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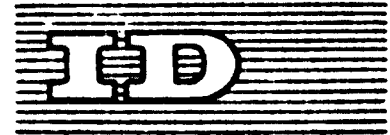
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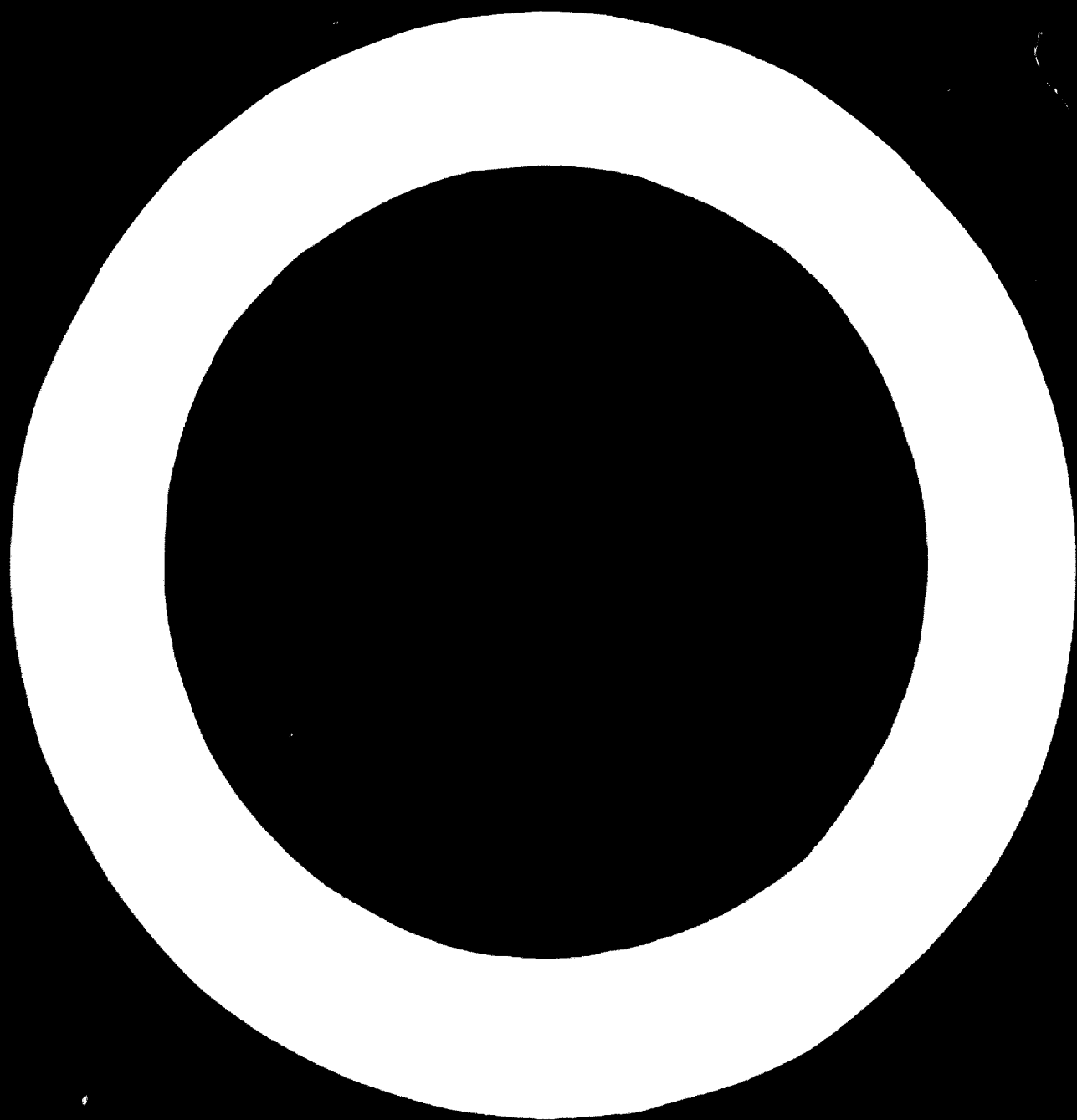
THE HIRE PURCHASE SYSTEM  
AND THE LOAN FUNDS<sup>1/</sup>

by

Rochman Oesman  
Director  
of the  
State Company "Daya Yasa"  
Indonesia

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### The Hire-purchase system and the Loan funds

Before the war nearly all industrial and trading establishments were in the hands of the Dutch or the Chinese. The aborigines were mostly labourers or small farmers, small fishers who were living along the coast, and some were living from handicrafts. Very few people had managed to attend high school or higher education and most of them became government officials or teachers. And some became political leaders of the country. It was after 1950 that the government launched an overall industrial program. People were encouraged to start small business, small-scale industries. Favourable loans were given, hire-purchase of machinery or aid for mechanisation was set up. The government established the Office for Industrial Mechanization and Financing (herein after abbreviated as "office") under the jurisdiction of the Ministry of Industry. The task of the office is to administer the aid given by the government to entrepreneurs.

In particular it is responsible for administering :

1. aid for industrial mechanization and
2. aid for industrial financing.

In principle, aid for mechanization may be given to small-scale industries that are using manual methods or manual production. To such industries a certain mechanically operated machinery is given. It is not the intention to mecha-

nize the methods of production completely but only those methods that can be done to the utmost advantage by machinery. Aid for industrial financing is given to entrepreneurs by two organizations, namely the Loan Fund which is administered by the office and the Central Board for Guarantee of Credits which is administered by an autonomous board on which the office has a representative. The Loan Fund grants cash loans not exceeding Rp.50,000,- ( US \$ 10,000.- ) whereas the Central Board grants more larger loans.

#### Aid for Mechanization

The hire-purchase system or the mechanization aid was started in February 1952 and is still executed up to the present. Every year until 1960 funds were budgeted for this mechanization aid and used solely to purchase machinery. The machinery needed for mechanization were still, in general, imported from abroad because local factories were unable to manufacture them.

In 1957 the introduction of Export Certificate regulation had caused an increase in the cost of imported machinery. It is because of this that it became difficult to import machinery. In February 1958 due to a shortage of foreign currency, the government treasury stopped the import of machinery purchased with government funds. This situation forced the office to purchase machinery from available ready stock at a very high price.

Sometimes an importer would ask such an exorbitant price for the machinery he had in stock that the purchase could not be justified from an economic point of view. The office is not using the machinery for itself but to give them to entrepreneurs on a hire-purchase arrangement of payment over a period of five years. Therefore it would be unwise for the office to purchase machinery that were too expensive. The increase in price was also caused by scarcity of stocks of machinery which were particularly in great demand. After 1958 a part of the mechanization aid budget was used to erect store rooms and showrooms in certain provinces.

On 18 September 1959 the Office was integrated into the organization of the Institute for Establishing and Managing Government Financed Industrial Enterprises (herein after called "Leynia"). Although Leynia is financed totally by the Government it is not subject to any statutory control and is free to conduct business on a commercial basis. The Office exempted from any statutory control could be able to administer the project in a far more business-like and efficient manner than otherwise. The Office since its inception in February 1952 until 18 September 1959 had administered this project through and with the help of the Provincial Industry Offices (P.I.O.). Through that period both the office and P.I.O. were under the jurisdiction of the Ministry of Industry and normal procedure regarding their relationship principally had been existed be-

cause they had a common source of administration and finance. The relation was as such that the P.I.O. acted in almost all matters as the "de facto branch office" of the Office and particularly regarding the selection system of applicants in the project.

Since the Office integration with the Leppia, a certain difficulties had been arisen in this aforementioned relationship because the P.I.O. remain under the jurisdiction of the Ministry of Industry and are therefore a full governmental organization while Leppia being a semi-governmental organization by then. The principal difficulty that had arisen is that one concerning the jurisdiction question. The P.I.O. believe that in virtue of their status as a governmental agency, it is administratively impossible for them to accept the new kind of jurisdiction, in matters concerning the project, because the transformation of the Office which is not a semi-governmental agency. A further difficulty is that the P.I.O. also believe, quite rightly, that they should be paid for the kind of work that they do on behalf of the Office. It is both logical and desirable that the P.I.O. should continue to act for and on behalf of the Office in all matters relating to the project at any provincial level. It would be prohibitively expensive for the Office to establish its own branches throughout the country. Moreover it would stimulate the growth of duplication on facilities that already existed. In fact the P.I.O. could not be satisfactorily dupli-



ated because of the severe shortage of qualified and experienced people from the side of the office itself, with an thoroughful knowledge of the factories and their entrepreneurs in the provinces, that otherwise should be available to staff the new branches established by the Office.

It is evident that the relationship between the P.I.O. and the Office has been in a state of confusion and ambiguity since 18 September 1959. During the integration with Leppia the Office made benefit of Leppia's representatives in the provinces. As these representatives were only very few it is still necessary that the P.I.O. been used to handle the loan in most provinces. The Office had to pay a certain fee to the P.I.O. for their services. In 1960 a new law had been declared concerning the creation of State Companies.

Within the Ministry of Industry a new State Company had been set up with the name of p.n. Day Yasa. This State Company should advise and assist the small-scale industries in their mechanization of their enterprise. Machineries are imported by the company themselves so that the price could be much lower. For the purchase of the machineries the company got a foreign exchange allocation every year. But the foreign currency available from the government were depleting as ever, as importation of machineries also depended on loan granted from foreign countries. The economic condition became so bad for the country that by the end of 1965 the government had decided a 1000 to 1 reduction

of value of all rupiah currency. This drastic measure on Dec. 13th 1965 almost seemed to paralyze the activity of the company. Activity was very low during 1966 and gradually increasing the next years. As the capital has shrunk considerably and the tax collection is very aggressive and intensive from the government the company stopped also the hire-purchase system during the years 1966 until 1969. Each machine owned by the company could only be handed over to customer by cash payment method. It was not until the end of 1969 that the company decided to start the hire-purchase again, but with a very strict conditions i.e. 50% downpayment and the balance should be paid not longer than 10 month with an interest rate of 4% monthly. On a fixed date every month the buyer should pay the installment otherwise they will be penalized with a 3% charge on due payment. But if they decide to pay earlier they will get a 3% premium. With this arrangement the company could foreplan the kind of machines to be imported. But the company still prefer the cash payment. At this moment government banks charged 2% monthly for investment credits for any established industries and for working capital a 2 to 3% rate for industries and 4% for trading. One year time deposit earn 2% monthly at any government's banks. The capital squeeze and high interest rate for trading have had made Daya Yasa difficult to operate on a large basis, hence now the specialization in machinery/handtools and small agricultural equipments.

### The Loan Fund

The Aid for industrial financing started earlier than the hire-purchase system. Already in 1950, the government launched the C.I.K. (Credit Industri Kotjil = Loan for Small Industries). This body had been operating as a purely single player, starting from the application procedure, selection, signing the loan-agreement, collecting the instalments, all by themselves. After 4 years of operation and experience, it was witnessed then, that it was by no means practical and efficient to work solely. A new concept arose, that for the sake of good accounting system, a Bank should be taken into participation in the program, although not in absolute term.

In 1954 a new body was created named D.I.K. ( Dana Industri Kotjil = Fund for Small Industries), with an initial capital of Rp.8.5 million ( about US \$ 200,000,-). This body executed all the preliminary procedure whatsoever was necessary before the loan-agreement was signed, and made the necessary control system of the instalment. The Bank acted purely as the professional cashier and accounting recorder. The loan furnished by D.I.K. amounted not more than Rp.50,000,- . The execution of the agreement with the debtor was done by D.I.K. and not by the Bank.

Loans exceeded that amount was considered large and the Ministry of Industry set up another institution, the Central Board for Guarantee of Credits. The government Treasury guaranteed the payment. In the foregoing bodies the initial capital was furnished only by the government.

In the year 1958 D.I.K. was transformed into a new body and was named J.A.D.I.R. (Jajasan Dana Industri Rakjat = Institute for Funds to Small Industries). The main argument of setting up this body was to make accessible funds and gifts from private sector, which was only possible through a legal form of an institute. During the existence of D.I.K. any increase of its paid-up capital was refused by the treasury. By transforming it into a legal status it was expected to get capital increase from any other resources. This goal of collecting the private funds and gifts was not successful and the whole programme was runned still with government facility for the whole part and subject entirely to statutory control.

It is necessary to note that the foregoing description of credit facilities extended and investment loan of three years period and loan for working capital for one year. The interest rate was 12% per annum, while the interest rate in the private sector climbed steadily to the maximum rate of 15% per month before the end of 1965.

A sudden monetary measure of the Government in 1965, by which all the capital, money and even the saving in banks being shrunked on a 1000 to one basis, seemed to be the main and principal cause of the total paralyzed condition of this credit facilities programme. In the pre-1965 period this body was already reaching a high point of accumulation to Rp.14,000,000,- and then be shrinked to only Rp.14,000,- in the 1965 and after.

This paralyzed situation extended continuously to 1967, and many small scale industries suffered seriously in their capital need.

#### The present Governmental Credit

After relatively a long period of "winter rest", this programme of extending credit to small industries were re-vitalized in 1967 and soon transformed into a new form but still with the old name B.I.K. (Dana Industri Kecil - Funds for small industries) and operated on a new basis to be annexed to the activities of the Government owned company Bupa Yasa. This move began on 1968 January 17th, with an initial capital of Rp.10,000,000,- (US \$ 200,000,-) plus the balance of the old devaluated capital.

The principal difference with the foregoing institution is as such, that now the bank participation is excluded from this credit programme. The capital are managed completely by this state company Bupa Yasa, which started from the very beginning of the programme and acted to the clients and of the programme. Observation, application, analysis, diagnostic stage, approval, contract, security fulfillment, contract, installments, and control all are done integrally and solely by Bupa Yasa.

In 1968 immediately after the start, the interest was 7% per month, to be decreased to 6% in 1969 and again to be reduced to 5% since 1970 up to present.

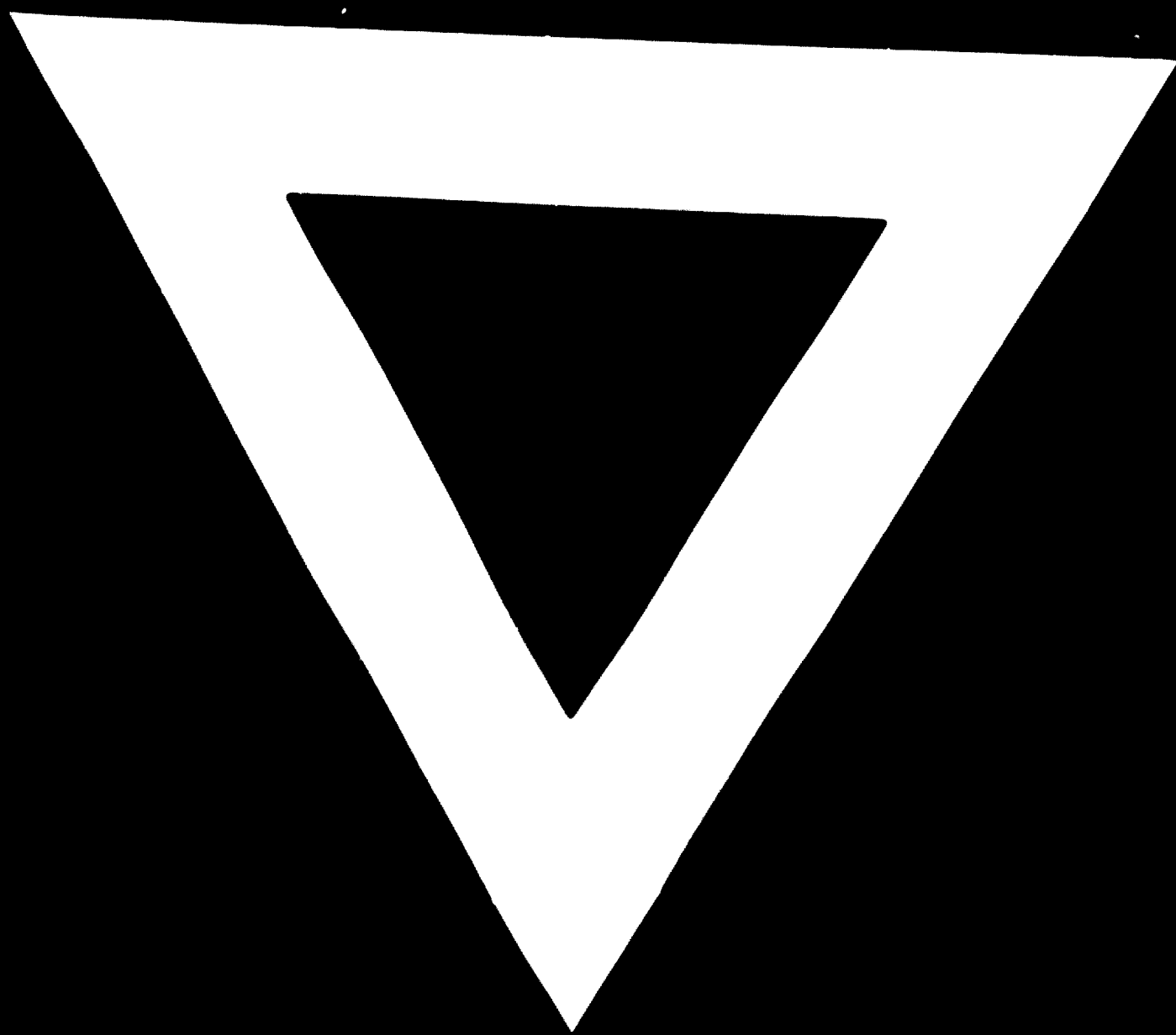
Among the many revised policy regarding the credit programme are as follows.

- a more careful study of the security and guarantee system.

- a closer observation and analysis of the applicants.
- a closer control system in the effect of the credit facilities and careful selection of progressive and efficient debtors.
- a maximum credit of Rp.500,000,- with a maximum period of 20 months, including one month grace period if necessary.
- the applicant should be covered by all the necessary clearance and document from the Government.
- complete and direct sanction to those who are bad installers/ payers and delinquent debtors.

Since the start in 1966, there are some 300 small scale industries who are receiving this credit facilities under the new scheme. In strengthening the management of this credit facilities there are one special committee created and aimed for the study, observation and approval of the applicants.





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