period, the non-oil manufacturing sector expanded at an average annual rate of approximately 12 percent and non-oil exports grew at an average annual rate of over 15 percent. Moreover, the benefits deriving from the structural changes and concomitant growth have been widely distributed throughout the economy. According to the World Bank, *"the strong growth in the non-oil economy created productive, new job opportunities that reduced unemployment, raised real wages, increased real incomes and consumption, and contributed to a reduction in poverty."*<sup>3</sup>

#### **B. Project Economic Rationale**

While the deregulation program has been remarkably successful, sustaining broad-based private sector growth over the next decade brings a new set of challenges. It requires, in the first instance, that the momentum of the reform effort be sustained. Further improvements in the incentive regime will require, *inter alia*, continued progress in reducing barriers to foreign and domestic trade, improving information flows within the private sector (as well as between the public and private sector), and strengthening the private sector's ability to provide a wide array of services essential to enhancing both productivity and marketability of Indonesia's goods and services. The TIP project is designed to assist the Indonesian government and private businesses to meet these needs.

The primary goal of the TIP project is **"to increase broad-based private trade and investment in Indonesia."** By providing U.S. technical assistance in each of the areas listed above, the project expects to achieve this goal. In this project economic analysis, we focus primarily on the benefits which accrue to the Indonesian economy due to increased export growth. Evidence shows that export-led growth has a much higher impact on job creation than does import-substitution-led growth. This is because expanded trade causes resources to be shifted toward those industries in which a country has a comparative advantage. In labor-abundant countries, trade naturally involves an expansion of the (labor-intensive) manufacturing sector. As trade continues to expand and surplus labor is absorbed, wages will begin to rise. This in turn induces firms to invest in physical and human capital aimed at raising labor's productivity. Hence, outward-oriented development strategies are more

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<sup>3</sup>Ibid, p. vii.

likely to result in the equitable distribution of the benefits of growth than are inward-looking strategies.<sup>4</sup>

To be sure, increased export growth is not the sole source of benefits which will derive from the project. By helping to improve the economic environment within which businesses operate, assisting a wide array of firms to increase their productivity, and facilitating information flows between firms, the project will generate benefits that are not reflected solely in increased exports. Nonetheless, for operational feasibility, the formal analysis presented below only considers increased export growth and the addition to GDP growth which it implies. Before proceeding to present the methodology and results of the analysis, it is useful to first describe the mechanism by which increased export growth can cause increased growth of aggregate output. This is done in the following section.

### C. Exports and Economic Growth

There are several channels through which export growth can cause an increase in real GDP growth.<sup>5</sup> First, export growth may represent an increase in the demand for a country's output which (in an economy operating at less than full employment) can serve to increase growth. Second, by relaxing foreign exchange constraints, export growth makes possible an increase in imports of productive intermediate imports thus resulting in higher growth. Third, export growth may lead to an increase in productivity growth. For firms to compete on the world market, they must operate on what may be termed the "best-practice frontier," i.e., they must adopt the best available technology (given the factor prices which they face).<sup>6</sup> Moreover, to maintain competitiveness in world markets over the long run, firms must go beyond adopting the best available techniques to developing new cost-reducing techniques of their own. In short, by exposing firms to increased sources of competition, export growth serves to push firms to adopt the best existing technologies and/or develop new and superior technologies, both of which lead to enhanced productivity and efficiency. A number of empirical studies provide evidence in support of the hypothesis that export growth is positively related to real GNP growth.<sup>7</sup>

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<sup>4</sup>See for example, L. Westphal, "The Republic of Korea's Experience with Export-Led Industrial Development," *World Development* 6, no. 3 (1978), and A. Krueger, "Alternative Trade Strategies and Employment in LDCs," *American Economic Review* (May, 1978).

<sup>5</sup>See for example, W.S. Jung and P.J. Marshall, "Exports, Growth and Causality," *Journal of Development Economics* 18 (1985) 1-12. It is also worth noting that one of the first (and widely cited) treatments of this subject was done by two A.I.D. economists. See C. Michaelopoulos and K. Jay, 1973, "Growth of Exports and Income in the Developing World: A Neoclassical View," AID Discussion Paper 28.

<sup>6</sup>This is true assuming there are other firms in the world market which face these same factor prices.

<sup>7</sup>See for example, M. Michaely, (1977), "Exports and Growth: An Empirical Investigation," *Journal of Development Economics* 4, No. 1, 49-53. Also see W. Tyler, "Growth and Export Expansion in Developing Countries: Some Empirical Evidence, (1981), *Journal of Development Economics* 9, No. 3, 121-30.

#### D. Project Economic Analysis

Having described the theoretical and empirical basis for the positive relationship between exports and growth, we now turn to a discussion of the method employed here to estimate the real returns to the TIP project. Two standard measures of project worth are used here: 1) Net Present Value, and 2) Internal Rate of Return. The Net Present Value (NPV) of a project is the difference between the present values of its future cash inflows (costs) and outflows (benefits). All the cash flows are discounted at a pre-determined discount rate, and their present values are summed up in a single indicator of the project value. Mathematically, it is expressed as follows:

$$NPV = (C_0 - B_0) + \frac{(C_1 - B_1)}{(1+r)^1} + \frac{(C_2 - B_2)}{(1+r)^2} + \dots + \frac{(C_n - B_n)}{(1+r)^n}$$

where

NPV = net present value  
C<sub>i</sub> = cost or cash inflow  
B<sub>i</sub> = benefit or cash outflow  
r = discount rate

The project is deemed acceptable if the NPV is greater than zero.

The internal rate of return (IRR) is the discount rate at which the present value of the stream of costs equals that of the benefits. Mathematically, this is simply the discount rate (r) which causes the NPV in equation (1) above to equal zero. The project is acceptable if the prevailing interest rate on the market is lower than the IRR.

As mentioned previously, the analysis is based on the assumption that the primary source of benefits to the Indonesian economy derives from the contribution of increased export growth to GDP growth. First, an estimate is made of the amount of non-oil exports that are generated by the three TIP components. This estimate can only be considered a first approximation (read: crude estimate) of the net increase in exports. Second, the implied contribution to non-oil export growth is calculated. Third, based on certain assumptions (described below), the contribution to GDP growth resulting from higher non-oil export growth is calculated. To derive the benefits which accrue to the project, we compare the GDP stream with the project to the projected GDP stream in the absence of the project. The stream of differences in GDP are then discounted to arrive at the present value (PV) of benefits.

On the cost side, we simply add the estimates of USAID's financial contribution to the project to that of the GOI's contribution (where the latter includes cash and the valuation of in-kind contributions) for each year. While A.I.D.'s contribution ends in FY 96/97, we assume that the GOI and Indonesian private sector contributions continue (at a reduced level) until FY 2002/03, the 10th year of the project. Clearly we must select some arbitrary terminal

date to calculate the returns to the project. Needless to say, the hope and expectation is that the project activities will be sustained so long as they yield a positive real rate of return. USAID's real contribution, then, is to help demonstrate the returns to investment in institutional and private sector development of the type proposed here.

The basic assumptions and calculated values are summarized in Table 1. The base year corresponds with the first year of project implementation, FY 92/93. Non-oil exports and GDP in the base year are World Bank estimates. To obtain projections of growth in non-oil exports and GDP in the absence of the project, we simply assume that annual growth in each of these variables equals the average annual growth rate achieved over the period 1975-1991. It should be noted that the accuracy of projected growth rates without the project is not critical to the analysis since the benefits depend on the estimated *difference* in growth rates, i.e., the increase in growth rates attributable to the project. It is assumed that the contribution of non-oil export growth to aggregate growth (GDP growth) equals the product of the growth rate of non-oil exports and the share of non-oil exports in GDP. For operational convenience, we assume that the share of non-oil exports in GDP is constant over the 10-year period, and equal to its base year value of 15 percent.

In estimating the increase in exports which TIP is expected to generate, it is assumed that the boost to exports kicks in by the third year of the project. A conservative estimate of the increased exports attributable to all the TIP components is \$3.5 million or approximately 1/100 of one percent of non-oil exports in 1993/94. Hence, in FY 94/95, non-oil export growth should increase by .0001. We assume that in the years which follow, the boost to export growth gradually declines until, by the end of the period, non-oil export growth reaches its projected rate in absence of the project. (See line 24.) As a consequence, the stream of benefits (in the form of increased GDP) increases at first but then begins to decrease.<sup>8</sup>

#### E. Net Present Value

To calculate the NPV, the costs of the project in each year are subtracted from the annual benefits to obtain net benefits which are then discounted by the appropriate discount rate. The discounted annual net benefits are then summed to obtain the net present value of the project. The choice of an appropriate discount rate is always difficult. Ideally, the discount rate should equal the opportunity cost of funds used to support the project. In practice, the discount rate typically chosen is the real market rate of interest. The real rate of interest in Indonesia is roughly 15 percent (equal to nominal interest rate minus the expected rate of inflation). We estimate that approximately 3 percentage points may be attributed to banks' assessment of risks associated with private sector lending and thus not representative of the

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<sup>8</sup>In actuality, despite the fact that the export growth rate is reduced to its pre-project level by year 10, the stream of benefits (in the form of increased GDP) extend beyond the 10-year time horizon chosen. However, due to the uncertainty associated with a longer time horizon, we elect to (somewhat arbitrarily) ignore any benefits accrued beyond the 10th year. Clearly, this serves to downward bias the estimates of both the NPV and IRR.

true social opportunity cost of financial capital. Hence, we select an initial 12 percent discount rate but then allow this rate to decrease arithmetically until reaching 10 percent by the end of the period. This is done because one would expect the opportunity cost of capital in Indonesia to decline over the next decade. The discounted net benefits to the project are shown on line 104 and the sum of these differences, the NPV, on line 107. Since the NPV  $> 0$ , by this criteria, clearly the project is acceptable.

#### F. Internal Rate of Return

To calculate the IRR, we find the discount rate which causes the stream of net benefits (discounted at this discount rate) to equal zero. This is shown in Table 2. The calculated IRR is 35.28 percent. Since this is clearly higher than the real market rate of interest, the project is acceptable.

#### G. Summary and Concluding Comments

In this section, we presented a straightforward, albeit highly simplified, cost-benefit analysis of the Trade and Investment Project. It was assumed that an increase in Indonesia's GDP growth rates deriving from an increase in its non-oil exports constitutes the economic benefits to the project. Using two traditional indicators of project worth, the NPV and IRR, the analysis demonstrated that the project merits acceptance on economic and financial grounds.

It is important to note that in several respects, the analysis clearly *understates* the benefits which are likely to accrue to the project. As mentioned previously, by focusing solely on export growth as the source of benefits, the analysis essentially ignores the contribution to output attributable to higher productivity in the MBSP-assisted sectors. Nor does it attempt to capture the effects of increased investment attributable, *inter alia*, to enhanced information flows between firms. There are a number of other omissions, e.g., the expected benefits which accrue to individuals who receive training under the project. In addition, no attempt was made to identify and quantify the positive external effects the project would likely generate. Consequently, the estimated IRR is considered to be very conservative and actual returns should be considerably higher.

Finally, the potential gains to the U.S. economy were not explicitly considered. These benefits may indeed be substantial. Increased growth in Indonesia and an increasingly outward-oriented economic environment will naturally lead to an increase in Indonesian imports--from the U.S. and other countries. Moreover, increased contacts and improved information flows between U.S. and Indonesian firms made possible via the MBSP and IABC project components will certainly benefit U.S. firms who will find it easier to do business in Indonesia and will learn about new market opportunities. This, in turn, should lead to an expansion of U.S. exports to Indonesia. In sum, the project should generate an overall expansion in bilateral trade between the U.S. and Indonesia resulting in substantial economic welfare gains to both economies.

### **D.3. Social Soundness Analysis**

#### **A. Overview**

The project shows good promise of success from the perspective of social soundness. There are no issues concerning the feasibility and intended impact of two of the three components of the project: the Trade Implementation and Policy Program (TIPP) activities carried out with the Ministry of Trade (MOT), and the Multiple Business Service Program (MBSP). Each is essentially a modified continuation and refinement of an ongoing A.I.D.-funded program which has received a favorable evaluation reflecting the existence of feasible project design and achievement of sound results. Activities under TIPP were started in 1990; IESC, the implementor of the MBSP, began USAID-funded activities in Indonesia in 1967.

The third component, establishment of the Indonesia-American Business Center, is of a new and innovative nature. The degree of its fit and feasibility in the Indonesia development scene is therefore less certain. The positive experience of business centers sponsored by other donors in Jakarta, and USAID plans for close monitoring of the contractor implementing the Center and early systematic review of financial performance of the Center after two full years of operation and again after the third year are all factors which will work for the success of this component.

USAID is very confident that the three elements will work well together to achieve broad access of businesses to increased opportunities for trade and investment, and to business information and services. USAID already has extensive experience in Indonesia designing projects with public policy and private sector components, the aim of which is to increase the development benefits to be derived from opening up the economy and increasing access to better information and technology.

The analysis below focuses on those topics of special relevance to the social soundness of the project.

#### **B. Sociocultural Feasibility and Beneficiaries**

TIP follows closely GOI's long-term objective of attaining a per capita income of \$1000 by the year 2000. Working with the MOT, the project aims to facilitate and increase access to trade and investment opportunities broadly, but it will also reinforce MOT's policy of encouragement for small and medium business development. An emphasis on development of small and medium sized businesses is compatible with achieving broader equity objectives within the Indonesian business environment, on and off the major island of Java.

Improved policies are key to project social soundness. Currently, the policies and practices of the Indonesian business environment are structured to favor large, well-established firms. The lack of transparency, cumbersome bureaucratic procedures, the absence of a formally accepted code of professional standards or ethics, the lack of disciplinary processes to

regulate them, differentially applied credit requirements, and the costs of high-quality education in business management and business services have biased business opportunities against small- and medium-sized firms.

The direct beneficiaries of TIP will be MOT officials, the private sector firms and their employees, and business and trade associations and their members who take advantage of the project-related services. At the policy level, project efforts should help enable firms of all sizes to do business more effectively and efficiently, using more modern business methods and technologies, and to develop as well as increase their linkages with U.S. businesses.

Middle and upper level business managers and owners such as will directly benefit from the improved policies and services offered by TIP form a small percentage of the Indonesian population. Though definitive data are not available, it appears that women are the proportionally smaller part of that elite group. Women owned and managed businesses are also disadvantaged, as discussed in a separate section below. They most often are subject to the difficulties experienced by small and medium sized businesses (discussed below), as well as constraints particular to gender.

Given the size and diversity of the country, the objective of attaining broad access of businesses to resources and opportunities provided through this project is unrealistic. Through the policy dimension of the project, the MOT's commitment to encouraging small and medium sized businesses will increase these firms' access to project-related benefits. The necessarily limited information and services activities directly provided to small and medium size businesses, associations, and sectors having wide national scope, will offer a broader-based beneficiary impact. Also, the lessons learned from providing services which can be fed into the policy-making process at the national level.

Small- and medium-sized businesses characteristically exhibit associated weaknesses detrimental to establishing international trade links: the firms are less well capitalized, with less standardized patterns of business practice; owners and managers are newer/less experienced and tend not to be as fluent in English. Data suggest that the greater overall numbers of these small- and medium- sized businesses, however, may have greater impact on changes in employment opportunities than the larger firms (see economic analysis).

Firms located off-Java will be particularly disadvantaged in participating in project activities. However, this type of facility will be especially useful to them when they come into Jakarta for business because of the variety of services and information all housed conveniently together. Typically these firms have limited exposure to business/ management education, lack the appropriate political/social networks and channels, and have less English proficiency. Communication systems are less reliable, mail slower; off-Java firms are less likely to receive the major business journals and newspapers which provide necessary information to conduct business effectively.

Involvement of business associations with widely dispersed membership will be an important means for broadening project participation by women-owned firms and businesses based off Java. USAID will monitor the variety and dispersion of associations assisted through review of project annual workplans. It is widely recognized that some Indonesian business service organizations which may gain access to business services are subject to opportunistic influences. The concept of business organizations as self-reliant, autonomous advocacy groups, independent of external influences, is not fully developed in Indonesia. In some cases business organizations have used their influence, for example, to shape or limit market entry to a select group of specially favored firms. It is anticipated that project officers will pay close attention in the case of project involvement with such business associations, both to monitor the level of resources extended to them, and to ensure lessons learned from such involvement can be fed into the policy process as appropriate.

MBSP's TA to business and trade associations will emphasize the importance of self-regulation of professional bodies, financial and ethical accountability to membership and the entire sector, and responsible advocacy. Sliding fee scales, targeted outreach and promotions, and special seminars by the IABC would increase the project's developmental impact by reaching these less advantaged firms. Both women owned and managed firms and small and medium sized firms will be represented on the IABC's board of directors. Media promotion of MBSP and IABC services will be used in reaching the broadest range of firms.

### **C. Gender Analysis**

As of the time of project paper preparation, most areas of project implementation do not yet have sex desegregated data on beneficiaries available. Information identifying actual business owners, especially when linked vertically through various holding companies, is difficult to access under the best of circumstances. USAID lacks access to a national and regional sex desegregated (based on sex of owner or manager) profile of Indonesian business; the Mission does have access to data on occupations broken down by gender, which could be used to select key sectors for project activity. TIPP's Young Professional Program has just begun to explicitly track gender data on the trainees; it appears that roughly 50% of the participants to date have been women. Sex desegregated data regarding beneficiaries of domestic trade deregulation and small business development are not available at this time. IESC has raw data available on the owners, managers, or employees of the firms it has helped, but no attempt has yet been made to disaggregate the data by gender or analyze it. Updating of the data collected will be part of regular project monitoring in all three components.

IABC has not yet been established; the Mission does not have sex desegregated data or estimates regarding the likely users of this facility. For these areas, baseline data will be collected from individual tenants when they take up occupation of their rented space. It must be noted, however, that the Center will not be privy to and may not actually intervene in the gender-relevant policies and practices of the firms which benefit from the project's implementation.

There are no major legal constraints on women's involvement as beneficiaries of this project. As a practical matter, however, Indonesian women face a number of constraints to owning and managing firms, and to taking overseas training courses. This project will investigate the possibility of instituting policies and practices to ameliorate key constraints.

A target for the number of women from the Ministry of Trade who participate in the Young Professionals Program can be established and progress toward that target monitored. TIPP's research and policy studies explicitly call for gender-sensitive analyses, and at least 25% should deal with issues, constraints, or opportunities for expanding the participation of women and small and medium-sized firms in international trade (at least 10% directly and explicitly devoted to women's firms).

The IESC MBSP services will explicitly include the various women's business organizations (e.g., AKU Wanita or HMWI) in the trade and investment network it develops, and make a special effort to provide, through its trade and investment seminars, any kinds of broadly relevant business information and services that these women's organizations need. One to two of these women's business and trade associations will be chosen for strengthening and better services.

The subcommittee for MBSP will choose four business sectors annually, based on a number of to-be-developed criteria. One criterion should be the proportion of women owned and managed businesses in that sector.

A target of 15% of all individual Indonesian firms receiving technical assistance from IESC volunteers will be allocated to women owned and managed firms if initial data collected indicates that this is feasible. A targeted 5 of the 50 ABLE market information/research reports should be conducted for women owned and managed firms. Where necessary and possible, a sliding scale of fees should be adopted to avoid pricing women owned and managed firms, and small firms generally, out of the market for MBSP services.

#### **D. Spread Effect and Sustainability**

This project, like a number of USAID's successful projects, is national in scope and anticipated impact. At the national level Indonesia's track record in accelerating economic development is widely cited. For example, poverty has declined in Indonesia from 42.5% in 1976 to 15.21% in 1990, a dramatic achievement for a country of its size and level of development.

The Mission anticipates significant spread effects and replicability for the activities of all the components, at least in a general way. The TIPP component's research and policy analysis and emphasis on training and professionalization will help enhance the effectiveness of the MOT, and thus its reputation. The MOT has already made plans to extend its training and professionalization programs to its regional trade offices. The real evidence of spread effect

is whether or not other ministries undertake similar program. Both spread effect and sustainability are clearly determined by the MOT budget.

The IESC TA itself cannot be replicated; the uniqueness of the TA is, in fact, its selling points. Neither will the IESC's MBSP per se be sustainable without USAID's support. However, the idea of a business or trade association, or even an individual business seeking out technical expertise and support in order to upgrade its own abilities is very compatible with modern business practice in Indonesia; already such offerings are frequently available for a large fee to the public, but without guarantees of the technical skills or business principles which the IESC will provide. What will make this component particularly more replicable will be the strengthening of eight local business associations: by presenting them with the skills necessary to be able to provide valued services to their members on a sustained basis. What will make the concept sustainable will be the realization of increased profits earned by the firms and associations which use such services.

The IABC, though new for USAID, is not so different from joint business centers set up in Indonesia by other donors. Their success suggests that the Center's replicability to other countries should be significant.

Sustainability of the IABC is directly based on its revenue-generating characteristic. If the Center Manager brings in a good anchor firm, puts together a broad mix of services housed at the center, promotes these services effectively, and charges reasonable fees for these services, the Center will make a profit and will be sustainable. A significant amount of monitoring and project management oversight will be directed to trying to ensure this.

ECONOMIC ANALYSIS OF T&I PROJECT

(USD)

File Ecan-80.wk3

Year	FY 92/93	FY 93/94	FY 94/95	FY 95/96	FY 96/97	FY 97/98	FY 98/99	FY 99/00	FY 00/01	FY 02/03
<b>WITHOUT-PROJECT</b>										
*ASSUMPTIONS (1992/93 = Base Year)										
*Non-oil exports (\$000)	33,220,365	35,612,231	38,178,312	40,925,006	43,871,807	47,030,363	50,416,549	54,048,540	57,937,861	62,109,419
*Augmented annual rate of growth of non-oil exports (real)	0.072									
*GDP in base year (\$000)	130,778,000									
*Augmented annual real GDP growth rate	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065
*Share of non-oil exports in GDP	0.15									
*Discount Rate	0.1200	0.1180	0.1160	0.1140	0.1120	0.1100	0.1080	0.1060	0.1040	0.1020
*CALCULATED VALUES (\$000)										
Real GDP Without Project	130,778,000	139,279,635	148,332,811	157,974,444	168,242,783	179,178,564	190,825,170	203,228,806	216,438,679	230,507,183
Discounted real GDP Without Project	130,778,000	124,579,280	119,099,198	114,269,746	110,031,568	106,333,757	103,132,868	100,392,063	98,040,413	96,172,329
<b>WITH PROJECT</b>										
<b>BENEFITS</b>										
*ASSUMPTIONS (1992/93 = Base Year):										
*Non-oil exports (\$000)	33,220,365	35,612,231	38,178,873	40,932,098	43,882,130	47,044,151	50,433,345	54,065,886	57,959,509	62,132,503
*Augmented annual rate of growth of non-oil exports (real)	0.072000	0.072000	0.072100	0.072086	0.072071	0.072057	0.072043	0.072029	0.072014	0.072000
*GDP in Base Year (\$000)	130,778,000									
*Augmented annual real GDP growth rate	0.065000	0.065000	0.065016	0.065013	0.065011	0.065009	0.065008	0.065004	0.065002	0.065000
*Share of non-oil exports in GDP	0.15									
*Discount Rate	0.1200	0.1180	0.1160	0.1140	0.1120	0.1100	0.1080	0.1060	0.1040	0.1020
*CALCULATED VALUES (\$000)										
Real GDP with Project	130,778,000	139,279,635	148,334,900	157,978,576	168,248,876	179,184,494	190,834,768	203,239,845	216,450,670	230,520,177
Discounted real GDP With Project	130,778,000	124,579,280	119,100,876	114,272,575	110,035,551	106,338,483	103,138,055	100,397,516	98,085,808	96,177,748
<b>WITH PROJECT COSTS (\$000)</b>										
<b>TIPP</b>										
Normal GOI Contribution	147	172	340	340	340	340	340	340	340	340
Normal AID TIPP funds	1,600	960	1,209	1,087	1,145	288				
Normal Annual Cost	1,747	1,132	1,549	1,427	1,485	826	340	340	340	340
Real Annual TIPP Cost	1,747	1,078	1,405	1,233	1,222	490	254	242	230	219
Discounted (PV) Real TIPP Cost	1,747	964	1,128	882	799	291	137	119	104	91
Sum of Normal TIPP costs	9,328									
Sum of Real TIPP Cost	8,120									
PV of TIPP Cost Stream (10 yrs)	8,273									
<b>IESC</b>										
Normal GOI Contribution	412	428	429	430	431	431	431	431	431	431
Normal AID IESC funds	493	1,082	1,197	1,244	1,304	859				
Normal Annual Cost	905	1,510	1,626	1,674	1,735	1,090	431	431	431	431
Real Annual IESC Cost	905	1,438	1,475	1,446	1,427	854	322	306	292	278
Discounted (PV) Real IESC Cost	905	1,347	1,298	1,201	1,122	638	229	209	192	178
Sum of Normal IESC Cost	10,284									
Sum of Real IESC Cost	8,743									
PV of IESC Cost Stream (10 yrs)	7,316									
<b>IABC</b>										
Normal GOI Contribution	45	90	90	90	45	45	45	45	45	45
Normal AID IABC funds	896	702	750	418	435	55				
Normal Annual Cost	1,041	792	840	808	480	45	45	45	45	45
Real Annual IABC Cost	1,041	754	782	439	395	35	34	32	30	29
Discounted (PV) Real IABC Cost	1,041	675	612	317	258	21	18	18	14	12
Sum of Normal IABC Cost	3,886									
Sum of Real IABC Cost	3,551									
PV of IABC Cost Stream (10 yrs)	2,884									
<b>PROJECT LEVEL ADMINISTRATION</b>										
Normal GOI Contribution	0	10	5	0	10	0	5	0	10	5
Normal AID PLA funds	55	210	160	110	210	55				
Normal Annual Cost	55	220	185	110	220	55	5	0	10	5
Real Annual PLA Cost	55	210	150	95	181	43	4	0	7	3
Discounted (PV) Real PLA Cost	55	187	120	69	118	28	2	0	3	1
Sum of Normal PLA Cost	845									
Sum of Real PLA Cost	747									
PV of PLA Cost Stream (10 yrs)	582									
<b>SUMMARY OF PROJECT COST</b>										
Annual Nominal Project Cost	3,748	3,854	4,180	3,719	3,920	1,816	821	818	826	821
Annual Real Project Cost	3,748	3,400	3,791	3,213	3,225	1,423	613	580	559	529
Sum of undiscounted real Project Cost	21,181									
Discounted (PV) of Real Annual Cost	3,748	3,173	3,158	2,478	2,298	976	387	344	313	281
PV of Project Cost Stream	17,155									
<b>DIFFERENCES BETWEEN WITH &amp; WITHOUT PROJECT (\$000)</b>										
Undiscounted sum of real costs (10yrs) (B)	21,181									
PV of Real Costs (= sum of discounted costs 10yrs) (Y)	17,155									
Undiscounted annual difference in Real GDP (Real GDP Project - W/O)	0	0	2,089	4,132	6,093	7,931	9,598	11,039	12,192	12,964
Undiscounted sum of difference in Real GDP (Project - w/o, 10 yrs) (A)	68,057									
Annual difference in discounted GDP (PV GDP Project - W/O)	0	0	1,677	2,989	3,985	4,706	5,187	5,453	5,525	5,417
PV of difference in real GDP (=sum of discounted differences) (D)	34,938									
Undiscounted real net benefits (Real Benefit - Real cost)	(3,748)	(3,480)	(1,702)	919	2,988	6,508	8,985	10,459	11,633	12,455
Sum of annual undiscounted real net benefits	44,896									
Annual discounted real net benefits	(3,748)	(3,173)	(1,480)	911	1,687	3,731	4,800	5,109	5,212	5,136
NPV = PV of annual discounted real net benefits (= sum of annual discounted real net benefits)	17,784									
IRR	35.28%									

PROCUREMENT SENSITIVE

CONFIDENTIAL

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ECONOMIC ANALYSIS OF T&I PROJECT  
(USD)

File: Ecan-1p.wk3

Year	FY 92/93	FY 93/94	FY 94/95	FY 95/96	FY 96/97	FY 97/98	FY 98/99	FY 99/00	FY 00/01	FY 02/03
	1	2	3	4	5	6	7	8	9	10
						IRR				
				Cn	Bn	0.352753				
				(1+i) <sup>n</sup>	(1+i) <sup>n</sup>					
YR	COST	BENEFIT								
1	3,748	0		3,748	0					
2	3,480	0		2,573	0					
3	3,791	2,089		2,072	1,142					
4	3,213	4,132		1,298	1,649					
5	3,225	6,093		963	1,819					
6	1,423	7,931		314	1,781					
7	813	9,598		100	1,566					
8	580	11,039		70	1,332					
9	559	12,192		50	1,067					
10	529	12,984		35	856					
		SUM		11,222	11,222					
				Checkpoints	0.00					

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## **ANNEX E**

### **DETAILED DESCRIPTION OF PROJECT COMPONENTS**

- E.1. Trade Implementation and Policy Program
- E.2. Multiple Business Services Program
- E.3. Indonesia-American Business Center: Cash Flow

Trade & Investment Project

497-0363

## **Annex E.1. Trade Implementation and Policy Program (TIPP)**

### **A. Key Program Activities**

The following provides the TIPP objectives and key program activities in support of these objectives.

#### Institutional Development and Reorganization

TIPP will help complete and implement the MOT's Institutional Development and Reorganization Plan. This plan will establish a new MOT Mission, with appropriate supportive organizational restructuring, and policy and administrative priorities. The driving force for this plan is to develop an institutional structure in the MOT that strongly supports the GOI's goal of deregulation and debureaucratization. A draft plan is expected to be ready for internal MOT approval by the end of 1992, and will then be submitted for formal GOI approval, which is expected to take about one year.

Key program activities to accomplish this objective include:

- Provision of Management Consulting Services;
- Development of Institutional and Human Resource Development Plans for Each Major Area of Focus for the New MOT;
- Provide Leadership and Management Training Courses;
- Integrate the Young Professional's Program into the MOT Personnel System and Internal Training Program; and,
- Develop a Long-term Program to Upgrade the MOT's Information and Computer Systems, Including Assisting in the Development of a Center for Information and Data Analysis.

#### Human Resource Development: Expanding the Young Professional's Program

For a reorganization to be successful, a systematic human resource development effort is needed to upgrade the staff's capability to perform their new duties competently. TIPP will contribute to this effort by extending and expanding the YP Program. The YP Program, which has been operating for two years, has been, and will continue to be, the cornerstone of USAID's support for MOT staff development. In addition to the YP Program, which stresses in-house classroom and on-the-job training, USAID will fund short-term overseas training opportunities. As well, USAID will work with the contract team to mobilize other donors and internal MOT training resources.

Key program activities to accomplish this objective include:

- Conduct YP Training Courses;
- Provide a Wide-Range of On-the-Job Training for YP Participants;
- Conduct Study Groups;
- Administer the Core Group and the Trade-Policy Seminar;
- Conduct Inter-Departmental Workshops;
- Conduct Technical Skill Labs;
- Maintain and Expand the YP Reference Library;
- Integration of the YP Program into the MOT Personnel System;
- YP Training to Selected Provincial Kanwil Offices.

International Negotiations: Upgrading the Capacity for Participating Effectively in International Negotiations

TIPP will work to develop the institutional and staff capability to advance Indonesian commercial interests in international negotiations. This includes: promoting active participation in multilateral trade negotiations such as the GATT and APEC; and upgrading capabilities related to bilateral negotiations, regional negotiations such as ASEAN, and various commodity agreements such as rubber and coffee. In addition, capabilities will be improved for handling both official and private dispute settlement cases, with a focus on supporting the development of the newly formed Permanent Committee on Trade Dispute Settlement.

Key program activities to accomplish this objective include:

- Develop a Systematic Training and Development Program for International Negotiations;
- Support the Trade-Policy Review Mechanism;
- Provide Technical Assistance Support and Staff Development for International Negotiations;

- Support the Development of the Permanent Team on Trade Disputes;
- Develop the Capacity to Participate More Effectively in Regional Economic Negotiations --

With an Emphasis on Supporting Moves Toward ASEAN Trade Liberalization;

- Develop the Capacity to Participate More Effectively in Various International Agricultural Commodity Agreements;
- Develop the Capacity to Participate More Effectively in Bilateral Negotiations; and,
- Develop Inter-Departmental Policy Formation Procedures for Various International Negotiations.

Foreign Trade Deregulation: Advancing Policy Reform and Policy Formation Procedures, and Improving Policy Implementation

TIPP will work to develop the institutional and staff capability to support further deregulation of foreign trade (both export and import) policies, with a focus on developing transparent and rigorous trade policy formulation procedures, both within the MOT and with Team Tariff and ECUIN.

Key program activities to accomplish this objective include:

- Build the MOT's Capacity to Analyze Trade Policies;
- Develop and Continually Update a Trade Policy and Trade Flow Data Base;
- Support the Team Tariff Process;
- Work to Develop a National Policy on the Need for Anti-Dumping Facilities;
- Conduct Sectoral Trade and Industrial Policy Studies; and,
- Develop the Capacity to Analyze More Effectively Agricultural Commodity Issues -- Including Developing a Series of "Commodity Trade Situation Reports."

### Domestic Trade Deregulation and Small Business Development

TIPP will work to develop the institutional and staff capability to identify and promote deregulation of the domestic trade environment, with the expressed goal of stimulating the development of efficient small scale industries and increasing the economic spread effect of growth in exports.

Key program activities to accomplish this objective include:

- Develop and Implement a D.G. for Domestic Trade Development Plan, With an Emphasis on Developing a Domestic Trade Policy and Administrative Agenda of Priorities;
- Develop and Implement a Human Resource Development Plan;
- Identify and Estimate the Effects of Domestic Trade Barriers;
- Develop a Strategy to Liberalize Domestic Trade Barriers;
- Conduct with MOT Staff a Series of Economic Studies;
- Develop a MOT Strategy for Small Business Development; and,
- Develop a Regional Pilot Program for Promoting Domestic Trade and Small Business Development.

### Export Promotion

Developing in conjunction with other donor-assisted (especially UNDP/ITC and German) programs the ability of the MOT to promote Indonesian exports, with a special emphasis on developing a strategy for NAFED to mobilize most effectively private-sector resources in this area.

Key program activities to accomplish this objective include:

- Assist in the Reorganization of NAFED;
- Work with Other Donors to Develop and Implement a Human Resource Development Plan for NAFED;
- Work with Other Donors to Help NAFED Develop a Private-Sector Export Promotion Advisory Group; and,
- Provide Short-Term Technical Assistance to Complement Other Donor Assistance to NAFED.

### Donor Coordination

Working with MOT leadership to mobilize and coordinate effectively the range of donor assistance provided to support the MOT development program.

## **B. Technical Assistance Team**

### Technical Expert on International Negotiations

A key function of the New Ministry of Trade will be to promote Indonesian commercial interests in international negotiations and relations. This involves a wide range of issues -- ranging from market access to dispute settlements to trade in services and intellectual property to international commodity agreements. These issues are addressed in various types of negotiations, including multilateral, regional, and bilateral negotiations.

TIPP's contribution to MOT efforts in this area will be to develop a systematic capability for the MOT and the GOI to participate effectively in international negotiations. TIPP will also provide a range of technical assistance on specific issues, especially issues where U.S. advisors have strong expertise. An effort will be made, under MOT leadership, to mobilize and facilitate other donor assistance in technical areas where other donors are particularly qualified.

### Technical Expert on Foreign Trade Deregulation

Although Indonesia has made substantial progress in trade deregulation, further policy reform is needed both for imports and exports. A key element of further deregulation is developing a strong set of trade policy formation and implementation procedures that provides sustainable support for open market policies over time. Given numerous overlaps, the Foreign Trade Expert will coordinate his/her work closely with all other Team members.

### Technical Expert on Domestic Trade Deregulation

Recent successes in the non-oil export drive should not overshadow the key role that domestic trade plays in generating employment and income for a large population. In addition, a competitive and dynamic domestic trading situation provides a solid foundation for future export growth. To date, most USAID assistance has been targeted at foreign trade issues, although a number of the Director General for Domestic Trade's (DGDT) staff have been active participants in the YP Program. In addition, the functions of the DGDT will probably change the most as the MOT shifts away from regulating toward facilitating businesses. As a result, much of the initial work on domestic trade issues will involve diagnosis and identification of priorities, both in terms of institutional development and in terms of policy reform. As the issues become more clear, program tasks will become more specific.

### Technical Expert: Young Professional's Program Leader

To support the reorganization effort, the MOT has established a Young Professional's Program that provides professional development training for the "best and the brightest" of

mid-level staff. The YP Program, which has been operating for almost two years, is the cornerstone of USAID's support for MOT staff development. The YP Program consists of a range of professional-enhancing training, ranging from classroom training to technical training sessions to on-the-job training directly with staff and their Directors.

#### Local-Hire Program Administrator and Computer Specialist

The program administrator, an Indonesian or an expatriate who will be employed on an in-country basis, will work to assist the Team leader and other members of the Team in the administrative and financial affairs of the program. In addition, he/she will provide computer programming training through the YP Program and will assist in the development and organization of TIPP information and data systems.

#### Local-Hire Secretary

To facilitate TIPP operations, one in-country secretary will be provided by the contract. The secretary must be fluent in both English and Bahasa Indonesia, must be able to type and operate word processing packages, and must be able to arrange schedules and handle phone calls. The secretary must possess good inter-personal skills and must work closely with a range of MOT staff. The secretary will work under the general guidance of the Team leader and will sit in the main MOT-YP offices.

#### Short-Term Technical Experts

Given the nature of this program, a wide range of short-term technical assistance will be required. This expertise will be used primarily to provide specialized skills needed to supplement the efforts of the resident staff. Short-term technical advisors will be staffed both from local and international experts.

## **Annex E.2. Multiple Business Services Program (MBSP) COMPONENT**

### **Key Program Components and Technical Assistance Team**

#### **1. Technical Assistance (TA)**

For firms identified during the Business Sector Assessment Surveys as requiring technical or managerial assistance (and other firms requesting assistance), IMBS will access the expertise of IESC 12,400 Volunteer Executives (VEs). The focus of the Technical Assistance program will be to deliver volunteer experts to work with individual firms for one to three months. IESC will provide the services of its VE experts to provide technical expertise to Indonesian firms for:

- a) Establishing cost-effective ways of improving access to new markets, technologies, and opportunities in fields such as product design, packaging and engineering, etc;
- b) Developing improved management/financial/production and training systems, research, and business practices for efficient production and delivery of goods and services;
- c) Increasing the ability to formulate marketing/advertising/sales strategies and to sell goods and services in domestic and external markets;
- d) Providing assistance to client firms in order to improve overall environmental practices such as waste management, pollution control, resource conservation, ect.

In summary, IESC technical and managerial assistance will improve planning, productivity, technology, profitability and management for individual enterprises and better position these firms to take full advantage of all IMBS services.

#### **2. Trade and Investment Services (TIS)**

The TIS component of the IMBS program will act as a bridge between Indonesian and U.S. business basing its venture development and promotion activities on the results of the Business Sector Assessment Surveys. The Business Sector Assessment Surveys will produce "gap analyses of and for individual firms", i.e. the surveys determine clients' long-range objectives versus current capabilities. Based on the results of each of the Surveys, VEs will design and deliver to TIS program staff written industry development analyses and strategies for the long-term expansion or growth of the industry and individual firms within the industries.

Additionally, although TIS follows up on Business Sector Assessment Surveys results, it is also available to assist firms who require help but who are not part of a particular sector focus. The TIS capability allows it to provide follow-up in many ways - information, partner search, sample distribution, trade show organization, plant visit, etc. The unique depth of IESC networks allows many follow-up options in the U.S. or Indonesia.

a. Short-term Sectoral Technical Assistance

Funding for this will come mainly from program funds because many of the sectors are unable to afford needed assistance or are so sectorally unorganized as to inhibit contribution solicitation. It is within these sector activities that most seminars and workshops will occur. For example, funds may be used to bring over American experts such as U.S. tourism professionals or U.S. publicists.

b. Venture and Coverture Development

The TIS component of the MBSP program aims at export development and investment linkages that will be mutually beneficial to Indonesian and U.S. firms. IESC's primary goal is to strengthen the access to and the quality of business services for Indonesian firms, not to market specific deals for individual U.S. firms. As such, IESC will fairly represent the interests of both U.S. and Indonesian enterprises.

*Exports*

The methods TIS employs to develop exports will be as close to standard commercial practices as IESC's non-profit status allows. Clients will be solicited via VE-led sector surveys and TIS staff one-on-one sector contacts. TIS export development is a process of elimination in order to find a few firms capable of participating in the program. An assessment of the export capability of each company is made by VE and those firms deemed either immediately capable or capable near-term of exporting to the U.S. Those firms judged unqualified will be abandoned.

On the U.S. side, a counter-balancing search is carried out to identify quality importers, exporters and other U.S. companies willing to do business with Indonesia if competent Indonesian seller/exporters can be found. This search work is carried out by VEs and TIS Stamford staff and is overseen by the TIS Director in Indonesia who will make periodic business trips to the United States during the life of the program.

As proposed, the effort to draw Indonesian and American parties together will continue via TIS-assisted information exchanges, sample exchanges, importer/exporter/buyer visits and seller visit until an order passes hands. TIS efforts continue thereafter until second, third and fourth orders or more have been placed and a successful commercial ongoing

relationship has been established. The following described some of the MBSP activities Assigned Do bring potential venture partners together.

- *Exporter/Importer/Buyer Visits*

TIS will pay the air fare to and from Indonesia of qualified U.S.- based specialist marketing companies that can contribute to MBSP objectives. Importers and exporters will be selected by the TIS Manager and staff in accordance with good commercial business practices. It should be noted that good business practice rests primarily on cumulative business judgement of the TIS staff. In the past TIS has selected these firms on the basis of their reputation in the U.S. business community and their achievements in export development in other countries. These firms will transfer to Indonesian companies significant knowledge and technology in the course of educating them on satisfying their U.S. buyer requirements.

*Imports*

The primary methodology utilized to provide U.S. technology, equipment and raw material to Indonesian producers will be TIS ability to target quality U.S. exporting firms and connect them with Indonesian firms.

TIS will identify appropriate American suppliers/companies and provide potential Indonesian clients with information or assistance helpful to completion of a transaction. His service may involve exchange or delivery of brochures, exchange of telephone numbers or possibly assistance to Indonesian firms at a trade show.

- *U.S. Seller visits*

U.S. seller visits will not be TIS funded. Assisted by volunteer experts, experts, TIS will select high quality U.S. firms interested in transferring technology, selling equipment and/or semi-finished materials and raw materials to Indonesia. It should be noted that the act of selling is in itself a transfer of technology. The seller must explain to the buyer the technological value of his offering, must show the buyer how to use it, and if he hopes to sets again, return to the buyer to make certain that he is satisfied with the product or service rendered.

c. Investment Development

The process of Investment venture stimulation/development is identical to that of export development, but is characterized by a higher degree of difficulty, a longer gestation period, and is always at risk of failure due to market changes, partner disagreements, or finally after much analysis, inadequate profitability of the project.

- *Investor/Visits*

The air fare to and from Indonesian of qualified U.S. investors will be supported by MBSP funds.

d. Follow Up Support

*U.S. Follow-up*

A U.S. TIS office, located at IESC headquarters, Stamford, CT, will operate as the Jakarta MBSP office's window to the U.S. It will provide quick response to requests for: (a) market and technology information and (b) U.S. technical personnel. It will draw on the resources of IESC in the U.S., supplemented as needed. Its staff will be part of IESC's Trade and Investment Service.

The TIS U.S. Office will serve several purposes. The TIS/US support office is primarily charged with organizing follow-up programming in cooperation with the Jakarta TIS program and is linked to each sector following the initial sector survey by an industry expert. TIS will access IESC's information and networking capabilities to respond to companies that have immediate needs.

IESC will form a task force of experts in each sector in areas such as marketing, production, research, etc. These task forces will be used to supply additional outreach or technical guidance. Often an initial sector survey will identify an immediate need to send out mail surveys to various U.S. equipment suppliers or marketing firms. These surveys are guided by the industry experts, and administered by the TIS staff in Stamford, Connecticut. The TIS staff will establish a system for exchanging samples, travel to trade shows or guides for trade missions in the U.S. To respond to these demands, the U.S. TIS Promotion Manager will have access to all IESC research and networking resources worldwide. IESC's unique non-profit identity and business credibility plays an important role in gaining access to consulting firms, companies and academic institutions for information and other types of promotion and follow-up support.

- *Trade Publication Articles and Advertising*

U.S. staff conducts on-going business-to-business marketing efforts to inform U.S. companies of new market opportunities and other beneficial venture ideas. TIS trade promotion includes publicizing overall sector programs as well as specific venture opportunities.

- *Trade Show Presentation*

U.S. staff and VE experts will visit key trade shows to develop investment candidates and concepts that will then be followed up in a variety of ways.

### 3. Market and Technology Information Services

IESC operates a market research/information service which produces American Business Linkage Enterprises (ABLE) studies. ABLE reports supply low-cost, practical business information to individual enterprises through research studies in such areas as new product development, equipment sourcing, joint venture and coventure partner searches and export development. ABLE research studies have also been used for presentations to financial institutions for funding, and to help determine if a firm needs major feasibility studies or other planning activities.

The low cost, custom tailored ABLE report (ave. 60 hrs.) identifies key issues and outlines the information required by the host country enterprise seeking U.S. markets and/or linkage to U.S. partners, including market studies, potential partner identification, and product line extension recommendations. IESC industry experts advise on the guide the research of efforts of each ABLE study.

Market and Technology Information Services can also provide individual firms with other export facilitation assistance such as preparation of product presentation materials brochures, etc.) and sample distribution (priced individually).

### 4. Association Strengthening

A key objective of MBSP is to strengthen private sector business associations by providing access to IESC services for both the associations and for member firms. The key to IESC's success is strengthening associations is its understanding of the difficulties of building an appropriate service mix that the associations can offer to their clients. The selection of sectors in which MBSP will concentrate its trade and investment development efforts will be guided by a screening process including a review of each sector's business associations. The TIS Manger in Indonesia will research the policies and procedures of the association to determine if it is ready, willing and able to benefit from an IESC association/institution building VE projects. Associations w} @use activities are inimical to free market business practices will not be assisted.

- Developing Appropriate Services

Associations find it difficulty to develop an appropriate services mix on their own due to the unique characteristics of non-profit management. Internally, associations also need to build their basic management processes -- planning, controlling, organizing and directing capabilities. Non-profit organizations, such as associations, represent singular management development challenges. For example, these organizations, unlike "for-profit firms," often are allied with many contradictory groups -- businesses are their beneficiaries, governments provide support, international development organizations provide funding and academic institutions may play a major support role for training and information assistance. Therefore,

the planning process has to take into account many different goals and related audiences. To compound this, normal financial controls are not as easy to apply in associations since "Profitability" is not a uniform measure of success. This makes it more difficult to develop effective controls. Finally, staffing of associations is often drawn from people with governmental and academic backgrounds, even when the program is trying to serve private firms. Developing the correct type of organization structure and human resources for non-profit organizations requires specialized assistance skills.

Therefore, for long-term success, local institutions must be assisted in building good internal management systems, and effective services for its clients and constituencies. Associations also have to be encouraged and assisted in creating new sources of funds, and member fees to help self-finance their activities. IESC will provide technical and managerial assistance to specific industry associations to help. As part of its on-going programming in Indonesia, IESC staff will work on an on-going basis with each targeted organization to ensure access to all services. Assistance that can be delivered by MBSP includes:

- a) Help improve training, organizational, managerial, marketing, capabilities;
- b) Help develop more sophisticated research, improved information/-resources/services, and/or fee generating or funding capabilities;
- c) Organize and conduct workshops and seminars lasting from 1 day to 1 week to develop both basic and specialized skills in groups of client business, e.g. technical assistance seminars to control post-harvest loss; seminars covering strategic planning, financial management, marketing and sales techniques, personnel management, accounting, etc.;
- d) Survey VEs will conduct short-term training programs for individual clients to improve overall quality and productivity;
- e) Organize training programs for personnel of Indonesian firms in U.S. plants in order to provide instruction for production managers, equipment operators, and maintenance supervisors on new equipment.

The MBSP Association Strengthening efforts will also contribute to the USAID Mission's policy dialogue process. Workshops/seminars will strengthen local institutions capabilities to analyze sector-specific policy issues, such as non-tariff barriers to trade, and government interventions in productive enterprises. The program will attempt to facilitate consensus-building which is necessary to adopt reform measures which benefit broad based private sector growth.

MBSP staff old activities will encourage and assist information network intended to help improve the supply of business information for both domestic and foreign clients. Local private organizations, universities and science and technology institutions may use MBSP resources (e.g. copies of technical journals and other industry information) to help adapt and expand their information gathering and delivery capabilities. Special suppliers of information for the program will be linked with local organizations as the program evolves. This will construct networks to enable local information and research suppliers to create more effective foreign linkages that can be maintained after the TIS program has been completed. For example, information services will be available to local organizations. ABLE research reports can be customized to each individual organization, enabling them to use this foreign networking resource to supply low-cost research (marketing information, equipment sourcing and pricing, export information, etc.) as one at their own services.

- *The Interrelationship of IESC Trade and Investment Services Division Assistance and Association Building*

Companies need industry- specific help in diagnosing needs, and assistance in developing solutions and new strategies; associations need highly specific programming to help attract and serve members.

Through participation in MBSP, private sector business associations will receive technical and managerial assistance to develop improved management/-financial/production/training systems, research and business practices for efficient delivery of services to member firms. Access to all MBSP services will give these associations and their member firms increased ability to increase their credibility and effectiveness.

## **TECHNICAL ASSISTANCE TEAM**

### IESC Program Staffing and Position Description

- A. IESC/Indonesia. All staff and programming will be housed in the IESC office in Jakarta. Staff will include the following:
1. Director of Operations (U.S. Volunteer). The Director of Operations will have overall management responsibility for the MBSP Program, including marketing and sales of MBSP services in Indonesia. This person will also be responsible for planning, control and supervision of the daily activities of all MBSP staff. The Director of Operations will be responsible for reporting to and interfacing on a regular basis with USAID in Indonesia. This person will also be responsible for the management of the Technical Assistance component.
  2. Technical Assistance Specialist (Local-hire). This person will be responsible for promoting and managing all VETA projects. In addition, this person will help

develop and implement a detailed database for tracking, follow up and evaluation of all MBSP activities. This person will also coordinate Market and Technology Information Services development and delivery.

3. Trade and Investment Services (TIS) Manager (contracted U.S. expatriate). In concert with the Sector Planning Committee, the TIS Manager will select industry sectors for surveys, thoroughly rescending each sector to ensure accurate review and selection. The TIS Manager will: implement delivery of sector assessment surveys; develop detailed data on associations and individual firms; coordinate local promotional activities to develop client participation including workshops and seminars; coordinate the delivery of TIS services (i.e. ABLE and TA projects that result from surveys which the Director of Operations and staff will implement); coordinate the delivery of TIS services for local institutions; manage in-country activities of VEs, importers, investors, etc.; supervise design and implementation of the MBSP database.
4. Trade and Investment Services (TIS) Specialist (local hire). This person will assist the TIS Manager in all aspects of TIS programming and will also be responsible for organizing and conducting association strengthening activities/training. The TIS Specialist will also be responsible for maintaining a TIS data base.
5. IESC/Indonesia Support Staff
  - a) Office Manager/Bookkeeper. *This position will trained by IESC headquarters staff in all aspects of IESC accounting methods in order to operate MBSP in a manner consistent with IESC accounting/office reporting procedures.*
  - b) Secretary/Data Entry Specialist. *In addition to normal secretarial task, this position will be responsible for updating all project and client tracking information.*

B. IESC Headquarters (U.S.)

- 1) Part-time Executive Oversight Staff. *(IESC requires headquarters oversight at its office in Connecticut for all TI-related programming to ensure compliance with its world-wide programming guidelines and AID reporting requirements)*
- 2) U.S. TIS Promotion Manager. Will supervise the recruitment and coordination of VEs for sector surveys in Indonesia and follow-up U.S. outreach activities; Will coordinate U.S. promotion activities and the business network through client contact and industry outreach activities *(i.e. mailings, phone contact, personal visits to potential clients, sample distribution, trade show presentation, workshops, seminars, investor/partner visits, trade missions)*.

- 3) TIS HQ Marketing Support. Will develop and produce marketing and promotional materials including: newsletter, brochures, project opportunity bulletins, advertising, trade journal articles.
- 4) IESC Headquarters Support Staff
  - a) Bookkeeper/Accountant. *The size of the MBSP program will require services of a full-charge bookkeeper at IESC HQ.*

### **E.3. Indonesia-American Business Center: Cash Flow**

The overall costs for the IABC were developed by consolidating budgets for three activities: (1) one-time start-up expenses during the first four months of operation, (2) partially subsidized costs over the first three years of operation, and (3) non-subsidized costs of operation for a potential two-year follow-on period. Under the revenue assumptions spelled out below, the Center's cash flow becomes positive or reaches the "break-even" point during its fifth year of operation. Break-even could come earlier, if permanent tenants were to start paying the full cost of their office space sooner.

#### **A. Consolidated Five-Year Budget**

The consolidated five-year budget for the IABC shows a projected total cost of just under \$3.3 million, excluding any potential revenues from business services or space rental. See page E-18.

#### **B.1. Start-Up Costs: Year One**

A period of four months has been set aside for establishing the Business Center. During this period, the following activities will take place:

1. The Business Center site will be selected and acquired;
2. All required "build out" will be contracted & completed;
3. Furnishings and equipment will be selected and acquired;
4. Planned local staff will be recruited;
5. Initial base line data will be developed; and,
6. Extensive promotional material will be developed.

Estimated start-up costs total \$516,172. These costs are not considered recoverable.

#### **B.2. Operating Costs: Years One through Three**

During the first three years of operation, several critical activities will occur:

1. The local staff will be trained and developed to a level of competence which will allow them to operate the Business Center in subsequent years;
2. All management, monitoring, accounting and information systems will be developed and implemented; and,
3. Promotional costs of the Center will average \$61,000 per year.

Estimated operating costs for the first three years total \$2.3 million. Combined start-up and operating costs for the first 36 months total \$2.817 million.

### **B.3. Revenue Generations: Years One through Three**

IABC revenues from business services and space rental during the first three years will generate approximately \$336,000. See page E-19. Office rentals are expected to contribute about \$152,000; the exhibition center about \$145,000; and general business services about \$39,000.

### **C.1. Center Operating Costs: Years Four and Five**

Operating expenses drop by almost two-third's after the first three years of operation to an average of \$241,000 per year. This dramatic drop in costs is due to several factors:

1. Office space will no longer be provided free of charge to FCS or any permanent tenant;
2. With a fully trained local staff, the expatriate Director is no longer required;
3. As a result of successful promotion during the first three years, promotional requirements will be minimal; and,
4. Since furnishing, equipment and build out have all been acquired, the only expenses incurred would be for maintenance and repairs.

### **C.2. Revenue Generations: Years Four and Five**

Based on the rates quoted by alternative sources of temporary office space, exhibition space and business services, the IABC is projected to become financially self-sufficient during its fifth year of operation. Four streams of revenue flow are projected:

1. Exhibition space of comparable size rents for \$1,000 to \$1,500 per day. Even at a rate of \$750 per day, this would generate \$97,500 with a 50% occupancy rate;
2. Temporary office space rents for a minimum of \$60 per day so six offices with a 65% occupancy rate would generate \$60,480 per year;
3. The conference room facility, reception services, etc. are expected to generate an additional \$7.50 per square meter for all rented office space on a monthly basis. Based on a minimum of 600 square meters of space, this would generate \$54,000; and,  
Based on an average rate of \$10 to \$20 per hour for other logistical support, general business services should generate an additional \$50,000.

### **C.3. Projected Break-Even Point**

Under these assumptions, the IABC will generate about \$263,000 per year beginning in its fifth year of operation and should therefore be able to cover its projected costs of \$241,000.

The following spreadsheets ("Consolidated Five-Year Budget" and "Business Center Revenues and Break-Even Analysis") provide details concerning projected costs to establish and operate the Center along with projected revenues.

## IABC PROJECT

## CONSOLIDATED 5 YEAR BUDGET

	Start-Up	Year 1	Year 2	Year 3	3 Year Total (plus start-up)	2 Year Extension	5 Year Total
Total Staff Expenses		\$306,095	\$280,450	\$308,857	\$895,402	\$107,977	\$1,003,380
Promotional Expenses	\$114,300	\$61,167	\$61,167	\$61,167	\$297,800	Note 1	\$297,800
Furniture & Equipment	\$130,975				\$130,975	Note 1	\$130,975
Build Out Costs	\$150,000				\$150,000		\$150,000
Space Costs		\$189,000	\$189,000	\$189,000	\$567,000	\$269,640	\$836,640
Operating Expenses		\$29,100	\$29,100	\$29,100	\$87,300	Note 1	\$87,300
Home Office Audit		\$9,480	\$9,480	\$9,480	\$28,440	\$18,960	\$47,400
Contingency	\$29,646	\$44,613	\$42,690	\$44,820	\$161,769	\$19,829	\$181,598
Total Direct Costs	\$424,921	\$639,455	\$611,886	\$642,424	\$2,318,686	\$396,577	\$2,715,263
General & Admin. Costs	\$55,240	\$83,129	\$79,545	\$83,515	\$301,429	\$51,555	\$352,984
Total Costs	\$480,160	\$722,584	\$691,431	\$725,939	\$2,620,115	\$448,133	\$3,068,248
Fixed Fee	\$36,012	\$54,194	\$51,857	\$54,445	\$196,509	\$33,10	\$230,119
Total Cost & Fixed Fee	\$516,172	\$776,778	\$743,289	\$780,385	\$2,816,624	\$481,742	\$3,298,366

NOTE 1: It is assumed that operating revenues in years 4 and 5 will be sufficient to cover promotion and operating expenses as well as any equipment replacement.

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## IABC PROJECT

## BUSINESS CENTER REVENUES AND BREAK-EVEN ANALYSIS

	Rate	Unit	Year 1 *	Year 2	Year 3	Year 4	Year 5	Total
Exhibition Center Occupancy Rate	\$750.00	Day	\$19,500 10.0%	\$39,000 20.0%	\$58,500 30.0%	\$78,000 40.0%	\$97,500 50.0%	\$292,500
Temp. Offices (6 Units) Occupancy Rate	\$60.00	Day	\$14,040 15.0%	\$28,080 30.0%	\$42,120 45.0%	\$51,480 55.0%	\$60,840 65.0%	\$196,560
Pro Rata Charge L.T. Tennants	\$7.50	Sq.Mtr.	\$11,250 125	\$24,750 275	\$31,500 350	\$45,000 500	\$54,000 600	\$166,500
Business Services:								
Staff Time	\$10.00	Hour	\$8,640	\$17,280	\$25,920	\$31,680	\$37,440	\$120,960
Other Services	NA	NA	\$2,687	\$5,510	\$7,927	\$10,469	\$12,740	\$39,334
Total Bus. Services			\$11,327	\$22,790	\$33,847	\$42,149	\$50,180	\$160,294
Total Proj. Revenue			\$56,117	\$114,620	\$165,967	\$216,629	\$262,520	\$815,854
Operational costs (pg. E-18)			<u>776,778*</u>	<u>743,289</u>	<u>780,385</u>	<u>240,871</u>	<u>240,871</u>	
*Net Cash Flow			-720,661	-628,669	-614,418	- 24,242	21,649	

\* Only 8 months of operation;  
not include start up costs.

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**GRAY AMENDMENT STATEMENT**

**Trade & Investment Project**

**497-0363**

## CERTIFICATION PURSUANT TO GRAY AMENDMENT

### TRADE and INVESTMENT PROJECT

497-0363

As the Director and Principal Officer of the Agency for International Development in Indonesia, I certify that during the design of the Trade and Investment Project (TIP) (497-0363) full consideration has been given to the potential involvement of small and/or economically and socially disadvantaged enterprises, and historically black colleges, universities, and minority controlled private and voluntary organizations covered by the Gray Amendment.

The project procurement plan is based on the need (1) to provide trade policy technical assistance and training, (2) to provide advice to Indonesian enterprises and business associations, and (3) to establish and manage a Jakarta-based trade promotion center. The first requirement to provide technical assistance for trade policy and training has already been awarded through full and open competition. The second requirement, to advise Indonesian firms and business associations, is the subject of an unsolicited proposal which the Mission is considering. The third requirement, to establish and manage a Jakarta-based business center, can be achieved by small and/or economically and socially disadvantaged enterprises. Therefore, we intend to engage such a firm through the appropriate contractual mechanism to establish and manage the Indonesia-American Business Center which constitutes about one-fourth of the grant contribution to the TIP project.

Likewise, we believe that several small and/or economically and socially disadvantaged enterprises, and historically black colleges, universities, and minority controlled private and voluntary organizations covered by the Gray Amendment are capable of providing short-term technical assistance teams for the interim and final project evaluations valued at one per cent of the grant contribution to the TIP project. We will actively pursue the involvement of such firms for project evaluation services.

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Charles F. Weden

Mission Director

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Date

## **ANNEX G**

### **BUDGET TABLES**

- G.1 Total Project Budget by Source, Component, Procurement Type
- G.2 Total Project Budget with Component Details
- G.3 TIP Funding Projections by FY
- G.4 GOI Funding (Cash and In-Kind): by Component
- G.5 Private Funding by Component

Trade & Investment Project

497-0363

**PROCUREMENT SENSITIVE  
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ANNEX G.1

TIP PROJECT 497-0363

**TOTAL PROJECT BUDGET by SOURCE, COMPONENT, PROCUREMENT TYPE  
(\$000)**

COMPONENT	USAID Grant	GOI Funding	Private Funding	Project Total
TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP)				
Technical Assistance	4,737	0	0	4,737
Training	0	575	0	575
Commodities	0	959	0	959
Sub Total	4,737	1,534	0	6,271
MULTIPLE BUSINESS SERVICE PROGRAM (MBSP)				
Technical Assistance	6,029	0	6,564	12,593
Training	0	0	0	0
Commodities	0	0	0	0
Sub Total	6,029	0	6,564	12,593
INDONESIA-AMERICAN BUSINESS CENTER (IABC)				
Technical Assistance	3,020	346	736	4,102
Training	0	0	0	0
Commodities	280	0	0	280
Sub Total	3,300	346	736	4,382
PROJECT-LEVEL ADMINISTRATION				
Technical Assistance	250	20	0	270
Training	0	0	0	0
Commodities	0	0	0	0
Sub Total	250	20	0	270
CONTINGENCY 4.7%	684	0	0	684
Sub Total	684	0	0	684
<b>TOTAL PROJECT</b>	<b>15,000</b>	<b>1,900</b>	<b>7,300</b>	<b>24,200</b>

# PROCUREMENT SENSITIVE

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ANNEX G.2

### TOTAL PROJECT BUDGET WITH COMPONENT DETAILS (\$000)

COMPONENT	USAID Grant	GOI	Private	Project Total
		Funding	Funding	
<b>1. TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP)</b>				
Long-Term Expats 114 p/m	1,710	0	0	1,710
Short-Term Expats 56 p/m	722	0	0	722
Office Admin. + Operations 94 p/m	867	0	0	867
Travel	875	0	0	875
H.O. Support 15 p/m	76	0	0	76
Fee 10%	437	0	0	437
MOT Mgt./Support/Commodities	0	959	0	959
MOT Study Group/Workshops	0	293	0	293
YP Prog./Core Group/Inter. Negotiation Trg.	0	282	0	282
Internal Audit	50	0	0	50
Sub Total	4,737	1,534	0	6,271
<b>2. MULTIPLE BUSINESS SERVICE PROGRAM (MBSP)</b>				
<b>HOME OFFICE</b>				
Mgt. (exec. Dir. & TIS Mgr.)	389	0	0	389
50 ABL Studies	111	0	111	222
Administration (Admin. & Accountant)	366	0	0	366
<b>INDONESIA</b>				
Long-Term T.A. (Dir/TIS Mgr + 2 Locals)	1,734	0	1,959	3,693
Short-Term T.A. (356 p/m): Support Costs	2,166	0	0	2,166
Short-Term T.A.: Vol. Exec. (356 p/m)	0	0	4,434	4,434
Administration (Office, Secretary, Drivers)	1,213	0	0	1,213
Other	0	0	60	60
Internal Audit	50	0	0	50
Sub Total	6,029	0	6,564	12,593
<b>3. INDONESIA-AMERICAN BUSINESS CENTER (IABC)</b>				
Personnel	1,000	346	736	2,082
Center Renovation	280	0	0	280
Center Operation	1,395	0	0	1,395
G & A of 13%	350	0	0	350
Fee of 7.5%	230	0	0	230
Internal Audit	45	0	0	45
Sub Total	3,300	346	736	4,382
<b>4. PROJECT-LEVEL ADMINISTRATION</b>				
Evaluations (2)	200	20	0	220
Audit (provisional)	50	0	0	50
Sub Total	250	20	0	270
<b>5. CONTINGENCY</b>				
4.7%	684	0	0	684
Sub Total	684	0	0	684
<b>TOTAL PROJECT</b>	<b>15,000</b>	<b>1,900</b>	<b>7,300</b>	<b>24,200</b>

100

TIP Project 497-0363  
TIP FUNDING PROJECTIONS BY FY  
(\$000)

PROJECT COMPONENT	FY93			FY94			FY95			FY96			FY97			FY98			TOTAL			GRAND
	Grant	GOI	Private	Grant	GOI	Private	Grant	GOI	Private	Grant	GOI	Private	Grant	GOI	Private	Grant	GOI	Private	Grant	GOI	Private	TOTAL
TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP)	0	172	0	1,000	341	0	1,400	341	0	1,500	340	0	837	340	0	0	0	0	4,737	1,534	0	6,271
MULTIPLE BUSINESS SERVICES PROGRAM (MBSP)	500	0	657	1,200	0	1,312	1,100	0	1,313	1,100	0	1,312	1,100	0	1,313	1,029	0	657	6,029	0	6,564	12,593
INDONESIA-AMERICAN BUSINESS CENTER (IABC)	850	35	74	1,000	69	147	950	69	147	300	69	147	200	69	147	0	35	74	3,300	346	736	4,382
OTHER	50	0	0	300	10	0	200	0	0	200	0	0	113	10	0	71	0	0	934	20	0	954
<b>TOTAL</b>	<b>1,400</b>	<b>207</b>	<b>731</b>	<b>3,500</b>	<b>420</b>	<b>1,459</b>	<b>3,650</b>	<b>410</b>	<b>1,460</b>	<b>3,100</b>	<b>409</b>	<b>1,459</b>	<b>2,250</b>	<b>419</b>	<b>1,460</b>	<b>1,100</b>	<b>35</b>	<b>731</b>	<b>15,000</b>	<b>1,900</b>	<b>7,300</b>	<b>24,200</b>

Note: GoI and Private figures have been adjusted to reflect the differences between fiscal years (GOI FY = April 1 - March 30).

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ANNEX G.4

TIP Project 497-0363

**GOI FUNDING (CASH AND IN-KIND): BY COMPONENT  
(\$000)**

COMPONENT	GOI Funding		
	Cash	In-Kind	Total
<b>1. TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP)</b>			
MOT Mgt. Support/Commodities	280	678	958
Study Group/Workshops	12	281	293
YP Prog./Core Group/Inter. Negotiation Trg.	1	282	283
Sub-Total	293	1,241	1,534
<b>2. MULTIPLE BUSINESS SERVICES PROGRAM (MBSP)</b>			
<b>HOME OFFICE</b>			
Mgt. (Exec. Dir.)	0	0	0
50 ABLE Studies	0	0	0
Administration (Admin. & Accountant)	0	0	0
<b>INDONESIA</b>			
Long-Term T.A. (Dir. + Locals)	0	0	0
Short-Term T.A. (356 p/m): Support Costs	0	0	0
Short-Term T.A.: Vol. Exec. (356 p/m):			
24 Business Ass'n. Advisory Projects	0	0	0
20 Sector Surveys	0	0	0
24 Small Med.Enterp. Projects from Survey	0	0	0
50 Small Med.Enterp. Proj. Outside Survey	0	0	0
24 Large Firm Projects from Survey	0	0	0
50 Large Firm Proj. Outside Survey	0	0	0
Administration (Office, Secretary, Drivers)	0	0	0
Other	0	0	0
Sub-Total	0	0	0
<b>3. INDONESIA-AMERICAN BUSINESS CENTER (IABC)</b>			
Personnel	0	346	346
Business Center + Operations	0	0	0
Fee 7.5%	0	0	0
Sub-Total	0	346	346
<b>4. PROJECT-LEVEL ADMINISTRATION</b>			
Evaluations	0	20	20
Sub-Total	0	20	20
<b>GOI TOTAL</b>	293	1,607	1,900

TIP Project 497-0363

PROCUREMENT SENSITIVE

PRIVATE FUNDING BY COMPONENT  
(\$000)

MATERIAL

COMPONENT	Private Funding						TOTAL
	U.S.			Indonesia			
	Cash	In-Kind	Sub-Total	Cash	In-Kind	Sub-Total	
<b>1. TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP)</b>							
MOT Mgt. Support/Commodities	0	0	0	0	0	0	0
Study Group/Workshops	0	0	0	0	0	0	0
YP Prog./Core Group/Inter. Negotiation Trg.	0	0	0	0	0	0	0
Sub-Total	0	0	0	0	0	0	0
<b>2. MULTIPLE BUSINESS SERVICE PROGRAM (MBSP)</b>							
<b>HOME OFFICE</b>							
Mgt. (Exec. Dir.)	0	0	0	0	0	0	0
50 ABLE Studies	0	0	0	111	0	111	111
Administration (Admin. & Accountant)	0	0	0	0	0	0	0
<b>INDONESIA</b>							
Long-Term T.A. (Dir. + Locals)	0	0	0	0	0	0	0
Short-Term T.A. (356 p/m): Support Costs	0	0	0	1,959	0	1,959	1,959
Short-Term T.A.: Vol. Exec. (356 p/m):							
24 Business Ass'n. Advisory Projects	0	254	254	0	0	0	254
20 Sector Surveys	0	508	508	0	0	0	508
24 Small Med. Enterp. Projects from Survey	0	566	566	0	0	0	566
50 Small Med. Enterp. Proj. Outside Survey	0	1,270	1,270	0	0	0	1,270
24 Large Firm Projects from Survey	0	566	566	0	0	0	566
50 Large Firm Proj. Outside Survey	0	1,270	1,270	0	0	0	1,270
Administration (Office, Secretary, Drivers)	0	0	0	0	0	0	0
Other	0	0	0	0	60	60	60
Sub-Total	0	4,434	4,434	2,070	60	2,130	6,564
<b>3. INDONESIA-AMERICAN BUSINESS CENTER (IABC)</b>							
Personnel	500	0	500	236	0	236	736
Business Center + Operations	0	0	0	0	0	0	0
Fee 7.5%	0	0	0	0	0	0	0
Sub-Total	500	0	500	236	0	236	736
<b>4. PROJECT-LEVEL ADMINISTRATION</b>							
Evaluations	0	0	0	0	0	0	0
Sub-Total	0	0	0	0	0	0	0
<b>PRIVATE TOTAL</b>	<b>500</b>	<b>4,434</b>	<b>4,934</b>	<b>2,306</b>	<b>60</b>	<b>2,366</b>	<b>7,300</b>

Note: There are significant contributions made by the Indonesian and U.S. private sectors.  
This table clarifies the apportionment of these contributions between in-kind and cash.

**ANNEX H**

**PROCUREMENT PLAN**

Trade & Investment Project

497-0363

## ANNEX H. TIP PROJECT PROCUREMENT PLAN

### Identification of Requirements

Action	Services or Commodities	Quantity or PMs	Source and Origin	Nationality	Estimated Cost (\$000s)	Grant or Contracting Mode	Selection Procedure	Grant/Contract Term (Months)	Estimated Completion Date	Authorized Agent
1	TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP) [NATHANS CONTRACT EXT.] Economic Policy Advisors (LT) Economic Policy Advisors (ST) Office Operations: Indonesia & U.S. Travel Home Office, Overhead, Fee Internal Audit	114 56	USA	USA	4,700	Institutional  Contract	F&O	24 months renewable up to total of 60	Dec-98	USAID/CM
2	MULTIPLE BUSINESS SERVICES PROGRAM with IESC Program Director (LT) Support for Volunteer Executives Market Research Studies (ABLE) Home Office Support Travel minivan (1) Local Operations and Administration Internal Audit	60 356 50	USA	USA	6,000	Cocperative Agreement	Unsolicited Grant proposal	60	May-98	USAID/CM
3	INDONESIA-AMERICAN BUSINESS CENTER Center Director (LT) Office Manager (Local) Design/Start-Up Specialist (ST) Center Promotion Space Rental (sq. meters) Office Operations minivan (1) Refurbishing of Rental Space Furnishings & Equipment G&A, Fee Internal Audit	36 36 4  750	USA	USA	2,800	Institutional  Contract	Ba Set-Aside	36 months renewable up to total of 42	Jun-96	USAID/CM
4	Interim Evaluation (ST)	4	USA	USA	100	Minority IQC	IQC	1 month	Sep-95	AID/W
5	INDONESIA-AMERICAN BUSINESS CENTER (FOLLOW-ON) Office Manager (Local) Center Promotion Space Rental (sq. meters) Office Operations G&A, Fee Internal Audit	24  750	USA	USA	500	Institutional  Contract	F&O  or  Ba Set-Aside	24 months	Jun-98	USAID/CM
6	Final Evaluation (ST)	4	USA	USA	100	Minority IQC	IQC	1 month	Jun-97	AID/W

PROCUREMENT SENSITIVE  
 MATERIAL

# ANNEX H. TIP PROJECT PROCUREMENT PLAN

## Scheduling of Procurement

Action	Services or Commodities	Quantity or PMs	SOW	PIO/T	CBD Issued	RFP/RFA Released	RFP/RFA Closing Date	Technical Evaluation	BAFOs	Negotiation	Award	Contractor/Grantee Mobilization
1	TRADE IMPLEMENTATION AND POLICY PROGRAM (TIPP) [NATHANS CONTRACT EXT.] Economic Policy Advisors (LT) Economic Policy Advisors (ST) Office Operations: Indonesia & U.S. Travel Home Office, Overhead, Fee Internal Audit	114 56	Done	Done	Done	Done	Done	Done	Done	Done	Done Jan-93	Feb-93
2	MULTIPLE BUSINESS SERVICES PROGRAM with IESC Program Director (LT) Support for Volunteer Executives Market Research Studies (ABLE) Home Office Support minivan (1) Travel Local Operations and Administration Internal Audit	60 356 50	Mar-93	Apr-93	N/A	N/A	N/A	N/A	N/A	Apr-93	Jun-93	Jun-93
3	INDONESIA-AMERICAN BUSINESS CENTER Center Director (LT) Office Manager (Local) Design/Start-Up Specialist (ST) Center Promotion Space Rental (sq. meters) Office Operations minivan (1) Relurbishing of Rental Space Furnishings & Equipment G & A, Fee Internal Audit	36 36 4 750	Feb-93	Mar-93	Mar-93	N/A	N/A	Apr-93	Apr-93	May-93	May-93	Jun-93
4	Interim Evaluation (ST)	4	Jun-95	Jul-95	N/A	N/A	N/A	N/A	N/A	N/A	Already Awarded	Sep-95
5	INDONESIA-AMERICAN BUSINESS CENTER (FOLLOW-ON) Office Manager (Local) Center Promotion Space Rental (sq. meters) Office Operations G & A, Fee Internal Audit	24 750	Oct-95	Oct-95	Nov-95	Dec-95	Jan-96	Feb-96	Mar-96	Apr-96	Jun-96	Jul-96
6	Final Evaluation (ST)	4	Mar-97	Apr-97	N/A	N/A	N/A	N/A	N/A	N/A	Already Awarded	Jun-97

## **ANNEX I**

### **Initial Environmental Examination Determination**

Trade & Investment Project

497-0363

INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROJECT COUNTRY: INDONESIA ...
- (B) ACTIVITY: Trade and Investment Project (497-0363)
- (C) FUNDING: \$15. million
- (D) PERIOD OF FUNDING : FY 1993 - FY 1998
- (E) STATEMENT PREPARED BY : Gary Bricker, PPS  
USAID/Indonesia *GB*
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion under  
A.I.D. Regulation 16, Section  
216.2 (c) (2) (i)
- (G) ACTION REQUESTED BY: Gerald Barth, PED  
USAID/Indonesia *GB*
- (H) LEGAL ADVISOR CLEARANCE: *PS*  
Paul Scott, RLA  
USAID/Indonesia
- (I) ENVIRONMENTAL OFFICER CLEARANCE: Graham Kerr, AEE  
USAID/Indonesia *GK*
- (J) DECISION OF USAID/INDONESIA DIRECTOR:  
APPROVED: \_\_\_\_\_  
DISAPPROVED: \_\_\_\_\_  
DATE: February 23, 1993
- (K) DECISION OF ASIA ENVIRONMENTAL OFFICER: Molly Kux, ASIA/TR  
APPROVED: \_\_\_\_\_  
DISAPPROVED: \_\_\_\_\_  
DATE: Feb. 12, 1993  
REFERENCE: \_\_\_\_\_

## EXAMINATION OF THE NATURE, SCOPE, AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

### A. DESCRIPTION OF THE PROGRAM:

The Trade and Investment Project (497-0363) authorizes up to \$15.0 million in grant funding for a five and a half year life-of-project.

TIP intends to broaden and increase private trade and investment in Indonesia. The purpose of the project is to improve the trade policy environment and access to business services conducive to increased trade and investment. The project balances the need to strengthen both the public and private sectors' abilities to contribute to improving the trade regime through its three components:

1. The Trade implementation and Policy Program (TIPP) component provides direct support to the GOI Ministry of Trade (MOT) to enhance its staff capabilities to analyze and develop market-oriented policies and practices. Contracted technical assistance services will support the MOT's efforts to upgrade its analytical skills and to strengthen its role as chief proponent of open market trade policies. The technical assistance contract for TIPP advisory services has already been awarded under USAID/Indonesia's Agriculture, Rural Sector Support Program (ARSSP). The TIP project will further fund the contract.
2. A Multiple Business Services program (MBSP) will be implemented under a Cooperative Grant Agreement with the International Executive Service Corps (IESC) to provide four types of services to local business: (1) business association strengthening, (2) trade and investment advisory services, (3) market and technology information research, and (4) direct technical assistance to private enterprises. The MBSP component will finance market surveys in areas of mutual trade interest among which pollution control technologies and processes are apt to figure prominently. Most of the MBSP advice will be provided by volunteer executives.
3. An Indonesia-American Business Center (IABC) will be established under the management of an 8-A contract to provide business support and information services to representatives of both Indonesian and American companies. The IABC will also have the United States & Foreign Commercial Services as a tenant and, potentially, a USA-AEP representative. The IABC will improve U.S. and Indonesian trade and investment and partnership opportunities. The Center will provide business representatives with information on environmental business opportunities. The Center will offer business logistics and promotion services such as sponsorship of trade fairs, translation services, temporary offices, and secretarial help.

The overall impact of the TIP project on the environment is likely to be slight and essentially indirect. For example, advice provided by IESC to local companies may sway them to make investments which could impact the environment. The IESC cooperative agreement will underscore the need for business advice to take a comprehensive view of investment and

trade decisions to include environmental considerations. USAID will advise IESC volunteers to encourage local firms to comply with existing environmental regulations. In fact, as the GOI continues to encourage local businesses to comply with environmental standards, the MBSP will

no doubt include numerous opportunities for private U.S. volunteer executives to work directly with private Indonesian entrepreneurs seeking U.S. advice and technology. In this way, the indirect impacts on the environment should be favorable. Similarly, IABC services may bring together prospective business partners whose subsequent investments may impact the environment. Provision of up-to-date environmental regulations to prospective investors will be one of the many information services provided to clients. As such, the Center is expected to help identify new technologies to help businesses comply with Indonesia's environmental codes.

#### B. RECOMMENDED ENVIRONMENTAL ACTION:

The activities to be funded by this grant consist in their entirety of technical assistance and therefore, in accordance with A.I.D. Regulation 16, Section 216.2 (c) (2) (i), are categorically excluded from further environmental review. No further environmental action is recommended.

**ANNEX J**

**STATUTORY CHECKLIST**

Trade & Investment Project

Project 497-0363

## ANNEX J. STATUTORY CHECKLIST

### 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance:

(A) both Development Assistance and Economic Support-Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

#### A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

##### 1. Narcotics Certification

(FAA Sec.490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 542 of the FY 1993 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of cocoa or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the April 1 International Narcotics Control Strategy Reports (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the

country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotics Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

Yes

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

N/A

**2. Indebtedness to U.S. Citizens (FAA Sec. 620(c):** If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

**3. Seizure of U.S. Property (FAA Sec. 620(e)(1)):** If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

**4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1993 Appropriations Act Secs. 512, 543):** Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No

**5. Mob Action (FAA Sec. 620(j)):** Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

No

**6. OPIC Investment Guaranty (FAA Sec. 620(1)):** Has the country failed to enter into an investment guaranty agreement with OPIC?

No

**7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5):** (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No

**8. Loan Default (FAA Sec. 620(q); FY 1993 Appropriations Act Sec. 518 (Brooke Amendment)):** (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

No

**9. Military Equipment (FAA Sec. 620(s)):** If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign

exchange or other resources spent on military equipment?

N/A

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

**10. Diplomatic Relations with U.S. (FAA Sec. 620(t));** Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

**11. U.N. Obligations (FAA Sec. 620(u));** What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Indonesia is current on payment of its UN obligations

## **12. International Terrorism**

**a. Sanctuary and support (FY 1993 Appropriations Act Sec. 554; FAA Sec. 620A):** Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No

**b. Airport Security (ISDCA of 1985 Sec. 552(b)).** Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to Section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Yes, Indonesia entered written reservations following the meeting. This was taken into account when the FY93 OYB was approved by the Acting Administrator. See Taking into Consideration Memo, dated 11/19/92.

16. **Military Coup** (FY 1993 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to resumption of assistance?

No

**17. Refugee Cooperation (FY 1993**

Appropriations Act Sec. 538): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

**18. Exploitation of Children (FAA Sec.**

116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

**B. COUNTRY ELIGIBILITY CRITERIA  
APPLICABLE ONLY TO DEVELOPMENT  
ASSISTANCE ("DA")**

**1. Human Rights Violations (FAA Sec.**

116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No. Human rights concerns relating to Indonesia were considered when the FY93 OYB was approved by the Acting Administrator. See Taking Into Consideration memo, dated 11/19/92.

**2. Abortions (FY 1993 Appropriations Act**

Sec. 534): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

C. **COUNTRY ELIGIBILITY CRITERIA  
APPLICABLE ONLY TO ECONOMIC SUPPORT  
FUNDS ("ESF")**

**Human Rights Violations (FAA Sec. 502B):**  
Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights: If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

N/A

**5C(2) - ASSISTANCE CHECKLIST**

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? Yes

A. **CRITERIA APPLICABLE TO BOTH  
DEVELOPMENT ASSISTANCE AND ECONOMIC  
SUPPORT FUNDS**

**1. Host Country Development Efforts (FAA Sec. 601(a)):** Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

TIP is specifically designed to foster open trade and encourages responsible self-regulating business associations.

**2. U.S. Private Trade and Investment (FAA Sec. 601(b)):** Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S.

TIP's Business Center will promote greater U.S. trade with Indonesia. The

participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

IESC, a U.S. private volunteer organization, will participate in providing U.S. technical assistance.

### 3. Congressional Notification

a. **General requirement (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health welfare)?

CN will be submitted after A.I.D./W review and comment on Project Paper.

b. **Notice of new account obligation (FY 1993 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and Non-project Sector Assistance (FY 1993 Appropriations Act Sec. 571(b)(3)):** If funds are to be made available in the form of cash transfer or non-project sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

d. **Special Notification Requirement (FY 1993 Appropriations Act, Sec. 540):** Has the special notification to Congress been made as required for all Indonesia programs, projects and activities for FY93?

Special Notification to Congress will be made after A.I.D./W review and comment on Project Paper.

**4. Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an 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?

N/A

**5. Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

**6. Water Resources (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

**7. Cash Transfer and Sector Assistance (FY 1993 Appropriations Act Sec. 571(b)):** Will cash transfer or non-project sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for non-project sector assistance)?

N/A

**8. Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

**9. Multiple Country Objectives (FAA Sec. 601(a)):** Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions,

The project will encourage Indonesia in the first five areas mentioned.

and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

**10. U.S. Private Trade (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 project's IABC component will explicitly encourage U.S. private trade and the participation of the U.S. private sector in foreign assistance programs.

### **11. Local Currencies**

**a. Recipient Contributions (FAA Secs. 612(b), 636(h)):** 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.

U.S.G. does not own excess rupiahs. The Host country contribution, primarily private, will be monitored by IESC and the IABC.

**b. U.S.-Owned Currency (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?

None owned

**c. Separate Account (FY 1993 Appropriations Act Sec. 571).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

No. However, local currency generated under MBSP cooperative agreement and IABC contract will help defray operating costs. Proceeds will be used to reduce billings to USAID.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes. Cooperative Agreement and contracts will so State.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes

## 12. Trade Restrictions

a. **Surplus Commodities (FY 1993 Appropriations Act Sec. 520(a)):** 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?

Assistance is for T.A. only.

b. **Textiles (Lautenberg Amendment) (FY 1993 Appropriations Act Sec. 520(c)):** Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, pre-feasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No

**13. Tropical Forests (FY 1991**

Appropriations Act Sec. 533(c) (3) (as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

**14. PVO Assistance**

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

IESC, a U.S. registered PVO, will close any outstanding audit recommendations prior to entering into cooperative agreement with USAID.

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

**15. Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Will do so after ProAg signing.

**16. Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented

N/A. Project has only a negligible amount of office supply procurement.

through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

**17. Women in Development (FY 1993 Appropriations Act, Title II, under heading "Women in Development"):** Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes

**18. Regional and Multilateral Assistance (FAA Sec. 209):** Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

**19. Abortions (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):**

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby for abortion?

No

20. **Cooperatives (FAA Sec. 111):** Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

The MBSP component may help cooperatives but it is not a focus of the project.

## 21. **U.S.-Owned Foreign Currencies**

a. **Use of Currencies (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509):** Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

No excess rupiahs are owned by the USG.

b. **Release of Currencies (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

## 22. **Procurement**

a. **Small Business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

The institutional contractor for the MBSP component will be encouraged to consider using small business.

b. **U.S. Procurement (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act):** Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

Yes

c. **Marine Insurance (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?

No

**d. Non-U.S. Agricultural Procurement**

(FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof 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

**e. Construction or Engineering Services**

(FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A

**f. Cargo preference shipping (FAA**

**Sec.603)):** Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent 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

**g. Technical assistance**

(FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Two T.A. contracts and one T.A. grant are contemplated. FCS resources will be used as they are particularly suitable to promote U.S. trade and investment.

h. **U.S. Air Carriers** (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

i. **Termination for Convenience of U.S. Government** (FY 1993 Appropriations Act 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? Yes

j. **Consulting Services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? Yes

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

**23. Construction**

a. **Capital Projects** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

b. **Construction contract** (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

c. **Large projects, Congressional approval** (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 Congressional Presentation), or does assistance have the express approval of Congress? N/A

24. **U.S. Audit Rights** (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? Yes

25. **Communist Assistance** (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

**26. Narcotics**

a. **Cash Reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? N/A

**b. Assistance to Narcotics Traffickers (FAA Sec. 487):** Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes

**27. Expropriation and Land Reform (FAA Sec. 620(g)):** Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

Yes

**28. Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes

**29. CIA Activities (FAA Sec. 662):** Will assistance preclude use of financing for CIA activities?

Yes

**30. Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing 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

**31. Military Personnel (FY 1993 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

Yes

**32. Payment of U.N. Assessments (FY 1993 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

Yes

33. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multi-lateral organizations for lending)?

Yes

34. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes

35. **Repression of Population** (FY 1993 Appropriations Act Sec. 511(a)): Will assistance preclude use of financing 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?

Yes

36. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

Yes

37. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

38. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

**39. Commitment of Funds (FAA Sec. 635(h)):**  
Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No

**40. Impact on U.S. Jobs (FY 1993 Appropriations Act, Sec. 599):**

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? No

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country? No

**B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY**

**1. Agricultural Exports (Bumpers Amendment) (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):** If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a

similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers? No

2. **Tied Aid Credits** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? No

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? No

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity 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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government. Project will encourage GOI Ministry of Trade to deregulate trade regime. Project will strengthen local private business associations to be responsible advocates of reform.

5. **Economic Development** (FAA Sec. 101(a)): 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

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe 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, dispersing investment 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 appropriate U.S. institutions; (b) 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 Project will strengthen local democratic business associations to provide useful services and information to their membership and clients.

countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent 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

8. **Benefit to Poor Majority** (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?

More representative business associations will lower cost of access to information and thereby permit broader participation in markets.

9. **Abortions** (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about

access to, a broad range of family planning methods and services? N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? No

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? No

10. **Contract Awards (FAA Sec. 601(e)):**  
Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

11. **Disadvantaged Enterprises (FY 1993 Appropriations Act Sec. 563):** What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, 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)? 22% of the grant funds are contemplated for award to an 8-A T.A. contractor.

12. **Biological Diversity (FAA Sec. 119(g)):**  
Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or

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other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

No

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the

establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate

use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

**e. Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? Yes

14. **Energy** (FY 1993 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? N/A

15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A

**17. Loans**

**a. Repayment capacity (FAA Sec. 122(b)):** Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A

**b. Long-range plans (FAA Sec. 122(b)):** Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

**c. Interest rate (FAA Sec. 122(b)):** If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

**d. Exports to United States (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 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A

**18. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)):** Extent to which activity will: (1) effectively involve the poor in development, by expanding 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; (2) 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; (3) support the self-help efforts of developing countries; Open market policies and democratically controlled business associations encouraged under this project will indirectly expand access to the economy at local levels.

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(4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

**19. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):**

**a. Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

**b. Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

**c. Food Security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

**20. Population and Health (FAA Secs. 104(b) and (c)):** If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

**21. Education and Human Resources Development (FAA Sec. 105):** If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Education activities under the TIPP component of the Project will indirectly strengthen the opportunity for more people to participate in economic endeavors.

**22. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; One of the three project components will involve IESC, a U.S. PVO, for the provision of T.A.
- c. research into, and evaluation of, economics development processes and techniques; N/A
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

23. **Capital Projects (Jobs Through Export Act of 1992, Secs. 303 and 306(d)):** If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? N/A

C. **CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY**

1. **Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? N/A  
 To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

2. **Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes? N/A

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**3. Commodity Grants/Separate Accounts**  
(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? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).) N/A

**4. Generation and Use of Local Currencies**  
(FAA Sec. 531(d): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).) N/A

**5. Cash Transfer Requirements (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b). If assistance is in the form of a cash transfer:** N/A

**a. Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

**b. Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? N/A

**c. U.S. Government use of local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines

necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA) or ESF purposes? N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.s. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? N/A

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.) N/A

**ANNEX K**

**SECTION 599 CONSIDERATIONS**

Trade & Investment Project

Project 497-0363

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## **ANNEX K. SECTION 599 CONSIDERATIONS**

Initial funding for the project will be provided from Fiscal Year 1993 funds, which are subject to the restrictions set forth in Section 599 of the FY93 Appropriations Act relating to the provision of assistance which would have an adverse impact on jobs in the United States. Section 599 prohibits assistance which would 1) provide a financial incentive to any business enterprise located in the United States to relocate productive facilities overseas when such would result in the loss of jobs in the U.S.; 2) assist with the establishment or development of export promotion zones; or 3) contribute to the violation of internationally recognized workers' rights. AID has issued initial guidelines for application of Section 599 to its assistance activities (STATE 383986, 11/26/92). It is anticipated that these guidelines will be revised following the completion of an Agency-wide portfolio review currently in progress.

The following provides an analysis, by project component, of the activities planned under the project, their potential Section 599 problems, and an outline of the steps that will be taken during project implementation to assure compliance with Section 599.

### **A. Trade Implementation and Policy Program (TIPP)**

The objective of this component is to assist the goi Ministry of Trade (MOT) in advancing trade policy reforms and to develop the institutional and human resource capacity to implement trade deregulation on an effective and sustained basis over time. Specific activities will include:

- technical advisory services to help MOT complete and implement its institutional development and reorganization plan
- conduct of a Young Professionals Training program, which is designed to upgrade the skills of MOT personnel to better research and analyze trade issues and formulate trade policy
- Improve MOT's capabilities to participate more effectively in international trade negotiations
- technical assistance in developing more transparent and rigorous trade policy formulation procedures
- Developing (through advice and training) MOT staff capability to formulate domestic trade policy
- Providing technical advice and guidance to the GOI Export Development Agency (NAFED) in developing a strategy for export promotion by mobilizing private sector resources

The assistance activities in this component, which will consist almost entirely of long and short-term technical assistance services and training, are primarily targeted at either the development of specific trade policies or developing the Government's capacity to better

formulate and implement trade policy. Under current AID Section 599 guidelines, benefits flowing to businesses from increased trade deregulation or improved business climates are not, in general, considered financial incentives for the purpose of Section 599(a). The only concern in this area relates to possible requests from the Government for assistance in formulating policy relating to export promotion zones. In accordance with current guidelines, the project will not provide any such assistance unless the required Presidential determination has been made, and both the GOI and the implementing contractor will be so advised. We do not, at this time, anticipate requests for assistance in this area.

An area of concern in the past has been activities under the export promotion component involving support for specific export promotion activities. AID has been approached to assist in putting on export promotion events that focus on certain products or sectors, and included activities which could have involved a potential for U.S. investment or joint venturing in Indonesia. We do not expect problems with this in the future as future TIPP activities will be concentrating on export strategy development and not on promoting specific export/import linkages.

The TIPP activity has, in fact, been supported by the mission for some time under the ARSSP Project, and a contract (again, with initial funding from ARSSP) has recently been signed with a contractor for a two-year continuation of the program with option to extend (this contract will, essentially, be transferred to the Trade and Investment Project). This new contract contains a clause advising the contractor of the Section 599 prohibitions and requires it to adhere to those limitations and those contained in AID Section 599 guidelines, as revised from time to time. A copy of that clause is set forth in Attachment A to this annex. The contractor is required to submit all requests for assistance falling within any of these areas to AID for specific review and approval before providing the assistance.

#### Proposed Steps:

- 1) The TIP Project Agreement will include a special covenant apprising the GOI of the Section 599 limitations and prohibiting any assistance unless reviewed and approved by AID; and
- 2) The clause in the current TIPP TA contract prohibiting the contractor from providing any assistance in these areas and requiring referral of all requests for assistance that are problematical to AID for review will be retained in the contract throughout the contract term and any extensions thereof.

## II. Multiple Business Services Program (MBSP)

This component of the project, to be implemented through a cooperative agreement with the International Executive Service Corps (IESC), is designed to strengthen the competitiveness of Indonesian business enterprises by offering a combined package of business services, including trade and investment services, technical assistance, market and technology information services, and association strengthening. Specific activities will include:

- Trade and Investment Services (TIS): IESC will provide assistance directly to Indonesian businesses to help them identify and develop specific export transactions and to identify and develop joint or coventure arrangements with U.S. firms. IESC will provide firms with information, partner search services, sample distribution, trade show organization, and exporter/importer visits. While the emphasis will be on trade promotion, similar services will be provided for investment promotion purposes. IESC plans to pay airfare costs for (1) prospective U.S. importers and investors (but not U.S. exporters) to come to Indonesia and (2) for U.S. experts and publicists to come to Indonesia to support workshops and seminars related to export promotion and investment opportunities.
- Technical Assistance: IESC volunteer technical and managerial assistance to individual Indonesian firms designed to help them identify cost-effective ways of accessing new markets, technologies, and opportunities; developing improved management, financial, production, training and other business systems; increasing capability to effectively develop marketing/advertising/sales strategies; and improving environmental practices.
- Market and Technology Information Services: research and studies for individual host country firms on such subjects as new product development, equipment sourcing, joint venturing opportunities, and export development. This service may also include assistance with product presentation materials and sample distribution.
- Association Strengthening: Assistance, in the form of short term advisors, training, seminars, workshops, and information networking for Indonesian business associations, to strengthen their capability to increase the number and effectiveness of services they provide to their member firms. This service may include "twining" Indonesian and U.S. business associations to help the Indonesian association to develop more effective systems and networking/service capabilities.

The proposed activities raise concerns both with regard to Section 599(a) and 599(c).

With regard to Section 599(a), the primary concern is with the TIS component of the activity as it clearly proposes to provide financial incentives to U.S. firms which could, under the right set of circumstances, support a relocation and possible job loss. IESC proposes to

finance air travel for U.S. firms in connection with possible trade and investment deals and will be providing a number of information, partnering and other services to firms in the U.S. which could constitute financial incentives to relocate.

The remainder of the proposal is directed at providing services directly to Indonesian businesses which do not appear to constitute prohibited financial incentives to U.S. firms, although they could benefit U.S. firms. For example, the market and technology information services may involve the provision of information about U.S. technological offerings and induce an Indonesian firm to consider a U.S. purchase. This type of situation would appear to fall within the current guidelines that do not consider dissemination of general business and economic information to be a financial incentive, as long as it remains non-transaction specific.

The following steps will be taken to deal with the potential 599(a) problems:

- Provisions will be included in the IESC cooperative agreement that:
  - 1) Will apprise IESC of the statutory and policy restrictions in these areas and prohibit IESC from providing any assistance in these areas;
  - 2) IESC will be required to adopt procedures, approved by AID, which will advise any U.S. firm with which it has contacts (except for contacts in which solely general market or economic information is provided) that it is prohibited from providing any assistance for possible relocations;
  - 3) IESC will be required (in all cases of assistance which go beyond providing general market or economic information) to adopt procedures (acceptable to AID) for assessing prospective firms regarding their existing productive facilities, workforce trends and future intentions, as well as to obtain, as a precondition for providing assistance, signed statements from assisted firms that they do not intend to relocate productive facilities. IESC will also be required to establish and provide to AID a facilities and workforce trend report for each sector of project focus, which provides basic data on the trends in production and job shifts in the U.S. in the sectors selected, and identifies subsectors, types of firms, and/or regions of the country in which relocation probability is high, medium or low.

In the event that IESC is unclear as to whether assistance is proper in a particular situation or believes that, although relocation is likely, jobs loss may not result, it will be required to refer these to AID for review and determination.

- 4) Because the targeting of firms to assist will be based on identification of four target sectors per year, IESC will be required to consider, when selecting the target sectors each year, the potential Section 599 problems with assisting firms in this sector (and provide an analysis of potential relocation job loss impact to AID). While decisions on sectors will be largely dictated by the needs of Indonesian businesses, it may be necessary to limit assistance in certain sectors if export/investment promotion activities would involve a counterpart U.S. sector where relocation risk was high. AID will review and approve sector selection.
- 5) IESC will be required to specially report to AID, on a quarterly basis, regarding the assistance provided to U.S. firms and provide copies of the information and certifications supporting the decision to assist.

#### Section 599(c) Concerns

As indicated above, the MBSP component of the project involves substantial assistance, both direct and indirect, to Indonesian businesses. In accordance with AID's Section 599 initial guidelines, the impact of assistance to each firm must be assessed at the firm level.

Specific steps that will be taken are as follows:

- 1) IESC will be required to adopt procedures, approved by AID, which require that each Indonesian firm provided assistance under the project:
  - a) Be advised that IESC is prohibited from providing assistance to any firm that is in violation of recognized workers' rights;
  - b) To sign the AFL-CIO clause, as set out in AID guidelines;
  - c) To agree that IESC, AID and their authorized representatives may visit and inspect the firm's workplace to determine if the firm is in compliance with its certification pursuant to b) above; and
  - d) To agree to refund to IESC the value of any assistance provided should it be determined that the firm has not acted in accordance with its certification.
- 2) IESC will be required, when determining its sectors for targeting each year, to review the general employment practices in each sector and factor those into its recommendations for sector selection. Assistance for sectors in which there have traditionally been employment abuses may be limited only to assistance directly supportive of improved employment conditions. AID will review and approve each year's sector selection.

### Section 599(b)

There are no planned activities directed at export promotion zone establishment or development. Although very unlikely, IESC could conceivably get involved with support for firms which may, over the project life, be invited to participate in export zone activities. Since that appears very unlikely at this point, there are no special procedures proposed to deal with it. Questionnaires developed by IESC to determine the nature of firms seeking assistance for 599(a) and (c) purposes will, however, be required to include a question as to whether the firms's activities or proposed activities are a part of an export zone development. If so, IESC will be required to refer the case to AID for review. IESC's agreement will contain a clause prohibiting all assistance for export zone establishment or development.

### **C. Indonesian American Business Center (IABC or Center)**

The purpose of this project component is to establish a facility to provide, under one roof, a wide array of business development services to Indonesian and U.S. businesses, and to strengthen the ability of governmental and other organizations providing those services to do so more effectively and efficiently.

The IABC will be established in leased office space in central Jakarta and will be managed by a Center Manager under contract to AID. This manager will enter into agreements with various governmental and non-governmental organizations which provide business services ("tenants"), under which office space and services will be provided to each tenant and tenants will be permitted to rent or use, in most cases for a fee, certain common facilities of the Center (such as meeting rooms, exhibition halls, conference rooms, copying facilities, etc.) on an as-needed basis. Each tenant will be responsible for providing its business services in accordance with the authorities and limitations applicable to its programs.

It is anticipated that participating tenants will include the U.S. Foreign Commercial Service (FCS), the U.S. Foreign Agricultural Service (FAS), a number of AID-sponsored projects and programs (IESC's Multiple Business Services, the Agribusiness Center under the Mission's Agribusiness Project, the PITO Office of the U.S.-ASEAN Council, the U.S.-Asia Environmental Partnership, the Indonesian Environmental Improvement Project), private non-profit groups (such as the World Environment Center, Winrock International Foundation, Environmental Enterprises of Indonesia), and agencies of the Government of Indonesia (Ministry of Trade's Export Promotion Board (NAFED) and Export Support Board). Prospective private sector tenants include the American Chamber of Commerce (AMCHAM), the Indonesian Chamber of Commerce (KADIN), Indonesian and U.S. trade associations and private firms offering trade promotion or facilitation services.

The Center will provide:

- High profile office space
- Conference facilities, show room space, meeting rooms
- State-of-the-art communications facilities
- business services, including directories of local suppliers;

- copying, binding and document preparation services; and
- computer, graphics and data management support
- translation services
- local logistical support services

These services will be provided both to tenants and directly to Indonesian and U.S. businesses that come to the Center and request the services. In the case of office space, it is anticipated, at least initially, that space will be provided to U.S. and Indonesian government agencies at no or low cost and at below cost to other AID projects and non-profit organizations. Profit-making firms provided office space will be required to pay rent for the space at market rates. Other facilities and services will be provided to government and non-profit tenants initially at below cost rates, while business users will be required to pay for such services at market rates. Fees generated from services will be used by the Center Manager to offset the operating costs of the Center.

#### Section 599 Analysis

The proposed activities of the Center and its "tenants" raise questions under both Section 599(a) and (c). Since the Center may assist directly (i.e. not through a tenant) U.S. firms, or U.S. firms may be assisted by tenants which are partially supported by the Center (reduced or no cost office space or services), project funding could support, directly or indirectly, advice or assistance to a firm located in the U.S. which may present some relocation risk. Since both the Center and its tenants will assist Indonesian firms, the possibility exists that assistance of some sort could be provided to a firm which might not be conducting its operations in accordance with Section 599(c).

With regard to services provided by the Center's tenants, the primary area of concern would be services provided by non-governmental, non-AID supported groups. FCS has indicated that they will only provide trade-related assistance at the Center and not investment assistance. FAS is not expected to provide any investment related services. To the extent that GOI agencies participate in the Center and receive free or reduced cost support from it, such participation would be considered project activities which would be required to comply with the terms of the Project Grant Agreement, which will contain a special covenant requiring the GOI to conduct all project activities in accordance with Section 599. Any AID-financed project or activity providing services out of the Center will, of course, be required under its pertinent project arrangements to conduct all activities in accordance with Section 599 and the Section 599 procedures established by the project managers for those activities.

Non-Governmental Organization (NGO) tenants whose activities are not funded by AID, but which are permitted to participate in the Center and receive space and/or services on a less than full cost basis will be required, as part of their tenancy agreement with the manager, to agree to comply with the provisions of Section 599 and to institute specific procedures to alert firms assisted of these limitations and gather sufficient information to assess relocation potential and worker's rights status. These procedures could be similar to those to be used in

the case of IESC's MBSP program described above.

In the case of private sector tenants, the Center expects to charge such organizations the full market value for all space, facilities and services provided. This should eliminate any significant financial incentive from flowing to the tenant and through the tenant to any businesses assisted. While the tenant may obtain certain benefits from association with the Center even if it does so on a full cost paid basis, this benefit to the tenant does not appear to translate into an identifiable financial incentive to the tenant's clients.

As indicated above, in the case of non-governmental, non-AID supported organizations participating in the Center, the Section 599 restrictions and an agreement on the procedures to be used by the tenant to screen for Section 599 problems will be included in the Center Manager-tenant agreement. AID will review and approve both tenant selection and the terms of the tenancy agreements in these cases.

Assistance by the Center Directly to U.S. and Indonesian Firms:

The Center's services directly to businesses will be limited to provision of general information services, space/facility rental, communications services and translation and other logistical support services. There are no plans for the Center staff to provide trade or investment advice or transaction-specific facilitation assistance of any kind to businesses; such assistance will only be provided by the Center's tenant organizations.

The Center's direct services to businesses will be provided on a fee paid basis, with fees set based on the full market value of comparable services or facilities in Jakarta. Thus, there should be no financial incentive provided which would reduce, above a de minimis level, the costs that any firm would have to otherwise incur to relocate or to otherwise do business, or for services that are not otherwise available in Jakarta, although use of Center facilities may have some convenience advantages for the user.

Attachment A

Annex K

Section 599 Clause  
Current AID Contract For  
Trade Implementation and Policy Program (TIPP)

"Restricted Assistance Activities. The Contractor agrees that, unless otherwise authorized by AID in writing, no advice, services or assistance of any kind will be provided under this Contract by the Contractor, its employees or subcontractors, which would

- 1) Induce a business enterprise in the United States to relocate productive facilities outside the United States; or
- 2) Assist in the establishment or development of export zones in Indonesia; or
- 3) Contribute to the violation of internationally recognized workers' rights as defined in Section 502(A)(4) of the Trade Act of 1974.

In the event the Contractor is requested or wishes to provide assistance in any of the areas listed above, or requires clarification from AID as to whether the provision of advice, services or assistance in any specific instance would be consistent with the limitations set forth above, the Contractor will immediately notify the Contracting Officer, providing a detailed description of the proposed contract activity and the restriction affected. The Contractor will not proceed with the activity unless and until advised by the Contracting Officer that it may do so.

The provisions of this clause are intended to implement Section 599 of P.L. 102-391, the Foreign Operations, Export Financing, and Related Appropriations Act, 1993, and related AID policy guidance. The Contractor agrees to comply with all policy guidance issued by AID with regard to Section 599, as from time to time revised and/or supplemented.

The Contractor will ensure that all employees and subcontractors providing services under this contract are made aware of the restrictions set forth in this clause and will include this clause in all subcontracts and other subagreements entered into hereunder."