

FINAL REPORT

**DEVELOPMENT PROJECTS CONSULTING SERVICE
INDONESIA**

SURVEYS & RESEARCH CORPORATION

AND

DANIEL, MANN, JOHNSON & MENDENHALL

A JOINT VENTURE

AIDc-2354

FINAL REPORT

DEVELOPMENT PROJECTS CONSULTING SERVICE

INDONESIA

SURVEYS & RESEARCH CORPORATION

AND

DANIEL, MANN, JOHNSON & MENDENHALL

A JOINT VENTURE

AIDc+2354

I. SCOPE OF WORK AND SUMMARY RECORD OF OPERATIONS

A. Summary of Scope of Work Section of Contract

The scope of work specified by the Contract may be summarized in terms of two related but separate services as follows:

(1) The Contractor was to provide a full staff of highly qualified personnel in both economic and technical aspects of development project planning, which would work primarily with Biro FINEK in scheduling and coordinating work on the study, planning and implementation of specific projects. In such study, planning and implementation, the resident field staff, as well as short-term specialists, would also work with the various Departments of the Government responsible for planning and implementation of projects. The Contractor was to provide technical and economic back-stopping, as required, in the United States.

(2) The Contractor (primarily the Project Manager) was to provide, on request, general economic and financial consulting services in addition to work on specific projects.

Project survey and development was to include preliminary review and evaluation of specific projects and their priorities and the development of Task Orders providing for the study and planning of specific development projects. The Contractor was to make recommendations with respect to the undertaking of projects and their scope, size, location, etc. and also as to suitable sources of financial assistance; to advise and assist in the preparation and review of invitations for detailed engineering and construction services, and with regard to final design and specifications; and to undertake the training of Indonesian counterparts.

Upon the request of FINEK, the Contractor was to consult and advise concerning the improvement of operations of state enterprises.

B. Duration of Contract

The duration of the contract was set at two years from the date of the arrival in Indonesia of the first members of the resident field staff. This date was June 18, 1962. The Government of Indonesia (GOI) was, however, given the option, with the concurrence of AID, to extend the period for an additional year. This option was not exercised but the duration of the contract was, by amendment, extended by three months so that the terminal date became September 18, 1964.

C. Organization of the Project

The organization established by the contractor to operate in Indonesia was designated "The Development Projects Consulting Service" (DPCS). Its personnel, as stipulated by the contract, comprised a resident field staff, numbering at the peak five professional members, including three economists and two engineers, and, in addition a number of short-term specialists required for the execution of task orders. (A list of personnel, with their periods of service, is given in section III below).

The function of the resident staff was intended to be mainly the preliminary review and evaluation of projects and the subsequent preparation of task orders, to be issued by the GOI with the concurrence of AID, covering projects selected for detailed study and planning. It was expected also that the resident staff would, in connection with the execution of task orders, give guidance to and exercise general supervision over the task

order specialist teams. In fact, however, for reasons set out below, it proved necessary for resident staff members to participate to a substantial extent in task order implementation.

D. General Survey of Operations

During the first six months of its existence (approximately July to December 1963), the operations of DPCS were hampered by deficiencies in housing, office accommodation and transportation and impeded by the time which had to be given to the solution of these problems. Considerable time also was required for the establishment of working procedures and relationships vis-a-vis FINEK and the various operating Ministries, and with AID. Nevertheless during this period extensive preliminary investigations were conducted of a number of sectors of economic activity and of proposed development projects, frequent consultations were held with the First Minister, FINEK, and various operating Ministries of the GOI, and consideration was given to development priorities. By January 1963 several task orders had been issued by the GOI and concurred in by AID, and the execution of these task orders was under way. Simultaneously the home office staff of the Contractor was engaged in preliminary investigation and research related to the various industrial and other facilities and operations which were the subject of preliminary consideration or were proposed for task order study. Simultaneously also both the Project Manager and his deputy (the Chief of the Resident Staff) were deeply involved in the rendering of the second service listed above, both in Djakarta and in Washington.

Four task orders were issued in December 1963. Numbers I, II and III dealt with the rehabilitation and improvement of sub-groups of plants in the metal-working industry. Number IV dealt with the shortage of imported

raw materials and spare parts. This last was a project of a somewhat special character which DPCS was called upon to undertake because of the urgent need for specific plans to assist in planning and implementing the Indonesian stabilization program then under consideration. Because of its urgency Task Order IV had to be executed almost entirely by the resident staff, and for a period of nearly five months the time and efforts of the latter and the shorter-term services of two short-term specialists were devoted nearly exclusively to this job.

Work on the task orders mentioned is described in sub-sections E and F below. Before embarking on their execution, the resident staff had carried out extensive preliminary investigations in several other areas, and in the course of so doing had undertaken ten major field trips. Among the projects under consideration for further task orders at that time the one given highest priority was that looking toward the development of an immediate Electric Power Program for Central and Eastern Java. A draft task order, designated Task Order V, was completed in January 1963 and submitted to both the GOI and AID/Djakarta for review and action. The latter in turn forwarded this draft to AID/Washington.

Task Order V was the fruit of much labor and close working cooperation with the State Electricity Enterprise (Perusahaan Listrik Negara - PLN). It was hoped that agreement on its final form could be rapidly reached and implementation could be started by May 1963. However, unanticipated delays in obtaining concurrence from AID/Washington occurred, and it was not until the end of October that AID/Washington notified AID/Djakarta that concurrence of AID in undertaking the task order could be given. It was by that time too late to complete the work called for by the Task Order within the period

to June 18, 1964, the original expiry date of the contract, and a one year extension of the contract would have been required. Discussion by the Indonesian and U.S. Governments of the possibility of such an extension occurred in the context of their general relationships and no agreement to extend the contract was reached. Meanwhile, on the initiative of PLN the staff of DPCS collaborated in preparations for carrying out the task order, in the hope that the obstacles to its implementation would eventually be overcome. By the end of January 1964, however, it became apparent that this hope would have to be abandoned.

Following considerable work both in the field and in the home office on problems of expanding paper production in Indonesia, the GOI in the middle of 1963 requested DPCS to undertake a task order covering the expansion of a paper plant located at Letjes in East Java. The draft of a task order, designated Task Order VI, was submitted to the GOI and AID/Djakarta, and by the latter to AID in Washington in August 1963. Task Order VI was more limited in scope and involved less complex problems than its predecessors; needing only about eight months to complete. However, AID concurrence had not been indicated by the end of 1963 and Task Order VI, like Task Order V, was never issued.

While awaiting action on Task Orders V and VI the resident staff continued to investigate other possible task orders. These included the rehabilitation and reorganization of ship repair facilities, expansion of the Palembang urea fertilizer plant, the transport of urea from Palembang, rice storage, cotton textile production, and the arrangements for handling production-sharing proposals. These preliminary investigations were carried to the point where the Contractor had assembled the data required for the formulation of several more task orders.

Near the end of 1963 it had become evident that conditions extraneous to the contract made unlikely that there would be the contract extension required to permit execution of additional task orders; in early 1964 the decision was made to reprogram the work to ensure completion of the task orders under way. The main task was to complete Task Orders I, II and III, execution of which had fallen behind schedule primarily owing to personnel shortages in the Indonesian counterpart organization and the fact that, on account of disorder in Indonesia, the contractor was not authorized to send the full required complement of short-term specialists to Indonesia. This situation made it necessary to assign several members of the resident field staff to this job. In addition, it was necessary to put at least a major part of the material assembled during the pre-task order investigations into a form that could be of use to the GOI. For this purpose one member of the resident staff was assigned to drafting a number of "Pre-Task Order Reports" summarizing the information collected and the main problems involved in six of the areas investigated. These reports are described in sub-section G below. Since it was evident that satisfactory completion of these tasks including home office review and final editing and reproduction of all the reports would require time beyond June 18, 1964, a three month extension of the contract was effected. The reports on Task Orders I, II, III and IV and on the Pre-Task Order Investigations were completed and submitted prior to the expiration of the amended contract.

During the period of the contract the Project Manager, in connection with his responsibilities for both the services stipulated in the contract, made six trips to Indonesia and spent altogether almost 5 months in that country. In addition, several officers and home office staff members of

Daniel, Mann, Johnson & Mendenhall visited Indonesia in order to assist in and inspect DPCS operations. These personnel of both parties to the Joint Venture as well as other Contractor personnel also worked on various aspects of the operations in the home offices for varying periods.

E. Task Order IV, Shortage of Imported Raw Materials and Spare Parts

Task Order IV was formally issued by the GOI with the concurrence of AID on January 3, 1963, and implementation started immediately thereafter. The objective of the task order was to assess the severity and economic consequences of the shortage of imported production materials and spare parts, estimate 1964 requirements of such imports in general order of priority, estimate the extent to which external aid might be required to finance their import, develop plans for allocation and procurement procedures which would assure effective and speedy procurement and distribution of supplies, and examine possible long-term improvements in foreign exchange budgeting and import licensing procedures.

Execution of this task order necessitated not only detailed statistical studies but also an extensive survey of Indonesian industrial enterprises designed to ascertain the extent to which production was currently being constrained and capacity left idle by shortages of imported production materials and spare parts and also the inventory situation in regard to such materials and parts. In addition the task order called for a study of import licensing and allocation procedures, the examination of alternative procedures, an investigation of procurement sources, and recommendations with respect to action on these matters.

The study required and was carried out with the collaboration of many Indonesian Government departments. Because of the complicated structure of the Indonesian administration and the lack of well-organized statistics,

the gathering and collation of information from official sources proved to be a difficult and time-consuming task. The Central Bureau of Statistics gave invaluable help in providing data on foreign trade and import licensing, and also undertook a special sample survey of industrial establishments. The DPCS staff carried out a series of "interviews in depth" in Java and Sumatra, designed not only to obtain statistical data but also to obtain information on and insight into the factors which had brought about a decline in Indonesian industrial production, and to provide a basis for estimating the extent to which the decline was due to lack of imports.

A Preliminary Report on Task Order IV was completed on May 30, 1963, in time to be used as one of the basic documents in connection with the discussions then taking place between the United States Government, the Government of Indonesia, governments of certain other countries and the International Monetary Fund on the problem of Indonesian economic stabilization program. Because of the uncertainty that developed in regard to that program soon after the revised report was completed, its issuance in final form was delayed pending clarification of the situation, at which time, it was thought, up-dating of the contents might be desirable. In fact, however, circumstances had not, by the end of the contract period, developed in such a way as to make further revision appropriate; the report was therefore issued in mid-1964, in the hope that it might still prove useful at some future time as a source of basic information and a guide to methodology.

Two short-term specialists, who together supplied four man-months of service, assisted the resident staff in executing Task Order IV. On the Indonesian side, Biro FINEK organized a group to give assistance with statistical work and translation, and the Industrial Development Bank

supplied three members of its staff with the object of giving them experience in the conduct of such surveys and the use of statistics.

F. Task Orders I, II, III, Industrial Metal-Working Shops

The purpose of this set of task orders was to draw up a comprehensive program for increasing the output and productivity of the Indonesian metal-working industry, by rehabilitation and limited improvement and expansion of facilities in a group of about forty metal-working shops, selected because of their importance in the industry and their representative character. Preliminary investigation suggested that the job could be divided into three parts, dealing, firstly, with plants requiring primarily only rehabilitation of their physical facilities; secondly, with shops which required more extensive rehabilitation as well as direction into a much greater degree of specialization; and, thirdly, shops which could advantageously be converted from service and job-order operations into straight manufacturing operations. Each was the subject of a Task Order and it was planned that reports on each of the groups would be issued successively, thus speeding up the implementation of recommendations. In the course of the Task Order study, however, it became apparent that the problems and requirements of all three groups could most effectively be dealt with in a single report and the decision was taken to make a combined report on all three Task Orders.

The shops selected for study fall under the jurisdiction of three separate Indonesian government departments, in addition to which some are government-owned and some are private. Indonesian participation in the project involved the setting up of interdepartmental machinery and the assignment of Indonesian personnel from the three departments concerned,

as well as representatives from private industry. The necessary arrangements took some months to complete, and it was not until June 1963 that they were formalized.

The DPCS short-term specialist team scheduled for work on these task orders comprised six engineers and one economist. Three of the engineers arrived in March 1963, one more in June and another in July. For reasons beyond the control of the Contractor, such serious delays occurred in obtaining clearance to send to Indonesia the last of the engineers and the economist that it was eventually decided to replace their services by extending the tours of the short-term specialists already in Indonesia and by using resident staff. On the Indonesian side, even after the organization was set up, the amount of time that the personnel assigned to the job could actually devote to it proved substantially less than the program called for. These personnel shortages necessitated rescheduling of the work on several occasions. In addition to shortage of manpower, execution of the task order was delayed by logistical difficulties, particularly inadequate transport. In spite of the obstacles, a preliminary draft of the task order report was completed and handed over to the GOI in June 1964. The draft was revised and completed in the United States in the subsequent three months and the final report was reproduced and delivered in September 1964. The report contains not only industry-wide recommendations but detailed recommendations for specific shops which, it is hoped, will prove useful operational guides to the managements of these shops.

G. Pre-Task Order Reports

The Pre-Task Order Reports cover the following subjects:

Pulp and Paper Manufacturing Potential in Indonesia
Electric Power Systems of East and Central Java
Transport of Urea from Palembang
Expansion of Urea Fertilizer Plant at Palembang
Ship Repair Facilities in Indonesia
Proposed Expansion of the Letjes Pulp and Paper Plant

Of these the most detailed is the report on electric power. This contains a detailed survey of the power systems in East and Central Java, together with comment on operating deficiencies and problems, and tentative proposals for remedying them. It constitutes a general guide and initial appraisal which should be of value to any team undertaking the detailed survey necessary before definitive recommendations would be possible.

The report on pulp and paper is of a more general character but provides in concise form a summarization of much basic information necessary to the formation of judgments with respect to specific projects. The report on ship repair facilities contains a description of the condition of the merchant fleet and of the major facilities in Indonesia for its repair and maintenance. Although these Pre-Task Order reports reflect only such preliminary investigation as was necessary for judgement on and formulation of Task Orders, and no claim is made that they cover the ground completely, it is believed that they provide useful guidance for those who will be required to deal with the problems discussed.

In addition to the Pre-Task Order reports a number of memoranda on other subjects were prepared for and delivered to the GOI, but were not reproduced in numbers.

H. Training of Local Personnel

The contract did not provide or call for formal training of local personnel except as Indonesian personnel assigned to work with DPCS in connection with the task orders undertaken would in this manner receive on-the-job training. Many of the Indonesians working with DPCS showed much enthusiasm and took full advantage of the opportunity offered. Mention should also be made of the close working relationship developed in the very extensive pre-task order work done on electric power, which provided a great deal of informal training for the PLN engineers. In sum, the time and effort devoted to training local personnel was substantial, and it is believed that the results were highly beneficial.

II. PROBLEMS ENCOUNTERED OUTSIDE SCOPE OF WORK

The problems encountered in performance of the contract were the consequence, firstly, of external events which prevented the issue of task orders beyond the first four; and, secondly, logistical difficulties which continuously delayed and hampered the execution of the work authorized. Under the terms of the contract the GOI was required to furnish adequate housing and office space, transport facilities, and rupiah funds for local expenditures. The difficulties and delays encountered in obtaining these have been described in the Monthly Reports and need not be detailed here. It should be emphasized that these difficulties were not caused by lack of good will or effort on the part of the GOI officials concerned but by their inability, given the prevailing physical, economic and financial conditions to satisfy requirements readily. In the end essential needs were met, not infrequently with the assistance of AID, but in the process much time and effort was diverted from professional work and operations were inevitably delayed.

III. PERSONNEL

Following is a list of DPCS personnel, giving their functions and (for resident and short-term specialist personnel) the period of service in Indonesia:

<u>Resident Field Staff</u>	<u>Function</u>	<u>Period of Service in Indonesia</u>
Bernard R. Bell	Project Manager	
William B. Gates	Chief Development Specialist and Deputy Project Manager	6-18-62 to 8-10-63
M.B. Thresher	Financial Economist, and Deputy Project Manager (from 8-11-63)	12-6-62 to 4-7-64
Allen M. Sievers	Development Economist, and Deputy Project Manager (from 4-8-64)	9-24-62 to 7-17-64
Douglas Davies	Chief Engineer	7-1-62 to 6-18-64
Parker A. Lyle	Civil Engineer	7-16-62 to 6-18-64
Cloyce I. Dixon	Administrative Assistant	6-18-62 to 7-20-64
Elizabeth Hayes	Secretary	8-7-62 to 7-19-64
<u>Short-term Specialists</u> <u>Task Orders I, II, III</u>		
Orvis J. Fairbanks	Group Leader and Shop Production Specialist	3-11-63 to 6-26-64
William Jennings	Shop Production Specialist	3-25-63 to 3-3-64
Albert Hehl	Machine Tool Specialist	3-18-63 to 5-1-64
Clarence King	Fabrication Equipment Specialist	6-10-63 to 2-10-64
L.O. Hofstetter	Foundry and Forging Specialist	7-18-63 to 1-16-64
<u>Task Order IV</u>		
Walter Attrill	Engineer	2-11-63 to 4-9-63
Max Moore	Procurement Specialist	5-1-63 to 6-30-63

IV. FINANCING OF THE PROJECT

Dollar funds were provided by Contract AIDc-2354,

PIO T 497-25-125-3-14911 and PIO T 497-25-125-3-20042, in the amount of \$1,200,000 by the execution of the Contract on March 6, 1962.

Dollar Expenditures were as follows:

Direct Labor	\$408,146.46
Overseas Differential	60,462.50
Transportation and Overseas Shipping	71,526.92
Subsistence	3,077.00
Material Equipment and Supplies	36,715.02
Miscellaneous	23,339.71
Overhead at provisional rate subject to adjustment to actual upon completion of Audit by AID	282,335.67
Fixed Fee	<u>202,019.00</u>

Estimated Total Dollar Cost Expended \$1,087,622.28

The above costs are estimated. Final Voucher to be submitted within six months after completion of the Contract. It is anticipated that there will be no material change in the above amounts.

Local Currency funds were provided by Finek in accordance with Contract AIDc-2354 in an initial advance of Rupiah 3,500,000. Additional funds were provided monthly during the period of the Contract.

Rupiah expenditures were as follows:

Local Labor	RP 2,840,924.01
Travel Expense	480,314.44
Per Diem Allowance	338,373.78
Per Diem Allowance (Proj. Manager)	212,838.00
Project Director's Expenses	50,150.00
General & Miscellaneous	24,520.00
Translation & Language Study	67,550.00
Task Order Expenses	372,538.50
Motor Vehicle Operation	769,570.19
Stationery & Office Supplies	262,272.13
Postage & Express	248,374.65
Telephone & Telegraph	401,905.25
Subscription & Books	25,299.00
Housing Maintenance	5,827,200.92
Insurance	17,540.14
Employment Expenses	34,563.00
Property Purchased Locally	2,099,984.05
Bank Charges	<u>946.25</u>

Total RP 14,074,864.31

V. OVERALL APPRAISAL OF THE PROJECT

It was the original conception of the Government of Indonesia, AID and the Contractor that the latter would provide two services. One was to consist in economic advisory services by the Project Manager to the First Minister of Indonesia on whatever matters the latter might request advice. (In view of the necessarily confidential nature of the advisory relationship the contract did not call for reports by the Contractor to AID with respect to this service, and hence there is no description or discussion of this service in this report).

The second service was to consist in assistance by the Contractor to the Government of Indonesia in the planning of specific investment projects. It was contemplated that the project reports prepared by or with the assistance of the Contractor would lead to the undertaking of specific investments and in many cases would provide the basis for external assistance in the financing of these investments. It was not contemplated that the Contractor would attempt to develop or assist in the preparation of an overall economic development plan for Indonesia. This last reflected the judgement of all concerned that:

- (a) Preparation of such an overall development plan would be premature until more experience had been acquired in lesser planning operations (those related to specific sectors or projects) and until a reasonable body of data and information had been developed.
- (b) Quite a number of the high priority investments necessary in Indonesia were apparent even without the preparation of a comprehensive and balanced overall development plan.
- (c) The prime requirement in Indonesia was for action and for the acquisition of experience by Indonesians in planning and implementing specific investment undertakings.

It was nevertheless necessary for the Contractor to work within the framework of a rational overall economic strategy. Such a strategy was developed in consultation with the First Minister and in the light of the economic circumstances of Indonesia at the time the Contractor began work. Expressed in most general terms, this strategy involved concentration of investment on the rehabilitation of existing production facilities, the restoration of productive capacity and of production (for domestic and export markets) where this was deteriorating, the completion of projects already under way, and improvement in the utilization of existing facilities. All of these were expected to require capital investment, but investment which was modest in relation to existing assets, which would yield very high returns, and would help to provide a necessary base for subsequent expansion of capital facilities.

This strategy implied assistance to the Government of Indonesia in the examination and planning or re-planning of a number of projects which were already under way and already financed but only partly planned. It also implied advice and assistance to the Government of Indonesia in the operation of existing facilities which were being ineffectively operated and were therefore yielding low returns. These two types of assistance became difficult for the Contractor to provide partly because they were considered by some not to fit into a literal interpretation of the contract, and partly because, in view of the sources of the materials and financing involved in a considerable number of the projects already under way, it was considered that "commingling" might occur and should be avoided.

The Contractor's efforts therefore had to be concentrated solely on rehabilitation and, in a few instances, expansion of existing facilities.

Task Orders I, II, III and IV were therefore developed and executed. Task Orders V and VI were developed and others with the same general objective were in preparation. However, with the continuing inflation in Indonesia, the continuing decline in export receipts, the increasingly bleak outlook with respect to foreign aid, and preoccupation with other than economic objectives, the prospects for even this type of investment activity became more remote and the immediate utility of the Contractor's services more uncertain.

This project was unusual in respect to scope and organization, and it is unfortunate that circumstances did not permit the conception to be completely tested. To be fully effective it clearly needed to be in operation for a substantially longer period than two years, and ideally until the Indonesian Government could establish its own organization for making surveys and project feasibility studies, preparing documentation for loan applications and invitations for engineering and construction services, and in general carrying out the work that DPCS was set up to do. DPCS was not in fact able to carry any project beyond the stage of detailed survey and recommendations, and this in only two areas. As explained above, this was due to external events entirely beyond the control of DPCS.

Taking into account the time that had to be spent in setting up the organization, which in the conditions prevailing in Indonesia and under the contract arrangements was inevitably lengthy, the difficult working conditions, the fact that at no time did DPCS have all the staff authorized, other difficulties indicated above, and external events which made programming and continuity of operations difficult, the total achievement may be considered substantial. All the work undertaken involved close working relations between the DPCS staff on the one hand and Indonesian officials and repre-

sentatives of private business on the other. Though the benefit derived from this collaboration by both sides cannot be measured, it was undoubtedly considerable.

In conclusion, we express the hope that at some time in the future constructive assistance of the type contemplated will be opportune. It is hoped that the lessons learned in the course of the effort conducted under this contract will be taken into account in planning any arrangements then made.