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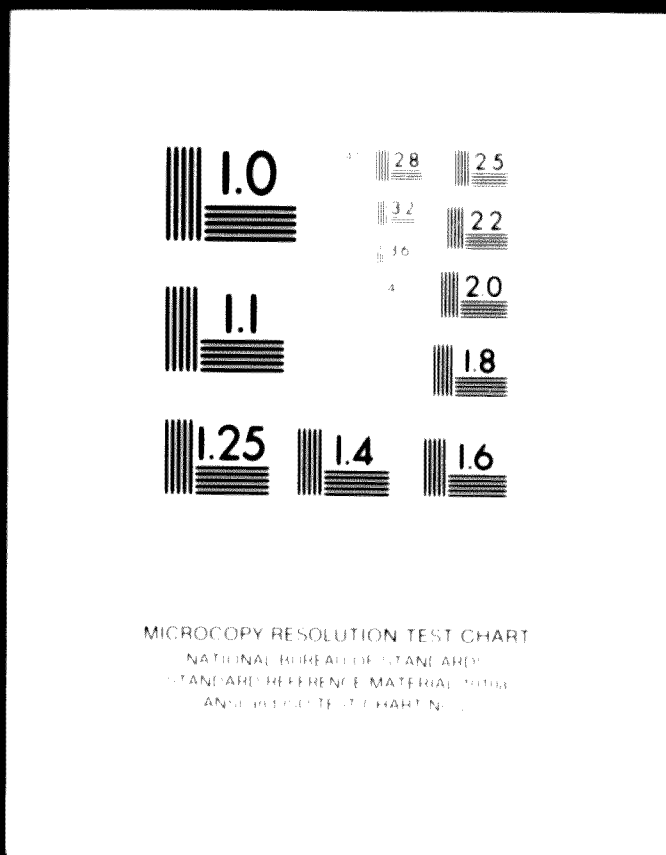
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DEPARTMENT OF INDUSTRY

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STATUS REPORT

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Indonesian

INDUSTRIAL DEVELOPMENT PROGRAM.

1971

INDUSTRIAL ADVISORY TEAM
AND
BIRO PERENTJANAAN & ORGANISASI

DJAKARTA — INDONESIA

MINISTRY OF INDUSTRY

Djakarta Indonesia

INDUSTRIAL DEVELOPMENT PROGRAM

proposed by

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U.N.I.D.O.

May 1971

Summary Recommendations
Ministry of Industry

Concurrently with the initial preparation and subsequent implementation of the 5 year Industrial Development Plan the Ministry of Industry should advise each Directorate General within the Ministry to concentrate on the following:

1. The promotion of transfer of ownership of Government Industrial Enterprise to the Private Sector. *Page 26.*
2. The identification of investment possibilities (domestic and foreign) in the priority areas detailed in Section V-A of this report with particular emphasis to export markets. *Page 23, 28, 37.*

Note: A suggested formate (Annex I) is recommended as a guide to each Director General for the gathering of pertinent pre-investment information.

As these fact sheets on investment possibilities are completed they should be made available to Bapindo for financial review and to the Investment Board for investment promotion i.e. local, foreign or joint venture as required.

Copies of the investment possibility fact sheet must also be made available to the International Finance Corporation (I.F.C.) and the Private Investment Corporation of Asia (P.I.C.A.) as well as other interested Local and International Development Banking Institutions.

3. The identification of, in cooperation with the ASEAN countries, Industrial possibilities considered feasible for Bilateral as well as Multilateral compatibility on the basis of complementary or preferential trading agreements. *Page 34*
4. The promotion of Social Development Programs for industrial employees and workers in cooperation with private enterprise for housing, medical, recreation, education, transportation, training, etc. facilities. *Page 27*

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I n d o n e s i a
Industrial Development Program

1. National Planning Objectives

Indonesia's first attempt at planning, the Economic Urgency program of 1951, was designed to concentrate on increasing the out-put of consumer goods and the processing of domestic raw materials. Due to the lack of experience of the Indonesian Government in overall planning and in the execution of such planned projects, the Economic Urgency Program of 1951 was not very successful.

The 1956 - 60 Five Year Development Plan was a realistic assessment of the long-range needs and objectives for Indonesia, however, due to lack of funds for budget support and the internal unrest during this period only a few of the major objectives were realized.

The Eight Year National Over-all Development Plan of 1961 - 69 was the most ambitious of all and was prepared by the National Planning Council (BAPPENAS). In general it consist of establishing public investment projects designed to contribute directly to the national economic development of Indonesia and were to be financed from income received from the eight major foreign exchange earners, oil, timber, fishery, copra, rubber, tin, bauxite and tourism. The plan failed because of the national internal difficulties and the unrealistic projections of the magnitude of the financial returns anticipated from the industrial projects.

The new Government under President Suharto introduced a new five year plan April 1969 - 1974 with emphasis on the agriculture sector and with priority to the production and processing of foods for local consumption and export.

Priority consideration in the development of industry in Indonesia would be given to industrial activities supporting the agricultural sector. However, the President of Indonesia in his speech of August 17, 1970 to the Congress stated the following:

"An economic structural weakness of the Indonesian economy is the fact that the greater part of Indonesia's export consists of raw materials being the product of agriculture and mining. Such an export composition has made Indonesia's economy very sensitive to price fluctuations of raw materials in the world market.

This structural weakness should in the long run be **eliminated and further economic development should make Indonesia an Industrialized country** in order to grow quickly and accumulatively. In the long run Indonesia's export composition should be more sound in the sense that her export has to consist primarily of finished goods being the products of her industries. In short, what has to be accomplished in the long run is a fundamental change of the economic structure of Indonesia.

The building up of industries on a big scale is only possible with the help of a strong agricultural basis. Industry needs market and industry needs raw materials. If the agricultural sector progresses quickly, it means that the rate of income of the greater part of the people also increase so that markets will grow quickly accommodating the products of industries. Beside, a speedy development of the agricultural sector will also increase raw materials supplies for the industrial sector. Moreover, industries need manpower while manpower need food. If the agricultural sector is unable to supply sufficient foodstuff constantly, the development of the

industrial sector will be endangered. The development of industry needs equipment and capital which in the first stages, will have to be imported. For this purpose, very large sums of foreign exchange are required. At this stage there are sectors that are producing a lot of foreign exchange and that are potentially still capable to produce more foreign exchange earning: these are the agricultural and mining sectors. If these sectors are unable to grow quickly, no foreign exchange will be available to increase the process of industrialization.

As such, it is but clear that although the long-term objective is to create an industrialized country that will grow quickly, however in its first stage priority has to be placed on the speedy development of the agricultural sector. It is only with a strong and productive agricultural sector that favourable conditions can be created enabling a rapid process of industrialization.

The same applies to the export composition. In the long run Indonesia's economy must get rid of her dependency on the export of a number of raw materials that are very much influenced by the world market. But this would only become a reality in the future if from now on we exert all our might and develop the existing source of export commodities. It was with those consideration that the agricultural sector was chosen as the core of this first Five Year Development and that it was decided also to step up the export of agricultural and mining products. This does not mean that industrial development is neglected. In this first Five Year Development Plan priority is given to industries supporting the agricultural sector, medium-size and small industries which offer employment opportunities, and foreign exchange earning industries".

The Five Year Development Plan for the period 1969/70 to 1973/74 indicates that the long-term objective in Indonesia is to build an economic structure with a balanced agriculture and industry sector. The Government recognizes that while at present emphasis is placed primarily on agriculture, preparation are being made to continue the expansive development of industry in Indonesia.

II. Ministry of Industry Objectives

The major objectives of the Ministry of Industry in Indonesia is to define, coordinate and assist in the implementation of the major private and public development projects considered as necessary prerequisites in the formulation of a sound and effective Industrial Development Program. External Technical Assistance available from a number of sources will be required to effect more efficient public and private development projects and activities through improved planning practices by the Ministry related to the needs of the industrial and commercial communities in cooperation with the private business sector.

Accelerated public and private enterprises development and investment will be accomplished through the creation of new and the strengthening of existing banking facilities, increase mobilization of domestic savings and foreign investment, modernization of production, marketing warehousing and distribution systems, management improvement, regional planning and development, industrial and investment promotion, small industry and handicraft improvement and Industrial Parks/Estates Development.

III. Priority Activities

The following priority activities address themselves to the above stated objectives:

- 3 - A. Public and private development and investment institutions to be primarily responsible for stimulating private enterprise activities.
- 3 - B. The establishment of industrial parks in several areas of Indonesia with an assured supply of electricity, water, transportation and good roads.
- 3 - C. The establishment of a merchandising mart to exhibit and promote Indonesian products manufactured within the park and other industrial areas of Indonesia.
- 3 - D. The establishment of Central Public and Bonded Warehousing Complex and a distribution center to initially service Djakarta area and to be expanded to cover the entire country.
- 3 - E. The establishment within the Ministry of Industry.
 - 1. A system for recommending new, improved or modified policies, incentives and measure to expedite domestic and foreign investment in Indonesia industry.
 - 2. A procedure for the preparation of pre-feasibility studies with the emphasis on market potential of specific projects with the greatest likelihood for local and foreign investment.
(Import substitutes, export possibilities agrobusiness and draw back assembly operations preferable in a free port zone).

3. A committee to prepare long term general plans of the major sectors of industry (private and state) in cooperation with the National Bureau of Planning and to identify special projects within the major sectors to be investigated for possible private investment.
- 3 - E. The expansion of management training programs (top managers as well as second and third eschelon) in cooperation with the Ministry of Industry Academy of Industrial Management and the several private Management Associations and Institutes.
- 3 - G. The establishment of an "Exchange Market" in Indonesia as an agency to:
 1. promote the transfer of ownership of government industrial enterprise to the private sector.
 2. promote a broad based private ownership of such transfer.
 3. encourage sales to the general public, of shares of such holdings in the open market at low denomination limiting the number of shares permitted to be purchased by any one shareholder.
- 3 - H. A survey to investigate the interest and potential of Indonesia private enterprise participating in social development for industrial workers such as housing, health, medical, recreation and educational programs, sponsored and financed by groups of local industrialists in cooperation with company employees.
- 3 - I. The organization of an Export Promotion Incentives Program sponsored by the Ministry of Industry.
- 3 - J. The establishment of a full time working committee sponsored by the Ministry of Industry to explore Asian Economic Cooperation and collaboration.

IV. Requirements for Priority Activities

Development Banking, Industrial Credit and Investment
Promotion Facilities.

A. Public and private development and investment institutions to be primarily responsible for stimulating private enterprise activities.

A - 1. Government Development Corporation

The Indonesian Development Bank (BAPINDO) must be reorganized or a new institution created to be primarily responsible for the acceleration of private enterprise activity, development and investment in Indonesia.

Indonesia must establish as soon as possible an effective Government Industrial Development Corporation. This corporation shall be a legal entity with its own resources; enjoy autonomy in the administration of its capital, operations and services and shall enjoy the right to contract obligations. The Corporation shall have the power to establish branches, agencies and representation in Indonesia or abroad at its discretion.

1 - A. Objective

The Government Development Bank objective is to serve the State as an active instrument for the realization and financing of national plans directed in general, to promote the industrial development of Indonesia and particular to:

- Promote, increase and diversify the industrial production of the country, for international consumption and for export.

- Improve the existing national systems of distribution and marketing of industrial production.
- Promote other related activities designed to strengthen the national economy and to provide permanent and profitable employment to the national labor force.

1 - B. Direction and Administration

The Government Development Corporation must be governed by a Board of Directors composed of seven Directors; three appointed by the Government from Trade, Industry, Agriculture of Labor; a representative of the Central Reserve Bank of Indonesia, appointed by the Board of Directors of that bank; a representative of the Private Banking sector; a representative of the Private Industrial Sector; and one Director in the capacity of President of the Board of Directors, appointed by the President of the Republic.

The Board of Directors will be called upon to determine the general policy of the Corporation.

A Manager will be in charge of the administrative activities of the Corporation.

1 - C. The Corporation Responsibilities

1. Stimulate the establishment, expansion and diversification of industrial enterprises.
2. Grant short, medium and long term loans at reasonable terms and interest rates.
3. Guarantee obligations for private investors when feasible.
4. Finance project through loans and equity participation.
5. Establish or directly undertake to finance economic necessity projects, provided that those projects can

not been initiated or financially supported by private enterprise. When such project become profitable stock shares will be sold to the private sector.

6. Conduct related educational activities.
7. Provide research services which promote the industrial development of the country.

The Corporation will also coordinate the services of the following activities as detailed below and as diagrammed in Chart A.

Promotional (Investment Board)
Technical (Development Corporation)
Financial (Development Corporation)
Industrial Services (Development Corporation)
Project Identification (Ministry of Industry).

1 - D. Promotional Activity (Investment Board)

The responsibility of the Industrial Promotional activity will be delegated to the Investment Promotion Center, under the general supervision of the Chairman of the Indonesian Investment Board. This activity will include the following:

1. Recommend industrial project for investigation by the Technical Department of the Industrial Development Corporation.
2. Promote projects prepared by the Technical Department of the Corporation for the establishment of new industries or the expansion and modernization of existing industries.
3. Suggest financial arrangements for new industries to be promoted.
4. Arrange for proper distribution and dissemination of potential industrial projects developed by the industrial Development Corporation

5. Recommend appropriate corporate structure for new industrial project.
6. Contact potential local and foreign investment to generate interest in financing joint-venture projects.
7. Compile data on economic conditions of the country and other pertinent statistics of interest to a potential investors.
8. Promote among existing manufactures the production of diversified product.
9. Promote a capital market within the country. (Stock exchange).
10. Promote and supervised fairs, expositions and industrial exhibitions.
11. Maintain current data on costs of services (energy, water, transportation etc.) prices of lands, construction and other cost data required by potential investors.

Minimum Recommended Local Personnel - (can be expanded as required) to assist the Chief of the Technical Department in the: Engineering Studies Section, one industrial engineer, one mechanical engineer, one civil engineer, one electronic engineer, one industrial engineer, one chemical engineer and one draftsman.

In the Economical Studies Section, two senior economist and one junior economist. In the Statistical Section, one Section Chief and two assistance.

1.- F. Financial Department

The responsibility of the Financial Department as detailed below will be under the general supervision of the manager of the Industrial Development Corporation.

The Financial Department will do the following:

1. Organize the internal bookkeeping procedures of the Corporation.
2. Supervise the financial resources of the Corporation.
3. Investigate the necessary pre-requisite for the acquisition of new financial resources from international banking institutions.
4. Determine the economic and financial feasibility of loan client applications and evaluate their collateral and guarantees.
5. Supervise the disposition of loan funds for approved applicants.
6. Review books and accounts of loans client to verify inventories and accounting records.
7. Supervise compliance of loan contract provisions.
8. Collect payments of debtors and if required assign delinquent cases to the cooperation legal counsel.

Minimum Recommended Local Personnel - (can be expanded as required); The Analysis Section; directed by a Chief of Section and assisted by a Senior Financial Analyst and four subordinate financial specialists.

Section of Supervision and Collection; one Chief of Section and three assistants.

Section of the Cashier's Office consists of one Cashier and one assistant and the Accounting Department consists of a General Accountant and three assistants.

1 - G. Industrial Services (Supervised Credits)

The Department of Industrial Services will be a "Special window" of the Industrial Development Corporation designed to extend small loan (supervised credits under \$ 25.000) in addition to technical and administrative assistance to the small and medium size industries of Indonesia including handicraft. The Department of Industrial Services will do the following:

1. Administer the enterprises financed by the Corporation as detailed under the terms of the loan contract.
2. As required give technical and administrative assistance to loan clients.
3. Prepare studies and provide assistance on administrative, accounting, production and marketing problems, to small and medium size industries upon request and to the Corporation loan clients as required.
4. Assist loan clients in equipment purchases, construction requirements and management needs.
5. Assist in scientific and technological investigations as required.
6. Advise industries on improved productivity techniques.

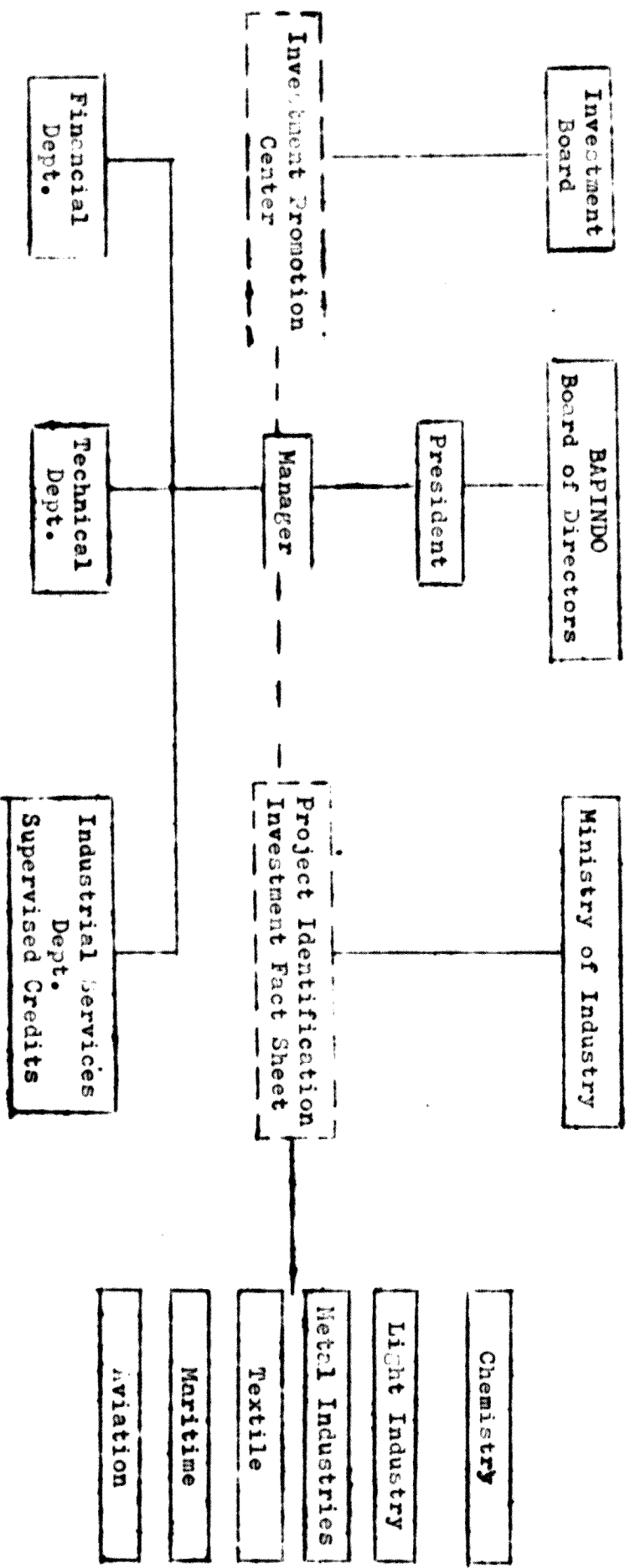
Minimum Recommended Local Personnel - (can be expanded as required) to assist this department is as follows: The Administrative Services Section, three field technicians, the Technological Service Section, five technicians.

1 - H. Project Identification (Ministry of Industry)

Project Identification will be the responsibility of the Ministry of Industry. Pre-feasibility studies with emphasis on market potential of specific projects with the greatest likelihood for investment (import substitutes, export possibilities, agro-business and draw-back assembly projects) will be directed and coordinated by a staff of 3 Ministry employees, with the assistance of one UNIDO specialist. This is one of the activities of the UNIDO "Industrial Advisory Team" project. Project Identification will be coordinated with the Investment Promotion Center within the Investment Board and the to be organized Development Corporation (BAPINDO). See Chart A.

Indonesia
Industrial Development Program

Chart A



EN/as

A - 2 Private Industrial Development Bank

A private enterprise Development and Investment Bank to serve the Indonesian Private Industrial Sector must be organized in cooperation with the Pacific - Indonesia Business Association (PIBA), other private association, the Ministry of Industry, World Bank, local foreign and Indonesian Banks, etc. as detailed below:

The function of the Private Development Bank should be to finance bankable projects generally not requiring the technical assistance and administrative services made available through the facilities of the Government Development Bank for small, medium and large size industrial projects. For industrial project capitalized beyond the financial capacity of the Private Bank arrangement will be made for equity or loan participation from other local and international financial sources.

Priority consideration must be given by the Indonesian Government (with possible G.O.I. equity participation) and the private Indonesian business sector to the immediate establishment of an effective Private Industrial Development Bank. The major concern of the Indonesian Government considering the approval of the establishment of a Private Industrial Development Bank is the lack of assurance of local private participation and the possible control of the bank in the hands of a few private investors if the bank is established.

However to be assured of a broad base local ownership of the bank with the participation of many shareholders and as a possible solution to the Governments apprehension of bank ownership in the hands of a few local investors the following is recommended:

1. In the first 3 months of 1970 the Indonesian Government has approved investment in Indonesia for manufacturing industries (excluding extractive industries) 36 companies 25 of which were capitalized at \$500.000 or more for a total capitalization of \$ 37 million.
2. All of the 36 companies approved for investment have applied for the benefits of the investment incentives law and will be permitted to import, duty free, equipment and machinery for a pre-determined number of years.
3. Each of the 25 companies capitalized over \$ 500.000 should be required to pay into a reserve fund, a very small percentage of the duty that they would have paid had the company not received the benefit of the Investment Incentive Law. This required investment will permit each company to become a shareholder in the, to be organized, private bank forporation.
4. The companies approved for investment capitalized for less than \$ 500.000 would have the option of purchasing share in the private bank on the same basis however this would not be manditory as in the case of the companies capitalized over \$ 500.000.

5. If this practice were continued until the private development bank obtained its required capitalization (possible 200 to 300 shareholders) we would categorically have a very broad based local ownership and at that time the member shareholders would elect their own Board of Directors and Bank President.
6. The other advantage of this approach is that for the first time Indonesia will have a representative group of local industrialists that will be the one voice of private enterprise working with Government on policies affecting their common interest.

B. Industrial Parks/Estates Program

The establishment of Industrial Park in several areas of Indonesia with an assured supply of electricity, water, transportation and good roads.

One of the priority pre-requisite to a rapid industrial development program for Indonesia is the establishment of Industrial Parks/Estates in order to encourage, labor intensive, export oriented, draw-back assembling operations.

Considerable progress has been made to date. The Government of Indonesia is in the process of establishing a National Authority to regulate and coordinate all activities related to Industrial Estates Development in Indonesia.

The World Bank has agreed to assist the Government of Indonesia in Industrial Park Development and will consider a loan request for financing Industrial Park construction following the fulfillment of several loan

preconditions by the Government. Private International Companies and local industrialist have expressed interest in participating in the financing of the project and International Development organizations are available for technical assistance.

Concurrently with the organization of the National Authority for Industrial Estates it is expected that the Government of Indonesia will request technical assistance from UNIDO as detailed below, in cooperation with and subject to the approved of the World Bank and other interested investors.

UNIDO is willing to consider financing the contract services of a professional private Engineering Co. specializing in Industrial Estates and/or Area Development to conduct a pre-feasibility study of a free zone Industrial Area/Estates in one of the following locations designated by the Indonesian Government: Djakarta, Surabaya or West Java.

Upon the completion of a preliminary investigation and determining which of the three regions is most likely to successful attract foreign professional industrial estate management talent on an equity participation basis, local and foreign private investment as well as local Government financing, the Engineering Co. will prepare preliminary plans for the proposed industrial estate or free zone industrial area.

The cost estimates for urbanization, land, factory shell building construction, infrastructure requirements and other facilities and services, will be done in sufficient detail to be acceptable as an appendix for a loan application to an international lending institution.

Consideration will also be given to establishing within the park area; common facilities such as machine shop, foundry, trade schools, medical, workers housing, transportation, recreation, maintenance crews, etc. for the mutual benefit of all industrial park members.

It is contemplated that sufficient funds will be provided by UNIDO to finance:

1. The cost of the final preparation of the pre-feasibility study.
2. The training of local Indonesian staff in the preparation of Industrial Park project proposals and loan application for such projects.
3. The investigation and identification of potential professional managers of industrial estates to participate on an equity and/or management contract basis.
4. The preparation of a preliminary loan application prospectus.

Possible sources of loan funds in addition to the World Bank for the construction of Industrial Parks are the Asia Development Bank, International Economic Assistance Agencies, and the local Development Banks.

Local private construction companies, private banks and local industrial enterprises have expressed interest in equity participation. If the industrial park project generates the necessary support of the Government and private sector, the cost of the financing the complete feasibility study, prior to actual construction of the industrial park, will be incorporated in the loan agreements.

Upon the completion of the plans for the first pilot industrial park project, consideration will be given to expanding the industrial park/estates program to other areas in Indonesia.

C. Merchandising Mart

As an integral unit of the entire Industrial Park Complex consideration must be given to:

The establishment of a merchandising mart to exhibit and promote Indonesian products manufactured within the park and other industrial areas of Indonesia.

The merchandising mart, will be a permanent, centralized display of Indonesian manufactured finished products, where potential buyers may inspect and place orders for various products produced in Indonesia, obviating thereby future necessity for visiting the individual producers located throughout the country.

The space rentals received from the manufactures of products on display will be utilized for the maintenance and improvement of the central display and/or building, located within the park area or its headquarters.

Note: This activity must be coordinated with the proposed Export Development Center Project sponsored by the Ministry of Trade.

D. Central Public and Bonded Warehousing Complex

Also as an integral unit within the Industrial Park Complex consideration must be given to:

The establishment of a Central Public and Bonded Warehousing Complex and a distribution center to initially service Djakarta area and to be expanded to cover the entire country.

The shortage of warehouse space in Indonesia including Bonded Warehouse facilities and the inefficient of many small producers handling their own warehouse and

distribution, imply a potential demand for a Central Warehouse and Distribution center conveniently located in the Industrial Park Area. Manufacturers will keep their finished goods inventories in the warehouse, and the warehouse bonded employees will fill orders to make up combined shipment of various orders for distribution. Each manufacturer will pay his pro-rated cost of distribution and warehousing. Considerable savings in such cost will be expected due to the economies of scale. Individual companies' purchase orders, receive from the Merchandising Mart, will be processed and services from the Central Warehouse.

Delivery to the consumers will be on a regular planned schedule either by air freight, overland by rail and truck or ^{Sea} transportation.

E. Ministry of Industry Program

The establishment within the Ministry of Industry

1. A system for recommending new, improved or modified policies, incentives and measure to expedite domestic and foreign investment in Indonesia industry.
2. A procedure for the preparation of pre-feasibility studies with the emphasis on market potential of specific projects with the greater likelihood for local and foreign investment. (Import substitutes, export possibilities, agro-business and draw-back assembly operations preferable in a free port zone).
3. A committee to prepare long-term general plans of the major sectors of industries (private and state) in cooperation with the National Bureau of Planning and to identify special state project within the major sectors to be investigated for possible private investment.

This committee will collect and analyse detailed information on existing industries, identify the need for surveys of certain major branches of industry, and prepare mutually consistent estimates of the long-term demand for certain specific manufactured goods. He will also advise on the development of an over-all plan for the location of new industries.

The Ministry of Industry, with the technical assistance of the UNIDO Industrial Advisory Team will give priority consideration to the following:

1. The establishment of specialized assembling industries in which semi-finished component units are shipped into Indonesian and assembled for export to World markets.
2. The encouragement of locally established international companies to diversify their production to include the manufacturing of other produce for export to world market.
3. The encouragement of joint-venture (agrobusiness) food and meat processing plants in Indonesia to realize maximum economic benefits to the farmer as well as to the overall economy of the country.

The UNIDO Advisory Team will train a group of counterparts in the Department of Industry in the field of industrial planning, policy formation and industrial project identification and appraisal. The Indonesian counterpart personnel of the Department of Industry will cooperate all of their activities with BAPPENAS (the National Planning Agency) and the Investment Board (which is responsible for the promotion of private investment). (See Chart A).

Realistic, pragmatic yearly targets must be established to measure the success of the Ministry of Industry 5 year Development Program in such terms as:

1. new factories established
2. new jobs created
3. foreign and domestic investment realized
4. increase exports
5. increase production (existing facilities)
6. increase production capacity
7. increase production efficiency (existing facilities)
8. increase utilization of existing production facilities
9. etc.

F. Management Training

The expansion of management training program (top managers as well as second and third eschelon) in cooperation with the Ministry of Industry Academy of Industrial Management and the several Private Management Associations and Institutes.

Many leading Indonesian Industrialist consider the lack of available experienced management talent the prime deterrent to diversification and expansion of existing industries.

Emphasis by the private sector in cooperation with the Ministry of Industry must be given to the improvement of business practices, production methods, management techniques, human resources development and skill training. Private enterprise in cooperation with the Ministry of Industry must also organize an effective skill training program. UNIDO has given assistance in the past in management and skill training to the Government and Private organization listed on the attached Chart B and will continue to entertain any new request for assistance to support these activities. (Management training program will be coordinated with the Ford Foundation projects in Indonesia).

G. Transfer of Ownership (Government to Private)

The establishment of an "Exchange Market" in Indonesia as an agency.

1. To promote the transfer of ownership of Government industrial enterprise to the private sector.
2. To promote a broad based private ownership of such transfer.
3. To encourage sale of the shares of such holding in the open market to the general public at low denomination limiting the number of shares to be purchased by any one shareholders.

The emphasis of the Ministry of Industry will be the formation and implementation of policies to promote private investment in industry rather than the organization and control of State-owned project. Technical assistance will be requested from the Investment Board in cooperation with the Ministry of Industry and local Indonesian Governors to assist in a program of gradually transferring ownership of State-owned project to private ownership.

For each project identified as potentially possible for such ownership transfer UNIDO will assist in training potential local managers and in negotiating a satisfactory financial lease purchase agreement with the Government for the local private purchasers.

H. Social Development (Private Enterprise)

A survey study to investigate the interest and potential of Indonesian private enterprise participating in social development for industrial workers such as housing, health, medical, recreational and educational programs, sponsored and financed by group of local industrialist in cooperation with company employees.

The Ministry of Industry in cooperation with the private industrial sector must investigate the possibility of encouraging clusters of entrepreneurs in various industrial area of Indonesia to organize themselves in cooperation with their employees for the mutual benefit of resolving the problems of financing housing, recreational, health and education facilities. With the proper organization and because of the economy of scale the cost of these social necessities can become attractive to both the industrialist and the industrial workers.

I - A. Export Promotion Incentives Program

In view of the projects critical Balance of Payments situation and the accelerated annual unemployment in Indonesia the following industrial incentives program has been recommended to the Ministry of Industry as a possible solution to these two major problems.

1. All private companies now operating in Indonesia be permitted to apply for a credit against Indonesian Corporate income tax for reinvestment in dollar earning export industries and labor intensive draw-back type projects considered essential by the Ministry of Industry.
(Recommended: A tax credit of 50% and above depending on the economic significance ascertained by the Ministry of Industry).
2. It is suggested that only a very small percentage (5% maximum initially) of the total Government Corporate income tax receipts be permitted to be diverted for the support of such a tax credit privilege program which is specifically designed to promote priority type industrial projects approved by the Ministry of Industry.
3. If a project is not approved by the Ministry of Industry within the maximum time permitted the tax waiver (after 3 years) would lapse and the income tax funds will revert back to the Central Government.
4. All the existing companies in Indonesia would be eligible for tax credits and would be considered "deposit holders". Each deposit holder may choose to:

1. Initiate a new company utilizing his own tax credit.
2. Solicit joint tax credit investment from other deposit holders.
3. Authorize investment with equity or loan for a project sponsored by another deposit holder or a new investor.

5. Existing local companies will initiate with the concurrence and financial assistance of the Ministry of Industry projects in which the liability of determining the economic feasibility is ascertained by a private entrepreneur and the management and business decisions are the responsibility of private enterprise. In a sense private enterprise will determine how public funds collected through corporate income tax would be used to promote priority type projects approved by the Ministry of Industry.

6. The Government will bear a large part of the financial burden when it agrees to permit the private sector to make investment decisions in such a Ministry of Industry sponsored program. However, by reducing the loss a potential private investor can incur the program will automatically encourage hesitant investors to go forward with the priority ventures and at the same time leave the practical management decisions to private enterprise. Private companies will make the assessment leading to specific investment decisions.

7. In these high priority projects (most favorable labor/capital ratio and minimum import requirements) the Government will finance up to 90% of the cost through loans and fiscal incentive as detailed below:

Financial Resources for New Projects
Proposed Investment Ratio

Project organizer - foreign, local or joint venture (deposit holder or New Investor)	10%
* 1. Tax credit Resources (equity or loan)	<u>40%</u>
Total Equity	50%
* 2. Development Bank Loan (PAPINDO or other financial sources)	50%

- * 1. Tax credit equity will be non-voting shares and project organizer will retain management control of the business.
- * 2. Following the establishment of the enterprise and an elapse of an agreed predetermined number of years, a percentage of the total capitalization will be made available for sale to the general public at low denomination, restricting the number of shares to be purchased by any one shareholder or organized group.

Recommend: Following the 5th. year a minimum of 10% of the total capitalization will be made available for sale in the open market.

8. The Government of Indonesia will realize multi-fold returns on their tax credit investment through increased revenues received from newly established industries.
9. Under this program the Ministry of Industry is acquiring business management it does not have in sufficient quantity and at the same time it is stimulating companies with proven managerial and technological ability having creative imagination to apply their skills in priority type industrial projects. The Ministry of Industry must recognize that the private sector can and will with the proper incentives bring in management and technical skills which are factors in many countries more scarce than capital.
10. To fulfill national development goals, the private sector must participate in specific development projects, train required managers and skills and share in the investment risk. The Government on the other hand sets project standards, which the enterprise must meet, if it is to enjoy financial support from tax sources.

This general concept is not new and has been successful in other countries in a similar form.

I - B. Specific Recommendations for Export Promotion

1. Incentives such as the suggested tax credit program detailed above, import and tax rebates, tax holidays, duty free privileges, etc. must be favorable considered by the Government for all Indonesian existing industries (expansions and diversifications) as well as new industries willing to participate in the proposed Ministry of Industry export promotion program.

Note: It may be difficult to receive Ministry of Finance approval for a tax credit program; therefore consideration must be given by the Ministry of Industry to earmark annual budget funds specifically for export promotion incentives.

2. Each existing and new company desirous of taking advantage of the proposed Ministry of Industry export promotion program must prepare a preliminary prospectus (capitalization, general description of the business, export markets, etc.) detailing the required incentives and concessions considered necessary by the company for the establishment of a new export enterprise or for the expansion of existing manufacturing facilities for export production.
3. Each preliminary prospectus presented by an interested company will be negotiated on an ad hoc basis with a to be established Government "Export Promotion Committee". This committee representing the Ministry of Industry, Trade, Finance, Foreign Investment Board and National Planning Council will have decision making authority for the Government.

Note: The responsibility of this proposed committee can be executed on a priority basis by the existing Foreign Investment Board.

4. If a satisfactory agreement is consummated for the establishment of an export industry all required Government approvals will be expedited by the proposed "Export Promotion Committee".
5. The proposed "Export Promotion Committee" will also assist the new enterprise, if required, in securing loans and equity from the Government Development Bank (BAPINDO), the Private Investment Company for Asia (P.I.C.A.), the International Finance Corporation (I.F.C.) or other available local and international banking sources.
6. Prompt consideration will be given by the Government of Indonesia to the establishment of the proposed "Export Promotion Committee" so that they will negotiate immediately each preliminary prospectus presented and expedite the necessary approvals as soon as possible for such export industries which will be beneficial to the Government as well as the potential investor.
7. By granting these required incentives for the establishment of export industries private enterprise will move forward with the Ministry of Industry priority export ventures and at the same time private enterprise will be making the practical management decisions as well as the assessment leading to a specific investment determination.
8. The Ministry of Industry must recognize that the private sector can and will with the proper incentives:

1. participate in specific development projects,
2. bring in management and technical skills (in countries more scarce than capital),
3. train required local managers and skills, and
4. share in the investment risk.

J. ASEAN Economic Cooperation and Collaboration

1. The Ministry of Industry should establish as soon as possible a full time working committee to explore ASEAN Economic Cooperation and collaboration as recommended in the First Progress Report.
2. In addition to the recommendations detailed in the First Progress Report, the Ministry of Industry should conduct extensive research on the possibility of Bilateral as well as Multilateral agreement for:
 1. The exchange of excesses on a barter basis (if they exist) to and from each affiliated ASEAN country. (finished goods, raw materials, agricultural products, etc.).
 2. The efficient utilization of excess manufacturing capacity (when they occur) to supply the requirements of the respective regional associated countries.
3. The establishment of fixed external tariffs for a protective industry, for a pre-determined number of years, within each of the participating countries of manufacture and supply the needs of a specific product for the area.

Note: It is suggested that no country will be approved for a second protective industry until all of the countries within the alliance is producing a specific product for the member countries.

4. The establishment of fixed internal tariffs (or 0 tariffs) in a free trade area, of consumer products as well as raw materials and agricultural products.
5. The establishment of a political risk guarantee program in cooperation with the Asian Development Bank (ADB) for private investors of the member countries financially participating in industrial project in any of the allinace countries. (investors insurance).
6. The establishment, thru the existing facilities of an Export Promotion Center or Industrial Development Bank of the respective countries, a clearing house device for discounting paper of bonafide orders from one country to the other within the allinace. (finished consumer product, raw materials and agricultural products).

The First Progress Peport of the ASEAN Advisory Committee states that the potential collective projects requiring closer examination are as follows:

- i. basic industrial chemicals;
- ii. fertilizers;
- iii. petro-chemicals;
- iv. synthetic fibres, yarn and plastic materials;
- v. paper and newsprint;
- vi. pharmaceuticals;
- vii. steel, sheets, bars and sections;
- viii. simple agricultural machinery;
- ix. automobile parts and components;
- x. materials and components for the electrical manufacturing industries.

The Advisory Committee also proposes to examine more closely the opportunities for increasing trade between the ASEAN nations in existing manufacturing, including textile, ship building and repair, fish marketing and processing in addition to developing trade in new national manufacturing on the basis of complementary or preferential trading agreements.

V. Investment Possibilities

A. Priority Areas (Domestic and Foreign)

I. A - Projects in agriculture, plantations and husbandry.

- B. a. Projects which directly support the sector of agriculture, plantations, husbandry, such as pesticides spraying, etc.
- b. Industries which manufacture auxiliaries for agriculture, plantations, husbandry, such as agricultural equipment, fertilizers, etc.
- c. Industries which process products of agriculture plantations and husbandry such as rice mills, crumb-rubber factories etc.
- d. Industries which process forestry products such as pulp plants, paper mills etc.
- e. Fishery projects with integrated processing facilities such as cold storage, canning factories etc.

II. Industries which process more domestic than imported raw materials.

III. Industries which produce raw materials and auxiliary goods for other industries.

IV. Basic industries. Industries which constitute the basis for development of other industries, such as steel-iron industries, ship building etc.

V. Infrastructure projects (roads, ports, bridges, telecommunication channels, irrigation, electricity etc).

VI. Fully integrated textile industries.

- VII. Industries which produce the nine essential commodities except natural oil (rice, soap, cooking oil, sun dried fish, kerosene, batik, cotton textile, salt, sugar)
- VIII. Industries which produce for exports; 50% or more of production.
- IX. Industries which produce chemical fibre.
- X. Chemical industries.
- XI. Industries manufacturing medicines and health equipment.
- XII. Tourism projects with priority to hotel construction.
- XIII. Transportation.
- XIV. Other ventures which, considering their urgency, are deemed necessary to be given priority.

Attention shall also be given to the following factors in determining the extent of the priority mentioned above.

- a. the amount of invested capital;
- b. the capacity to absorb labor;
- c. the location of the undertaking.

B. Closed to Foreign Investment

In order to give an opportunity for domestic capital to operate in the sector of light industries, and also to prevent excessive competition in branches of industry where the existing capacity is considered sufficient, the following industries are temporarily closed to new foreign investments.

- 1. the production of milk and other dairy products;
- 2. batteries;
- 3. monosodium glutamate (flavoring);

4. cigarettes;
5. matches;
6. paints;
7. plastic and leather shoes/slippers;
8. flour;
9. toothpaste;
10. biscuit and confectionery;
11. boot polish;
12. bicycle tires and tubes;
13. plastic products;
14. bicycle assembling;
15. printing ink;
16. enamel works;
17. aluminium household products;
18. candies;
19. soft drinks and beverages;
20. concrete tiles and porcelain tiles;
21. bricks and tiles;
22. sewing machine assembling;
23. ice cubes;
24. can making;
25. watch assembling;
26. tooth brushes;
27. mosquito coil incense;
28. corrugated cardboard;
29. instant noodles;
30. zipper fasteners;
31. tannery;
32. hairwigs.

C. Industrial Project requiring Foreign Participation

.....

No.	Name of Project	Project Capacity	Estimated Total Investment
1.	Caprolactum Project (East Java)	20,000 tons/year	US\$ 20,835,000
2.	Formic Acid Project	6,000 tons Formic Acid and 7,400 tons Sodium Sulfate a year	US\$ 3,000,000
3.	Soda Ash and Caustic Soda	30,000 tons Soda Ash and 60,000 tons Caustic Soda a year.	US\$ 30,500,000
4.	Integrated Pulp Paper Project at Noton (C.Java)	30,000 tons unbleached craft paper per year	US\$ 21,900,000
5.	Rayon Project	4,500 tons/year]	US\$ 11,381,000
6.	Integrated Spinning mills & Weaving at Makassar	31,000 Bales Cotton Yarn and 30 millions metres weaving and finishing per year.	US\$ 13,600,000
7.	Integrated Spinning mills, Padang.	31,000 Bales Cotton yearn and 30 millions metres weaving and finishing per year.	US\$ 13,600,000
8.	Spinning Mill Garut	10,000 bales of fine yarn per year.	US\$ 3,500,000
9.	Palembang Textile Vertical expansion of Spinning Mill establishment of Weaving & Finishing facilities	1.6 million metres woven and finished fabrics.	US\$ 4,500,000
10.	Djantra Textile Expansion of Spinning Mill (Semarang)	30,000 bales of Cotton Yearn a year	US\$ 2 millions
11.	Rosella Bag Factory (South Sumatra)	7 million H.C. green bags/year	US\$ 11 millions

No.	Name of Project	Project Capacity	Estimated Total Investment
12.	Tin Lithograping and Can Making Factory (Expansion) Djakarta.	3,000 tons/year	US\$ 1,05 millions
13.	Integrated Tannery and Shoes Making Industry.	160 tons leather per month and 600,000 pairs of Shoes.	US\$ 2,5 millions
14.	Offset Printing Project	60,000 pages per hour.	US\$ 0,76 million
15.	Lodging, Saw Milling Plywood and Venner Factory (Sulawesi).	240,000 sq. feet plywood and 10,600 sq. feet Sliced Venner.	US\$ 10 millions
16.	Dairy Product Industries	11 millions litres /year.	US\$ 1,3 millions
17.	Flour Mill at Mid. Java (Tjirebon).	150,000 tons/year	US\$ 7.9 millions
18.	Electric Cables and Wires Project (Expansion Program).	2,640 tons/year.	US\$ 5 millions
19.	2 Units Assembling and Manufacturing of Motor Cycles.	30,000 - 60,000 units/year	US\$ 8 millions
20.	Electro Components Project.	N.A.	N.A.
21.	Textile machinery, parts and parts component, Bandung.	100 - 150 units textile machinery /month.	US\$ 500,000
22.	Production of Metal Cutting tools, drills, bits, milling cutter, tool holder etc. Djakarta & Bandung.	N.A.	US\$ 2,5 millions
23.	Welding Rod, Djakarta.	1000 tons/year	US\$ 155,000

No.	Name of Project	Project Capacity	Estimated Total Investment
24.	Production of Concrete Bars & Small Section.	10,000,000 tons/year.	US\$ 2,5 millions
25.	Tengkawang Oil, Kalimantan.	1,500 tons/year	N.A.
26.	Nilam (Pachoulti Oil) Medan.	1,800 tons/year	N.A.
27.	Rice Bran Oil, Atjeh.	9,000 - 12,000 tons/year.	N.A.
28.	Coconut fibre Industry Sulawesi, Java and Sumatra.	9,000 tons/year	N.A.
29.	Carbide Industry West Java.	3,000 tons/year	N.A.
30.	Hardboard Industry (rehabilitation), Bitung.	300,000 panels per year.	N.A.
31.	Wrapping Paper, Sulawesi.	12,000 tons/year	N.A.
32.	Gelatin from Ava, Skin and Bone.	9,000 tons/year	N.A.
33.	Caustic Soda (sodium Hydroxide) Sumatra).	15,000 tons/year	N.A.
34.	Vanille Oil, Java.	600 tons/year	N.A.
35.	Hardboard from Coconut Fibre, Sumatra.	300,000 pcs/year	N.A.
36.	Ceramic for Electric appliances, Sumatra.	1,500 tons/year	N.A.
37.	Leather Tanning, East Java.	600 tons/year	N.A.
38.	Coconut Power Industry Sudeco (rehabilitation) Manado.	12,000 tons/year	N.A.

No.	Name of Project	Project Capacity	Estimated Total Investment
39.	Fruit & Vegetable Powder Plant Sumatra /Sulawesi.	7,500 tons/year	N.A.
40.	Cassave Flour Mill Lampung.	12,000 tons/year	N.A.
41.	Active Carbon from Coconut Husk North Sulawesi.	12,000 tons/year	N.A.
42.	Coconut Oil, Medan Makassar, Manado, Riau.	12,000 tons/year	N.A.

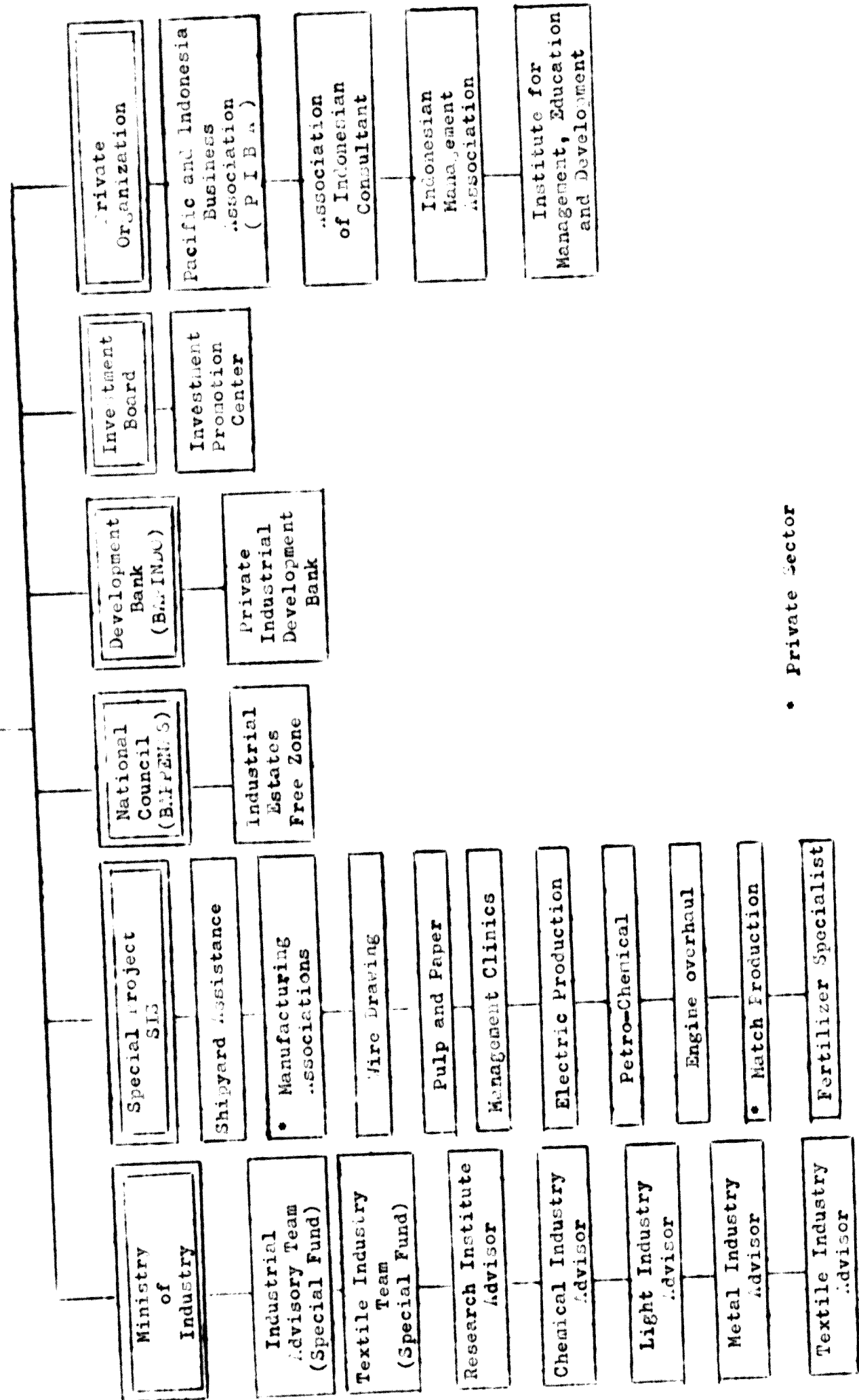
VI. Technical Assistance

A. General

In addition to the contemplated Technical Assistance indicated in Chart B in such areas as textile, metal, chemical, etc. industries, Research Institute Advisor, Industrial Estates and Special Projects; Technical Assistance will be required to advise and assist in the training of Indonesian personnel in the execution of a sound private enterprise development and investment program for Indonesia with particular emphasis in promoting engineering, financing, project identification for investment and small industries development including handicraft, (handicraft assistance will be in cooperation with the ILO and the Ministry of Trade). Supplement on-call specialist in such field as chemical, pharmaceutical products, metal fabrication and assembly will be requested as required. The Ministry of Industry will also require

Chart B

I N D O N E S I A
 Technical Assistance
 Industrial Development



• Private Sector

consultation in small industry development, improve plant layout, better production techniques, quality control, modern marketing and distribution methods and management training. The most immediate responsibility of the Ministry of Industry is moving toward resolving the national objective of supporting agricultural based industry which requires experts in food processing; fruits and vegetables, fish products, meat preparation and meat packing.

It is also contemplated that various request will be received by the Ministry of Industry from the private enterprise sector for assistance in arranging licensing programs or joint-venture with foreign companies to capitalize in the much needed technical knowledge and modern marketing, advertising and distribution techniques.

Technical assistance can be made available to the respective development banking organization for ad hoc consultants to provide expert advise for major investment decision in specific industrial fields. It is proposed that the Private Development Bank consider negotiating a contract agreement with the local Association of Indonesian Consultants for the utilization of their services as required and available.

B. S p e c i f i c

The minimum specific requirements for technical assistance from International Agencies such as A.I.D., World Bank or UNIDO are as follows:

1. Government Development Corporation

The World Bank has agreed to assist the Government of Indonesia in reorganizing BAPINDO. Upon the completion of the reorganization of the Government Development Bank the following minimum technical assistance (can be expanded as required) will be essential:

	Man/moths
1. Senior Development Banking Advisor	24
1. Industrial Engineer	24
1. Financial Specialist	24
1. Supervised Credit Specialist (Small Loans)	24

EN/as

The Senior Development Banking Advisor and the Supervised Credit Advisor will require an open-end contract arrangement so that as required they may request additional short term technicians to assist in loan evaluation in such areas as food processing, metal industries, chemical industries etc.

Minimum man hours recommended for on-call technicians to assist the:

	Man/months
A. Senior Development Banking Advisor	48
B. Supervised Credit Specialist	48

2. Promotion Center (Investment Board)

Mr. Buordrez of A.I.D. will recommend types and number of technicians essential for the Investment Promotion Center however it is anticipated that the Promotion Center will require the following minimum foreign staff:

	Man/months
1. Senior Industrial Promotional Specialist	24
1. Legal Specialist	24
1. Industrial Economist	24

3. Project Identification (Ministry of Industry)

Specialist will be supplied by UNIDO (Special Fund Project).

	Man/months
1. Senior Industrial Advisor (Project Manager)	12
1. Advisor in Industrial Policies	12
1. Advisor of Industrial Project ...Identification	12
1. Advisor on Industrial Planning	12

4. Private Development Bank

The Pacific - Indonesia Business Association (PIBA) has submitted an application to Government for the establishment of a private Industrial Development Bank. It is anticipated that PIBA will require this service of a legal specialist to assist them in the preparation of the Bank Charter and by-laws.

Man/months

1. Banking Specialist (Legal)

6

5. Industrial Estate/Park Project

The Government of Indonesia is in the process of organizing a National Authority for the regulation of the establishment of Industrial Park in Indonesia. To assist in the organization of this authority a Senior Industrial Park Advisor should be assigned to the Office of the Secretary to the Ministry of State or to the Ministry of Industry.

Man/months

1. Senior Industrial Estates/Park Specialist

24

To prepare the cost estimates for urbanization, land, factory shell building construction, infrastructure requirements and other facilities and services in sufficient detail to be acceptable as an appendix to an international lending institute will require the service of an professional Engineering company under contract. This contract team should be assigned to the Office of the Secretary to the Ministry of State or to the Ministry of Industry.

Estimated Cost \$ 96.000 (Engineering Co.
contract)

(4 specialists 6 months each)

24

6. Merchandising Mart

To assist in organizing the Merchandising Mart a full-time specialist will be assigned to the Ministry of Industry, Office of the Secretary to the Ministry of State or to the Ministry of Trade.

Man/months

1. Merchandising Mart Specialist

12

7. Warehousing

To assist in the organization of the Central Public and Bonded Warehouse Complex a full-time specialist will be assigned to the Ministry of Industry, Office of the Secretary to the Ministry of State or to the Ministry of Trade.

1. Public and Bonded Warehouse Specialist

12

8. Management Training

One full-time management training specialist assigned to the Ministry of Industry will be required to assist the Government Management Training Academy and private management associations

1. Senior Management Training Specialist

24

9. "Exchange Market"

One full-time specialist will be required to assist the Investment Board and Ministry of Industry in organizing a system of transfer of ownership of Industries from Government to private enterprise.

1. "Exchange Market" Specialist

12

10. Social Development (Private Enterprise)

One full-time Social Development Specialist will be required to assist the Ministry of Industry and private enterprise groups in development social benefits programs such as housing, health, educational, recreation etc. for industrial workers.

Man/months

1. Social Development Specialist

12

11. Export Promotion Incentive Program

One full-time Export Promotion Specialist to assist the Ministry of Industry in organizing and execution in cooperation with the Pacific - Indonesia Business Association (PIBA) the Export Promotion program detailed in section I A and B of this report.

1. Export Promotion Specialist

12

12. ASEAN Economic Cooperation

One full-time Regional Development Specialist to assist the Ministry of Industry in organizing a working committee and executing the recommended program in Section J of this report.

1. Regional Development Specialist

12

Annex I

The object of this form is to collect the essential facts to interest potential investors.

A WELL PRESENTED PROJECT GREATLY INCREASES THE CHANCES OF ATTRACTING INVESTMENT.

I. THE PROJECT

1. Short description: (what is it proposed to manufacture, why and for what market).
2. Main components:
 - (a) Proposed plant capacity:
 - (b) Location:
 - (c) Total investment - US\$
3. Project presented by: (Name and address)

II. FOREIGN CONTRIBUTION REQUIRED

Equity Loan Supplier's credit Know-how/
Licence Marketing Other (Please specify)

III. COMMERCIAL ASPECTS OF THE PRODUCT

1. Total domestic consumption: (quantity and value)
2. Present sources of supply:
 - (a) Local production:
 - (b) Imports:
3. Projected consumption:

4. Existing production facilities and expansion plans of local manufactures affecting the project:
5. Exports:

Present: (quantity and value)
Projected: quantity and value)
6. Price of product: (Ex-factory/landed)
Proposed price: (per) US\$
Imported: (per) US\$
Local competition (per) US\$

IV. PHYSICAL ASPECTS

1. Size of land and buildings:
2. Availability of labour: (skilled, unskilled, wage scales, US\$)
3. Raw materials:

(a) Location, distance from plant site: (miles)
(b) Types, grades, cost: (US\$) f.o.b. plant site
(Important - full details please)
4. Locally available parts on components of the product:
(Item and costs)
5. Infrastructure: (e.g. harbour, railway, roads, waste water disposal, utilities, etc.)
6. Utilities: (e.g., fuel, water, etc.) US\$

V. ECONOMIC ASPECTS

1. Importance in relation to the State and the Plan targets:
(e.g. priorities)
2. Economic motivation of the project: (e.g. special skills import substitution, etc.)
3. Incentives to be granted for the benefit of the project:
(e.g. tax exemption, free capital repatriation, duty free of machinery, etc.)

- 4. Special reasons why projects should appeal to foreign investor: (e.g. availability of raw materials, proximity to market, etc.)

VI. FINANCIAL ASPECTS

- 1. Composition of Investment: (rough estimates - in US\$)

	<u>Local Cost</u>	<u>Foreign Exchange</u>	<u>Total</u>
a. Pre-investment costs:			
b. Assets:			
Land			
Building			
Machinery			
c. Estimated working capital	_____	_____	_____
	+ .	.	.
Total

- 2. Proposed financing plan

Do you have a detailed plan, Yes No

If yes, please complete -

	<u>Local Cost</u>	<u>Foreign Exchange</u>	<u>Total</u>
a. Equity			
b. Loan capital			
c. Supplier's credit			
Total (same as previous total)	_____	_____	_____
	+ .	.	.

VII. ADDITIONAL RELEVANT INFORMATION

- 1. Proposed legal structure: (e.g., private company, mixed)
- 2. Documentation

(a) Indicate what documentation is available for review: (e.g., feasibility study, market study)

(b) Additional studies needed in order to complete the proposal

3. Indicate if the project has previously been submitted to external sources of financing or others:

VIII. GENERAL COMMENTS (e.g., I, 2, a, if the Government accepts the proposed regional free-trade agreement, production will be doubled; etc.)

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