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

INDONESIA

PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT

(497-0329)

AUGUST 1982

PRIVATE SECTOR DEVELOPMENT
EXPLORATORY PROJECT

- INDONESIA -

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A C R O N Y M S

1.	ACC	:	The American Chamber of Commerce Advisory Committee to USAID.
2.	BAPPENAS	:	The National Development Planning Agency.
3.	BKPM	:	Indonesian acronym for Investment Coordinating Board.
4.	CIDA	:	Canadian International Development Agency.
5.	DSP	:	Indonesian acronym for Investment Priority List.
6.	EXIM	:	The Export - Import Bank of the USG.
7.	FAA	:	Foreign Assistance Act (of U.S. Congress)
8.	GOI	:	The Government of Indonesia.
9.	IFY	:	Indonesian Fiscal Year (April 1 through March 30).
10.	JWG	:	The Jakarta Interagency Development and Commercial Interest Working Group.
11.	KADIN	:	The Indonesian Chamber of Commerce.
12.	OPIC	:	The Overseas Private Investment Corporation.
13.	PACD	:	Project Assistance Completion Date.
14.	PID	:	Project Identification Document.
15.	Repelita III	:	The third five year GOI development plan (April 1, 1979 - March 30, 1984)
16.	TDP	:	The Trade and Development Program of the USG.
17.	USDA	:	The U.S. Department of Agriculture.
18.	USDOC	:	The U.S. Department of Commerce.
19.	USG	:	The United State Government.
20.	UNDP	:	The United Nations Development Program.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: _____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: INDONESIA

3. PROJECT NUMBER: 497-0329

4. BUREAU/OFFICE: ASIA — 04

5. PROJECT TITLE (maximum 40 characters): Private Sector Dev. Exploratory Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 01 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 82 B. Quarter 4 C. Final FY 82

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 82 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(500)	( )	(500)	(500)	( )	(500)
(Loan)	(2,500)	(500)	(3,000)	(2,500)	(500)	(3,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country					1,800	1,800
Other Donor(s)						
TOTALS	3,000	500	3,500	3,000	2,300	5,300

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) FN	840-B	500		-	-	500		500	
(2) ST	840-B		3,000	-	-		3,000		3,000
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 660 830 874

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To test methods of strengthening the Indonesian private sector through training and links to the U.S. private sector, and to provide information to Indonesian decision-makers about opportunities to develop the Indonesian private sector.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 83 MM 03 YY 85 Final MM 09 YY 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [X] 941 [ ] Local [ ] Other (Specify) _____

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

17. APPROVED BY
Signature: Robert C. Simpson
Title: Acting Director, USAID
Date Signed: MM 06 DD 08 YY 82

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

AID 1330-4 (8-79)

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

PROJECT AUTHORIZATION

Indonesia

Private Sector Development
Exploratory Project (497-0329)

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Development Exploratory Project (The "Project") for the Government of the Republic of Indonesia (The "Cooperating Country") involving planned obligations of not to exceed $3,000,000 in loan funds and $500,000 in grant funds over a one-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project will assist the Cooperating Country to increase employment, income and access to productive resources by testing methods of strengthening the Indonesian private sector, and by providing information to Indonesian decision-makers about opportunities to develop the Indonesian private sector through investment profiles, investment processing assistance, dialogue and policy tours, studies, training and the development of links to the U.S. private sector. Loan funds will be used to finance training and technical assistance for the Indonesian Investment Coordinating Board (BKPM) and grant funds will be used to establish a senior and mid-career training program.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. (a) Interest Rate and Terms of Repayment. The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of first disbursement of the loan, including a grace period not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of first disbursement of the loan at the rate of two percent (2 percent) per annum during the first ten (10) years, and three percent (3 percent) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

(b) Source and Origin of Goods and Services. Goods and services financed by A.I.D. under the Project with loan funds shall have their source and origin in the Cooperating Country or in countries in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Goods and services, except for ocean shipping, financed by A.I.D. under the Project with grant funds shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Ocean shipping financd by A.I.D. under the Project with grant funds shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

a. Conditions Precedent to First Disbursement. Prior to any disbursement under the grant or loan or to the issuance by A.I.D. of any documentation under the Project Agreement pursuant to which disbursements will be made, the Cooperating Country will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. the following in form and substance satisfactory to A.I.D.:

(1) Documentary evidence that the Cooperating Country has budgeted local currency to support the Project; and

(2) Documentary evidence that the supervisory steering committee has been created and has met to discuss the Project.

b. Conditions Precedent to Additional Disbursement.

(1) Prior to disbursement of funds or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for Project activities managed by BKPM, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., a plan for the implementation by BKPM of its responsibilities under the Project and a list of criteria to be used by BKPM in determining the types of activities acceptable as part of the Project;

(2) Prior to disbursement of funds or to the issuance by A.I.D. of documentation pursuant to which disbursement shall be made for technical services, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., an executed contract with a technical services contractor acceptable to A.I.D.;

(3) Prior to disbursement of funds or to the issuance by A.I.D. of documentation pursuant to which disbursement shall be made for management training, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance acceptable to A.I.D., evidence of the establishment of a loan fund and a selection committee for the training program.

c. Special Covenants. Except as otherwise agreed to by A.I.D., the Cooperating Country shall agree that:

(1) Those contracts financed under the loan will include a requirement that contractors report quarterly on their experience with any restraints on investment in the Cooperating Country, including any regulatory and policy impediments encountered during their case work; and

(2) For those activities financed by the loan, joint reviews by USAID and appropriate agencies of the Cooperating Country will be held to review progress toward improvement of the regulatory/policy framework, at a specific time to be agreed on by A.I.D. and the Cooperating Country, and regularly thereafter.

Clearances:	Initials	Date
A/ASIA/PD, Willy Baum	WDB	Aug 5, 82
ASIA/TR, Thomas Arndt	[illegible] for TA	Aug 6, 1982
GC/ASIA, Herbert Morris	[illegible]	Aug 6
ASIA/DP, William T. Oliver	[illegible]	8/6/82
ASIA/ISPA, William R. Ford	[illegible]	8/6/82

Larry Smucker
Larry Smucker
Acting Assistant Administrator
Bureau for Asia

8-6-82
Date

GC/ASIA:STisa:ASIA/PD/EA:ASnapleigh:dw:eb:8/5/82:EXT

June 1, 1982

Private Sector Development Exploratory Project

- INDONESIA -

Part I
- Summary and Recommendations

A. Face Sheet

B. Summary

1. Borrower/Grantee. The Government of Indonesia

2. Implementing Entity: An Interministrial Steering Committee Chaired by the Director General of Domestic Monetary Affairs, Ministry of Finance who will report to the Vice Chairman of BAPPENAS, Minister Sumarlin.

3. Grant Amount: $0.5 million

4. Loan Amount: $3.0 million

5. Purpose: To test methods of strengthening the Indonesian private sector through training and links to the U.S. private sector, and to provide information to Indonesian decision-makers about opportunities to develop the Indonesian private sector.

6. Project Description: The project has three major elements:

(a) Facilitating Growth of Indonesian Private Enterprise Through Greater Involvement of U.S. Business: $2.0 million. The Indonesian Investment Coordinating Board (BKPM) will use these funds to train BKPM staff and to retain three local consulting firms to identify opportunities, prepare project profiles and facilitate joint activities between Indonesian and U.S. entrepreneurs complementing existing U.S. government programs. As a result, opportunities for investment, trade and transfer of technology will be created.

(b) Senior and Mid-Career Management Training: $0.5 million grant to arrange and provide training for selected Indonesian business people in on-going advanced and middle management programs in U.S. business schools (e.g., Stanford, Harvard, Texas). To acquaint Indonesia middle managers intimately with U.S. management practices and to forge linkages with

U.S. private sector representatives. The executing agency would be the Ministry of Finance working with the Indonesian Chamber of Commerce (KADIN) for selection and processing of participants. The Ministry of Finance will create a loan fund to pay for 75% of the costs of the training as well as travel and living expenses. The students will be expected to pay initially for 25% of the costs and repay the loan for the remainder within five years of their return to Indonesia. The AID grant will finance a consultant to work with the selection committee and a contract with a U.S. entity to help place and program the Indonesian participants.

(c) Special Studies and Consulting Services: $1.0 million loan for special studies. The executing agency will be the Ministry of Finance. For example, consultants would assess the further need for a special financial institution to provide venture equity capital, and specifically how and where such an institution should be set up. Another study would survey U.S. firms who have expressed an interest in investing in Indonesia to determine the status of their plans and what help, if any, the BKPM could provide to assist selected U.S. firms get established in Indonesia. Another proposed study could provide consultants working with the GOI's general consultancy team focusing on opportunities for smaller enterprises and regional development relating to current and future large scale industrial investment, initially in the Aceh region; specifically the consultants would assess: (1) existing credit institutions, the possibility of developing and Aceh Development Fund to provide loans, technical assistance and perhaps equity to small enterpreneurs; (2) training needs and the potential for development of training institutions jointly funded by GOI, AID and private sector; (3) opportunities for downstream private investment that would result from the industrial complex in Aceh.

7. Total Project Costs: $5.3 million of which the AID contribution of $3.5 million is 66%. The GOI will contribute $1.8 million in local currency for 34% of total project costs.

8. Source of Funds: FY 82 FAA Section 106 for the loan and 103 for the grant and the loan.

9. Application: the GOI's application is included in Annex D.

10. Statutory Checklist: All criteria have been satisfied (Annex B).

11. Environmental: The Initial Environmental Examination resulted in a negative determination.

12. Project Committee Views: The Project Committee has recommended that this project be authorized.

13. Project Development Committee:

The Project Committee was chaired by the USAID Deputy Director and included the Private Sector Development Officer, the Regional Legal Advisor, the Deputy Chief of the Program Office, the Mission Economist, representatives of Embassy's Economic Section and the Commercial Attache. From the GOI, the Deputy Chairman of the Investment Board, the Director of Financial Institutions in the Ministry of Finance have participated in Development of the Project. The Project has been reviewed and enclosed by the Vice Chairman and Deputy Chairman of BAPPENAS and the Chairman of the Indonesian Investment Coordinating Board have endorsed the project design. The Project relies substantially on recommendations from consultants Tom Hexner and Terry Myers.

C. Recommendations

1. The Loan and Terms

It is recommended that a grant/loan be authorized to the Government of Indonesia to finance the foreign exchange and part of the local currency costs for the Private Sector Development Exploratory Project as described below. The proposed grant will not exceed U.S. $ five hundred thousand ($500,000). The proposed terms of the loan are:

Loan Amount:		Two million five hundred thousand United States Dollars ($3,000,000).
Maturity	:	Forty (40) years including a ten (10) year grace period.
Interest	:	Two percent per annum during the grace period and three percent per annum thereafter
Currency	:	Interest and principal repayable in U.S dollars.

The grant and loan will be obligated in FY 1982. The Project Assistance Completion Date (PACD) will be four years from the date of the signing of the loan agreement with the GOI.

2. Borrower and Recipient Agencies

The Borrower/Grantee is the Government of the Republic of Indonesia (GOI). The Indonesian Investment Coordinating Board (BKPM) and the Ministry of Finance under guidance of an interministerial committee chaired by the Director General of Domestic Monetary Affairs reporting to BAPPENAS vice chairman, Minister Sumarlin will take primary coordinating responsibility in implementing the proposed project with several other GOI Departments e.g. Agriculture, Industry, Trade and Cooperatives, Research and Technology etc. as recipient agencies.

3. GOI Contribution

The total GOI direct contribution is estimated to be US$ one million eight hundred thousand ($1.8 million) equivalent in local currency (Rp.1,170,000,000) which is 34% of the total project cost. The GOI will budget its funding to the project over three years: IFY 82/83 - IFY 84/85 according to the disbursement schedule shown in Part IV below.

4. Beneficiaries

The direct beneficiaries will be the Indonesian private sector representatives who receive the management training and the Indonesian and U.S. business people who receive assistance in the preparation of project profiles and advice in how to get their business established. U.S. and Indonesian business people will also benefit from their increased association. GOI officials will benefit directly from the information gathered and the policy studies. The indirect beneficiaries will be the Indonesians who are employed in the businesses created and those who enjoy the products and services generated by these businesses.

D. Summary Findings

This Project Paper has been developed after a year's effort by the Mission's representatives working together with the GOI and the Indonesian and U.S. private sectors as well as AID/Washington and a series of consultants. While exploratory in nature, the project is responsive to the needs and concerns of the GOI and the Indonesian private sector and complements other U.S. government programs as well as other donor projects. The proposed project will facilitate the entrance of the U.S. private sector in Indonesia in areas of mutual interest, as well as encourage the contribution of private sector resources in Indonesia's development effort. The project as described in this paper is considered complete and capable of being implemented successfully given the inputs and administrative arrangements described. It is expected that additional assistance to the beneficiaries will be provided by other USG agencies i.e. TDP, OPIC, EXIM, USDOC and USDA.

This Project Paper has been reviewed and approved by the JWG, the AAC and the appropriate GOI officials of the BKPM, the Minstry of Finance and BAPPENAS.(See Acronyms) The GOI's application is included in Annex D and the project meets all applicable statutory criteria (see Annex B).

E. Project Issues

Any programs which the PRE Bureau is proposing for Indonesia should complement this project and be coordinated through USAID/Indonesia. In particular, funds from PRE for venture capital or other investment financing should be reviewed and approved by the Mission.

PRIVATE SECTOR DEVELOPMENT

EXPLORATORY PROJECT

Part II
- Detailed Description of the Project

A. Project Goal

The goal of the project is increased employment opportunities, income generation and access to resources for Indonesians in the private sector.

Discussion of the Problems and Assumptions Leading to Goal Achievement

1. Employment

Despite Indonesia's solid economic growth, unemployment is growing rapidly. Each year two million new workers enter the Indonesian labor market. The vast proportion of these must find jobs in the private sector. Unemployment and underemployment with all its attendent social problems is the critical problem facing the government of Indonesia at the present time. Approximately 70 percent of the country's labor force including agriculture--some 50 million--works in the private sector, which is responsible for 60 percent of Indonesia's GNP.

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

But jobs in rural enterprise or in industry are not increasing quickly enough, and the growth taking place is often concentrated in a relatively limited number of areas. More than 85 percent of all industrial workers, for example, are located on Java. Disparities in economic growth between certain sectors and between certain ethnic groups in Indonesian society have been aggravated by dramatic increases in foreign investment in discrete enclaves, where projects to develop natural resources--oil, minerals, timber--have not been optimized for the benefit of surrounding communities. Indonesia's manufacturing base - 9 percent of GDP is the smallest in Southeast Asia.

2. The Private Sector in Indonesia

Concerns about unemployment and disparity in growth patterns are compounded by the real possibility that Indonesia's relatively high rate of growth--9.6 percent in 1980 and 6 percent in 1981--is unlikely to continue. Past growth has been fueled largely by foreign investment and technical and managerial services imported to

develop extractive industries--petroleum, minerals and timber. Oil revenues alone have traditionally funded 60 to 70 percent of the country's annual budget, and in 1980 petroleum exports left Indonesia with a foreign exchange surplus of $11.5 billion and current account surplus of $2.3 billion.

A world recession, the drop in demand for oil and the falling-off of demand for Indonesia's non-oil exports, however, have demonstrated the perils of building development plans on a narrow base. Non-oil exports are one third below 1979 levels, and oil export earnings have dropped. Indonesia's foreign exchange reserves are declining, and current projections foresee a current account deficit of between $[illegible] and $6 billion for 1982. Even were the recession to bottom-out, Indonesia would face a longer-term problem--its major exports are largely non-renewable resources.

To stabilize its growth rate, Indonesia needs to diversify, to expand its exports and to substitute for imports where possible and economically efficient. This can only occur with a stronger private sector.

To achieve the goal set by AID's new private sector initiative, "to foster the growth of productive, self-sustaining, income and job producing enterprises in developing countries, using the finance, technology and management know-how of the U.S. private sector," the Private Sector Project accepts a broad definition of the private sector. It is defined as profit and capital accumulation-oriented initiatives by individuals and groups of individuals in all economic sectors. Thus, the small farmer tilling his own land represents private sector activity. The village merchant is part of the private sector. Service industries in provincial towns are in the private sector. In short, private sector should not be miscontrued to be limited to urban activities or modern sector industries. Private sector involves services, finance, construction, and, in a country with Indonesia's factor endowments, focuses mainly on activities and investments in a rural setting. Over 99% of all industrial establishments are small or cottage enterprises, though accounting for only 40% of paid employees and 22% of value added in that sector. Many farmers supplement their income with craft work and trades.

It is difficult to obtain statistics on the Indonesian private sector as the vast majority of the estimated 1.2 million private firms are unlicensed. Labor statistics however, indicate that small enterprises dominate labor absorption in virtually all economic sectors. For example out of 4.9 million workers in the manufacturing sector 86.5% work in small and cottage enterprises. The Bank of Indonesia estmates that there are about 13 million small self employed entrepreneurs. This represents 23% of the total labor force.

There are however, about 4,500 firms licensed under the BKPM as "domestic investments" which receive tax incentives. These firms are generally larger and represent a diverse spectrum of the economy ranging from metal foundries and fabrication factories, machine

shops, ship construction and repair yards, cement, pulp and paper factories, sugar, rubber, palm oil, tea plantations and processing mills, vegetable and fruit canneries, fruit juicing and other beverage bottling plants, textile thread making, fabric weaving and apparel manufacturing, shoes and leather goods, electronics, automobile and farm equipment assembliers, chemicals, paints and tire manufacturers, inter-island shippers, fish packers and processors etc.

Private investment activity has revived markedly since 1979. Data on domestic investment approvals, which amounted to Rp 689 billion in that year, more than doubled in 1980 to a level of Rp 1,504 billion and increased further to Rp 2,426 billion in the first eleven months of 1981.

B. Project Purpose

The purpose of the project is to test methods of strengthening the Indonesian private sector through training and links to the U.S. private sector, and to provide information to Indonesian decision-makers about opportunities to develop the Indonesian private sector.

Discussion of Problems and Assumptions leading to Purpose Achievement

1. Key Constraints to the Development of the Indonesia Private Sector:

From numerous discussions with representatives of the Indonesian private sector it is clear that lack of skilled managers and equity are the two biggest factors holding back the development of a strong Indonesian private sector. Loan financing is apparently readily obtainable for sound projects as long as the principals have some equity. Also potential U.S. partners are increasingly desirous of starting out ventures with less than a majority share, thus adding to the Indonesians' burden of coming up with equity. The Indonesian private sector, like business people everywhere, need information about new investment opportunities and help in packaging their ideas for sale, that is to obtain project financing and in some cases possible joint venture partners. Other problems frequently cited include lack of modern equipment, technical back-up, industrial standards and quality control.

Nearly everyone contacted by the Mission both in the Government and in the U.S. and Indonesian private sectors spoke of the need for training of Indonesians both for basic business skills i.e. accounting, marketing, finance etc. and for advanced degree training in the United States. It has been pointed out for example, that in the early 1960's more than 5,000 Indonesian students were attending U.S. universities while today only about 2,000 Indonesians are studying in the U.S. According to the World Bank, for the decade of the 1980's Indonesia will require, each year, an additional 5,500 engineers, 1,900 scientists, 2,200 agriculturalists, 900 accountants and 1,300 economists. These

requirements exceed the present university output by 73 percent in engineering, 74 percent in science, 61 percent in agriculture, 78 percent in accounting and 77 percent in economics. These shortages of trained manpower are a major constraint to development. The Minister of Finance feels that Indonesia is lagging behind other neighboring countries in the development of human resources and that the shortages of people with entrepreneurial skills, managerial skills and technical skills are a bigger problem than shortages of capital. The problem is so acute that companies frequently "steal" trained personnel from other companies.

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

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

The Indonesian private sector is also quite desirous of obtaining increased linkages to the U.S. private sector. What they would hope to obtain from the U.S. private sector include transfer of technology and training, investment capital and marketing of Indonesian products.

2. U.S. Investment in Indonesia:

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

- These figures tend to understate U.S. economic interests in Indonesia. Not only do they reflect book rather than current value of assets, but they exclude investment expenditures made

by companies engaged in petroleum exploration and development. During the six years between 1975 and 1980, for example, American companies spent an estimated $6.3 billion in gas and oil exploration and development. This rose to $3.2 billion in 1981 and is estimated to be $4.1 billion in 1982.

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

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

3. Constraints to U.S. Participation

- The subset of constraints which are inhibiting the greater involvement of the U.S. private sector in Indonesia fall under three headings:

(1) Lack of Information:

- A. About Indonesia in general.

- B. About specific opportunities for profit involving not only investment but also management contracts, licensing agreements and the marketing of Indonesian products.

- C. About the GOI regulations and the steps one has to follow to get established in Indonesia.

- D. About good joint-venture partners and other necessary personal contacts which must be made in order to operate successfully in Indonesia.

(2) The approach of U.S. business representatives who are seeking opportunities in Asia in general and Indonesia in particular:

- U.S. firms are too far away in comparison with Japanese, Hong Kong, Taiwan and Singaporean investors. Their representatives sometimes appear to fly in almost as an after-thought in an Asian tour which really is focussed on possible opportunities in other Asian countries. The usual pattern is to stay 3-4 days and fly out confused as to what the next steps if any should be. This pattern of

repeated short visits, often by different representatives of the same U.S. firm, may be continued without results for years before a decision is made either to get involved or to stay out.

- U.S. firms are much more cautious in their approach than their Asian competitors. They want to conduct feasibility studies, develop implementation plans, strategy statements etc. and really nail things down with an air tight, legal contract before committing themselves. Asian businessmen appear more flexible and willing to start out with what is on the ground. Their approach is due to more time spent in Indonesia and a greater understanding of how to conduct business here.

(3) The third big stumbling block is the GOI regulations themselves which seem more restrictive than other countries. Asian businessmen don't find them as restrictive as U.S. firms do because of a better knowledge in how to deal with them but also because the U.S. firms compare Indonesia to Europe, Canada and Latin America while the Asian businessmen have a narrower view of the world and are basically interested in expanding in their own backyard.

4. Opportunities for U.S. Private Sector Involvement

ASEAN trade with the U.S. reached $21 billion in 1980, making this region the fifth largest trading partner. Indonesia accounted for nearly one-third of this total or $6.7 billion. U.S. exports to Indonesia grew by a record 58 percent in 1980 to $1.5 billion, but dropped back to $1.3 billion in 1981.

Indonesia has a $85 billion GDP and foreign exchange reserves of over $10 billion. Its large market, strong financial position, conservative monetary and fiscal policy and possibly the highest rate of growth in ASEAN this year, aside from Singapore, make Indonesia increasingly attractive for U.S. business.

The GOI's ambitious program to upgrade the country's basic infrastructure, develop its enormous resources and many major industrial projects, including the construction of oil refineries, LNG plants, petrochemical, cement, plywood, paper factories, sugar, rubber and palm oil processing facilities offer opportunities for investment, technical cooperation and other forms of participation by U.S. firms. The total value of the major industrial expansion planned over the next few years will exceed U.S. $10 billion and the GOI is still seeking joint venture arrangements and export credits from interested foreign partners.

Most American firms already operating in Indonesia have found operations highly profitable and a number have substantial expansion plans on the drawing board or underway.

Within the non-oil mining sector tin, nickel and copper development are potential investment areas. Low labor costs make

labor intensive industries such as electronic assembly profitable in Indonesia. However, fringe benefits, bonuses and overhead costs make these low labor costs less attractive than would at first appear to be the case. Besides basic component assembly, other non-farm industries which show good prospects in Indonesia include agricultural equipment, metal fabrication, machine building, car, bus and truck components, ship building, railway cars and parts, diesel engines, furniture, shoe and clothes manufacturing and handicrafts are only a partial list.

Agrobusiness includes many opportunities in the processing and export marketing of diverse crops of fruits and vegetables, as well as fish, shrimp and other sea food. The GOIs sugar development expansion plans offers opportunities not only in sugar or high fructose sweetneos from corn or cassava but also in the development of commercial by-products of the cane sugar production such as citric acid, alcohol animal feed, fiber board etc. These are also opportunities for purely domestic Indonesian investments as well as joint ventures.

The GOI's Investment Coordinating Board (BKPM) acts as a central point of contact for foreign investors. The BKPM has issued new guidelines and has made progress in clarifying priorities and procedures for potential foreign investors. Opprortunities for increased involvement in Indonesia's development by U.S. firms are however, not limited to equity investment but include licensing, technical assistance, training, management contracts, marketing, assistance and other forms of business arrangements.

5. Investment Climate - A Mixed Picture

Major goals of Indonesia's current Development Plan have been to encourage structural shifts in the economy away from overdependence on extractive industry and toward a more broadly based industrialization with an emphasis on large scale employment generation. At the same time, large portions of the economy - plantations, fertilizer and oil-based industry - will remain primarily in the state sector. The Plan envisages a greater role for both domestic and foreign private investment to help achieve its growth objectives. New investments in the outer islands are encouraged. Additional incentives for Indonesia to move rapidly into industrial expansion are offered by recent wage cost factors in Korea, Taiwan, and Singapore (an explicit government policy in the latter). These factors are causing a major exodus from these countries of labor-intensive component and assembly operations. With rapid economic growth rates, increasing levels of prosperity, and generally stable governments in the entire ASEAN region, Indonesia, as ASEAN's largest and most resource rich country, is now receiving heightened interest as a potential foreign investment location.

The government's attitude toward foreign investment is ambivalent. It recognizes foreign investment as the major channel for foreign technology, know-how and capital, but government

[illegible] are concerned about investment's social and political [illegible] and small perceptions of disparity between pribumi and [illegible] and surrounding community. The GOI welcomes [illegible] for the technology and management skills it [illegible] to foreign investment to promote development [illegible] and to create a multiplier effect that widens the [illegible] opportunities.

[illegible] the enactment of the Foreign Investment Law of 1967, [illegible] was officially committed to seeking foreign [illegible] investment allowances, tax exemptions, [illegible] import duties and tax holidays for up to six years on [illegible] areas. It has established a Capital [illegible] Coordinating Board (BKPM) to oversee all foreign and [illegible] investment and reorganized the board in 1977 to streamline [illegible] foreign investors into a "one stop service."

[illegible] encourage foreign investment in a direction compatible [illegible] objectives, the government has passed laws and [illegible] which many investors view as restrictive. It has [illegible] foreign investment areas which it considers [illegible] already reserved for Indonesian investors or [illegible] defense. BKPM publishes a list (the DSP list) [illegible] areas in which the government favors foreign [illegible] Presidential Decree forbids foreign companies from [illegible] foreign investment in agriculture. Kepres [illegible] requires that companies take pribumis as joint [illegible] and turn majority ownership over to Indonesians [illegible] of operation. Kepres 14A, passed in 1980, requires [illegible] of certain goods and services from local contractors, [illegible] Decrees emphasize the importance of replacing [illegible] expatriates with Indonesians. In industries such as forestry [illegible] government has established a schedule for replacing foreign [illegible] and companies keeping foreign workers beyond the [illegible] for Indonesianization are taxed $100 per month, which [illegible] used for training Indonesian workers.

[illegible] assist pribumi entrepreneurs and to spur small scale [illegible] development, the regulations have inhibited some foreign [illegible] and refused others. The BKPM has gradually been [illegible] approvals of new foreign investment--$900 million in [illegible], and an estimated $2 billion in 1982--but [illegible] foreign investment has tended to fall well below the approved [illegible]. [illegible] foreign investment in 1980 was $347 million and in [illegible] was $[illegible] million.

[illegible] structure governing the behavior of private entre-[illegible] in Indonesia, including those resulting from government [illegible], is very complex and uneven. Historically, most have had [illegible] of protecting domestic, often inefficient industries. [illegible] have been undertaken to develop coherent policies [illegible] encourage foreign investment and exports. The most recent was [illegible] of the Rupiah in 1978 and simultaneous [illegible] of the export rebate scheme combined with reduction of

import tariffs and sales taxes on intermediate goods. These changes have resulted in short-term increases in exports from labor-intensive industries and significant increases in imports, particularly from the U.S.

The major hinderances to greater investment in Indonesia and to industrial growth generally result from a combination of factors. Some firms find a lack of clear-cut government policy and procedures for project implementation in spite of the fact that the Investment Board is a "one stop" investment service. Other constraints are lack of physical and business infrastructure, lack of trained personnel, bureaucratic inefficiencies, and administrative irregularities, all of which add to operating costs.

Particular emphasis has been given recently by the Government to attracting new investors to bring capital and new technology to exploit the untapped agricultural potential of under populated areas of Sumatra, Kalimantan and the other Outer Islands. A new land decree on rights of ownership and plantation land tenure, however, has created uncertainties and has yet to attract foreign investors to agricultural projects. Another constraint is uncertainty regarding revenues from agricultural production. The Government has at times imposed short-term prohibitions or permanent restrictions on exports of certain products such as palmoil in order to meet domestic demand. These constraints serve as a disincentive to investment in the agricultural sector.

However, even within these constraints, private entrepreneurs, both foreign and domestic, do manage to develop and even prosper. These entrepreneurs, as in other countries, learn how to work within the constraints of the system and to make it work to their advantage and to the advantage of the industrial sector. Another problem may be that many potential investors seem to have demonstrated a lack of zeal and patience in carefully investigating the special characteristics and opportunities of this often difficult but very large and only partially tapped market.

Given the difficulties of obtaining significant environmental change in the short-run, it seems more appropriate to work with and through the entrepreneurs who have found ways to make the present system function. This project, thus, starts from the bottom and works up. It seeks to identify and support those entrepreneurs who have the capacity to expand the industrial capability of a particular industry. It attempts to remove contraints which would restrain this expansion, particularly the absence of managerial know-how, equity capital and sellable project profiles.

We are hopeful that this approach will more likely have a practical and long-term impact on policy. The business community at present has a significant impact on government policy-making. The leaders of the Indonesian Chamber of Commerce (KADIN), the American Chamber of Commerce and other domestic and foreign business groups and federations do meet frequently with government leaders including Minister Sumarlin and the President. The top leadership of the GOI

have made it known that they want to hear about problems and they are prepared to deal with them. Therefore, we plan to surface these problems on a case by case, practical basis. We plan to assist the government develop projects in areas where they place high priority e.g. sugar by products, machine building, electronics, etc. By developing profiles and helping the GOI attempt to interest investors in these areas we can begin dialogs between the potential private sector investors and the government policy makers which will put the constraints to investment squarely on the table. We also feel that by providing the existing entrepreneurs with enhanced managerial experience in international business, should result in improving their capacity to influence policy in a supportive manner.

Potential investors expect to be actively courted by host governments, as is the case in neighboring countries. There is now a rare opportunity for Indonesia, with its low labor costs to expand into basic component assembly and other labor-intensive operations as these industries shift from higher cost Asian countries. There is substantial competition both within the ASEAN region, as well as throughout the developing world, for the investment dollar. Whether Indonesia's policymakers will move vigorously to attract these industries could depend in part on projects such as this.

6. Risks and Opportunities for USAID

Active assistance to the GOI's investment promotion effort by the U.S. Government to involves both risks and opportunities. For example, the profiles prepared with project funds may not lead to U.S. investment and may ultimately assist businessmen from other countries. Secondly this is an experimental project in an area where USAID has limited experience to judge at this point how effective the various project elements will be. On the other hand, the provision of these profiles plus the counselling service should assist prospective U.S. investors in assessing the realistic prospects for profitable investments in Indonesia, while OPIC insurance and EXIM guarantees should assist them in hedging some of the risks. At the same time, our active support of GOI investment objectives and participation in project development, should provide us with the opportunity to interact with the GOI in a favorable and constructive way, perhaps assisting it to become more effective in its efforts to attract U.S. investment and in resolving some of the bureaucratic obstacles.

7. AID' Private Sector Strategy

While the project addresses some of the above constraints directly, AID's strategy in general for assisting the development of Indonesia's private sector is to provide tightly-focused technical assistance, training, demonstration and facilitating efforts that are likely to make an immediate and visible difference to existing GOI or other donor programs, to ongoing U.S. trade and investment programs, or to government consideration of policies and projects affecting the private sector. The private sector program will act as a catalyst to open channels and provide contacts between

Indonesian and U.S. business people and to build institutional support for Indonesian entrepreneurs. The program will test different approaches to private sector assistance and provide for regular evaluation to allow assessment, revision, rejection or further support for the experimental efforts. It seeks to channel the natural and creative unpredictability of the private sector to achieve the economic benefits and growth that can be derived from private sector spontaneity when it is disciplined to agreed-upon development objectives.

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

8. Related U.S. Activity

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

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

OPIC has sponsored several missions to Indonesia by U.S. firms to review investment opportunities. It will share costs with American companies which have identified economically sound projects

through their own reconnaissance and are interested in doing feasibility studies. It requires that a company which it assists have "a sound operating record, demonstrate that it has managerial, technical and financial competence to implement the project if it proves feasible, and a present intention to make such an investment." The private sector project will complement OPIC by providing profiles of projects in which investors and OPIC may be interested and by providing initial assistance to interested U.S. companies.

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

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

9. Other Donor Activity

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

C. The Project

(1) Introductory Statement

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

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

a) sound private sector investment and other opportunities exist in Indonesia;

b) investors, both U.S. and local, can benefit from assistance, which is locally available, in dealing with government regulations bureaucratic structure, in identifying project opportunities and joint-venture partners, and in packaging proposals for financing and government approval;

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

d) this joint-educational experience and exposure can accelerate joint-venture possibilities.

(2) Management Training

The project under the guidance of the Ministry of Finance will establish a program to send Indonesian entrepreneurs as well as mid-career and senior Indonesian businessmen from private companies for short term management training courses at U.S. business schools. These would be primarily 12-14 week management or business courses at such schools as Harvard, Stanford, Texas, etc. Thirty-five participants in the study program would be selected each year by a Board, Chaired by the Ministry of Finance whose members would include representatives of the Indonesian Chamber of Commerce (Kadin), The Indonesian

Young Businessmen's Association (HIPMI), The Indonesian Women's Business Group (IWAPI) and the AmChamber of Commerce. Candidates who qualify for training but are deficient in English or need special assistance in business fundamentals would be given tutorial training through special courses at the Indonesian-American Association.

The costs of the program, tuition and living costs as well as travel, are to be borne by the entrepreneurs themselves or the private companies who send their employees. The GOI through the Bank Indonesia will set up a loan fund of $1.3 million to provide over a three year period loans at a reasonable rate of interest, say 6%, to the entrepreneurs and private companies for up to 75% of the total costs of the training. These loans would have to be paid back within five years from the date the student returns to Indonesia. The AID Grant will provide for a consultant to work with the selection committee in determining program objectives and in establishing selection criteria. The AID Grant will also finance a contract with a U.S. facilitating institution who will be responsible for testing and screening candidates, selecting the appropriate U.S. school, gaining admittance and making administrative arrangements for the placement of Indonesian students.

The program purpose is several-fold. It addresses immediate needs for management training. Minimal high-level management training for private sector exists in Indonesia. At the same time, the exposure of mid-level and senior Indonesian executives to American counterparts at U.S. business schools will offer secondary benefits. Not only will participants be exposed to U.S. business methods, but they will make connections which will create long-term U.S.-Indonesian business ties.

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

An evaluation of the program will be conducted at the end of three years. $50,000 will be reserved from the AID grant funds for this purpose.

(3) Facilitating Growth of Indonesia's Private Enterprise through Greater Involvement of U.S. Business : $2.0 million. The BKPM will use these funds to train BKPM staff and to retain three local consulting firms to identify opportunities, prepare project profiles and facilitate joint activities between Indonesian and U.S. entrepreneurs complementing existing U.S. government programs. As a result opportunities for investment, trade and transfer of technology will be created.

(a) The local consultants will work with BKPM to develop up to 30 project profiles, 15 in agribusiness and 15 in light manufacturing. The Director of the BKPM's office of Project Development would work with the consultants to select 30 suitable areas for investments which would be drawn from BKPM's investment priority list (DSP) and taking into account the consultants and BKPM"s perceptions of possible US interest in these areas. Project profiles should provide enough basic information to permit potential investors to determine whether they are likely to have a serious interest in investing. These profiles will be relatively brief descriptions of the proposed project that will identify the nature of the possible opportunities for U.S. business, the interested Indonesian concern if any, the required financing and the scope of the project including as appropriate, the area, soil and climatic conditions, potential markets, import requirements, the present state of the Indonesian industry, raw material availabilities if required, labor availabilities, potential for export, pricing restrictions if any, GOI investment policies etc. By contract each consultant will be required to produce up to ten of these profiles over a two year period. The facilitators will prepare, distribute and promote BKPM project profiles and feasibility studies as explained below. The World Bank and UNIDO are also helping the BKPM to prepare project profiles. The Deputy Chairman of the BKPM and the three donors will coordinate their respective assistance efforts to ensure complementarity. The AID financed profiles will be concentrated in the areas of agrobusiness and light manufacturing where in the judgement of the consultants U.S. firms have an interest.

(b) The local consultant will provide help to potential Indonesian and U.S. business as an independent business consulting service:

(i) Seek out and screen proposals from Indonesian entrepreneurs interested in locating U.S. partners. The facilitating firms would be expected to advertise their interest in reviewing proposals and their willingness to provide assistance in preparing proposals, and in packaging possible projects. They will provide guidance on business practices, legal, administrative and regulatory matters, taxation, financing, project structuring, and other services necessary for project development and implementation. The facilitating firms could use a number of methods to solicit proposals both within and outside Jakarta, ranging from

direct newspaper advertising, to working with the regional representatives of BKPM, AID consultants stationed in the provinces and the U.S. Consulates at Medan and Surabaya. They would also accept referrals from these agencies. The solicitation efforts should state explicitly that interest is limited to those projects that have a developmental impact in terms of job creation, income generation, access to resources, import substitution, or export promotion.

(ii) Assist U.S. businessmen in Indonesia. Companies coming to Indonesia to explore or review business opportunities may be referred to the facilitating firms by the AMCHAM, the GOI, the U.S. Commercial Section, or by other sources such as the Indonesian Consulates in the United States. The facilitating firms will provide information on Indonesia, potential joint-venture partners and business opportunities. They will provide guidance on business practices, legal, administrative and regulatory matters, taxation, financing, project structuring, and other services necessary for project development and implementation. The facilitating firms would provide up to 80 hours of free services at AID's expense after which further assistance would be paid for by the participating company.

(iii) Work with existing U.S. government agencies, once suitable projects have been identified, to try to find U.S. partners. Where appropriate, TDP studies may be requested, and once a partner is identified, OPIC may be contacted. The facilitating firm will provide FCS with suitable proposals for promoting through the Department of Commerce's Trade and Investment Opportunity Program and, to the extent possible, will use its own contacts in the United States to seek interested parties.

(c) Training for BKPM staff: Short term and selected long-term training for BKPM staff concerned with investment promotion. Training will be primarily in the United States working with trade associations, investment promotion firms, financial institutions and perhaps USG agencies to develop a better understanding of needs and interests of U.S. firms who are potential joint venture investors in Indonesia.

(4) Special Studies and Consulting Services: $1.0 million loan for special studies. The executing agency will be the Ministry of Finance. For example, consultants would assess the further need for a special financial institution to provide venture equity capital,* and specifically how and where such an institution should be set up. Another study would survey U.S. firms who have expressed an interest in investing in Indonesia to determine the status of their plans and what help, if any, the BKPM could provide to assist selected U.S. firms get established in Indonesia. Another proposed study could provide consultants working with the GOI's general consultancy team focusing on opportunities for smaller enterprises and regional development relating to current and future large scale

* Note: Venture capital study to be carried out by AID/PRE Bureau using other funding.

industrial investment, initially in the Aceh region; specifically the consultants would assess: (1) existing credit institutions, the possibility of developing an Aceh Development Fund to provide loans, technical assistance and perhaps equity to small enterpreneurs; (2) training needs and the potential for development of training institutions jointly funded by GOI, AID and private sector; (3) opportunities for downstream private investment that would result from the industrial complex in Aceh.

D. End of Project Status:

By the end of the project it is expected:

(1) That Indonesia will have a key group of entrepreneurs and mid-career and senior executives in the private sector who have received business training in the United States, have a good understanding of U.S. business practices and have made business contacts with U.S. private sector representatives.

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

(3) That American businessmen have been informed of investment and other opportunities in Indonesia and that they have been assisted in getting over the early hurdles of getting established in Indonesia.

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

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

(6) That investment and other business opportunities and technical assistance needs in key geographical areas receiving large scale investment have been identified and that the potential for maximizing the developmental benefits of such capital intensive industrial enclaves have been more clearly defined.

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

(8) That the potential for venture capital investment in enterprises with a development impact is more clearly defined. (AID/PRE responsibility)

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

E. Outputs:

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

(2) 30 profiles and investment opportunities in Indonesia for the BKPM.

(3) 150 introductory programs for American companies interested in investing in Indonesia.

(4) 150 profiles of investment opportunities in Indonesia, identified from proposals submitted by Indonesian entrepreneurs.

(5) A study of venture capital in Indonesia and the possibility of establishing an Equity Development Fund. (AID/PRE responsibility)

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

(7) A study of capital market development in Indonesia, focusing on the problems of an Indonesian Privately held firm going public as well as mortgage lending, factoring, and futures market development.

(8) Survey results on problems facing U.S. investors in Indonesia.

(9) A foreign Investment Policy tour of other countries.

F. Inputs:

(1) Management Training:

(a) AID: A $.5 million grant to the Ministry of Finance which will work with the Indonesian Chamber of Commerce (KADIN) to establish a program for mid-career and advanced management training at American business schools and finance the costs of student placement.

(b) GOI: A $1.3 million loan fund which will finance up to 75% of the total costs of sending the students to the U.S. including travel, living expenses, tuition and other training costs. GOI Direct Administrative costs for the training program is estimated to be $100,000 equivalent in local currency.

(2) Facilitating Investment and other U.S. Private Sector Participation:

(a) AID: A $2.0 million loan to the BKPM to train staff to strengthen its capacity to do investment profiles, and to

establish a mechanism to facilitate contact between interested American investors and Indonesian entrepreneurs seeking capital, technology or access to markets.

(b) GOI: $180,000 local currency equivalent for BKPM staff and other incountry costs of profile preparation; e.g. travel,

(3) Special Studies and Consulting Services:

(a) AID: A $1.0million loan to the Ministry of Finance to conduct special studies and provide consulting services in accordance with the project purpose.

(b) GOI: $200,000 local currency equivalent for incountry costs.

Part III

A. Technical Description

1. Management training: The proposed management study program will be administered by the Director of Financial Institutions of the Ministry of Finance and the Indonesian Chamber of Commerce (KADIN) with the assistance of a U.S. facilitating entity under contract to the Ministry of Finance. Selection of final participants will be done by a board of representatives drawn from Indonesian and American business organizations. The U.S. assistance institution will be responsible for initial testing and screening of candidates and for all arrangements with U.S. business schools. All tuition, travel and living expenses will be financed by the participants or the companies of the participants involved. The Ministry of Finance will establish a loan fund to assist the participants. Each participant will be allowed to borrow up to 75% of the total estimated costs at a reasonable rate of interest, say 6%. They will be required to repay the loan within five years. A representative from the U.S. assistance institution will also work with the Indonesian-American Center and with local consulting firms or universities to sub-contract for special training for candidates who lack skills in English or business fundamentals.

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

The consultants will be paid monthly by AID after BKPM's approval of bills is submitted. The project will pay up to a fixed amount per client. During the initial year of the project AID and BKPM will review performance of the firms quarterly. If firms are not doing work according to the project's criteria or are failing to submit bills drawing down the fixed amount allotted to each firm, adjustments in allotments may be made to allow the most responsive firms an opportunity to do additional work. A full evaluation of the facilitating firms will be done at the end of the first year of the project to determine whether the facilitating approach is a useful way to pursue AID's objective of strengthening the Indonesian private sector and encouraging U.S. investment.

3. Special Studies and Consultant Services: See implementation arrangements Part IV A 2.

All host-country sub-contracting will be carried out in accordance with normal AID policies, procedures and regulations. The Vice Chairman of BAPPENAS, Minister Dr. J.B. Sumarlin, will be the principal GOI official responsible for the project. Both the interministerial committee and the BKPM fall under his aegis, and he leads Indonesia's annual trade and investment missions abroad.

B. Economic Justification:

The near to medium term objectives of this project are job creation and self-sustaining institutional building, and the primary long-run objective is generation of practical lessons for consideration by the government in formulating policies and programs for the achievement of Indonesia's development objectives. Implicit in this longer term objective is the understanding that the Indonesian private sector needs to become a full partner in development.

Institution-building projects do not lend themselves to standard economic analysis and to quantification. Nor do projects designed to change attitudes about policies. The cost of a policy change may be zero while its benefits can be very large. On the other hand, the cost of a multi-faceted pilot project such as this one can be large (in terms of the opportunity cost of very concessional funding) as can the risks, and the benefits could turn out to be low. However, given what we already know about the private sector here, we see this project as representing a modest amount of money ($3.0 million from AID and $1.8 million from the GOI over 3 years), with modest risks, and with potentially important benefits for the Indonesian private sector and for Indonesian workers.

Even though job creation may be an inadequate proxy for the several types of benefits we envision in this project, each proposed activity is assessed for its potential employment impact. Job creation is an important way to both justify and assess the impact of this use of AID funds, even if it is also true that the long term objectives will be served by the resulting lessons about the private sector which we believe can favorably influence governmental policy.

In analyzing each activity of this project, we look at the public cost of creating private sector jobs and of mobilizing private sector resources for this end. The general case for emphasizing private sector over the public sector is made in the Mission's Private Sector Background Paper.

1. Management Training

The purpose of management training is to improve business efficiency by exposing managers to new managerial concepts and contacts. It is universally recognized that improving the quality of the labor force, which management training does, is a principal

factor to improving productivity. A related purpose is the stimulation of new and expanded businesses, and thereby expanded job opportunities.

Over the three year AID project life, we envision that 105 executives will receive training at a cost to their companies of $1.05 million ($10,000 X 105 executives), mobilized by a $500,000 contribution by AID. The GOI contribution of a $1.3 million loan fund to finance 75% of the participants costs is not factored in to the analysis because these loans will be repaid at 6% interest. It is recognized that there is an opportunity cost to the use of these loan funds. The direct GOI cost of administrating the program is $[illegible]. The total public cost is therefore $600,000, the private sector cost is $1.05 million, for a total per executive cost of $[illegible].

If each trained executive helps to stimulate his or her business in ways which result in only two additional jobs, then the benefit of this type of training will exceed the public cost of their creation. Here we assume the social benefit can be identified as being equated with the cost of creating a job in medium manufacturing of $15,000 per job. (The methological differences inherent in this assumption are discussed at the end of this section.) This cost is a fraction of the cost of most state enterprise jobs (thereby making it possible to create many more jobs per $1 million of public investment), and is equal to the (underestimated) personal benefit of a life time of earnings of about $[illegible] to $15,000 for a semi-skilled production worker in Indonesia. Note that following our project purpose, this is the public, not the private cost of private sector job creation using AID funds in this way. (We comment on the implicity unfavorable cost-benefit ration of this activity later.)

Facilitating U.S. Private Sector participation:

The three facilitating firms, assuming a $4,600 (80 hour) per client retainer, could handle up to 50 clients per year, for a total public cost per year of $230,000. If only five of these clients, out of a potential of 78 each year, set up industries that employ 50 people each, the employment effects would be $3,750,000 (5 firmsX50 jobsX$15,000), or several multiples of the public cost of stimulating job creation with this use of AID funds.

Likewise, assuming the cost of preparing an investment project profile for an Indonesian entrepreneur is $6,000 and each firm prepared 10-20 per year, say a total of 50 per year, then the public costs of preparing these profiles are $300,000 per year. Again if only five of these entrepreneurs were successful in establishing a joint venture that employ 50 people each, the employment effects would be several multiples of the public cost of the profiles.

Assuming the costs of preparing investment opportunity for the firm are twice as expensive, say $12,000 each, than the public costs

of 30 such profiles would be $360,000. If only two profiles resulted in the establishment of industries that employed 50 people each, the employment effects would be 2 X 50 X $15,000 = $1,500,000.

3. Special Studies and Consultant Services

For these two activities the benefits are less directly associated with the cost of studies, but are likely to be more significant than for the first two activities. Policy-oriented consultancies and studies on enclaves and on specific industry of financial issues could prove to have a high job creating impact. Changing policies holds the prospect for low public costs to expect the change and high social return to the more productive use of national resources including the labor force. (We caveat this point by noting that the established investor cost of a policy change can be high.).

In reviewing these three activities, the last one suggests promise of greater payoff than the first two, if judged in terms of the liklihood of job creation. But there are too many associated benefits and imponderables to rank these activities now.

We have generally erred on the conservative side as costs are finite while benefits flow for years. Secondary employment effects may be important in each activity. We have not discounted either stream.

We have not quantified the character of the job benefits in a rigoryous manner. Typically, the benefit stream is derived from the present discounted value of labors' maginal productivity. Because the capital cost of the jobs in the examples used here and the life of earnings are similar, we have assured that we have a rough proxy for social benefit of job created.

Benefits can also be estimated by the distributive benefit of moving people from low to high productivity jobs and incomes, and by the income multiples effects for the economy as a whole.

We will have a much better sense of where AID and the Government of Indonesia should place its emphasis two years from the point of project initiation. As the real task before the government is the creation of not 50 to 100 jobs per year, but two million, this type of pilot effort will provide useful lessons. The lower the cost of job creation, the more people can be productively employed.

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

entrepreneurs lack access to capital, and resentment against Chinese success has flared repeatedly in urban violence and attacks against the Chinese population.

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

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

The management study program allows AID to act as a catalyst, spending a minimum amount of money to encourage private companies to provide short-term quality training to mid-level and top-level executives. A greater pool of trained managers in Indonesia should not only permit a more efficient use of private capital but should introduce new management techniques, including industrial relations training that benefit workers directly. The aim of the project is not only to produce more managers, greater efficiency and more jobs, but more responsible management and better workplace conditions as well.

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

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

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

Part IV. Financial Plan

A. Source of Funds

The total project costs are estimated to be $5,300,000 of which the AID contribution of $3,500,000 is 66%. The GOI will contribute $1,800,000 in local currency or in kind for 34% of total project costs.

B. Application of Funds

The following two tables provide breakdowns of project costs in relation to outputs and identifies source, type and annual expenditures.

Financial Plan
Table 1

Relationship between Project Outputs and Inputs
($000)

Outputs	AID	GOI	TOTAL
1. 105 business people trained	500	1,300 (loan) 100 (direct) (costs)	1,900
2. 30 profiles for BKPM	360	180	540
3. 150 profiles for Indonesian Entrepreneurs	900	-	900
4. 150 introductory programs for U.S. firms	690	-	690
5. Training for BKPM Staff	50	20	70
6. Venture Capital Study (AID/PRE responsibility)	-	-	-
7. Enclave Minimization Study and Consultant Services	300	125	425
8. Capital Market Study (AID/PRE responsibility)	-	-	-
9. Survey of U.S. firms	10	5	15
10. Investment Policy Tour	25	-	25
11. Other Studies and consultancies	665	70	735
TOTAL	3500	1800	5300

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Financial Plan
Table 2

Projected Annual Expenditures of the Project*
($000)

ACTIVITIES	FY 83	FY 84	FY 85**	TOTAL
1. Management Training:				
35 participants/year				
AID	200	200	100	500
GOI loan fund	433	433	433	1,300
GOI direct costs	33	33	34	100
2. Facilitating new enterprise creation:				
AID	666	667	667	2,000
GOI	60	60	60	180
3. Special Studies Consulting Service				
AID	160	420	420	1,000
GOI	66	66	67	200
TOTAL				
AID	1,026	1,287	1,187	3,500
GOI	633	653	644	1,780

* All AID Funds to be obligated in FY82. The GOI funds will be budgeted over three years.
** Assuming the loan agreement is signed August 1982 with a PACD of September 1986.

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Part V.
- Implementation Plan

A. Institutional Arrangement:

1. The Interministerial Committee

The project will be implemented under the guidance of an interministerial steering committee. The Director General of Domestic Monetary Affairs will chair the Committee and make periodic reports to the Vice Chairman of BAPPENAS and USAID as to progress and problems. Other members of the Committee will include the Deputy Chairman of the BKPM, the Special Assistant to the Minister of Agriculture, the Director General of Miscellaneous Industry, and the Special Assistant to the Minister of Research and Technology. Representatives of the U.S. and Indonesian Chamber of Commerce will provide advice to this committee on a daily basis. The project will be administrated on a daily basis by the Director of Financial Institutions of the Ministry of Finance and the Deputy Chairman of the BKPM.

2. The Role of the Ministry of Finance

The Ministry of Finance will administer two components of the project; (a) The Advance and Middle-Management Training and (b) the Special Studies and Consultants services.

For the Advanced and Middle-Management Training component, the Director of Financial Institution, MOF will have the responsibility for the final approval of the Indonesian participants. A committee composed of executives from Indonesian and U.S. business organizations will identify, screen and propose the candidates. The administrative arrangements, including the identification of appropriate programs, universities, testing and placing of the participants will be handled by a USAID contract with an appropriate U.S. entity.

The approval authority for the Special Studies and Consulting Services component of the project will also be the responsibility of the Director of Financial Institutions, MOF. Any member of the interministerial project steering committee can propose that an appropriate study be conducted or request consulting services that are in accordance with the project purpose. For example, the Director General of Miscellaneous Industry may request two or three consultants to help local industries increase their capability to undertake the manufacturing of components for automobiles, TV's or motorbikes. After the approval is received the GOI Department concerned will have the responsibility for execution of that particular study or consultancy.

3. BKPM's Special Role

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

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

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

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

BKPM's responsibilities make it an integral part of the private sector project. It is woven into the project's several component parts. BKPM personnel will receive special training. See page 22 above.

Three facilitating institutions in Indonesia selected to assist U.S. investors and identify Indonesian entrepreneurs and projects will be principally responsible to BKPM, although as facilitators they will continue to operate from their regular offices. BKPM will be a principal source of referral for the potential investors, local and foreign.

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

From the perspective of the foreign investor this is equally the case. BKPM, no more than the Foreign Commercial Service of the U.S., cannot serve as a permanent "handholder" to a potential U.S. investor. BKPM will, of course, remain, the major point of contact both initially and at the time the project is approved. In the interim, during the decision-making stage and project-formulation stage, the U.S. investor needs assistance that falls outside both the scope of BKPM and U.S. government sources. It is this gap which the facilitating consultants are expected to address.

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

The flow of the project should be viewed from two perspectives. For example, the Indonesian businessman notices ball bearings are on the BKPM priority list. He contacts one of the facilitating firms which assists him free of charge in preparing a project profile.

He then feels confident in the firms investment promotion services and places it on retainer. Together, they visit a local venture capital firm with a draft proposal for preliminary discussions. Tentative approval is given, subject to locating a joint-venture partner. The consultant will assist in the search for a possible U.S. partner. The possible U.S. partner will review the project and visit Indonesia at his own expense. Together they meet with the venture capital firm which provides equity to the Indonesia entrepreneur. Together with the U.S. firm, probably using the facilitating consultant, the joint venture goes through the Indonesian approval process.

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

AID will provide up to $225,000 per year per consulting firm. The GOI will also provide assistance in kind. The costs will cover introductory services for U.S. companies and project profiles for Indonesian entrepreneurs, and will provide some funds for travel by firm representatives to the United States to follow up on possible investors.

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

In its Requests For Proposals (RFPs) to prospective consulting firms for the project, BKPM and AID would specify the project's objectives and outline the basic responsibilities it expects the facilitating firms to assume. It would leave to the individual firms the explanation as to how they plan to carry out those responsibilities in a fashion that will fulfill the project's

objectives. Thus, the RFP will explain that the facilitating firm is to (a) work with BKPM in the preparation of project profiles (b) to identify Indonesian entrepreneurs and assist them prepare project profiles, (c) to facilitate entry for U.S. companies interested in investing in Indonesia and (d) to facilitate a link between the two. It will be left to the facilitating firm to outline how it proposes to solicit projects from Indonesians, the screening process it will establish, the follow-up capabilities it has in the United States, the knowledge, experience and expertise it has in Indonesia which will allow it to facilitate introductions for American investors. It is possible that in selecting three separate firms to serve as facilitators, the project will also be testing three different approaches to performing the same function.

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

In arriving at a decision to employ three firms to assist U.S. companies in the early stages of their review of investment opportunities in Indonesia and to help identify local opportunities and entrepreneurs, AID considered alternative approaches to project identification and linkages between American investors and Indonesian entrepreneurs. Ultimately, it rejected the idea that AID should help finance individual feasibility studies. There is insufficient evidence that a lack of feasibility studies or inability or unwillingness of American investors to conduct feasibility studies on their own is an overriding constraint on American investment in Indonesia. Finally, AID was concerned that it would be difficult to assure adequate competition in the process of selecting companies for participation in definitional missions or for feasibility studies. Feasibility studies, once projects have been identified, may be handled by TDP and OPIC.

AID considered suggesting the use of a single facilitating firm to perform the introductory services and to screen entrepreneurial ideas, but decided that by using three firms, it could create a competitive situation likely to increase the performance of

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

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

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

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

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

knowledge of what "data bases" exist, how he would use them, the contacts he has in the United States and the formal and informal associations he has there.

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

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

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

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

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

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

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

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

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

2. A sufficiently high economic growth;

3. A sound and dynamic national stability."

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

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

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

3. The even-distribution of income sharing;

4. The even-distribution of employment opportunities;

5. The even-distribution of business opportunities;

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

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

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

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

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

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

2. Other micro criteria should include:

a. The project whould assist private firms, Indonesian and U.S.

b. Capital cost per job directly created should be in the $5,000 to $25,000 range, and no more than $60,000 in 1981 prices.

c. To the extent identifyable, numbers and costs of jobs indirectly created, through linkages, should be given weight.

d. Judgement should also be made as to the proportion of energy costs in operating.

e. Finally, the consulting firm should look for such other factors that would argue for BKPM-AID support for the proposed activity.

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

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

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

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

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

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

B. The Implementation Plan and Schedule

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

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

Request for Proposals (RFP's) for the two major consulting contracts will be prepared and advertised as soon as Conditions Precedent to Dispursement of the AID Funds are met which is estimated to be December 1, 1982 (the technical assistance for facilitating joint venture cooperation and the management training assistance contracts. These contracts will be awarded in April 1983.

Implementation Schedule

1.	Project Authorized by AID/W	August	1, 1982
2.	Project Agreement signed with GOI	August	30, 1982
3.	Conditions precedent met.	December	1, 1982

4.	RFP's issued for facilitating firms	December	1, 1982
5.	RFP's issued for an assistance institution to handle the management training program	December	1, 1982
6.	Project Implementation Letter and Request for DRA drawn up for special studies and consulting services	December	1, 1982
7.	Proposals received from facilitating firms	March	1, 1983
8.	Proposals received for assistance institution to handle management training	March	1, 1983
9.	Contractors Selected for BKPM and MOF	March	21,1983
10.	Contracts with facilitating firms signed	May	1, 1983
11.	Contractors begin work	June	1, 1983
12.	End of first special studies. Review of venture capital, possibilities	June	30, 1983
13.	First review of facilitating firms' performance	September	1, 1983
14.	First Group of management trainees tested	July	15, 1983
15.	Business committee and GOI selects first trainees	August	1, 1983
16.	First trainees to the United States	September	1, 1983
17.	End of first year of facilitating firms. Review of performance	June	1, 1984
18.	Final review of project	June	1986
19.	Project activity completion date	September	1986

C. Conditions and Covenants

1. Initial Disbursement:

Prior to initial disbursement under the Grant or Loan AID will require the following:

(a) The legal opinion of the GOI Minister of Justice.

(b) A statement of the names of the people authorized to represent the GOI and a specimen signature of each.

(c) Evidence that the GOI will budget sufficient local currency to support the project.

(d) Agreed upon activity selection criteria.

(e) Evidence that the Supervisory Steering Committee has been created and has met to discuss the project.

2. Disbursement for Technical Services

Prior to disbursement for technical services, the GOI shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

- An executed contract with a technical services contractor acceptable to AID.

3. Disbursement for management Training

Prior to disbursement for mangement training, the GOI shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

- Establishment of a loan fund and a selection committee.

Special Convenants

Project Evaluatiion

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the project and at one or more poins thereafter:

(a) Evaluation of progress toward attainment of the objectives of the Project;

(b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) Assessment of how such information may be used to help overcome such problems;

~~(d) Development impact of the Project.~~

D. Evaluation Plan

The project is of a reasonably short duration. The most critical measure of success, in the short run, is the number of

project elements successfully completed and the number of downstream, investments and/or increased trade which result. The responsiveness of the GOI in providing inputs is also a critical measure both in terms of priority assigned to the activity and ability of the project to be responsive.

Quarterly contractor reports and reconnaissance visits reports will be the prime means of monitoring the progress of the project. At the PACD a special evaluation team will organized, consisting of representative of the JWG, the U.S. Private sector, and a high level MOF, BKPM official. This team will evaluate the project against the targets set forth in the logical framework (Annex A). Recommendations involving from this evaluation (which should take between 2 - 3 weeks) will provide guidelines regarding future such activity. The evaluation will be made available to other donors for their examination. Any future U.S. inputs to a follow-on project will depend on the end of project findings of the evaluation.

Project Title & Number

U.S. Private Sector Development Exploratory Project

497-0329

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

Life of project:
From FY 1982 to FY 1986
Total U.S. Funding:
$0.5 million grant
$3.0 million loan
Date prepared: June, 1982

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Goal:	Obj. Verif. Indicators:	Means of Verif.:	Assumptions for achieving goal:
Increased employment opportunities, income generation and access to resources for Indonesians in the private sector	1. An increase in number of US-Indonesian joint ventures. 2. Increased employment opportunities for Indonesians in U.S. - Indonesian joint ventures.	1. Bank Indonesia Statistics. 2. Indonesia's Investment Coordinating Board Statistics. 3. Bureau of Central Statistics. 4. End of project evaluation.	1. Potentially profitable trade and investment opportunities exist in Indonesia. 2. The trade and investment environment in Indonesia is conducive to U.S. private sector involvement and will improve. 3. Procedures and bureaucratic processes will improve and decision making will be delegated to more efficient levels. 4. Conditions of political stability will continue for the foreseeable future.
Purpose:	Conditions that will indicate that the propose has been achieved: End of project status.	Means of Verification:	Assumptions for achieving the purpose:
To test methods of strengthening the Indonesian private sector through training and links to the U.S. private sector, and to provide information to Indonesian decision-makers about opportunities to develop the Indonesian private sector	1. Indonesia will have a group of entrepreneurs and mid-career and senior executives in the private sector who have received business training in the United States and have a good understanding of U.S. business. 2. That a number of investment opportunities and Indonesian entrepreneurs have been identified and assisted in describing and packaging their proposals	1. End of project evaluation. 2. Contractors final reports.	1. A desire to invest in Indonesia exists within the US private sector. 2. U.S. Investment capital and technology is desired by Indonesia and can be attracted and transferred through training and the preparation of project profiles and introductory assistance programs. 3. USAID assistance to the Indonesian and U.S. private sectors will make a difference and can constructively help new firms get established.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	3. That American businessmen have been informed of investment and other opportunities in Indonesia and those who have come to Indonesia to investigate them have been assisted in getting established in Indonesia. 4. That a number of joint U.S.-Indonesian ventures have been initiated. 5. That existing U.S. services to promote trade and investment have been complemented and used more effectively 6. That investment opportunities and technical assistance needs in areas receiving large scale investment have been identified and that the potential for maximizing the developmental benefits of such investment have been more clearly defined. 7. That the GOI has additional information on the constraints and potential within its capital market, and that it has specific evidence of the impact of wider mortgage, factoring, credit and futures markets on private sector development. 8. That the potential for venture capital investment in enterprises with a development impact is more clearly defined. 9. That BKPM data base on investment opportunities and potential investors and its ability to do feasibility studies and project profiles are strengthened and that a quantity of new information is available for use by both Indonesian and American business.		4. US technology is desired by Indonesia and can be adapted and transferred through demonstrations, tests etc.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:	Means of Verif.:	Assumptions for achieving outputs:
1. A key group of Indonesian Entrepreneurs and private sector executives who have studied at U.S. business schools.	1. The sending annually of up to 35 mid-career and senior-level Indonesian executives to the United States for business training.	1. The existence of reconnaissance reports, and investment applications.	1. The training of Indonesian business people in U.S. Business Schools will strengthen the Indonesian private sector and promote increased commercial linkages between the U.S. and Indonesia.
2. The BKPM will have a better trained staff for preparing project profiles and working with foreign investors to promote investment in Indonesia.	2. 150 profiles of investment opportunities in Indonesia, identified from proposals submitted by Indonesian entrepreneurs.	2. USAID/GOI verification that completed work (Studies and services) fufilled final payment requirements.	2. U.S. firms will be willing to visit Indonesia to explore and review the project profiles prepared under the project.
3. Indonesian entrepreneurs assisted in packaging their projects and locating U.S. partners.	3. 150 introductory programs for American companies interested in investing in Indonesia.	3. On site inspections.	3. The USG can coordinate its developmental/commercial programs in a manner tht will assist the Indonesian and U.S. private sectors.
4. U.S. businessmen who can contribute to Indonesia's development receive "hand-holding" assistance.	4. Studies of credit equity, training and investment needs and opportunities in Aceh and in areas likely to receive large scale foreign investment in the near future.	4. Evaluations.	
5. Special studies and consulting services which lead to purpose achievement. See numbers 4-8 under Magnitude of Outputs.	5. A study of venture capital in Indonesia and the possibility of establishing an Equity Development Fund. (AID/PRE)	5. Training reports of returned particpants.	
	6. A study of capital market development in Indonesia, focusing on the problems of an Indonesian privately held firm going public as well as on mortgage lending, factoring and future market development. (AID/PRE)		
	7. Surveys results on problems facing U.S. investors.		
	8. A foreign investment policy tour of other countries.		
	9. 30 project profiles prepared for the BKPM.		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity):	Means of Verif.:	Assumptions for providing inputs:
1. Management Training: - A $0.5 million grant to the Min. of Fin. to work with KADIN to establish a program for mid-career and advanced management training at U.S. business schools - The MOF will establish a $1.5 million loan fund to finance up to 75% of the total costs of sending the students to the U.S. The GOI direct administrative costs are estimated to be $100,000 in local currency. 2. Facilitating investment -A $2.0 million loan to BKPM to strength-facilitate contact between interested American investors and Indonesian entrepreneurs seeking capital technology or access to markets. - BKPM local currency costs are estimated to be $180,000 3. Special Studies and Consulting Services: - A$1.0 million loan to the Ministry of Finance to conduct special studies and provide consulting services in accordance with the project purpose. - The GOI will provide $200,000 local currency equivalent for incountry costs.	See budget table in the financial analysis of the Project Paper for a detailed breakdown of inputs by quantity, cost, and source of financing.	Budget submissions financial reports, contracts, contractor reports, etc.	1. GOI and AID can make budget provision to support the project in a timely fashion. 2. Adequate consultant capability is available for technical assistance

Listed below are statutory criteria applicable generally to projects under the FAA and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Funds.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act; Sec. 523; FAA Sec. 634A; Sec. 653 (b).

(a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

A Congressional Notification will be prepared by AID/W ASIA/DP before obligation of funds.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

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

No further legislative action is required.

4. FAA Sec. 611(b); FY 1982 Continuing Resolution Sec. 501. If for water or water-related land resource

N.A.

	construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?	
5.	FAA Sec. 611(e). If project is capital assitance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
6.	FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7.	FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The loan shall directly encourage (a), (b), (c), (d), and (e).

8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.)	The purpose of this project directly addresses the concerns of Section 601(b).
9.	FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	Normal project disbursement procedures assure this.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	FY 1982 Appropriation Act Sec 521. 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?	No - Sub-project selection criteria specifically preclude this.

13. FAA 118(c) and (d). Does the project take into account the impact on the environment and natural resources? If the project or program will significantly affect the global commons or the U.S. environment, has an environmental impact statement been prepared? If the project or program will significantly affect the environment of a foreign country, has an environmental assessment been prepared? Does the project or program take into consideration the problem of the destruction of tropical forests?	Yes. The initial Environmental Examination made a negative determination.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N.A.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281 (a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained	This project is designed to focus on development of private enterprise and stimulate U.S. foreign investments in order to stimulate employment generation.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?	
b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?	Yes
c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes
d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	Yes

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?	No.
f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. FAA Sec. 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	One of the major components of the project will provide for management training of Indonesians at U.S. business schools and on-the-job training in U.S. firms.
2. Development Assistance Project Criteria (Loans Only)	
a. FAA Sec. 122(b). Information and capacity of the country to repay the loan, at a reasonable rate of interest.	Indonesia is able to repay this loan.
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the	N.A.

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recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	
c. ISDCA of 1981, Sec. 724(c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?	N.A.
3. Project Criteria Solely for Economic Support Fund	
a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	N.A.
b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	N.A.
c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?	N.A.
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N.A.

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Department of State

OUTGOING TELEGRAM

ORIGIN AID-35

ORIGIN OFFICE ASPD-03
INFO AAAS-01 ASEM-01 ASDP-02 PPCE-01 PDPR-01 PPPB-03 GC-01
GCAS-01 GCFL-01 IDCA-01 FM-02 HO-04 ASTR-01 CMGT-02
CTR-02 TDP-05 COM-02 OPIC-10 TRSY-05 RELO-01 ASSP-02
PRE-01 3V-00 /054 AD

INFO OCT-00 EB-03 EA-12 /055 R

DRAFTED BY AID/ASIA/TR:GARGENTO/ASIA/PD:ASHAPLEIGH:EB
APPROVED BY AID/AA/ASIA:JNOLSTINE
AID/DAA/ASIA:FWSCHIECK (DRAFT)
AID/ASIA/PD:GRVANRAALTE (DRAFT)
AID/GC/ASIA:HMORRIS (DRAFT)
IDCA/TDP:RKRANKER (DRAFT)
AID/ASIA/DP:CJOHNSON (DRAFT)
AID/ASIA/ISPA:WFORD (DRAFT)
AID/PPC/PDPR/PDI:JVANDERVEEN (DFT
EA/IM S:HBARDACH (DRAFT)
AID/DAA/PRE:EHARRELL (DRAFT)
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AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT (497-0329) - PID REVIEW

1. APAC MET OCTOBER 16 TO REVIEW SUBJECT PID WITH REPRESENTATIVES FROM PRE, OPIC, TDP, COMMERCE AND STATE. ATTENDANCE OF PROJECT OFFICER DAVID DEVIN WAS VERY HELPFUL AND MUCH APPRECIATED. SUBSEQUENT TO APAC REVIEW, BUREAU DECIDED TO RESERVE COMMENTS ON PID PENDING DEBRIEFING BY ED HARRELL, DAA/PRE, ON RESULTS OF RECENTLY COMPLETED PRE RECONNAISSANCE TRIP TO INDONESIA. THIS DEBRIEFING TOOK PLACE NOVEMBER 18. A SUMMARY OF HARRELL MISSION COMMENTS ON THE PROPOSED PROJECT IS IN PARA 5, BELOW.

2. APAC IS IMPRESSED BY CHALLENGE TO DESIGN A PROJECT WHICH WILL HAVE MAXIMUM POTENTIAL TO STIMULATE DEVELOPMENT THROUGH ASSISTANCE OF PRIVATE SECTOR ACTIVITIES. THE PID FOCUSES PRINCIPALLY ON THE FOREIGN (U.S.) PRIVATE SECTOR WITH OBJECTIVES TO (A) INCREASE U.S. INVESTMENT THROUGH JOINT VENTURES; (B) ASSIST AND SEEK PACKAGED FINANCE FOR INDONESIAN PUBLIC SECTOR PROJECTS WHICH WILL HELP U.S. EXPORTS; AND (C) WHERE FEASIBLE, PROMOTE CHANGES IN POLICIES AND GOVERNMENT REGULATIONS AFFECTING FOREIGN TRADE AND INVESTMENT. THERE IS LESS EMPHASIS IN THE PID ON ACTIVITIES AIMED AT STRENGTHENING THE INDONESIAN DOMESTIC PRIVATE SECTOR, SUCH AS MEASURES TO IMPROVE BUSINESS MANAGEMENT TRAINING OR PROMOTE CAPITAL FORMATION THROUGH VENTURE CAPITAL FIRMS. HARRELL MISSION, AMONG OTHER COMMENTS, FELT CONCENTRATION ON THE DOMESTIC PRIVATE SECTOR WILL ALSO BE IMPORTANT AND MERIT SUPPORT USING AID RESOURCES.

3. TWO-STAGED APPROACH: GIVEN FACT THAT FORESEEABLE ASIA BUREAU FUNDS FOR THIS PROJECT ARE NOT LIKELY TO EXCEED CURRENTLY PLANNED LEVEL OF DOLS 9.5 MILLION AND GIVEN GENERAL CONCLUSION THAT THE BEST MIX OF ACTIVITIES

TO SUPPORT WITH THESE LIMITED FUNDS MAY NOT YET BE DETERMINED, THE APAC HAS DECIDED TO FOLLOW A STAGED APPROACH TO PROJECT APPROVAL.

A. FIRST, A PP IS REQUESTED FOR FY 82 FUNDING USED ON PID AND DRAFT PP ALREADY PREPARED AND WHICH ADDRESSES POINTS IN PARA 6 BELOW. THE TOTAL AMOUNT REQUESTED IN THIS PP SHOULD NOT EXCEED THE FY 82 OYB AMOUNT OF DOLS 4.5 MILLION. WE BELIEVE THAT THIS CAN BE DONE BY A LINEAR REDUCTION IN THE VOLUME OF ACTIVITY (OUTPUTS) PROPOSED IN THE PID AND BY REDUCING SCOPE OF WORK OF CONSULTANT CONTRACTS PROPOSED IN D AFT PP, ANNEX K. WE BELIEVE THAT THE VOLUME OF ACTIVITY FUNDABLE WITH DOLS 4.5 MILLION WILL BE CONSIDERABLE AND SUFFICIENT TO CARRY THE PROJECT THROUGH AT LEAST 18-24 MONTHS OF IMPLEMENTATION. HOWEVER, WE ARE PREPARED TO CONSIDER AN INCREASE OVER DOLS 4.5 MILLION AND APPRECIATE EARLY INFORMATION FROM MISSION ON TOTAL TO BE REQUESTED IN PP.

4. THE SECOND STAGE SHOULD REMAIN UNPLANNED AT THIS POINT, BUT IN PRINCIPLE WE WILL RE ERVE AN ADDITIONAL DOLS 5.0 MILLION FOR FY 83 FUNDING FOR THIS STAGE. THIS COULD TAKE THE FORM OF A SEPARATE PROJECT OR A PP AMENDMENT TO STAGE ONE. WE ANTICIPATE THAT STAGE TWO ACTIVITIES WOULD REQUIRE EITHER (A) ADDITIONAL FUNDS FOR THE SAME MIX OF ACTIVITIES ALREADY OUTLINED IN THE PP AND/OR (B) FUNDS TO CARRY OUT NEW SETS OF ACTIVITIES NOT CURRENTLY FORESEEN.

C. WE PREFER THIS MEANS OF RETAINING FLEXIBILITY RATHER THAN AUTHORIZING AND OBLIGATING THE FULL DOLS 9.5 MILLION IN FY 82 FOR SEVERAL REASONS. FIRST, IT ALLOWS MORE FREEDOM FOR POTENTIAL SHIFTS IN SUB-PROJECT EMPHASIS THAN WOULD BE THE CASE IF ALL FUDS WERE FULLY BUDGETED

NOW IN LOAN/GRANT AGREEMENTS. SECOND, IT WILL ALLOW GREATER OPPORTUNITY FOR FEW STAFF OFFICERS, INCLUDING USAID MISSION DIRECTOR, TO PARTICIPATE IN PREPARATION OF THE STAGE TWO AMENDMENT. THIRD, IT RECOGNIZES THE EXPERIMENTAL AND EVOLUTIONARY NATURE OF THE PROJECT AND PROVIDES BEST ASSURANCE THAT FUNDS WILL BE SPENT EFFECTIVELY.

4. GENERAL COMMENTS:
A. PROJECT GOAL: APAC ENDORSES PID'S RATIONALE THAT U.S. AID PROGRAM SHOULD ATTEMPT TO USE U.S. PRIVATE SECTOR RESOURCES TO GREATER EXTENT IN PURSUIT OF DEVELOPMENT AS WELL AS STRENGTHENING U.S.-INDONESIAN RELATIONS THROUGH INCREASED TRADE AND INVESTMENT. HOWEVER, CARE SHOULD BE TAKEN TO STATE THAT THE ULTIMATE GOAL IS THE ECONOMIC AND SOCIAL DEVELOPMENT OF INDONESIA, ACHIEVED THROUGH INCREASED U.S. PRIVATE SECTOR PARTICIPATION, RATHER THAN INCREASED TRADE AND INVESTMENT PER SE.

B. BUSINESS ENVIRONMENT: THERE WAS MUCH DISCUSSION OF UNCERTAIN BUSIESS ENVIRONMENT CONDITIONS CREATED BY NUMEROUS AND OFTEN UNCLEAR GOI REGULATIONS, BY BROAD POWERS OF GOI AGENCIES, BY WEAK JOINT VENTURE PARTNERS, AND BY INAPPROPRIATE POLICIES. SEVERAL OTHER BARRIERS TO PARTICIPATION OF U.S. FIRMS INCLUDE: CHEAPER TRADE AND INVESTMENT CREDIT OFFERED TO FIRMS BY GOVERNMENT OF OTHER NATIONS DOING BUSINESS IN INDONESIA; COMPARATIVE DISADVANTAGE OF U.S. FIRMS IN USING TRADING COMPANY METHODS WHICH ARE LIKELY TO CONTINUE BUT PERHAPS BECOME LESS SEVERE AFTER THE PROPOSED NEW U.S. LEGISLATION IN THIS AREA TAKES EFFECT; SHORT-RUN OUTLOOK OF MANY U.S. FIRMS IN COMPARISON JAPANESE AND OTHERS WILLIN; TO ESTABLISH LONG-TERM POSITIONS; AND THE DIFFICULTY THE U.S.G. FACES IN INTEGRATING IT VARIOUS FINANCAL AND CREDIT SUPPORT PROGRAMS. IN SPITE OF THESE AND OTHER

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OBSTACLES, IT WAS AGREED THAT THERE APPEAR TO BE MANY SOUND ECONOMIC AND TECHNICAL UNMET OPPORTUNITIES FOR PARTICIPATION OF U.S. BUSINESS IN INDONESIAN DEVELOPMENT.
C. EXPORT PROMOTION VIA ASISTANCE TO GOI PUBLIC SECTOR PROJECTS: APAC AGRELD THAT PROMOTION OF U.S. EXPORTS SHOULD BE ELIGIBE FOR ASSISTANCE UNDER THIS PROJECT EVEN THOUGH THIS HEIGHTENS REQUIREMENTS OF USG FINANCIAL COORDINATION, PARTICULARLY WITH EXIMBANK. OWEVER, PROSPECTS OF PROVIDING SIGNIFICANT AID FUNDING TO QUOTE SWEETEN UNQUOTE FINANCIAL PACKAGES ARE NOT PROMISING GIVEN (A) CONSTRAINTS ON AID FUNDS AVAILABILITY AND

(B) PROCEDURAL AND TIME REQUIREMENTS IN THE AID PID-PP PROJECT APPROVAL PROCESS WHICH WOULD HAVE TO BE MORE FLEXIBLE.

D. JURISDICTIONAL THIS PROJECT WILL REQUIRE COORDINATION WITH PRE, TDP, OPIC AND COMMERCE TO ENSURE THAT PROJECT IS COMPLEMENTARY TO THEIR PROGRAMS.

5. PRE COMMENTS ON PROPOSED PROJECT RESULTING FROM HARRELL MISSION INCLUDE FOLLOWING POINTS RELEVANT TO PP PREPARATION:

A. FOCUS ON LIMITED NUMBER OF KEY SECTORS: PRE CAUTIONS AGAINST ALLOWING TOO MUCH FLEXIBILITY IN PROJECT FINA CING CRITERIA WHICH MAY DILUTE LIMITED AVAILABLE FUNDS AND BURDENING PROJECT MANAGEMENT WITH LARGE NUMUER OF REQUESTS FOR FINANCING. PRE SUGGESTS SELECTION OF FEW KEY SECTORS FOR CONCENTRATION, SUCH AS MACHINE TOOLS, METAL PROCESSING, FARM EQUIPMENT OF AGRIBUSINESS. CRITERIA FOR SECTOR SELECTION SHOULD EMPHASIZE EMPLOYMENT GENERATION POTENTIAL AND MIGHT ALSO INCLUDE INDONESIAN PRIORITIES, U.S. PRIVATE SECTOR INTEREST, U.S. COMPARATIVE ADVANTAGES IN TECHNOLOGY, AND OPPORTUNITIES FOR TRANSFER OF U.S. KNOWHOW TO INDONESIA BE IT IN TECHNOLOGY, MARKETING OR MANAGEMENT. ASIA BUREAU AND STATE/EA STRONGLY AGREE WITH ADVANTAGES OF CONCENTRATION ON SELECTED SECTORS BUT LEAVE TO MISSION HOW THIS WILL BE ACCOMPLISHED OVER LIFE OF PROJECT.

U. ECONOMETRIC MODEL: PRE FELT INCLUSION OF THIS ELEMENT IN PROJECT TO BE A POOR USE OF CONCESSIONARY FINACING. ASIA UUREAU CONCURS. SEE PARAGRAPH 6 G, BELOW.

C. U.S. PRIVATE SECTOR INVOLVEMENT: PRE STRONGLY ENDORSES INCLUSION OF EPRESENTATIVE U.S. BUSINESSMEN IN JAKARTA IN REVIEWING REQUESTS FOR PROJECT FUNDS. ASIA BUREAU CONCURS.

D. MANAGEMENT TRAINING: PRE RECOMMENDS GREATER ATTENTION BE GIVEN TO SENIOR EXECUTIVE AND MBA-LEVEL MANAGEMENT AND ACCOUNTNG TRAINING IN INDONESIA. ASIA BUREAU AGREES WITH OBJECTIVE AND SUGGESTS IT MIGHT UE BEST ACCOMODATED (1) WITHIN PRIVATE SECTOR COMPONENTS OF FORTHCOMING PROJECT PROPOSALS FOR GENERAL PARTICIPANT TRAINING AND IN-COUNTRY MANAGEMENT TRAINING OR (2) AS POSSIBLE COMPONENT WITHIN STAGE TWO PP AMENDMENT.

E. CAPITAL MARKETS: PRE IDENTIFIES WEAK INDO ESIAN CAPITAL MARKET AS A CONSTRAINT TO EXPANDED PRIVATE SECTOR DEVELOPMENT AND INVESTMENT. PRE SUGGESTS TWO OPPORTUNITIES BE EXPLORED: (1) POSSIULE AID/PRE PARTICIPATION IN AN INDONESIAN VENTURE CAPITAL FIRM THAT WOULD OFFER NOT ONLY FINANCING BUT ALSO ADVICE ON MANAGEMENT AND TECHNOLO;Y TO INDONESIAN FIRMS; (2) AID/PRE ASSISTANCE AIMED AT EXPANSIO OF PUBL C OFFERIN;S ON THE INDONESIAN STOCK EXCHANGE. BOTH IDEAS MERIT INVESTIGATION. ASIA BUREAU VIEWS THEM AS COMPLEX UNDERTAKINGS WHICH MAY BE

WORTH CONSIDERIN; IN STAGE TWO.

6. SUMMARY FOR PP GUIDANCE FOLLOWS:

A. APAC VIEWS THAT REFORMS INSTITUTIONAL AND POLICY ENVIRONMENT SHOULD NOT
UE UNDERTAKEN UNTIL EXPERIENCE WITH INDIVICUAL CASES IS ACCUMULTATED. PP SHOULD MAKE EXPLICIT THE EXPECTED LINK BETWEEN CASEWORK AND SYSTEM IMPROVEMENTS.
B. INVESTMENT CLIMATE: WORLD BANK REPORT OF JULY 15, 1980 ON INDUSTRIAL DEVELOPMENT, ANNEX 5, PAGE 17, TABLE 5 SHOWS RAPID INCREASE IN FOREIGN INVESTMENT IMPLEMENTATIO TO 1974 WITH SIGNIFICANT DECLIE THEREAFTER. THIS DECLINE COINCIDED WIT RAPID GROWTH OF ECONOMY. BANK ATTRIUUTES DECLINE TO NEW AND STRINGENT REGULATIONS IMPOSED IN 1974 WHICH WORSENED INVESTMENT CLIMATE ESTABLSHED UNDER SUHARTO'S QUOTE OPEN DOOR UNQUOTE POLICIES I 1968. AS NOTED PARA. 4, U.S. FIRMS MAY UE MORE HANDICAPPED THAN OTHER FIRMS CONTEMPLATING OPERATIONS IN INDONESIA. CONSEQUENTLY PP SHOULD EXPLAIN HOW PROPOSAL TO REDUCE UP-FRONT COSTS AND PROVIDE BETTER INFORMATION A OUT AVAILAULE OPPORTUNITIES CAN UE EXPECTED TO MAKE A SIGNIFICANT DIFFERENCE IN THE WILLIN;NESS OF U.S. FIRMS TO OPERATE IN INDONESIA. IN OTHER WORDS, HOW CA WE BE SURE, EVEN IF WE CAN OVERCOME THE CONSTRAINTS TO I - FORMATION AND ENTREE, THAT THE MANY OTHER CONSTRAINTS WILL NOT REMAIN TO DEFEAT THE EFFORT? THE PP SHOULD BE CLEAR IN DEFINING OW CONSTRAINTS EITHER WILL BE ADDRESSED THROUGH THE PROJECT OR WILL NOT HAVE IMPACT OR ACHIEVEMENT OF PROJECT OBJECTIVES.

C. AS STATED PARA 4 A, ABOVE, MISSION WORKING GROUP SHOULD REVIEW DEFIN TION OF PROJ:CT GOAL, SO THAT GOAL STATEMENT WILL CLEARLY LIK PROJECT PURPOSE (GREATER PARTICIPATION OF PRIVATE SECTOR) TO GOAL OF ECONOMIC DEVELOPMENT. CRITERIA FOR SELECTION OF SUBPROJECTS SHOULD ALSO INCLUDE REQUIREMENT OF A CLEAR CONTRIBUTION

TO OVERALL DEVELOPMENT OBJECTIVES.

D. PP SHOULD EXPLAIN HOW FOCUS ON KEY SECTORS WILL EMERGE OVER LIFE OF PROJECT AND WHAT CRITERIA WILL UE USED TO JRING T IS ABOUT. ALSO, CRITERION NO. 4 OF SUBPROJECT SELECTION CRITERIA IN ANNEX G OF DRAFT PP SHOULD INCLUDE ASSESSMENT OF AVALAWILITY OF DOWNSTREAM FINANCING.
E. PP SHOULD ELABORATE ON ROLE OF CONSULTANTS, EMP A-SIZING THEIR ROLE AS OPERATIONAL EXPEDITERS RATHER T A SOLELY AS IDEA PACKAGERS AND PROPOSAL SELECTO S. I OTHER WORDS, CONSULTANTS SHOULD BE ABLE TO GUIDE FIRMS THROUGH MANY STEPS FROM EXPLORATION TO FIRST PROFITABLE YEAR.
F. PP IMPLEMENTATION PLAN SHOULD FULLY OUTLINE FUNCTIONS AND RESPO SIBILITIES OF MISSION STAFF, IN THE SELECTION AS WELL AS IN MONITORING AND EVALUATION OF SUB-PROJECTS. PP SHOULD ALSO SPECIFY W AT ROLE AID/W IS EXPECTED TO PLAY, IF ANY, IN PROJECT IMPLEMENTATION.

G. ECONOMETRIC MODEL: THIS DOES NOT APPEAR TO BE AN ESSENTIAL PROJECT COMPONENT. A COMPUTERIZED ECONOMIC FORECASTING CAPABILITY WOULD BE BETTER LOCATED IN BAPPENAS OR MOF AND IT PROBABLY WOULD BE INFERIOR TO SERVICE PROVIDED BY WORLD BANK OR PRIVATE NEWSLETTER SERVICE. SHOULD THIS PROPOSED COMPONENT REMAIN IN THE PROJECT, IT SHOULD BE FULLY JUSTIFIED.

H. ECONOMIC ANALYSIS: ALTHOUGH DRAFT PP WAS NOT FORMAL SUBJECT OF AHAC REVIEW, WE NOTE THAT ECONOMIC ANALYSIS IN FINAL PP WILL BE IMPORTANT SINCE PROJECT O JECTIVE IS ECONOMIC IN NATURE. COMMENTS IN DRAFT ECONOMIC

SECTION ALLUDE TO ECONOMIC BENEFITS. FINAL VERSION SHOULD EXPLAIN HOW ECONOMIC AND FINANCIAL ANALYSIS OF EACH INVESTMENT PROPOSAL WILL BE CONDUCTED. CRITERIA AND METHODOLOGY OF ECONOMIC AND FINANCIAL ANALYSIS SHOULD BE EXPLAINED. THE 14 OUTPUTS LISTED IN DRAFT PP SUGGEST A MEANS FOR PROVIDIN; AN ADEQUATE ECONOMIC ANALYSIS OF THE PROJECT. WHAT ET BENEFITS TO THE INDONESIAN ECONOMY ARE EXPECTED TO FLOW FROM SUCCESSFULLY ACHIEVING THE OUTPUT LEVELS INDICATED? DO THEY JUSTIFY THE PROJECT'S COST? AT WHAT REASONABLE OUTPUT LEVELS WOULD THE PROJECT BE JUSTIFIED?

I. PP SHOULD PROPOSE MINIMUM LEVEL OF GRANT FUNDING, INDICATING COMPONET(S) OF PROJECT FOR WHICH GOI WILL DEFINITELY NOT ACCEPT LOAN FUNDS. IN THIS REGARD,

WE NOTE THAT, GIVEN THE HIGHLY CONCESSIONARY NATURE OF AID LOAN TERMS, LOAN FINANCIN; IS ONE FIRM TEST OF GOI COMMITMENT TO THE PROPOSED COURSE OF ACTION. USAID SHOULD ALSO KEEP CLEARLY IN MIND THE NEED FOR GRANT FUNDING IN REST OF PORTFOLIO.

J. CONTRACTING ISSUES: PP SHOULD DESCRIBE CONTRACTING PROCEDURES THAT WILL BE UED FOR ELECTIO OF CONTRACTING FIRMS IDENTIFYING AND REQUESTING APP OVAL FOR ANY WAIVER OF AID COMPETITIVE PROCEDURES THAT MIGHT BE EQUIRED AS RESULT OF NATURE OF THIS PROJECT. IN ADDITION PP SHOULD DISCUSS WHETHER THERE WILL BE ORGANIZATION CONFLICTS OF ITEREST CREATED FOR CONTRACTORS PARTICIPATING IN THE PROJECT AND HOW THESE WILL WE ADDRESSED.

K. COUNTERPART AGENCY: APAC AND STATE/ A BELIEVE THAT IDENTIFICATION AND SELECTION OF COUNTERPART GOI AGENCY IS CRITICAL TO SUCCESS OF PROJECT. PP SHOULD THOROUGHLY ADDRESS INSTITUTIONAL ARRANGEMENTS. HAIG

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FOR ASIA/PD

EO 12356: N/A

SUBJECT: PRIVATE SECTOR DEVELOPMENT EXPLORATORY
- PROJECT NO. 497-0329

REF: STATE 274044

1. AS REQUESTED REFTEL, ADDITIONAL STATUORY CHECKLIST POUCHED OCTOBER 4, 1982 UNDER COVER 2-WAY MEMO.

2. FOLLOWING IS TEXT OF OFFICIAL GOI REQUEST FOR ASSISTANCE RECEIVED FROM THE MINISTRY OF FINANCE, DIRECTORATE GENERAL OF DOMESTIC MONETARY AFFARIS. BEGIN QUOTE: DEAR MR. FULLER:

SUBJECT: PRIVATE SECTOR DEVELOPMENT PROJECT

THIS IS TO FORMALLY REQUEST AID FOR ITS ASSISTANCE IN THE IMPLEMENTATION OF THE ABOVE-MENTIONED PROJECT, THE PURPOSE OF WHICH IS TO TEST METHODS OF STRENGTHENING THE INDONESIAN PRIVATE SECTOR THROUGH TRAINING LINKS TO THE U.S. PRIVATE SECTOR AND TO PROVIDE INFORMATION TO INDONESIAN DECISION-MAKERS ABOUT OPPORTUNITIES TO DEVELOP THE INDONESIAN PRIVATE SECTOR. THE PROJECT WILL BE CARRIED OUTOVER A PERIOD OF FOUR YEARS.

AS DISCUSSED WITH THE UEAID IN PLANNING THE PROJECT, THE REQUESTED ASSISTANCE WILL TAKE THE FORM OF AN AID GRANT AMOUNTING DOLS. 500,000 AND A LOAN AMOUNTING TO DOLS. 3 MILLION. THE GRANT WILL FINANCE THE TRAINING OF INDONESIAN ENTREPRENEURS AS WELL AS MID-CAREER AND SENIOR INDONESN BUSINESSMEN FOR SHORT-TERM MANAGEMENT TRAININGCOURSES AT U.S. BUSINESS SCHOOLS OR FOR ON-THE -JOB TRAININGAT U.S. CORPORATIONS. THE LOAN WILL HAVE THREE COMPONENTS: A) FACILITATING PRIVATE INVESTMENT; B) LHOK SEMUMAWE SMALL AND MEDIUM ENTERPRISE DEVELOPMENT; C) SPECIAL STUDIES AND CONSULTING SERVICES.

YOUR APPROVAL OF THIS REQUEST WILL BE APPRECIATED.

YOURS SINCERELY,
OSKAR SURJAATMADJA
ON BEHALF OF MINISTER OF FINANCE
DIRECTOR GENERAL OF DOMESTIC
MONETARY AFFARIS. END OF QUOTE. MONJO