

A.I.D. EVALUATION SUMMARY PART

PD-DAT-995
46103300

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

A. REPORTING A.I.D. UNIT (Mission or AID/W Office) B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? C. EVALUATION TIMING

EED, USAID/JAKARTA yes slipped ad hoc interim final ex post other

(ES #)

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROGRAM or equivalent (FY)	Most recent PACT (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
497-0329	Private Sector Development Project--Investment promotion contracts	82	6/88	\$4.6mil	\$4.6mil

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required

- Contracts to be extended subject to fulfillment of evaluation recommendations.

Name of officer responsible for Action

Desaix Myers

Date Action to be Completed

July 86

(Attachments, if necessary)

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION

on 2 day 19 year 86

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Signature Typed Name Date	Project/Program Officer Desaix Myers	Representative of Borrower/Grantee Achmad Az	Evaluation Officer Tim Mahoney	Mission or AID/W Office Director Jon Sperling
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The purpose of the Private Sector Development Project is to test methods of strengthening the Indonesian private sector and to provide information to Indonesian decision-makers on opportunities to develop the country's private sector. This evaluation concerns the Facilitating Private Investment component, under which the Indonesian Investment Coordinating Board (BKPM) was to retain local consulting firms in order to identify opportunities, prepare investment project profiles, and facilitate joint activities between Indonesian and U.S. entrepreneurs. Two contractors were retained for this project: P.T. Resources Jaya Teknik Management Indonesia (RMI) and Business Advisory Indonesia (BAI).

The project profiles, the contractors' consulting services, the project's administration, and various aspects of the contract itself were evaluated. The evaluation methodology involved document reviews, interviews, and frequent contact with both BKPM and the contractors.

Two profiles were completed at the time of evaluation, three were nearing completion, and two more were anticipated. Several problems were encountered during the preparation of the profiles, for example, BKPM frequently rejected profile proposals, changed profile topics when profiles were partially completed, and refused to terminate infeasible profiles. The resulting profiles were reasonably thorough. None showed wide market potential. Thus far, no investor interest has been ascertained as a result of the profiles.

Out of a total of 250 inquiries, 54 U.S. and Indonesian firms received consulting time. As a result of the consultations, six applications were made to BKPM and four seemed relatively certain. Together, these three U.S. firms and one Indonesian firm represent a total potential investment of \$10 million and could create an additional 550 jobs. Compared to the contract investment for consulting services of \$240,000, this is a very good return by world investment promotion standards.

BKPM performed poorly in implementing the contract, and the contractors' administration was also poor. USAID should have taken a firmer stance to improve contracting earlier in the process.

Four main recommendations are made as a result of this evaluation. First, profiles should be dropped from the contract scope of work, and the focus should instead be on investment promotion and consulting. Second, contractors should be allowed to market their services more aggressively. Third, uncertainties in billing and reporting procedures should be cleared up, and USAID should insist on the BKPM Chairman's oversight of contract backstopping. Last, based on the project's encouraging initial results and because no other efforts are now being made in investment consulting in Indonesia, the two contracts should be extended to the full three years, provided agreement is reached on the various points discussed in this evaluation.

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TMY Person Days	Contract Cost OR TMY Cost (US\$)	Source of Funds
Gordon H. West	EED/Indonesia			
Lawrence Brown	PRE/Bangkok	3 days	-	-

Best Available Document

2. Mission/Office Professional Staff Person Days (estimate) 5

3. Borrower/Grantee Professional Staff Person-Days (estimate) -

D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Do not to exceed the 3 pages provided)

Address the following items:

- o Name of mission or office
- o Purpose of activity (ies) evaluated
- o Purpose of the Evaluation and Methodology Used
- o Findings and Conclusions
- o Recommendations
- o Lessons learned

Name of Mission

USAID/Indonesia. Memo: Private Sector Development Project No. 497-0329: Evaluation of BKPM Investment Promotion Contracts, by Gordon H. West, EED/Indonesia and Lawrence Brown, PRE/Bangkok, February 19, 1986.

Purpose of Activity(ies) Evaluated

The purpose of the Private Sector Development 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." This evaluation concerns the Facilitating Private Investment component, under which the Indonesian Investment Coordinating Board (BKPM) was to retain local consulting firms with U.S. ties in order to identify opportunities, prepare investment project profiles, and facilitate joint activities between Indonesian and U.S. entrepreneurs.

The contractors retained-- P.T. Resources Jaya Teknik Management Indonesia (RMI) and Business Advisory Indonesia (BAI)-- were to prepare project profiles and provide consulting assistance to Indonesian entrepreneurs and U.S. investors interested in projects that both meet the priorities determined by the Government of Indonesia (GOI) and demonstrate potential for generating employment with a minimum dislocation or displacement of new jobs. The contractors were to give special attention to projects in agribusiness and light manufacturing. A copy of the contract for consulting services is found in Attachment II.

Purpose of the Evaluation and Methodology Used

Purpose. In this mid-term evaluation, information was to be obtained on the number, quality, and purpose of the profiles; the amount of money and hours spent preparing each; and the resulting indications of investor interest. For the consulting services, the number of companies using the service, the money and hours spent on each business consulted, the results of the consultations, and the quality of services were to be evaluated. Also, the initiative, promptness and organization of BKPM, each contractor, and USAID were to be evaluated, as were the appropriateness of the scope of work, format, procedures, and nature of the contract. Recommendations for needed changes on all of the above-mentioned aspects were also to be provided.

Methodology. Three drafts and two completed profiles were reviewed, as were costs and other data submitted by the contractors. Gordon West, one of the evaluators, also served as Project Officer for this component, and thus had frequent communications with BKPM and the contractors, as well as opportunities to review their work.

Date this summary prepared:

Findings and Conclusions

Industry Profiles - BAI. Three profiles were nearing completion when the evaluation was conducted. The first was on glass fiber production, which was prepared with assistance from FPG Industries. Given the market's current over-capacity and the limited local market, BAI questioned the near-term prospects for glass fiber. However, this situation could change in the next five years. The second concerned single-cell protein production of animal feeds. Realizing that this industry's processes are still too experimental for commercial operation in Indonesia, BAI wrote the profile as a result of Indonesian interest, with the intent of dissuading potential investors. The third profile was on pumps, compressors and hydraulics. The main problem in this area was the extreme segmentation and thus limited potential market for pumps. A fourth profile was assigned (on active electronics) but BKPM later changed its focus to high-tech active electronic components. Because a potential investor pulled out of Indonesia when this profile was being prepared, BAI felt it should not be completed.

The average cost per profile was \$40,000. Also, although BAI attempted to tie the selection of profiles to expressions of investor interest, BKPM changed the profile topics and refused to terminate a profile once it proved infeasible. Thus far, no signs of investor interest have been ascertained as a result of the profiles.

Industry Profiles - RMI. Two profiles were completed; both are reasonably thorough, although neither contains the required overview of the Indonesian investment climate. The first was on industrial salt production. In this profile, RMI did not clarify the roles of foreign investors or the position of a proposed company vis-a-vis the dominant government company within this industry. The second concerned pig raising, which was deemed infeasible because of the current market situation.

The average cost per profile was \$15,000. After submitting 18 profile topics to BKPM, all of which were rejected, RMI did preliminary work on 6 topics suggested by BKPM and 4 received approval. All four were subcontracted, which minimized costs but disenfranchised the profiles from the investment consulting. The salt and pig raising profiles were completed by P.T. BMB and two others, on furfural and salicylic acid production, are being prepared by P.T. Trihastha. No investor interested has been expressed thus far.

Consulting - BAI. Eight large U.S. firms and 12 Indonesian firms of various sizes used BAI's consulting services. Referrals came from USG and private sources; none came from BKPM. As a result of billing and profile delays, BAI postponed its consulting, which greatly limited this activity. On the whole, BAI had a rather passive approach to pursuing potential investors, but proved very effective with customers who sought its services. The cost for BAI's 150 hours of consulting was about \$10,000, with \$70,000 used for promotion and market research.

Consulting - RMI. Following 200 inquiries, investment consulting services were provided to 34 private firms. Four referrals were made by BKPM. Approximately 67% of the Indonesian inquiries were related to agribusiness, as compared to 25% of the U.S. inquiries. Light manufacturing received about 65% of RMI's consulting services. RMI was more aggressive in pursuing potential joint venture partners, spending about \$160,000 for promotion and research. Approximately \$20,000 was spent on consulting services.

Consulting Results. Out of a total of 250 inquiries, 54 U.S. and Indonesian firms received consulting time. Of these, 8 received the full 25 hours allotted and 3 U.S. firms paid for additional time. As a result of consultations, 6 applications were made to BKPM and 4 seem relatively certain (Duracell, Monsanto, Parker Drilling, and P.T. Cipta Restu Sarana). Their potential investment and jobs created are \$10 million and 550, respectively. These figures can be compared to an investment of \$240,000 (\$80,000 to BAI and \$160,000 to RMI), a very good percentage return by world investment promotion standards.

The quality of consulting varied greatly depending on the business of the applicant. For some obscure requests, more research time was needed by the consultants, which may be justified in light of possible returns.

Project Administration. BKPM performed poorly in implementing the contracts, issuing almost no written direction, incurring delays of 6 months or more, and showing no real interest in the project's substance. By reversing decisions on profile selection and refusing to give reasons for rejecting choices, it proved a negative factor in project implementation. The Chairman was enthusiastic, but numerous staff changes contributed to inconsistency and lack of understanding of the project.

Although the contractors' work appears to be good, their administration was not. Quarterly reports were late and not well documented, and billings were irregular and poorly substantiated. RMI did better at communicating with BKPM than BAI. While USAID expended much effort to improve contract administration, a firmer stance should have been taken earlier in the project and more effort should have been made to elevate contract problems to the Chairman's attention.

Recommendations

1. Profiles should be dropped from the contract's scope of work and the focus should instead be on investment promotion and consulting. For several reasons, including rapidly changing market conditions, lack of contractor expertise, BKPM selection priorities that do not reflect investor interest, and lack of promotion on the part of BKPM, the market profiles are of questionable benefit.
2. Allow contractors to market their services more aggressively. Because the current market in Indonesia is not sufficient to make investment consulting profitable, the hours available to Indonesian investors should be increased. The 25 free hours per U.S. investor should be continued in order to support consulting businesses that might not survive otherwise. To market more aggressively outside Jakarta or in the U.S., a cost-reimbursable line item for travel and promotion should be added to the scope of work. Also, market research related to potential investments should be allowed. Last, expectations about increasing BKPM's participation in investment promotion and about total investments should be kept realistic in light of current regulatory and market environments.
3. Clear up uncertainties in billing and reporting procedures, and insist on the BKPM Chairman's oversight of contract backstopping. In this vein, recommendations include: the Chairman should take an active role in ensuring that his staff complete required actions, BKPM must accept a contract structure that assumes a certain amount of trust, contractors' requests to pay invoices must be honored after 30 days, billing and report formats must be established and added to the contract, invoices and reports must be submitted promptly based on contract-established deadlines, BAI must establish better rapport with BKPM, regular meetings must be held with all concerned parties, scopes of work must be revised based on agreed-upon changes in the profiles, and the contract should stipulate that reports be submitted in both English and Bahasa Indonesia.
4. Based on the encouraging initial results of the project and because no other efforts are being made in investment consulting in Indonesia, the two contracts should be extended for the full three years, provided that agreement is reached on the various points discussed in this evaluation. Despite the tremendous implementation problems encountered to date, four investments valued at \$10 million and possibly creating 500 jobs, will likely be concluded as a result of the project's contract promotion activities. Thus, it was concluded that this project was a worthwhile effort and should be continued.

ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Attachment I: Memo: Private Sector Development Project No. 497-0329, Evaluation of BKPM Investment Promotion Contracts, February 19, 1986

Attachment II: Appendix B from: Contract for Consultancy Services for the Private Sector Development Exploratory Project Number 497-0239 between Badan Koordinasi Penanaman Modal (BKPM) and P.T. Resources Jaya Teknik Management Indonesia (P.T. RMI)

COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRAVTEE

ATTACHMENT I

42969

Date : February 19, 1986
 From : Gordon H. West, EED and Lawrence Brown, PRE *G.H. West*
 Subject : Private Sector Development Project No. 457-0329
 Evaluation of BKPM Investment Promotion Contracts
 To : William P. Fuller, DIR

Herein please find the mid-term evaluation of the two BKPM contracts -- one with RMI, one with Business Advisory Indonesia (BAI) -- for investment promotion. The scope of work for this evaluation is attached as Annex B, the text of our evaluation following the outline of the scope of work. As a summary, we conclude and recommend the following:

1. Drop project profiles from the contract S.O.W., and focus strictly on investment promotion;
2. Allow the contractors to assume a more aggressive marketing of their service by increasing the hours available for Indonesian investors, providing a cost reimbursable line item for travel and promotion, and specifically allowing market research related to potential investments;
3. Clear up the uncertainties in billing and reporting procedures, and insist on the BKPM Chairman's oversight of contract backstopping;
4. Despite the tremendous implementation problems encountered to date, four investments valued at \$ 10 million and which will create 550 jobs will likely be concluded as a result of contract promotion activities. Based on these encouraging initial results, and the fact that this is the only ballgame in town as far as investment consulting, we conclude this is a worthwhile effort and recommend we extend the two contracts for the full 3 years provided agreement is reached on the various points raised in the text of the evaluation below.

This is not to underestimate the resolve it will take to make the recommended changes. If, for whatever reason, the changes are not effected, in particular the administrative changes, we would recommend the contracts not be extended in light of the tremendous staff time, money and good will we stand to lose.

I. Industry Profiles - BAI

- A. No profiles are complete as of this report. Three profiles are nearing completion (due late February), and we reviewed the draft text of these profiles. The three profiles cover glass fiber production; single cell protein production of animal feeds; and pumps, compressors and hydraulics. Concerning these profiles:
 1. The glass fiber profile grew out of a request from three local firms for more information on possible procurement of U.S. process technology for fiber glass production. BAI has produced its draft

profile with assistance from PPG Industries of the U.S., although it is not clear whether PPG has any investment interest. Given worldwide and regional over capacity in glass fiber production and the limited size of the current local market, BAI questions the near term prospects in glass fiber. Since the market is growing fast, the picture may change in roughly five years.

2. Single cell protein was originally proposed by BAI as a profile topic, and involves biotechnology processes with the potential to transform plant sugars into animal feed. Fairly early in their investigation, BAI realized the processes involved were still too experimental for commercial operation in Indonesia. Nevertheless BKPM assigned this topic since several large Indonesian concerns were interested in the field. Its main value, then, is going to be convincing several investors not to invest. Whether they will take advantage of information provided is anybody's guess.
3. Pumps, compressors and hydraulics is a mutually agreed upon profile which may have some benefits in the future. The main problem faced in doing the profile was the extreme segmentation of the pumps market, which also limits the potential market for most manufacturers. To date there has been no expressions of investor interest.

The fourth assigned profile, active electronic components, is on hold. After BAI completed over 1,000 hours of research on basic electronic components such as cables, clamps and hardware, BKPM decided BAI should instead focus on hi-tech active electronic components. BAI expressed doubt from the beginning on the wisdom of this selection. In the meantime Fairchild has pulled out of electronics in Indonesia, which leads BAI to feel the fourth profile is not timely and should not be completed. No official response has come from BKPM.

Concerning the selection procedure, BAI informally submitted a list of 12 profile suggestions in December, 1984, followed by a formal submission of two -- shrimp production and electronic components -- in January, 1985. BAI actually began investigation in these two areas in an effort to supply information requested by BKPM to decide whether or not to proceed. By May it became apparent that BKPM didn't really intend for the consultants to select the topics, but rather BKPM would assign profiles as a result of priorities from the new DSP list. Several meetings were held after which BAI submitted a revised list of five profile suggestions, based on informal BKPM suggestions, on May 27, 1985. BKPM finally approved four from this list of five profiles by letter of August 19, 1985.

- B. BAI profiles accounted for approximately 70% of total hours expended by BAI, at a total cost of approximately \$160,000. This is an average cost of \$40,000 per profile.
- C. Investor interest -- BAI tried to tie profile selection and development directly to investor inquiries or interest in hopes this would also provide information for follow-on consulting. The extent

to which BKPM changed the profile topics, and refused to terminate a profile once it proved infeasible negated most of the consulting potential from profiles. There are no signs of investor interest from profiles that we have been able to ascertain.

I. Industry Profiles - RMI

A. 1. Profiles Completed -- two.

2. Topics -- Industrial Salt and Pig Farming.

3. Selection Process -- The Contractor reports that it was instructed on October 19, 1985, to prepare the four following Project Profiles: Furfural Production, Salicylic Acid Production, Salt Production and Pig Raising. Leading to this ultimate instruction were several exchanges between the Consultant and BKPM. On November 7, 1984, the Consultant submitted a list of ten topics to BKPM which were all rejected. The Consultants then were instructed to propose alternatives which it did at the next meeting held on May 2, 1985. Of the eight topics presented, all were rejected, and BKPM informally suggested six alternative topics including Salicylic Acid. The Consultant began preparatory outline work on these six topics while awaiting formal approval which only came for Salicylic Acid together with the three other topics cited above. RMI has subcontracted all of its profile work, which minimized the cost but also disenfranchised the profiles from the investment consulting. The two completed profiles were prepared by P.T. BMB. The remaining two profiles are being prepared by P.T. Trihasta.

4. Quality -- Both completed profiles are reasonably thorough. Neither contains a general Indonesian Investment Environment Overview as was required. Respecting Salt Production, it is not clear what position the proposed company would have within Indonesia's salt industry, i.e., what its position vis-a-vis the dominant GOI salt company would be. Nor is it particularly clear what role there might be for a foreign investor. Respecting Pig Raising, it is made clear from page one that the project is not feasible because of current market saturation.

B. Hours and Cost

The total costs are equal to the fixed-price sub-contracts which the Contractor has with two Indonesian firms. The total costs for the four profiles is U.S. \$60,000. Therefore, each profile is estimated to cost U.S. \$15,000. As these are fixed-price sub-contracts, there are no records of hours expended.

C. Investor Interest

It is not apparent that there is any domestic or foreign investor interest at this point. As Pig Raising has been deemed infeasible, we assume there will not be any interest in that profile. None of the

currently identified U.S. or Indonesian firms have expressed interest in salt production. No apparent effort has been made to market the Salt Production Profile, which was completed in December 1985. It is perhaps too early to say that there will not be future interest.

- D. Profiles - Recommendations: Don't do any more. Markets and conditions change too quickly to make the final product relevant, BKPM selection priorities do not reflect investor interest, our contractors do not have the in-house expertise to efficiently do the profiles, the potential investors have their own unique set of questions they need answered, and BKPM is not a promotion oriented agency willing to "market" a good profile if they ever really got one. The proof of the latter point is quite evident when you try and get a copy of a completed profile from the GOI, be it BKPM or Ministry of Industry. In general you either get blank stares or a reaction indicating profiles are confidential GOI property.

USAID agreed to profiles in the scope of work against our better judgment to keep BKPM happy. Yet given BKPM's limited interest in the whole area of investor promotion, and the questionable benefit of profiles even if marketed properly, we conclude our money would be much better spent on additional direct investor consulting, allowing the consultants to do market research mini-profiles if particular investment potential warrants it. Let UNIDO and World Bank continue to do DSP profiles.

With respect to profiles completed, we should at least insist that the two contractors and USAID are provided sufficient copies for distribution so they don't just disappear at BKPM.

II. Consulting - BAI

- A. Approximately 20 firms have used BAI consulting services to date, of which 8 were U.S. firms. There were three general sources of referrals -- AmCham, KADIN and promotion tours; USAID referrals, including JACC, FCS, etc; and prior business contracts from Indonesia or the U.S. We did not hear of any referrals from BKPM. The actual list of companies is attached to this report (See Annex A). (Duracell and Monsanto are two additions not listed since they were consulted after December). The U.S. firms are large and generally represent agro-business and light manufacturing as intended (assuming battery production, glass fiber and testing equipment are considered light manufacturing). Indonesian investors ranged from very large to small. Only two investors (both U.S.) used the full 25 hours, both of whom used the BAI services afterwards at their own expense and have applied for BKPM licenses. BAI screened investors over the telephone and referred them elsewhere if appropriate. If someone wanted to meet, BAI offered their services.
- B. BAI billed approximately 150 hours of actual consulting services, at a total estimated cost of about \$10,000, or \$500 per consultee. BAI, as a result of billing and profile delays, purposely postponed the

beginning of most consulting services until August, 1985, which greatly limited their consulting activity. They were also not as aggressive in pursuing Indonesian potential joint venture partners as was RMI, which also reduced total consulting hours.

Given the cost of profiles at \$160,000 and actual consulting at \$10,000, we assume the balance of \$70,000 was promotion and market research. BAI's strength appears to be financial and deal packaging for interested U.S. investors, although they have also packaged a presentation for local investors. Their U.S. partner, Arthur Young, was doing fairly routine screening and mass mailing without much results. All in all BAI had a fairly passive approach, e.g. come to us and we'll help, but proved very effective with customers who sought help.

II. Consulting - RMI

- A. There were 200 initial inquiries resulting in the provision of investment consulting to 34 private firms. Of the resulting 34 consulting service efforts (see Annex A), credit can be given for 4 BKPM applications. A full description of each is contained in the Contractor's "Cumulative Summary of Program Participants Status" Report.

Promotional Efforts included the following: Direct Mail; business Media New Releases; direct contact based on research into probable company interests or prior business contacts; direct contact based on candidate self-selection through attendance at various Indonesia-related seminars and meetings; presentations at public forums; and presentations at informal, personal level on an ad hoc basis.

As to the agribusiness and light business focus, promotional materials clearly stressed the emphasis to be placed on agribusiness and light manufacturing. The Contractor's reporting indicates an understanding of this focus, and in fact, often implies a feeling of undue constraint. Approximately 67% of all Indonesia enquiries were agribusiness compared to 25% of the U.S. enquiries. No applications were agribusiness related, with 65% of the consulting services going to light manufacturing.

B. Hours and Cost

Information on hours and cost per consultee was not explicitly provided by RMI. But assuming that each of the 34 firms identified as receiving consulting services received an average of 10 hours of service at the average hourly rate of approximately U.S. \$60.00, each consultee cost \$600. This means approximately US \$20,000 was used for actual consulting services, U.S. \$60,000 for profiles and the balance of U.S. \$160,000 for promotion, screening and background research activities.

C. Consulting Results -- BAI and RMI

We have jointly reviewed the results of RMI and BAI consulting since many of the best investments resulted from services provided by both

firms. Out of a total of 250 inquiries, 54 U.S. and Indonesian firms received consulting time. Of the 54 consultees, a total of 8 received the full 25 hours, and 3 paid for additional time on their own. All three paying customers were U.S. firms. As a result of consultations, six BKPM applications have been or are being made and four investments seem relatively certain, these four being:

<u>Company</u>	<u>Product</u>	<u>Potential Investment</u>	<u>No. of jobs</u>
Duracell/ABC	Batteries	\$6.0 million	250
Monsanto	Herbicides	\$2.0 million	100
Parker Drilling	Oil services	-	50
PT. Cipta Restu Sarana	Pumps	\$2.0 million	150
	Total	\$10.0 million	550 jobs

We make the assumption that both actual consulting hours and promotion/screening/research hours were required to promote these investments, the cost of which amounts to \$80,000 for BAI and \$160,000 for RMI, or a total of \$240,000. Thus our \$240,000 expenditure may result in \$10 million of investment and may create approximately 550 jobs. From a percentage point of view, we conclude that having 2% of enquiring customers result in investments is very good by world standards of investment promotion. We also conclude that the contractors took their job seriously, and are interested in promoting investments as well as making a buck.

D. Consulting and Quality

Concerning the quality of consultation provided, it appears to have varied greatly depending on the business of the applicant. For instance, Parker Drilling consultations with RMI we assume were excellent, since RMI is already very active in the Indonesian oil business. The same with Duracell -- they needed a good financial package and general investment advice, which BAI, with PMI assistance, was very able to provide. For some of the more obscure agri-business or light manufacturing requests, we note a fair amount of research time was needed to allow the consultants to come up to speed. It's probably worthwhile to allow for this type of market research under the contract, provided there's a reasonable investment pay-off possibility. We should also encourage more communication between firms so that the better qualified firm is selected for any particular field of investment enquiry.

E. Consulting Conclusion/Recommendations:

1. There currently is not a sufficient market in Indonesia to make investment consulting a profitable line of work. The volume of

U.S. investors needing such services is very limited, and Indonesian investors do not appear willing to pay for such services out of their own pocket. The problems on the Indonesian side are generally one of the following: a) inability to pay; b) the common attitude that a feasibility study is a document used to get a bank loan, not necessarily to learn the market for or feasibility of an investment; and c) the strangeness to Indonesians of paying an outsider for advice when the standard procedure in Asia appears to be offering a commission or partnership in any potential deal.

Our recommendation is to therefore allow more time (up to 50 hours) for Indonesian investors in an effort to promote the concept of project feasibility and to encourage investors who otherwise could not afford the up front research cost.

2. While U.S. investors may have been willing to pay for services even without 25 free hours, and in several cases already had made earlier contacts in Indonesia, the big advantage of providing the 25 free hours is that BAI and PMI could thereby afford to actively pursue the business and devote a chunk of time when no foregone conclusion was available. In short, we are supporting a business which might otherwise disappear given the limited size of the market. Since we believe such services to be a valuable contribution to both Indonesian and U.S. private sector efforts, our recommendation is to continue providing 25 free hours per U.S. investor, and to specifically allow for consultation-related research in the contract.
3. There is no incentive in the current contract to market consultations aggressively either outside Jakarta or in the U.S. The U.S. partners on these contracts played no real role, and there was little local effort to seek investors outside of Jakarta. The fixed hourly rates did not provide any financial incentive for promotional activities or travel. We suggest the contractor scope of work and payments allow for more aggressive marketing in the U.S., as related to specific investments only rather than general promotion, and allow for reimbursement of travel to the provinces. The contract would then maintain the hourly rates but would have an added cost reimbursable line item for travel, advertising and other promotion.

In addition we urge better coordination between the two contractors, FCS, USAID, BKPM and others to maximize promotional impact and reduce overlap. One specific example which is currently being evaluated is the possibility of using the S&T Bureau MTAP project to allow Intermatrix to provide U.S. promotional services in coordination with services provided by our two contractors.

4. We should not shoot too high in our expectations of making BKPM more active in investment promotion. BKPM remains basically a licensing board, and it will require fundamental changes within

BKPM and throughout the COI to alter BKPM's outlook, organization and regulations. Nor should we be overly ambitious on total investment expectations. Even in countries with ideal investment climates, investment promotion work involves long lead times and is not easily traced. And although the COI now is emphasizing non-oil investments in principle, the whole legal structure behind foreign investments here is still very protective. We are therefore operating on the margin at least until the GOI gets serious about promoting private foreign investment. Thirty to fifty total consultations a year may be a reasonable target, with one or two follow-on investments a year being considered successful.

III. Administration of the Project

- A. BKPM -- Without going into great detail, we believe BKPM implementation of the contract to date has been abysmal. Almost no written direction was issued by BKPM during the year, delays of 6 months or longer were routine, and no real interest in the substance of the project was evident. In two cases, e.g. reversal of decisions on profile selection and refusal to provide BAI with reasons for rejecting invoices, BKPM was actually a negative factor in implementation. The numerous staff changes at BKPM has contributed to this inconsistency and lack of understanding. The one bright spot appears to have been two meetings with Chairman Ginandjar, who has been enthusiastic and supportive although uninvolved on a day-to-day basis.
- B. Contractors -- While the contractors' work appears to be solid, their administration of the contracts was not good. Quarterly reports were late, not well documented, and in the case of PMI, in Bahasa Indonesia only until a summary was provided USAID in February, 1986. Billings were not done monthly, and were poorly substantiated. Part of the blame rests with BKPM for not providing clearer guidelines, but the contractors could have done a much better job. In PMI's favor, they did a much better job in communicating with BKPM. The combative nature that BAI often took with BKPM has compounded their problems of invoice approval.
- C. USAID -- While we cannot fault the amount of effort expended by USAID in trying to improve contract administration, we believe a firmer stance should have been taken fairly early in the contract process. Specifically, we feel that automatic payment of bills after 30 days should have been effected in instances when no written response from BKPM was received. We also feel a greater effort to elevate contract problems to the Chairman's attention would have helped, even though it is not always easy to schedule such meetings.
- D. Recommendations
 1. Clearly state to BKPM that USAID can only proceed with these contracts if:
 - a. The Chairman takes an active role in ensuring his staff follows up on required actions; and,

- b. BKPM is willing to accept a contract structure which assumes a certain amount of trust so that detailed reports on how every hour of time was spent is not necessary.
2. USAID should state in advance that, in the absence of written objections from BKPM, USAID will honor the contractors' requests to pay invoices after 30 days.
3. BKPM, the Contractors and USAID must jointly decide, before the contracts are extended, what the format of reports and billings should be.
4. USAID must insist on monthly invoices and timely submission of reports.
5. BAI must try to establish a better rapport with BKPM, perhaps involving the assignment of an Indonesian staff member to represent BAI at BKPM.
6. The BKPM Chairman should ensure that staff assigned to backstop the contracts has some vested interest in their success, and should avoid shifting this assignment unless absolutely necessary.
7. Regular meetings must be scheduled to ensure contractor coordination, involvement of other U.S. and GOI agencies, resolution of BKPM-Contractor conflicts, and promotion of investments.

IV. Contract Form/Scope of Work

1. Whatever agreements are reached concerning the format of reports and invoices should be added to the contract.
2. The scope of work must be revised based on the changes agreed to on profiles (e.g. deletion) and consultations.
3. A cost reimbursable line item should be added to the budget for promotion and travel, and a percentage of total hours should be earmarked for market research and promotion needed for investment consultation.
4. Coordination meetings with the BKPM Chairman should be cited as required under the contract.
5. Time limits for submission of reports should be set, and a clause added that all reports shall be submitted in both English and Bahasa Indonesia.
6. The U.S. partner assistance should be reviewed and either eliminated or better defined.

7. The contract should be extended through the full 3 year life provided agreement can be reached by all parties on recommended administrative and contract changes.

cc: Mr. Terry Myers, EED
Mr. Tim Mahoney, PRO
Mr. Des O'Riordan, PRO/DES
Mr. Gary Bisson, RLA
Mr. Richard McClure, FIN

EED:GHWest:nn(02/18/86)

ANNEX A

SUMMARY OF BAI CONSULTING

PRIVATE SECTOR CONSULTING HOURS TO DATE AND STATUS

	<u>Hours To Date</u>	<u>Balance Available</u>	<u>S t a t u s</u>
5.1 <u>INDONESIAN INVESTORS</u>	23.5		
Kaji Beta	1.5	23.5	Awaiting decision to approach US investors
Buah Pangan	2.5	22.5	Follow-up pending
Permata Dua	2.0	23.0	Preparing for further conditions
Astra	4.0	19.0	Preparing for further conditions
Sentosa	- *	25.0	Follow-up pending
Tasbunan	0.5	24.5	Follow-up pending
Listrianto	1.0	24.0	Follow-up pending
Dharmala	- *	25.0	Consultations continuing
Lita Djaya Utara	2.0	23.0	Follow-up pending
Bina Tunggal Karva	3.0	22.0	Consultations continuing
Prasilustani	3.0	22.0	Consultations continuing
Kalbe Farza	2.0	23.0	Follow-up pending
5.2 <u>AMERICAN INVESTORS</u>	36 + 29		
Pioneer	2.0	23.0	Follow-up pending
Milton	- *	25.0	Follow-up pending
Corning Glass	25.0+29**	-	Consultations continuing **
E. C. I.	3.0	22.0	Consultations continuing **
Egeundson	4.0	21.0	Follow-up pending
Hertz	2.0	23.0	Consultations continuing

* Exclusionary Fee

** Additional hours to client account

ANNEX A

SUMMARY OF RMI CONSULTING

PROGRAM PARTICIPANT STATUS

CUMMULATIVE SUMMARY OCT. 1984 - DEC. 1985

	INDONESIA				UNITED STATES			
	AGRIBUSINESS	LIGHT MANUFACTURE	SERVICES	TOTAL	AGRIBUSINESS	LIGHT MANUFACTURE	SERVICES	TOTAL
INITIAL ENQUIRY	103	42	10	155	11	23	11	45
REGISTRATION	88	22	7	117	4	19	10	33
PROPOSAL REVIEW	17 ^(A)	13 ^(B)	1	31	1	9	5	15
CONSULTING SERVICES	3	14	4	21	2	8	3	13
B K P M APPLICATION	0	1	1	2	0	1	1	2
FOLLOW-UP OF APPLICATION	0	0	1	1	0	0	1	1

(A) INCLUDES A PROPOSAL REPRESENTING 71 BUSINESSES/
ENTREPRENEURS.

(B) INCLUDES A PROPOSAL REPRESENTING AN ASSOCIATION OF
20 SMALL SAWMILLS.

ANNEX B
EVALUATION OF BKPM CONTRACTS

Scope of Work

Evaluation of Facilitating Investment Contracts

In order to assess the results to date and to recommend future actions on the two USAID-financed contracts between BKPM and RMI and Business Advisory Indonesia (BAI), the following Scope of Work is proposed. Note the evaluation will not include review of the BKPM/Pamintori Cipta contract, which has already been terminated.

- I. Industry Profiles -- The following information should be obtained for profiles prepared by RMI and BAI. Information should be segregated by contract:
 - A. How many profiles are completed, what were they, and what is the quality of the product? How does BKPM propose to use them? How will the consultants use them?
 - B. How many hours, how much money was spent for each profile?
 - C. What indications are there of investor interest as a result of profiles completed?
 - D. What are recommendations concerning profiles -- what to do with one's completed, should more be done, should method be changed?

- II. Consulting Service -- The following information should be gathered from both RMI and BAI:

- A. How many companies used the consulting services, who were they?
- B. How many hours, how much money was spent for each consultee?
- C. What are the results of consultation -- # requesting additional time, # applying for BKPM permits, \$ value of potential deals, jobs.
- D. Quality of service provided.
- E. Recommendations -- should consulting continue? Should format change? Others.

III. Administration of Project:

- A. Assess the initiative, promptness and organization of BKPM in implementing the contract.
- B. Assess the initiative, responsiveness and organization of each contractor.
- C. Assess the initiative, promptness and organization of USAID in backstopping the contracts.
- D. Provide recommendations for changes needed.

IV. Contract form/Scope of Work:

- A. Assess the appropriateness of the s.o.w., format, procedures and nature of the contract.
- B. Provide recommendations.

ATTACHMENT II

APPENDIX B

FROM

CONTRACT FOR CONSULTANCY SERVICES
FOR THE
PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT
NUMBER 497-0329
BETWEEN
BADAN KOORDINASI PENANAMAN MODAL (BKPM)
AND
P.T. RESOURCES JAYA TEKNIK MANAGEMENT INDONESIA,
(P.T. RMI)

TERMS OF REFERENCEProject Profiles and Consultancies

The Contractor will prepare project profiles and provide assistance to Indonesian entrepreneurs and U.S. investors interested in projects that:

- (1) Meet the priorities determined by the Government of Indonesia according to criteria such as those used in BKPM's Daftar Skala Prioritas (DSP) and GOI objectives as established in Repelita III and Repelita IV, "to enhance the standard of living, intelligence and more even and just distribution of welfare for all people", to improve access to resources and to increase regional development.
- (2) Demonstrate potential for employment generation, either directly or downstream, with minimum dislocation or displacement of existing jobs; potential for creating jobs directly and indirectly at a capital cost per job in the approximate range of US\$5 - 25,000 and generally not more than US\$60,000 (in 1981 prices).

The Contractor should give special attention to projects in agribusiness and light manufacturing. Other factors which should affect the priority of projects selected include: potential for creating significant employment in relation to resources invested -- energy as well as capital, contribution to export generation, extent of technology transferred and location outside Jakarta.

Project Profiles

Profiles prepared on projects selected by the BKPM should include:

- (a) a description of how the project meets the criteria;
- (b) existing data, market studies, survey of existing literature in the proposed sector;
- (c) a description of any work already done on the project;
- (d) a description of the time phasing of further work. Maximum use be made of existing or planned studies whenever possible. This will require the consultant to familiarize himself with any on-going or future studies relevant to the proposed sector such as the engineering sector study to be undertaken by the Ministry of Industry, various studies by UNIDO for BKPM and the Ministry of Industry, and World Bank studies for BKPM. To the extent possible, these and similar studies will be used by the consultant.

For each project profile requested by BKPM, the Contractor will submit a feasibility study or Project Profile to indicate the economic, financial and technical viability of the project. The profiles will consist of two basic parts: a standard section detailing the Indonesian investment environment which would apply to all profiles and a section applicable to a specific project. The outline below is indicative of the general level of analysis desired. The consultants may propose modifications or alternatives to the specifics outlined. The basic objective is to assess the project's economic, technical and financial viability. Each project profile should begin with a clear overall summary of the consultant's findings on the project's viability.

(a) Market Analysis

- Historic supply of major product groups (last 5 years), including imports and exports.
- Past consumption by primary industries.
- Future demand of major product groups, including possible structural changes in the consuming industries.
- Future supply projections from domestic sources, including prospects for exports.
- Areas of potential marketing assistance by U.S. suppliers or corporations.
- Local applicable marketing practices.

(b) Project Description

- Proposed capacity broken down into major product groups.
- Local production technologies and processes available.
- Technical description of project including major equipment and machinery involved.
- Project inputs (requirements of raw materials and resources, labor in different skills, energy needs, etc.).
- Location of project, including requirements of infrastructural facilities.
- Project comparison to international standards.
- Project implementation schedule indicating major activities involved.
- Subcontracting and technical service availabilities.
- Linkages to U.S. related corporation or businesses.

(c) Project Organization

Management organization structure (U.S. investment, joint-venture investment, specialized assistance etc.).

- Licensing needs.
- Training requirements for project training requirements of GUL.
- Implementation organization.

(d) Project Cost

Estimated order of magnitude costs. Basic project costs.

(e) Project Financing Plan

- Available financing sources.
- Assumption used in the project.
- Tax benefits.

(f) Financial, Economic Analysis and Overall Economic Benefits..

- Estimate financial return on investment.
- Foreign exchange savings/earnings, - linkages to other sectors.

Business Consulting Assistance

(1) Assistance to the Indonesian Private Sector

The Contractor will assemble and screen proposals from Indonesian entrepreneurs interested in attracting potential local or foreign investors. The consultant will design and implement a program to solicit proposals, provide assistance in preparing the proposals for potential investors, and help package possible projects. The consultant will provide guidance on U.S. business practices, legal, administrative and regulatory matters, taxation, financing, project structuring and other services necessary for project development and implementation. The consultant will explain the rights and obligation of local firms when entering into joint-ventures with foreign companies. The solicitation effort will make clear that interest is limited to those project contributing to job creation, income generation, import substitution, non-oil export promotion, or technology transfer. In selecting proposals for assistance, the contractor will give specific attention to the criteria outlined earlier and will analyze prospective proposals for soundness of the entrepreneur's project plan and of his financing and marketing strategies.

In assisting the entrepreneur in packaging his proposal for a prospective investor, the contractor should help the entrepreneur outline information likely to be required by a prospective investor: on the project -- infrastructure, transportation, utilities, raw materials, personnel, technical assistance required, initial and operating costs; on the financial plan -- including balance sheet, income statement and sensitivity analysis; and on the market. Once the project package is prepared the consultant will assist the entrepreneur in making contacts in business and with government agencies in the United States helpful to development of the project. The consultants will be reimbursed under the contract for providing up to 25 person hours of consulting assistance to the inquiring company without charge after which further assistance will be paid for by the participating company.

(2) Assistance to U.S. Businessmen in Indonesia

The Contractor will have in place resources and consulting assistance for U.S. companies coming to Indonesia to explore or review business opportunities. Priority for such assistance will be given to those companies responding to investment profiles described earlier and to inquiries regarding investment in projects that meet the criteria already discussed. Such requests for assistance are expected to come via AMCHAM, the GOI, the U.S. Commercial Section, BKPM representative offices in the United States, and Indonesian consulates in the United States. The consultant will provide information on Indonesia market studies, potential joint-ventures partners and business opportunities, business practices, legal administrative and regulatory matters, taxation, project financing and other consulting services necessary for project development and implementation. The consultants will be reimbursed under the contract for providing up to 25 person hours of consulting assistance to the inquiring company without charge after which further assistance will be paid of by the participating company.

(3) Coordination with U.S. Agencies

After identification of viable projects, the consultant will work with U.S government agencies in solcizing interested U.S. Partners. The Contractor will provide the Foreign Commercial Service with a list of identified proposals for promoti-on by the Department of Commerce's Trade and Investment Opportunity Program. The consultant will also help determine which proposals might benefit from a Trade Development Program Study and make contact with OPIC and Exim Bank where appropriate.

GWest:wr
(Doc. 4644A)

INDEXING WORKSHEET/DATA ENTRY FORM

[Please print]

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Indexer CS
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DESCRIPTORS (C210)

<u>1 Economic development</u>	<u>1</u>	<u>1 Investment promotion</u>	<u>1</u>
<u>1 Trade fairs</u>	<u>1-1</u>	<u>1 Private enterprises</u>	<u>1</u>
<u>1 Procedural development</u>	<u>1</u>	<u>1 Preinvestment surveys</u>	<u>1</u>
<u>1 Consultants</u>	<u>1</u>	<u>1 Contracting</u>	<u>1</u>
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
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<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

IDENTIFIERS/PROPOSED DESCRIPTORS (C220)

<u>1 Trade fairs</u>	<u>1</u>	<u>1</u>	<u>1</u>
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

NOTE: Please place the dash ("-") in the appropriate position.

For Data Entry Operator Only:

DATE ENTERED (D690) -- (Enter today's date in the form 1983/02/29)