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INDUSTRIAL FINANCING OF PUBLIC MANUFACTURING ENTERPRISES IN INDONESIA [1]

by

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A. FINANCING OF PUBLIC MANUFACTURING INDUSTRIES

1. Introduction

The main principle of a nation's planning is the implementation of a development effort founded on its own ability. This means that domestic sources of financing must be mobilised and utilised efficiently.

Foreign resources are only meant to fill the existing gap between requirements and domestic resources. This is a difficult task in any country, the more in Indonesia as it has to be recognized that it has inherited from the previous government very deteriorated financial conditions, such as hyperinflation, a near collapse of the government revenue collection system, serious disruption of the banking system, flight of capital from the country and a build-up of foreign debt.

The first task of the new government is to arrest the process of economic deterioration and to create a sound basis for economic growth. Much progress has been made over the past two years; the level of inflation has been considerably reduced, the financial system, by introducing corrective measures has, to a certain extent, been restored to its normal functioning, directly resulting in increase of revenue, and for the first time in many years, not only the state budget was balanced in 1968, but all government routine expenditure was financed by domestic revenue.

For development, however, our ability to provide resources domestically is still limited and foreign funds will have to be utilised to the maximum whether in the form of credits or investment, as long as these funds do not involve political commitments and are used in a responsible manner.

Due to the huge debt service, the foreign financial assistance has to be under the softest terms possible.

Even though foreign resources play an important role, the main attention must still be on the mobilization of domestic financial resources. The Government is continuing its effort to increase domestic savings for increasing State revenue and reducing non essential and non productive expenditures. In addition to public savings, retained earnings of enterprises for reinvestment is another effort for utilisation of domestic resources. Promotion of bank deposits will be implemented and it is expected that it constitutes an important part of domestic resources.

Improvements are also made in public administration and changes in structure are introduced in the field of supply, distribution and production. In the export sector, policy will be directed towards attainment of substantial growth and diversification. For imports a policy will be followed which will alter the composition in such a way to push forward the development of the country: capital goods, operational supplies, raw materials and essential consumer's goods. Basically Governments efforts are concentrated on activities in infrastructure. The Government will initiate an investment program to meet the following needs: improvement of road and railways, port facilities, power, telecommunications, airfields, watersupply etc.

In the field of production, both domestic and foreign capital should be considered. Because of its high profitability and expansion potential, the industrial sector is very attractive for private capital investment. Hence efforts will be made to induce and encourage private capital to develop manufacturing industry. Through various measures domestic and foreign private capital will be given a chance to play an important role in industrial development. If no private capital is interested in a vital branch of industry, due to to its experimental or pioneering nature of the undertaking, the Government will decide to make its own investment.

In this connection, corrective measures are undertaken in the case of existing state enterprises, with the aim that they may be able to fulfill their development task rather than become a burden to State finance. In structure all public manufacturing enterprises will be converted to public companies subject to civil law.

As for financing of manufacturing enterprises, public as well as private, the Government has decided that the banking system is relatively better equipped than any other financial allocating system. The main Government policy on financing of State manufacturing enterprises is to reduce or eliminate the previous procedures of direct investment from the State Budget and channelling the funds through to State banking institutions.

To make these institutions able to perform this duty, major changes have been introduced in the legal status, function and activities of the State Banks.

A series of measures has been put in operation to expand the financial resources available to the State Banks.

2. Sources of finance.

As all funds required for investment in public manufacturing enterprises should be channeled through the banking system, it is appropriate to give short summary of the recent major changes made in the organization of the financial institutions.

During the years of increasing inflation from 1961 to 1966, the financial system was disrupted. Along with the decline in real value of bank lending, there was an increasing concentration of this activity in the Central Bank; even the limited amount of lending by other State Banks was largely based on Central Bank credit. In the last half of 1968, the Government submitted a draft new legislation to the Parliament, revoking the consilidation of all Government owned banks into one single institution, which had taken place in 1965. This legislation was approved by the Parliament in late 1968 and as such the eight (8) State Banks are again separate entities, accountable for their own operations.

This new bank legislation defines also the major areas of concentration of the several State banks, both in long-term financing as well as short term inventory and production credit.

Although it is recognised that one (1) State Bank has been for the past mainly a long-term lending institution, while the others are doing mainly short-term financing, this concept of rigid separation of short and long term lending institutions has not been followed in the new legislation for several reasons:

a. Several State Banks have already specialised competence in certain areas and they are therefore better qualified for the whole range of financing needs in those areas than would be the case for a bank that was just entering the area.

b. To introduce some degree of competition and to give prospective borrowers some choice, so that they are not dependent on just one source of financing. A monopoly of the long-term lending activities inevitably invites [illegible] pay-offs.

The State Banks which direct their activities to the industrial sector are: Bank Pembangunan Indonesia (Indonesian Development Bank) and Bank Negara Indonesia 1946 (State Bank established in 1946).

Specialized functions being outlined by the Law on Principles of Banking, approved by the Parliament in late 1968, for those above mentioned State Banks and the Central Banks are:

a. Bank Indonesia (Central Bank)
To function as a normal Central Bank and to assume its role as a banker's bank and as the bank for the Government. Its main function are to assist the Government in regulating and maintaining the value of the rupiah, to stimulate production and development.

b. Bank Negara Indonesia 1946. (State Bank est. 1946)
To carry out commercial and investment undertakings for the industrial sector.

c. Bank Pembangunan Indonesia. (Indonesian Development Bank).
To direct its activities to the industrial sector, specifically for the financing of medium and long-term investment to government as well as private enterprises.

A basic change affecting the operations of the banking system is a series of measure introduced to expand the financial resources available to the Bank. These are:

a. Transfers from the government's development Budget to the State Banks for making long-term loans.
b. Participation of the Central Bank in the financing of long term loans.
c. Substantial Central Bank credit to the State Banks to finance the import of commodity-aid goods.

d. **Raising the interest rate on time-deposits.**

e. A subsidy from the Central Bank to the State Banks to cover part of the interest payment on deposits.

f. Insured savings account with lotteries for savers.

2.1. Domestic Sources.

i. Allocation from the State Budget.

In the annual financial plan, fiscal, foreign exchange and credit budgets are three main elements. One of the aspects of the budget formulation is to get a clear picture of the potential demand for longterm financing and to relate these to the production and investment targets in the Five Year Plan.

A working group of representatives from the Central Bank, State Banks, Planning Board and the Ministry of Finance is estimating the components of demand. Also the relevant Departments will be consulted. The results of this work will form a basis for the Government in allocating that part of the State Budget that will be channelled through the financial lending institutions. The State Budget funds will become part of the equity capital of the State Banks. There is no specific commitment to pay interest on this Budget part. The budget portion is very substantial in the current years available funds for lending activities and this will remain the case throughout the coming years.

ii. Participation of the Central Bank

Central Bank credit has in the past two years been used mainly to support short term loans of less than one year. Since the new fiscal year the Central Bank is also taking part in investment banking by discounting loans of up to 5 years. The rediscounting rate has been set at one half the lending rate of the State Bank, which rate may be differentiated in time as a means of encouraging the State Banks to change the allocation of their investment loans.

2.2 Private Sector Channels.

i. In mobilising private savings, measures on time deposits introduced in September 1968, aim at giving continuing encouragement to savers and assuring that the means of savings are both convenient and secure, by maintaining the interest rate at a level which will attract substantial savings into the banking system.

If the prevailing rates are not high enough to achieve this, consideration will be given to raising them. On the other hand as the rate of inflation declines, the rates of interest on deposits will be reduced until it is lower than the average loan rates and eventually both deposit and loan rates will be further reduced as the inflation is brought under complete control.

ii. Other programmes to promote savings will also be introduced, such as a system of installment deposits with lottery to encourage regular weekly or monthly deposits out of current income. It includes insurance of all deposits by the Central Bank and will be available for State Banks and qualified private Banks.

2.3. Internal channels.

i. The new law on State Enterprises makes it possible for them to use their retained earnings for investments. Until recently 55% of their net profits should be transferred to the central Bank in the form of General Development Fund. This regulation is now abolished and State enterprises are now able to use a substantial part of their net profits for investment within the firm.

ii. It has been mentioned before that under the new law for State enterprises, the Manufacturing units will become Public Companies subject to civil law. As such they have the right to issue shares, to be placed with the public.

2.4. External Sources.

Failures of the fiscal and financial systems in the past resulted in a very limited savings potential and investment in the country. Although the Government of Indonesia has succeeded in restoring the financial system to its normal functioning, with the result of an increase of domestic revenues, foreign aid will be needed in the initial stages to finance part of investment. This aid takes the form of programme aid (so called BE-aid), the counterpart of which constitutes a sizeable part of the development funds, project aid and technical assistance.

i. In the case of the foreign aid financing of general imports, the state banks are authorized to give direct credits to, or guarantee deferred payments by end users of investment-type goods for up to three years. Such credits are generally for smaller scale investment activities for replacing old equipments and obtaining adequate stocks of spare parts.

The State manufacturing enterprises are eligible for this kind of aid on prevailing interest and repayment terms.

ii. In the case of a foreign aid loan to the state banks for relending as project loans to borrowers both private and public should be used mainly for importing capital goods. These sub loans are intended, to take the place of suppliers credits, but payable in rupiah at the prevailing exchange rates.

iii. For typical project aid loans, which usually are larger than those mentioned above to be used for extensive rehabilitation or a sizeable expansion, loans are sought by the Government on soft terms for individual state enterprises. This third kind of aid loans warrants a thorough project appraisal [illegible] and the consultants originating from donor countries or [illegible] concerned.

The terms under which the Government will re-lend to the individual State Enterprises through financial institution are on the same rate as the interest concerned but the grace period during the construction work and repayment time will be considered case by case to insure that the state enterprises will be able to make full repayment plus interest to the banks in rupiah at the prevailing exchange rates.

The Government will guide and influence the pattern of both public and private enterprise investment by its effort to obtain direct foreign financing through financial institutions. Thus the Government and the Central Banks can influence the amount of investment funds going to different sectors by allocation from the development budget, loans from Central Bank and foreign loans to the financial institutions.

As has been stated before, on investment activities of Government-owned enterprises there is no direct control by the Government. State Enterprises must endeavour to generate funds from their own activities. In addition, a more important source of finance is the funds channelled through the banking system. Two goals are sought, namely: the requirement for essential investment and operational requirements of the plan should be fulfilled, while on the other hand responsibility of each state bank to determine its own investment policy should be reserved and in fact enhanced.

Heavy responsibility will be placed on the financial institutions to mobilize [illegible] and [illegible] them into the channels of efficient [illegible]. [illegible] of the [illegible] will [illegible].

iv. Joint Ventures

By providing [illegible] of foreign capital, an intensified flow of [illegible] capital [illegible] the Indonesian economy [illegible] domestic savings, [illegible] investment.

In this framework, [illegible] between foreign [illegible] and [illegible] enterprises. [illegible] joint ventures in [illegible] be negotiated [illegible] in the Law no. 1/67 [illegible] for the [illegible] in the joint venture in proportion to its share.

Comparative advantages and disadvantages of the various sources of financing [illegible] of [illegible] enterprises

1. Domestic Sources

The [illegible] of the individual [illegible] to trust his savings to [illegible] savings institutions depends to a large extent upon his confidence in the Government and in particular upon his confidence in the economic policies pursued. First prerequisites for winning this confidence are a stable price level and sufficient trust on the part of the saver that savings can be converted into cash later on. In order to promote savings through the banking system instead of hoarding, promotional activities and incentives for instance attractive rates of interest on savings are called for. In order to translate savings into investments in an efficient way [illegible] have to be properly guided and supervised in management affairs.

[illegible] important step [illegible] the banking system is [illegible] to [illegible] through [illegible]

[illegible] They [illegible] some [illegible] policies [illegible] the Government [illegible] outlined [illegible] during the [illegible] will [illegible] a modest [illegible] years [illegible] especially in the [illegible] stages of [illegible] aim.

Regardless of whatever may be [illegible] public savings, the proportion of it [illegible] investments in manufacturing industries is [illegible] A large part of the [illegible] development is [illegible] cannot [illegible], for instance, [illegible] works and improvements in [illegible] should be kept in different [illegible], [illegible] ability of funds for industrial projects

[illegible]

[illegible]

[illegible]

[illegible]

Furthermore, in view of the low level of domestic resources available, the Government is only willing to accept project aid provided the necessary funds for complementary investments in the Rupiah sphere are available. In this connection Indonesia wants to maintain a balance between project aid and other forms of aid like food aid and programme aid, both of which generate counterpart funds, to be used for the domestic component in investment projects. Other considerations are also taken into account in deciding whether a foreign loan is acceptable. One of these considerations is that Indonesia, receiving assistance from many donors, is not willing to give special privileges to any one of them at the cost of other donors. A second consideration is that no loan can be accepted which has negative effects on Indonesia's own production potential. A further problem to be taken into account is that aid is normally tied to procurement from the donor country, which may mean that prices quoted are not competitive. Also, there are sometimes other procurement restrictions which are not to the interest of Indonesia.

In all these cases the impact of foreign aid is less than optimal as considered from the Indonesian point of view. This does not mean that Indonesia does not appreciate the foreign aid rendered; quite the contrary, it is well realised that the success of the development effort, to a large extent depends on the willingness of the donor countries to assist Indonesia through foreign aid. In order to have the greatest possible impact it is, however, necessary to obtain the optimal mix of foreign assistance.

Programme aid, or commodity aid, increases Indonesia's capacity to import, which may be essential to keep existing industries working at capacity.

Project aid, bilateral or multilateral, aimed at specific projects constitutes an important part of the development programme. It has to be admitted, however, that there are a number of drawbacks to project aid.

In the first place in order to be fully effective, investments in complementary or related projects is normally required. Since these related investments are in general not included in the project aid agreement, the foreign exchange costs of these additional projects have to be found elsewhere.

In the second place, since project assistance available from individual donors is very much limited, efforts to come to a certain degree of standardization of equipments can not always be realized. Sometimes even replacement of existing equipment becomes difficult as the potential donor cannot fulfill the requirements needed.

In addition there may be some difficulties originating from the fact that project loans are tied. This limits the scope for competitive bidding, and may result in too high prices for the investment goods obtained.

Finally, the procedure to be followed for obtaining project aid are complicated and, what is more important, time consuming. As a result they are more appropriate for large investments than for medium and small investment. In order to ensure that investment funds are also available for medium and small scale industries the Indonesian Government is seeking for loans, on soft terms and only for priority areas, which can be channelled through the banking system. By leaving the screening and appraisal of medium size project requests to the State banks considerable time can be saved. At the moment funds available for this scheme are normally tied to individual donors, but it is hoped that in the near future more flexibility can be obtained.

International organisations like the I.B.R.D., mainly through its affiliate I.F.C., and the [illegible] are participating in the development [illegible] for projects [illegible].

The I.F.C., also an affiliate of the [illegible], is [illegible] the construction [illegible] between the I.F.C., [illegible] Government-owned [illegible] plant. [illegible] will pay great attention [illegible] possibilities [illegible] with the I.F.C., [illegible] recruiting [illegible] promoter of joint ventures.

In this connection, it should be mentioned that [illegible] the basis of the [illegible] Law on Investment of Foreign Capital, [illegible] invites private foreign investors [illegible] to the development and growth [illegible] offering a number of incentives [illegible] foreign investors [illegible] priority is given [illegible] which additional incentives [illegible] that the [illegible] Law allows for joint ventures with [illegible] as well as with Government owned enterprises.

[illegible] [illegible]

[illegible] [illegible]

[illegible]

[illegible]

[illegible]

- [illegible]
- [illegible]
- [illegible]

[illegible]

[illegible]

- [illegible]
  1. [illegible]
  2. [illegible]

3. Although a Governmental Agency may receive assistance or subsidy from the Government, in its dealings, business strictness and cost accounting principles should be observed.

4. It has all Government facilities and the personnel are Government officials.

An example of a Governmental Agency is the State Publication Centre.

B. Public Corporation.

1. The purpose of the undertaking is to serve public interest (public utilities). It has its own identity and freedom [illegible] its business dealings.

2. Being [illegible] based on the [illegible], the legal status is arranged in a private [illegible].

3. The stock capital [illegible] by the State [illegible] State Budget [illegible] Public Corporation [illegible] funds from the State.

4. [illegible] except [illegible] and [illegible].

5. The management is in the hands of a Board of Directors, appointed by the Government.

6. Personnel [illegible] arranged [illegible] regulations [illegible] Government officials [illegible] company [illegible].

7. Organization [illegible] and [illegible] be arranged according to the size of the undertaking.

8. The undertaking should hold firmly on all requirements of efficiency, cost accounting principles and management effectiveness.

9. Yearly report, balance sheet as well as yearly budget plan should be submitted and approved by the Government, i.e. Department of Finance.

e. Public Company

1. The base of this undertaking is primarily that of an ordinary company, having a legal status of an incorporate body and is subject to civil law.

2. Provisions concerning the purpose of the state participation in the capitalisation of a public company, the amount of separated state's wealth for the relevant capital participation, management of state ownership will be stipulated in a separate Government regulation.

3. The Minister of Finance is designated to represent the State as a shareholder [illegible] state capital participation. In settling the [illegible] company before the Public [illegible], the [illegible] delegate the authority to represent the State, together with the [illegible] to a Minister whose field is in accordance with the purpose and field of activities of the relevant company.

4. In the case where not all the shares are owned by the State, then the amount of preferred stocks owned by the State will be determined [illegible] in accordance with the [illegible] of the relevant company. The [illegible] company of which the capital [illegible] owned by the State, is determined by the amount of preferred stocks held by the State.

5. Dividends which become the right of the State as a shareholder must be deposited with the State's General Treasury.

6. In the case of the Company's capital being entirely owned by the State, the appointment of members of the Board of Directors and Board of Supervisors will be carried out by the Minister of Finance as share holder on the basis of the following provisions:

   a. the appointment of members to the Board of Directors is carried out at the suggestion of the Minister whose field is in accordance with the purpose and field of activity of the relevant Company.

   b. the appointment of members of Supervisors is carried out after having heard the views of the Minister whose field is in accordance with the purpose and field of activity of the relevant Company.

7. In the case where only a part of the Company's capital is owned by the State, the nomination of members to the Board of Directors and the Board of Supervisors to the General meeting of shareholders is carried out by the Minister of Finance as holder of preferred stocks. The appointment of a Board of Directors and Board of Supervisors in such public company constitutes the authority of the General meeting of shareholders.

8. The Minister of Finance carries out the management of ownership of each State Capital participation. This is based on the considerations that the problem of investing State wealth in a public company's capital is very closely related to the State financial policy, whereas the entirety of this policy constitutes the task of the Minister of Finance. The implementation of this management of ownership is conducted by a Directorate, within the scope of the Director General of Finance of the Department of Finance.

9. The personnel of a public Company have a status of a common enterprise employees.

10. An existing State Enterprise which will be transformed into a public Company must fulfill the following conditions:

   a. It has made changes in such a manner that the ratio among factors of production indicate its soundness.

   b. Balance sheet and income statement is inspected by the Directorate of State Accountancy and approved by the Minister of Finance.

   c. It has paid all its debt to the State's General Treasury.

   d. It has a prospect for sound operating.

11. The opening balance sheet of a Public Company will be determined by the Minister of Finance.

From the above stated stipulations it will be observed that the main function of a Public Company is to mobilise funds for the State or to function as an instrument to collect financial resources for the State. On this basis, the main condition for capital participation by the State, is a certain assurance that the Company should yield profits for the State's General Treasury. As such all existing Public Manufacturing Enterprises will fall in the category of Public Company. In effecting the transformation of form, a request from the relevant Minister should be made to the Government, as a consequence of which a separate Governmental regulation will be issued and be published in the State Gazette.

The success or failure of a Company in fulfilling the main function will depend to a certain extent on the Management as carried out by the Board of Directors. In this connection it is obviously imperative, that the appointed members have the skill and knowledge of the field of activity of the relevant Company. It is also stated that the administration of state ownership of each State undertaking in the form of Public Company will be centralized with the Minister of Finance. This is understandable as the Minister of Finance is responsible for each undertaking of State wealth. However, provisions such as substitution right of the Minister of Finance to the Minister in the technical field and suggestions in the case of nominations or appointments of members to the Board of Directors will ensure the relationships between the Government i.e. the relevant Minister and the Public Company.

2. <u>Planning (Forecasting) Financial Requirements for New Industrial Enterprises.</u>

The Five Year Plan for economic development formally came into operation on the 1 April 19[illegible]. Unlike many Plans using the overall rate of economic growth as a target from which the requirements for investment are calculated within a macro-economic frame-work, in this Five Year Plan Development Plan the targets for certain factors are only predetermined and their investment requirements were then adjusted to estimated available financial resources and reformulated within these financial limits.

The method of partial planning was used mainly because of the lack of macro-economic data. It is considered unwise at present to base the Development Plan on unreliable data. In addition, inflation which formerly has raged in the economy, destroyed the comparative relationship among various goods and services.

Instead emphasis is given in careful planning which can ensure the harmony and consistency between the various sector plans and the proper planning of projects and formulation of policies.

All this will be carried out within a planning framework which ensure flexibility, permitting necessary adjustment to changed conditions. More important is the implementation of planning and the annual operational plans. In these annual plans, further details will be formulated on the actual projects to be implemented with targets and financing clearly specified.

The annual State budget plus the planned (estimated) credits to be granted through banks and foreign exchange allocation which are formulated constitute an actual guide for economic activities. These three items, accompanied by provisions for their financing, constitutes a programme of action for the agencies implementing the development programme and projects.

As for forecasting financial requirements for new Industrial Enterprises, it should first be known that the Government is pursuing a disinvestment policy, by converting Government-owned enterprises into Public Companies, operating under customary company status and regulations and wherever possible joint ventures with private enterprises will be effected. If reasonable offers are available, even a take-over of State enterprises by private concerns are possible. As such no new State Industrial project will be prepared, except in case no private investment is forthcoming in a sector of industry, which is considered vital for the economy.

Instead the Planning Board together with various agencies of the Department of Industries will formulate sectorial targets in the annual plan and selection of projects in the light in the plan objectives. In drawing up programme of the private sector, estimates of investment will be worked out in collaboration with representatives of the industries, based on judgment as to what is feasible and desirable.

As of the last mentioned criteria, the Plan gives the following emphasis for the development of industry at this stage namely:

a. Industries which support the agricultural development by producing inputs required in agriculture.

b. Industries earning foreign savings and/or producing import substituting commodities.

c. Industries based on indigenous raw materials.

d. Industries which utilize relatively more manpower than capital.

e. Industries which by their commulative effect promote regional development efforts.

A tentative draft programme is worked out, by aggregating schemes and projects, submitted by various Departments and other non-departmental agencies. The total investment requirement is assessed in the light of available resources, [illegible] as well as estimated for [illegible]. If the required investment outlay exceeds the available funds, the projects are subjected to critical examination and the total is reduced under a system of priorities, the considerations of which is based on the criteria mentioned above.

[illegible]

[illegible]

1. [illegible]

[illegible]

[illegible]

In a number of cases, however, public enterprise is acceptable or even preferable within the Indonesian economic philosophy. Public enterprise is acceptable in all those cases where investment in new industries receives high national priority, if no private investors are willing, or able, to make the necessary investment. Generally the reason why no private enterpreneurs are interested in such new industries is the lack of capital.

Since Indonesia has not, as yet, an organised capital market, the government may have to step in, in cases where lack of capital is the main bottleneck, provided that the investment project is sound and deserves priority within the Five Year Plan and provided the lack of capital can not be solved by other means.

Public enterprise is preferable in cases where the market mechanism is not able to bring about optimal decisions.

This will be the case if:

a. There is a difference between private and social costs and/or benefits. In some cases a project may have favourable macro-economic benefit cost ratio, whereas from a micro-economic point of view the project is not very attractive. These differences in social and private profitability may be due to external effects, employment criteria used by the government, complementary effects etc. In all cases where the macro-economic profitability exceeds the micro-economic profitability, part of the benefits do not show up in the company's books, but accrue to society in general. If the difference between public and private profitability is substantial, public investment is warranted.

b. For technical reasons there is scope for only one or only a few enterprises in the sector concerned and if the sector shows the existence of important indivisibilities

In Industries which witness substantial indivisibilities the market mechanism is not able to set prices for the goods produced at or near the equilibrium price, especially if the number of production units is very small. In terms of costs of production the existence of indivisibilities means that fixed costs constitute a large part of total costs, whereas variable costs are of relatively minor significance only. If under those circumstances prices are based on marginal costs, the company would sustain heavy losses. If the company is able, through its position in the market, to set prices independently from its marginal costs of production, the firm will make unjustified high profits. Since the market mechanism is in these cases not able to determine the appropriate price level, both under conditions of competition as well as under monopolistic conditions, the government has to interfere in the market in order to maintain reasonable prices. This could be done through government regulations, but in many cases the most appropriate step for the government is to ensure direct control over such an enterprise.

It is stipulated in the Government Regulation for establishing of a new Public Company, that ratio between factors of production, should indicate soundness of the undertaking and that the management should have the skill and knowledge in their respective field of activity, which give assurance of efficiency of the undertaking.

Better wages and annual bonus according to practices of an ordinary company will certainly result in better performance.

The Government is encouraging reinvestment of retained earnings by tax-exemption according to the Law on Domestic Investment, including facilities of import, taxation and credit for promoted industries, which may well [illegible] development.

Furthermore the Government is supporting training programs for all levels of labor, middle and top management, as this activity is of importance for [illegible] its present stage of development.

All those programs are intended to bring better operations, thereby contributing substantially to the economic growth of the country.

25. I. 72