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INVESTMENT PROMOTION

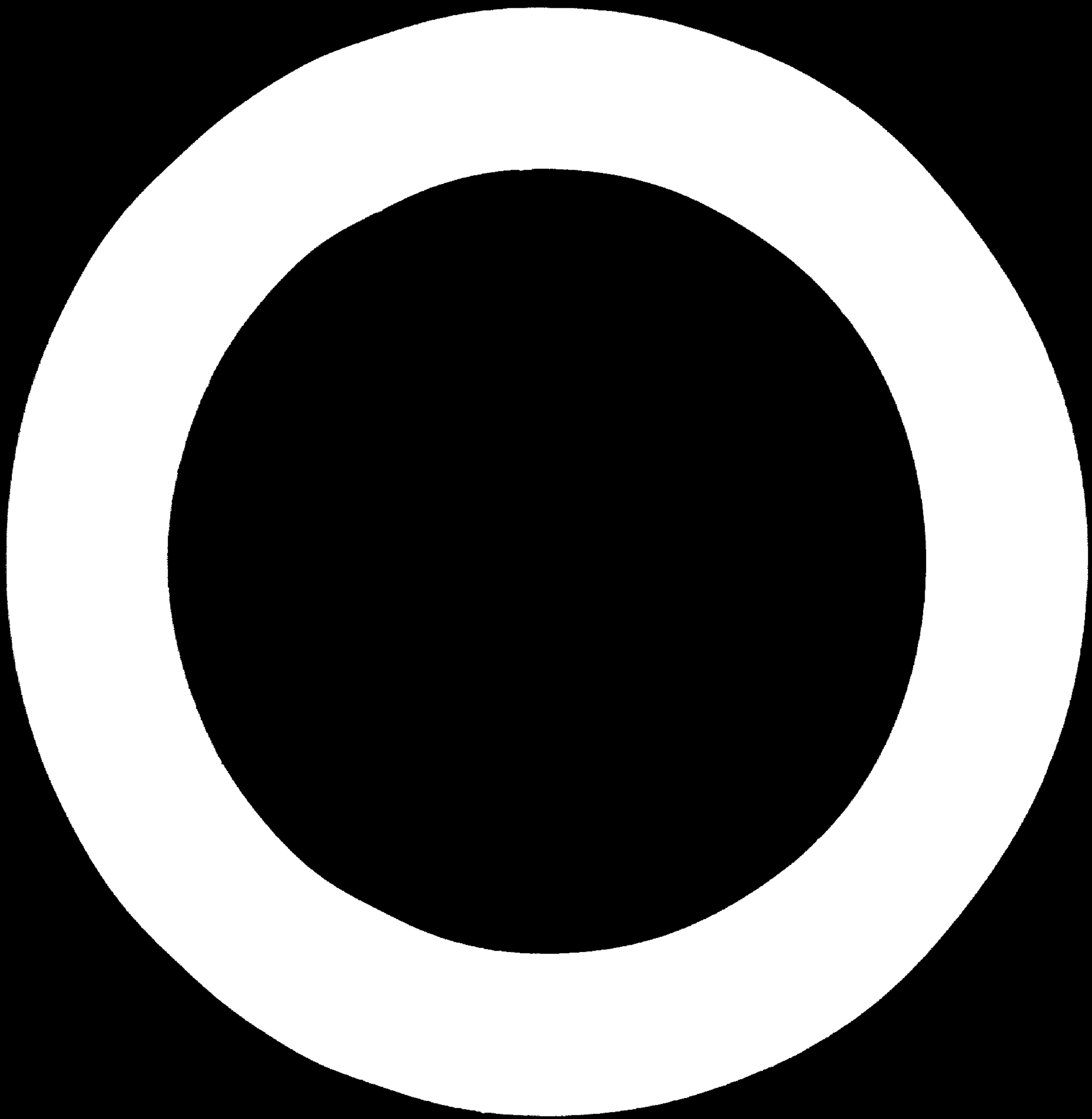
DP/INS/71/006

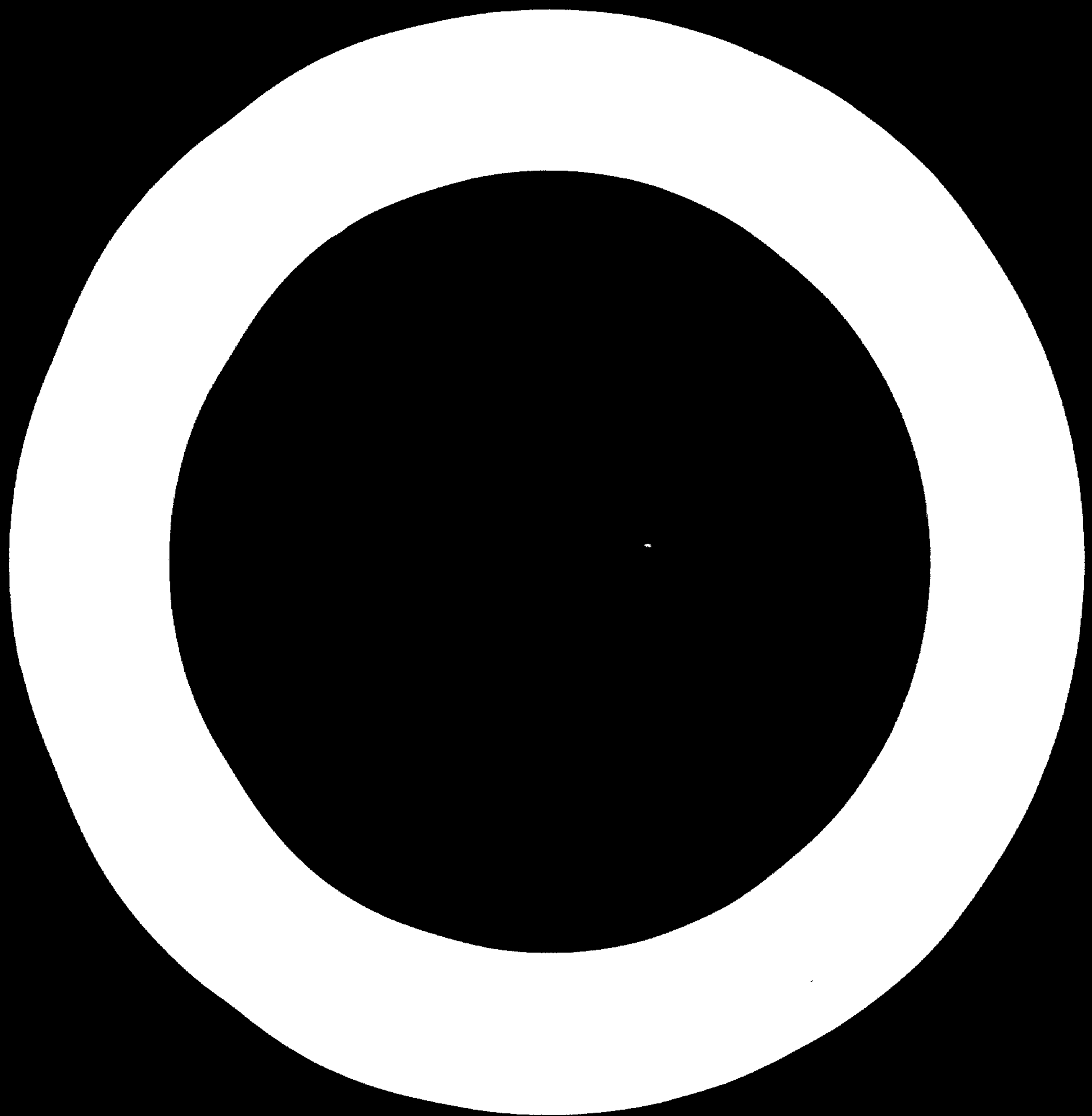
INDONESIA

AGENCY TERMINAL REPORT

Prepared for the Government of Indonesia by the
United Nations Industrial Development Organization
executing agency for the
United Nations Development Programme

United Nations Industrial Development Organization





United Nations Development Programme

INVESTMENT PROMOTION

DP/INS/71/006

INDONESIA

Project findings and recommendations

Prepared for the Government of Indonesia
by the United Nations Industrial Development Organisation,
executing agency for the United Nations Development Programme

Based on the work of Joseph P. Bourdres, investment promotion adviser

United Nations Industrial Development Organisation
Vienna

Explanatory notes

Use of a hyphen (-) between dates representing years signifies the full period involved, including the beginning and end years, e.g. 1971-1973.

A slash (/) between dates representing years indicates a crop year or financial year, e.g. 1971/72.

Reference to "dollars" ($) indicates United States dollars, unless otherwise stated.

Details and percentages in tables do not necessarily add to totals, because of rounding.

A full stop (.) is used to indicate decimals.

The following exchange rates are used in the conversion of country currencies to United States dollars:

Country	Currency	Exchange rate per US dollar in 1972
Indonesia	Rupiahs	375

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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INTRODUCTION

In autumn 1970 the expert entered into a contract with the United States Agency for International Development (AID) for the purpose of making a plan for an Indonesian Investment Centre. Upon approval and implementation of this plan by the Government of Indonesia, AID intended to extend the expert's contract for a number of years in order to assist in the organization and operation of the Investment Centre.

In January 1971 the plan was finished and was approved by the Chairman of the Investment Board, Mohammed Sadli. A decree by which the Centre would officially come into being had been prepared for signature by the President of the Republic of Indonesia. After several months, however, Dr. Sadli informed AID that the Government was not inclined to implement the plan at that time and that the President had postponed indefinitely the signing of the decree. In those circumstances AID could not extend the expert's contract.

Meanwhile, the flow of foreign investments into Indonesia continued at the fairly high level of 50-60 million dollars a month, and domestic investments increased by even higher amounts. Obviously industry was moving forward in Indonesia, and the problems needing solution became increasingly acute: the revision or modification of policies in the fields of tax incentives, customs procedures, off-shore manufacturing and joint ventures, the development of industrial estates, the identification of areas of priority for investment and the promotion investment and the promotion of existing opportunities with the help of both foreign and domestic investors. Consideration of these matters required a far more systematic approach than had been the case hitherto.

Dr. Sadli therefore decided that although a formal body for these tasks could not yet be set up, the work for which the services of this expert would be needed should nevertheless be done. Consequently, the Government made an official request to the United Nations Development Programme (UNDP), which, upon approval by UNDP, with UNIDO being appointed as executing agency, resulted in the present project. The project began on 13 March 1971 and ended on 12 December 1974, after two extensions.

Official arrangements

Because of its rather unexpected nature, the project had not been included in the first UNDP country programme, which was being discussed at that time. It was fitted into the programme in August 1971. Since, moreover, there was no UNIDO field adviser present in Jakarta as yet, it must be assumed that no Project Document was prepared. Consequently, no adequate arrangements were agreed upon with the Government for local transportation, inland travel, office space and secretarial help. These matters had to be solved on an ad hoc basis and inhibited the expert's activities at times, notwithstanding the co-operation and goodwill of everyone concerned.

Only at the time of the last contract extension, March 1974, was a formal Project Document drawn up by FIDCA in Jakarta.

Objectives of the project

The long-term objective of the project is to devise and organize effective means and methods to attract private investment in new undertakings and in the expansion of existing ones.

The short-term objectives are as follows:

(a) To identify the priorities of industrial development in each sector of the economy, particularly with a view to attracting participation by foreign investors;

(b) To develop a system of investment promotion activities in Indonesia;

(c) To systematically revise and improve the conditions, laws and regulations for investment, specifically, but not exclusively, in small-scale industry in Indonesia, through fiscal incentive systems, project evaluation criteria, and criteria for joint venture agreements;

(d) To distribute informative publications on all aspects of Indonesia's investment climate and opportunities;

(e) To hold conferences and seminars for domestic and foreign entrepreneurs, designed to provide information about and guidance in making viable investments, with an emphasis on pre-investment services, joint venture negotiations, advisory services in financing, and systematic and effective liaison with regional investment offices;

(f) To import knowledge and skills and to transmit the results of experience in the fields mentioned above to the appropriate Indonesian staff of the Investment Coordination Board.

I. INVESTMENT IN INDONESIAN MANUFACTURES

During the first six years after the change of Government in 1967, private investment in Indonesia has increased rapidly. This is one proof of the success of the new Government's policy of a strong reliance on a free interplay of market forces and the establishment and maintenance of political and social stability in the country. The rupiah became a hard, convertible currency, offering reasonably favourable prospects for the rehabilitation of a badly damaged and neglected economy.

Both the Foreign Investment Law (Law # 1 of 1967) and the Domestic Investment (Law # 6 of 1968) embody the principles of a market economy, and a set of attractive incentives has stimulated increased entrepreneurial activities.

This report considers the situation in the manufacturing industries only. The expert concentrated his attention and efforts on this area because it comprises the most important aspects of development: employment, diversification of domestic entrepreneurship and markets, and plurality of foreign participation and technology.

Foreign investments increased from $35 million in 1967 to $666 million at the end of 1972 in the manufacturing industries alone. Domestic investment in this sector increased from $80 million to $1,150 million during the same period. After 1972 the trend in foreign investments was still sharply upward; 1973 saw an increase of $350 million and in 1974 another $814 million of new investment was added in this sector. The second half of 1974, however, shows a significant contraction.

In 1972, another trend became apparent in foreign investments - the shift from American and European predominance as countries of origin to Japan, Hong Kong and Asian countries. The latter are now the source of the majority of new investment proposals and of total capital. Tables 1 and 2 show the position at the end of 1974.

There are a number of factors that have increasingly tended to inhibit foreign investments during the last few years but they appear to be considerably less discouraging to investors from other Asian countries than to American and European investors.

In the following sections these factors are discussed in the light of the expert's activities and experience.

Table 1. Foreign investment approvals* in Indonesia - by national origin

Country of Origin	First Half 1974		Second Half 1974		Total 1967 Through 1974		
	No. of Projects	Capital US$ million	No. of Projects	Capital US$ million	No. of Projects	Capital US$ million	% of Total
Japan	19	171.6	13	278.4	181	1,083.4	27.9
US	4	6.6	2	7.8	124	974.0	25.1
Hong Kong	13	138.4	5	40.4	112	446.2	11.5
Australia	4	21.6	3	1.5	42	174.1	4.5
Netherlands	4	81.7	4	16.3	48	170.9	4.4
West Germany	1	128.6	1	4.3	29	166.4	4.3
Singapore	1	24.5	2	1.1	45	126.1	3.3
Others	6	95.0	10	33.7	197	738.7	19.0
Total	52	668.0	40	383.5	778	3,879.8	100.0

*excluding petroleum industry investments

Table 2. Foreign investment approvals* in Indonesia - by industry

Sector	First Half 1974		Second Half 1974		Total 1967 Through 1974		
	No. of Projects	Capital US$ million	No. of Projects	Capital US$ million	No. of Projects	Capital US$ million	% of Total
Agriculture	2	8.0	3	4.5	71	125.5	3.2
Forestry	2	5.0	2	5.9	86	506.4	13.1
Mining	—	—	—	—	19	860.5	22.2
Manufacturing	32	493.7	23	320.2	462	1,859.0	47.9
Textiles	(10)	(117.4)	(2)	(33.0)	(68)	(687.2)	(17,7)
Chemicals	(7)	(16.7)	(5)	(173.3)	(93)	(291.7)	(7.5)
Electrical appliances	(–)	(–)	(4)	(11.5)	(39)	(70.2)	(1.8)
Others	(15)	(259.6)	(12)	(102.4)	(262)	(809.9)	(20.9)
Construction	4	5.8	6	4.5	54	62.2	1.6
Hotels, tourism	3	71.4	—	—	15	173.2	4.5
Real estate	7	82.3	4	47.0	24	223.4	5.8
Miscellaneous services	2	1.8	2	1.4	47	69.6	1.8
Total	52	668.0	40	383.5	778	3,879.8	100.0

* excluding petroleum industry investments

A. Conditions for investment

Identification of priorities

During the period of the contract, the Government of Indonesia has been moving away from its initial policy of permitting market forces to determine in which branches of industry investments would be made.

Both the Ministry of Industry and the Ministry of Finance have objected with increasing frequency to investment proposals, domestic as well as foreign, on the grounds that there was excess capacity in a particular branch of industry. Gradually the Ministry of Industry added one manufacturing area after another to the "closed list".

The expert investigated some of the installed capacity/market factors for a number of approved foreign investment projects. The results were used for promotion purposes by the Chairman of the Foreign Investment Board during his trip to the United States and Europe in 1972 and were submitted with the expert's first activity report of September 1972. However, neither the expert nor his colleagues have been able to determine a valid criterion by which excess capacity can be reliably ascertained. Quite apart from the fact that the figures for installed capacity given by investors in their applications do not usually correspond to the capacity of the plant once it is actually in production, capacity is a very difficult quantity to measure. Studies by several British consulting firms in India gave figures that showed capacities varying by as much as 25% for the same plant. Moreover, demand forecasts, which have an important influence on the decision on installed capacity, are never exact, or even the same, for different firms making the same product for the same market. Such figures depend to a great extent on who does the measuring and the forecasting and what the particular subjective factors are in the judgements in each case.

Except for some major fields about which there is no difference of opinion, such as the textile industry, the metal-working industry (tool-making, electric motors and switchgear, machine-tool parts and automobile parts and accessories) and food processing, a great many manufacturing activities are now subject to closure or are at least restricted to new entries.

The expert found that political considerations and the pressure of special interest groups are more realistic causes for the increasing prohibition of new investments. Politically, it is mainly the fear of the alleged influence and power of the transnational corporations, which is developing in most of the third world countries, that inspires a growing reluctance in many responsible officials to approve new foreign investments in Indonesia. An additional problem for the investor is that no clear information has been published so far on exactly which industries are closed, and it has happened not infrequently that it was only during the processing of form B (the definitive project application for foreign investments) that some department came forward with the excess capacity ban.

The Government, mainly the Department of Industry, has been working for more than a year on the forumulation of an official regulation. It has recently indicated that the issue of this regulation can be expected around September 1975. The regulation will most probably specify the conditions for investment in the following four categories:

(a) Highest priority industries in which 100% foreign ownership can be allowed and to which the full benefits of fiscal and other incentives can be granted;

(b) Priority industries in which foreign participation is allowed on a joint-venture basis and to which the fiscal and other incentives can be granted;

(c) Industries where domestic investment is preferable but in which foreign participation, mainly for the supply of technology, can be allowed but to which no incentives will be granted;

(d) Industries which are closed for both foreign and domestic new investments.

Meanwhile, the expert has consistently recommended from the start of his assignment that the strongest efforts be made to promote off-shore manufacturing industries, which are the only type of industries that would not meet with opposition from domestic producers of goods for the local market. Because such industries are by their nature highly labour-intensive and export their total production, the Government would have every reason to welcome them, even if they belong to multinational conglomerates: being "foot-loose" these units are not in a position to exercise any undue influence on the affairs of the country. Indonesia is particuarly attractive to this type of investor because the very large number of employable workers is very likely to keep wage levels competitive with those in neighbouring countries such as Malaysia and the Philippines. The subject has been amply reported on with the first and second activity reports and the progress report of May 1974. In August 1974 the expert made a comprehensive proposal for a special regime for off-shore manufacturing at the request of the Vice-Chairman of the Board. The proposal appears as annex 1 to this report. So far no official action has been taken on this matter. It seems that the customs officials, in particular, do not fully understand the value for Indonesia's development of giving special incentives of off-shore manufacturers, despite the fact that five United States transnational companies have located electronic component plants in the country. Two of these are operating in the region of central Java; altogether the five enterprises employ more than 7,000 workers.

It should be emphasized here that manufacturing electronic components is not the only industry for which off-shore operations are of importance. Many other companies are looking actively for suitable places to locate plants for the manufacture of components. They include garment sewing, toys, watches, parts for instruments and rubber parts for shoes, to name but a few.

It is to be hoped that Indonesia will soon adopt the necessary policy for this category, so that an active promotion campaign can be carried out on a sound basis.

Fiscal incentive programme

Officially, all new investments in industry are granted the following incentives:

(a) Exemption from corporate income tax for a minimum of two and a maximum of six years;

(b) Exemption from or reduction of import duties on machinery, equipment, spare parts and raw materials for two years.

In practice, however, both the Ministry of Industry and the Ministry of Finance try, often successfully, to grant fewer facilities than the investor was led to believe he could obtain in accordance with the published official regulations (see also "Procedures" below).

Foreign investors usually make a serious issue of this matter despite the fact that the tax structure of a country is not a primary factor in investment decisions by international companies. In Indonesia the bargaining between Government and investor over one year more or less tax holiday can cause inordinate delays in the approval procedure. The same holds true for application for the duty exemptions.

It is undoubtedly a fact that the tax holiday costs the Government a considerable amount in revenue. The expert made a study of this problem and found that in the manufacturing industries alone this loss amounts to at least 20% of the capital invested. The study is attached to the first activity report. In view of the negotiation problem mentioned above and the fact that at the time Indonesia no longer needed to be over-generous in the treatment of foreign investments, it was recommended that the tax holiday and duty exemptions should be abolished altogether and replaced by a system of flexible accelerated depreciation to be applied during the initial years of operation. In that way, the Government would not forego revenue from taxation, while industry would benefit from the increased cash-flow in the difficult starting years. At the same time it was recommended that the tariff system should be reviewed by reducing permanently the rate of duty on many items of importance for industry which at present carry rates of 50-100%. For most of these items such high rates are totally unjustified from the point of view of protection, since the items are not being produced in the country. Levying duties for the sole purpose of creating income for the State is detrimental to the sound development of industry, however understandable it may be in view of the problems which Indonesia, like many other developing nations, still has with the collection of income taxes. A low and consistent tariff without special exemptions for industry would avoid the often acrimonious negotiations on this issue; in the long run it would quite probably yield the same, if not a higher, income for the State because of the increased industrial activity it would encourage.

The result of these studies and recommendations so far has been that at the time of publication of the second five-year plan (for 1974-1979) the Government made known its intention to be less lenient in granting tax and duty exemptions in future. Specific policies and regulations have not yet been issued, however.

Mandatory domestic majority in joint ventures

Until the end of 1973 the Government permitted the formation of joint ventures with a minimum of 10% domestic participation in the equity. In January 1974 measures were announced that made it mandatory for investors to provide for 51% domestic participation within a maximum period of five years. This would apply not only to new applications but also to those which had already been approved. The announcement caused quite a stir among investors and, in the absence of specific regulations, the measure has not yet been enforced. Presumably this will be done at the same time that the lists mentioned above are published.

In the course of 1973 the expert made a study of 50 domestic manufacturing enterprises on Java, Bali and Sumatra, with the aim of ascertaining their managerial capability, growth potential and financial strength. It was hoped that the results of the study would provide useful information on the availability of suitable Indonesian partners for new joint ventures. Promotional activities could then be initiated on the basis of this information.

The report, submitted in October 1973, concluded that 25 of the companies showed adequate managerial capabilities and growth potential. But that none of them would be able to raise more than 15-20% of the equity needed for a possible joint venture.

It also appeared that there were severe problems in obtaining loan-capital from domestic banks. In most cases it took a very long time to process loan applications and the cost of obtaining loans was extremely high. This had an adverse effect on the performance of the companies.

Meanwhile, 15 of the eligible companies responded to the invitation to attend the UNIDO/ECAFE Third Asian Investment Meeting in Kuala Lumpur in November 1973. So far four of these companies have begun active negotiations with foreign investors.

Financing

Interest rates in Indonesia are high - 24-36%. The main reasons for this are the Government's policy of stimulating savings, the scarcity of capital, and inflation.

As early as 1968 the Government had created an investment credit facility allowing the state development bank (BAPINDO) and the five state commercial banks to lend up to 75% of the capital needed for a new domestic enterprise at 12% interest for five years. Capital for the expansion and modernization of existing enterprises can be obtained on the same conditions. A minimum of 25% of the capital has to be supplied by the investors themselves.

In the case of joint ventures, 20% of the capital needed can be borrowed on the same terms, and 80% must be supplied by the Indonesian and foreign partners.

In practice there are a number of problems with this system. As has already been mentioned, the processing of loan applications frequently runs into long delays of two years and more, mainly because of the lack of personnel capable of evaluating projects. One particularly adverse consequence of such delays is that, given the present rate of world inflation, the amount of the original loan is not enough to purchase the necessary capital goods when the loan is finally approved.

Another problem is that working capital cannot be borrowed at the (for Indonesia) low interest of 12%: the rates are 24-30%. It stands to reason that negotiating for the lowest rate of interest can also take a long time. This makes investors shy away from countries like India, for example, which maintains tight exchange controls that prohibit the export of capital. There are excellent industrial companies in India that would like to set up joint ventures in Indonesia to develop export markets. The expert has been involved in several cases where Indian entrepreneurs had to drop such projects because the high interest rate for working capital would make their products uncompetitive in world markets, despite the low wage factor in Indonesia.

A further difficulty is that many smaller enterprises cannot put up the required 25% of the capital. They have no choice other than abandoning their project or borrowing the necessary funds from private sources at exorbitant rates. They are usually too small to be interesting partners for a foreign firm that could supply funds at reasonable rates as is the usual practice in most joint ventures in Indonesia.

The Government, fully aware of these problems, created the small-scale industry finance company, P. T. Bahana, in 1973. This company is empowered to supply half of the 25% of the capital that the entrepreneur has to put up himself, against acquisition of equity. In this way the enterprise is relieved from the obligation of paying off interest and principal on 12.5% of the capital. When the company is profitable, P. T. Bahana will try to sell its interest to private parties, thus contributing to the development of a capital market in Indonesia.

P. T. Bahana can also make arrangements with one of the state banks for the necessary credit of 75% of the equity. It can therefore ensure that investment credits are granted fairly and within a reasonable period of time.

These measures are a distinct improvement for the small businessman, although he may still have trouble finding the 10.5% he must produce himself. But P. T. Bahana, apart from having an excellent top management, has been able to recruit reasonably well qualified personnel, who are capable of carrying out proper evaluations and giving sound counsel. Its creation should therefore be regarded as a good beginning in the constructive financing of industry and it can be expected to break new ground when its present operations have matured.

As has already been mentioned, these problems of financing private domestic industry inhibit the formation of joint ventures, particularly now that new regulations prescribing Indonesian majority participation have been announced. The present credit programme is inadequate for such participation and many foreign investors, especially those from the United States and Western Europe, have reacted sharply against the new measures.

It appeared that Japanese and Hong Kong companies are better able to establish joint ventures in which the domestic participation is much larger from the outset - 30-40% rather than the customary 10-20%. The reason for this seems to be that investors in Japan and Hong Kong have contacts with Hong Kong and Taiwan family business firms which are related to family businesses in Indonesia to whom they can transfer funds which then can qualify as domestic capital in Indonesia. Capital originating from Japanese and Hong Kong investors is channelled into Indonesia in this way. Western companies do not have these relationships. This is undoubtedly one of the main reasons why Japan and Hong Kong are now becoming the main investors in Indonesia.

Procedures

Organization and co-ordination

Like most other developing nations, Indonesia still lacks the administrative and organisational competence for procedures to operate smoothly. The screening and approval procedures for investment applications suffer from delays, interdepartmental confusions and misunderstandings.

The Government is well aware of this and had already begun efforts to improve matters before the expert took on his assignment in 1972. As has been mentioned before, the expert was in fact called to Indonesia by AID to assist an investment centre one of whose main tasks was to be the streamlining of procedures.

There appeared to be many reasons for the many obstacles to devising more effective procedures. Apart from the over-all lack of administrative ability, the situation must be largely attributed to the lack of interdepartmental co-ordination and, perhaps still more, to the existence of a number of powerful "islands of idependence" in the Ministry of Finance (Taxation and Customs Divisions) and the Ministry of Industry (Directorates General of Basic Industry, Light Industries, Textile Industries and Chemical Industries).

From the beginning the Investment Board, or "Technical Committee for Capital Investments" as it was officially called, had been holding statutory meetings in which the heads of all departments concerned with investment decisions were to take part as members ex officio. In practice, however, they did not attend board-meetings in person but sent deputies, often of the third or fourth level. The result was either that the Board could not take decisions, because there were no authoritative representatives from the departments, or that it took decisions which were frequently unacceptable to one or more heads of department. This caused delays, uncertainty for the investor, and produced the impression that facilities granted or commitments made by the Government had been withdrawn retrospectively.

It was only in June 1973 that the Government established the Capital Investment Coordinating Board - Badan Koordinasi Pananaman Modal (BKPM) - governed by presidential decrees Nos. 20 and 21 of 1973. The primary task of this Board, as of its predecessor, is the acceleration and simplification of procedures. Because of its status as an independent body and the clear mandates incorporated in the decrees, however, it has much greater authority. Its statutes prescribe that the secretaries-general of the Ministries of Finance, Justice and Internal Affairs shall simultaneously head the Board's co-ordination bureaus for fiscal, legal and regional matters respectively under the chairman, who is directly responsible to the President. They must attend the regular meetings together with the heads of department. For the first time, therefore, there exists an organization with broad powers of decision making and policy implementation in the field of industrial investments. The most important elements of the expert's original plan for an investment centre were incorporated in the decrees.

While a new organization like this needs time for organization and staffing, and to work out efficient routines and establish proper contacts within the government machinery, it is nevertheless regettable that now, at the end of 1974, the same problems still exist that plagued the former investment board: neither the secretaries-general nor the heads of department attend board-meetings in person. Undue delays and inept decisions are still frequent for the reasons as cited before.

The expert's progress report of May 1974 deals with the other major problem to be faced - the lack of qualified personnel - as does his memorandum of 1 May 1974 to the management of the Board. Other government organizations, P. T. Bahana, for instance, have succeeded in attracting qualified personnel by obtaining the Government's permission to pay salaries comparable to those offered by private companies: Rp 200,000 to Rp 250,000 a month instead of the maximum Rp 60,000 the Board is allowed to pay. The officially sanctioned position of the Board, which reflects the importance the Government attaches to industrial development, should make it possible for a purposeful management to obtain permission to pay the kind of salaries needed.

The expert is of the opinion that unless there are improvements in top management and staff the performance of the Board is likely to remain disappointing.

Application forms and evaluation

The expert has worked throughout his assignment on the improvement of the application forms used for investment projects. Different forms are used for domestic and for foreign applioations.

Domestic investors only need to fill in one form. Foreign investors first have to complete a form A which serves as a declaration of intent and contains a brief summary of the project. After approval of form A the investor is invited to make out form B within a prescribed period, usually three months.

Form B is drawn up in the form of a commitment on fairly detailed aspects of the project, such as: product(s) to be manufactured, production oapacity, applied technology, cpaital for fixed assets, working capital, equity and ownership, long term loans, markets, machinery and raw materials to be imported, numbers of foreign and domestic workers, board of directors, and tax and duty exemptions and other facilities claimed in accordance with law and regulations. This document then has to be evaluated by the Board, which eventually decides either to renegotiate certain points with the investor or to recommend approval of the project to the President. After presidential approval has been given the ministry concerned issues the operating permit.

As has already been indicated above, the whole process of evaluating forms A and B suffers from a lack of co-ordination, from inter-departmental disagreements and from insufficient competence on the part of staff assigned to the task. While a foreign expert cannot do much to remedy such matters, he can work on the improvement of the forms themselves. It appeared that the two form system for foreign investment applications and the unclear and unspecific questionnaire presented in form B were also a source of delays and misunderstandings.

The expert proposed in the first place to eliminate form A, because it is only a declaration of intent and requires no approval or rejection formalities. Research revealed that it took on average two months from the time of filing before form A was approved. This delay could be completely avoided if a simple letter was issued to the investor at the end of his fact-finding visit, inviting him to prepare a form B or telling him that his proposed investment could not be considered.

This would leave only form B to be filled in; there then seems to be no reason why one form could not be used for both domestic and foreign investment applications. In addition to the deficient questionnaire mentioned above, this is another reason why form B should be revised. The expert and his colleagues have been working on a new application form, suitable for all kinds of investment applications, with a carefully defined, systematic and specific set of questions to be answered by the investor. It aims at producing a project description that can easily be evaluated by a competent person. At the same time it forces the investor to think his project through, which is of particular value for domestic investors.

In this way, the Board and the departments would work with a uniform system. Great care has been taken for all parties in Government to give their views and suggestions regarding the proposed new form. This was almost completed at the time the expert left Indonesia in September 1974. The new system and the form have not yet been adopted, but it is hoped that the form will soon become operative. A copy was attached to the expert's progress report of May 1974.

Other causes for delays are more severe and persistent, and they account for 20 of the 25 weeks taken, on average, from the time form B is filed until all formalities are finalized. It is appropriate to consider them in relation to form B. They are:

(a) Approval of form B by the relevant department before it is passed on to the Board for consideration. This takes frequently 8-10 weeks whereas the Board reviews the proposals within one or two weeks after receipt of the approval from the department;

(b) Issue of customs exemption certificates after the presidential approval and issue of the operating permit and confirmation of the tax holiday status.

The latter point, in particular, is a serious problem. Form B specifies the permissible tax holiday and gives a detailed list of all machinery, equipment, parts and raw materials that are to be imported under the official regulations for duty exemption. The investor assumes that the presidential approval means a commitment by the Government to honour those arrangements also. In practice, however, the Ministry of Finance often takes new decisions, usually shortening the period of tax holiday and granting less duty exemptions.

To the companies this appears to involve a reneging by the Government on facilities previously agreed upon, since the tax holiday and the duty exemptions were specified in form B, and were not objected to by the Board or by the President's office and, furthermore, they were repeated unchanged in the operating permit.

To date, neither the expert and his colleagues nor various forward-looking government officials have been able to achieve a common and clear policy on these matters.

The expert's solution given above, that is, to replace the tax holiday by a flexible system of accelerated depreciation, and the duty exemption procedure by a substantial lowering of duties, seems to be one of the simplest ways to improve the situation.

With regard to evaluation of projects described in form B, the expert and his colleagues developed a list of criteria as shown in table 3 that would have to be applied by the evaluation officers of the BKPM. It is clear that the proper execution of this task requires personnel with sufficient education who can be trained in this work. At the time only one person of this calibre was available in the Board. It would be necessary to add at least two more, and here again the problem of adequate remuneration will have to be solved.

The proposed criteria are still tentative. They have to be tested thoroughly in practice. Preliminary tests with a number of actual applications for electrical and textile industries still gave widely divergent results, as can be seen in tables 3 and 4. Further research must ascertain how far the data supplied by the investor have been realistic, or whether different firms will employ different technology, or whether certain criteria should be changed, added or left out. It is obvious that this subject still requires a great deal of work to which an expert could make a valuable contribution, the goal being to arrive at a reliable evaluation routine that provides for each branch of industry a range of values for each criterion. Projects that show values falling within these ranges can then automatically be approved.

Infrastructure

Power, water and communications

Twenty years of gross economic neglect in the fifties and sixties resulted not only in negligible additions to the electric power, water supply, transportation and telecommunication systems but also in their serious deterioration all over the country.

The first areas where the new Government started to make improvements were the important centres of activity, Jakarta and Surabaya on Java, and Medan on Sumatra. Nowadays reconstruction and expansion programmes are being undertaken throughout the Island of Java, the east coast of Sumatra and some areas on Kalimantan and Sulawesi. Most of the intergovernmental aid funds through IGGI, World Bank and ADB loans are used for this purpose. As these programmes take time, it is not to be expected that their impact in the regions will begin to be noticeable before the end of the second five-year plan, which runs from 1974 to 1979.

In these circumstances it is not surprising that 70% of all new foreign investments in industry are being located in and around Jakarta. This still prevents the investor from fully benefiting from wage differentials, as the wage level in Jakarta is constantly rising in comparison to that in the regions. Lately some increase of plant locations in Surabaya and Central Java has been taking place, especially for off-shore manufacturing of electronic components.

Table 3. Criteria for evaluation of investment projects

Definition or quantification	
(1) Relatively easy (data available)	1.1 Type of industry 1.2 Production programme 1.3 Investor (s) 1.4 Location 1.5 Straight investment or joint venture 1.6 Total investment expenditure 1.7 Total foreign share 1.8 Expected employment 1.9 Exclusively or predominantly export-oriented
(2) Possible, dependent on: (a) quality of feasibility study; (b) preparedness of investor to give correct figures in form B. (data to be further developed)	2.1 Private profitability 2.2 Social profitability 2.3 Domestic value added 2.4 Foreign exchange savings/earnings 2.5 Effective tariff protection 2.6 Estimated subsidies to be paid by Government
(3) Not easy (evaluation subject to informed personal judgement)	3.1 Technological transfer 3.2 Impact on training 3.3 Linkage effects, spillover 3.4 Effects on competitive situation 3.5 Effects on ownership 3.6 Effects on environment 3.7 Motivation of investor 3.8 Prospects for exports 3.9 Opening of foreign markets

Table 4. Evaluation of foreign investment projects: Test results

(a) Production programme	(b) Total intended investment (thousands)	(c) Expected employment	(d) Investment per capita ($US)	(e) Private profitability* 1 (percentages)	(e) 2	(e) 3	(f) Domestic value added (percentages)	(g) Estimated subsidy (percentage of (b))
1. Refrigerators, air-conditioners	3,200	309	9,726	23	14	8	21	...
	1,000	79	12,658	...	...	...	...	...
	600	86	6,977	107	60	30	...	...
2. Refrigerators, air-conditioners, cookers	500	168	2,976	75	60	30	190	150
3. Refrigerators, water heaters, cookers	2,200	104	21,153	25	17	10	90	45
4. Refrigerators, air-conditioners, washing-machines, pumps, fans, cookers, irons	2,500	258	9,690	...	...	...	...	...
5. Refrigerators, air-compressors, pumps	600	134	4,477	53	41	23	...	...
6. Radios, televisions, fans	1,200	573	2,094	57	42	25	11	90
7. Motors, generators, motor-driven tools	300	104	2,884	54	41	23	32	95
8. Integrated textiles	6,600	578	11,400	23	17	14	6	45
	9,063	693	13,078	26	17	12	...	56
	15,570	1,169	13,319	22	12	4	6	31
	16,749	802	20,884	28	19	11	14	48
	15,000	1,107	13,550	25	12	5	3	32
	22,600	1,923	11,752	25	13	6	...	42
9. Synthetic fibers	22,300	495	45,050	19	5	3	...	28

* (1) Profit remaining after deduction of "operational cost" from gross revenue in percentage of total intended investment.

(2) Profit before taxes, but after depreciation interest and royalties/fees.

(3) Profit after taxes.

These companies still have to provide for their own power supply as well as for water. Telecommunications are also a severe problem. These factors do add to operating costs in the regions, partly offsetting the wage advantage.

Land and industrial estates

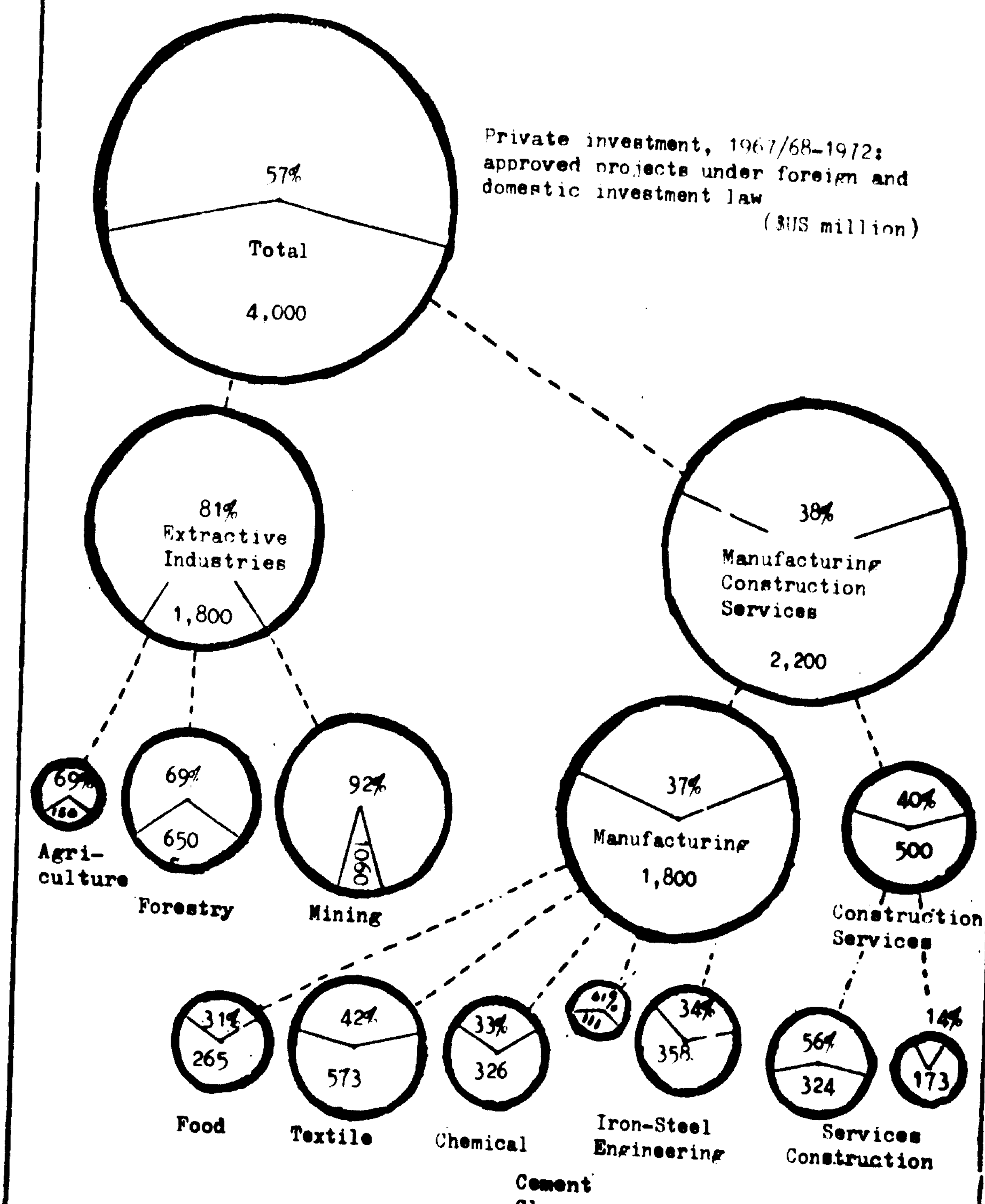
Land reform in the interests of industrial and agricultural development has not yet taken place in Indonesia. Registration of ownership is still largely based on age-old custom (adat) which makes it very difficult for a new enterprise to secure clear title on the land for building and eventually expanding its facilities. There are cases where it takes two to three years before title negotiations have been concluded with sufficient security.

This is one reason why in 1972 the Government started a programme for the establishment of industrial estates; another was to create the possibility for manufacturing in a custom-free area for the promotion of export industries. So far, Jakarta, Surabaya and Cilacap, all on Java, have been chosen as locations for industrial estates. The one in Jakarta, Pulo Gadung, is partly in operation with about 60 enterprises. Surabaya is being prepared, while the estate in Cilacap is still in the planning stage. The Government adopted a policy of inviting foreign capital and know-how to participate in the building and operation of the estates on a contractual and not a joint-venture basis. Thus, Westinghouse has a management contract with the estate in Jakarta, a German group with the one in Surabaya and possibly an Australian and/or Japanese combination will be involved in Cilacap.

Compared to Malaysia, which is far ahead in this field, the prices for land on the estates in Indonesia are fairly competitive, at Rp 6,000 to Rp 8,000 per acre. But these industrial estates still suffer also from scarcity of electric power, water and telecommunications, so that larger enterprises will have to provide these utilities themselves.

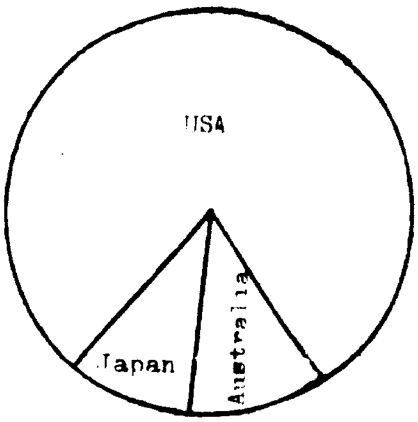
B. Documentation

A major part of the expert's activities was devoted to building a reliable documentation system. At the start of his assignment the available information on the extent, distribution, and implementation of approved investment projects was meagre and not reliable. Only for foreign investments was there a complete



Legend: Upper figure: share of foreign investment in percentage
Lower figure: total investment
Note: Figures rounded

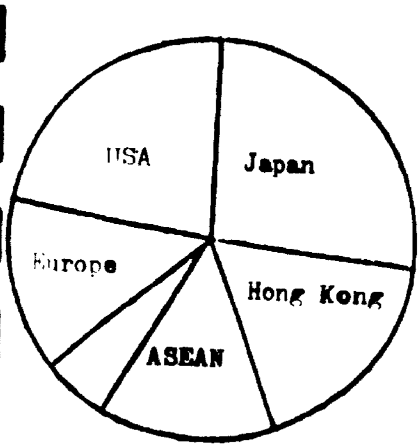
Foreign investment, 1967-1972: approved projects according to main countries and sectors



Mining: - $US 860 million

As shown in the diagram, it is mainly the large United States corporations that are able to provide expertise and capital commensurate with Indonesia's requirements for prospecting and exploiting mineral resources. The most important metal-ores are nickel, tin, copper and bauxite.

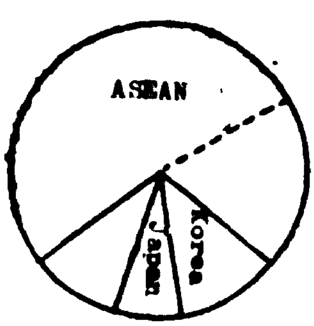
In the mining projects, the volume and period of investment will ordinarily depend on the size of deposits. The recorded figures, therefore, give only the order of magnitude envisaged.



Manufacturing industries $ 650 million
Construction services $ 200 million

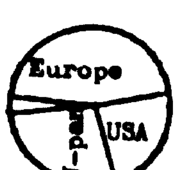
Investment of Japanese and American firms in these sectors accounts for about one quarter each. Including a $ 50 million project for synthetic fibres, 62% of the total Japanese investment will go to the textile sector. Over one third has been invested by companies from HongKong and Taiwan and the ASEAN-Countries (Singapore, Malaysia, Thailand, Philippines).

Total investment from European countries accounts for 14% or $ 120 million, the main investors coming from Holland ($ 30 million); Federal Republic of Germany ($ 28 million), and United Kingdom ($ 17 m.).



Forestry $US 450 million

In 1969 the Philippine Company Soriano committed itself to invest $ 235 million over the next thirty years in forest exploitation and wood-processing industries. Average investment per concession for the remaining 70 companies lies around $ 2,5 million.



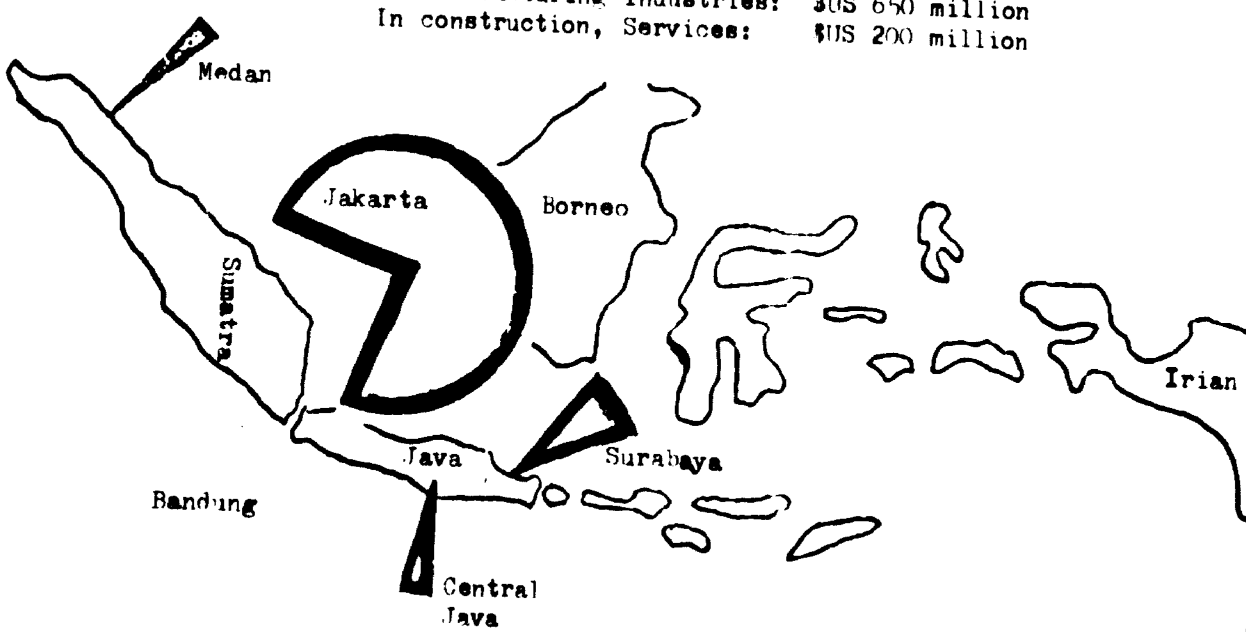
Agriculture $US 80 million
Fishery $US 20 million

Investment in agriculture is mainly concentrated on plantations owned by European and United States companies since pre-war days. Japanese investment went almost exclusively to fisheries.

Graph III

Regional distribution of foreign investment, 1967-1972

In manufacturing industries: $US 650 million
In construction, Services: $US 200 million

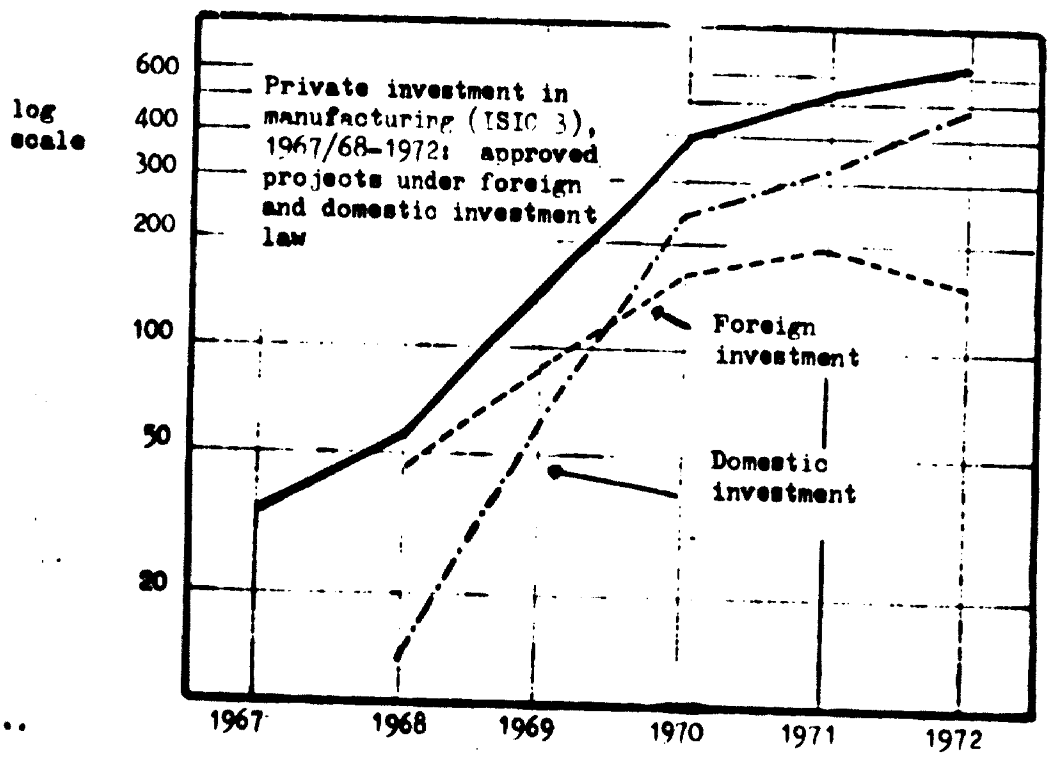


Almost all investment activities that are resource-based, such as agriculture, forestry and mining are located in Sumatra or Kalimantan(Borneo) or the eastern part of Indonesia.

For the sectors shown in the diagram above, Java, with a population close to 80 million, offers a large and easily accessible market and low-cost labour.

The high preference of the foreign investor for Jakarta and its environment reflects benefits due to better infrastructure, services and amenities of a big city, including foreign schools. However, with a widening difference in wages, investors have an increasing preference for locating their factories in Surabaya or Central Java.

Graph IV


log scale
600
400
300
200
100
50
20
Private investment in manufacturing (ISIC 3), 1967/68-1972: approved projects under foreign and domestic investment law
Foreign investment
Domestic investment
1967
1968
1969
1970
1971
1972

record of approved projects. With the coming into being of the BKPM the opportunity presented itself to set up a unit for systematic data collection with the available personnel.

First of all, under the guidance of the expert, a central filing system was set up for which an index was developed, shown in annex II. This enabled the Board to publish for the first time reasonably accurate figures on domestic and foreign investments over the years 196[illegible]-19[illegible]2. Graphs I-IV present this compilation. The recent figures appearing in tables 1 and 2 have also been compiled by the Board according to this system.

Secondly, attempts were initiated to arrive at reliable figures on the implementation of approved projects. Here there still exists a problem, because the data can only be supplied by the investor. Many entrepreneurs are not co-operative in this matter, although there is a regulation obligating them to report every three months to the Board on progress in the construction and organization of the new enterprise. As it is neither practical nor desirable to apply sanctions against non-compliers, the only way to obtain the information is for the Board to combine written requests with personal visits. Here again the personnel question is of vital importance. The Board's central office in Jakarta possesses trained personnel for this purpose. In the regions, however, it will be necessary to set up training programmes for this kind of work, which requires not only sufficient knowledge of what is involved in setting up a productive facility but also of the areas about which misleading information may be given.

So far these problems have not been solved and the best informed guess is that on average it takes three years from the receipt of the operating permit to the start of the new enterprise.

C. Promotional activities

After all that has been said in the previous sections of this report, it is not surprising that a basis has not been found on this project for the establishment of a comprehensive and systematic investment promotion programme. With the over-all ambiguity of the text and the application of many regulations, the inadequate infrastructure, the vagaries of the banking system and the incompetence of many civil servants, it is not possible to issue realistic and convincing publications and to conduct compaigns aimed at moving investors to spend their efforts and capital in new undertakings in Indonesia.

Nevertheless a number of promotional activities have been initaited, pending the improvements that undoubtedly will be made in the future. Most of the promotional work was of an ad hoc nature in cases and areas where results were thought to be quickly obtainable. These are described in the following sections.

Joint Venture Forum

In 1972 the expert made a serious attempt to stimulate discussion and action towards improvement of the [illegible] ventures and of the relationship between Indonesian and foreign partners. In co-operation with the Institute for Mangement Education (IPPM) a three-day seminar was organized where more than 50 Indonesian and foreign joint venture partners were present. The programme included presentations of the then Chairman of the Investment Board, Professor Sadli, the Chairman of the Foreign Investment Board, Ir. Soehoed, high officials of the ministries of Justice, Finance and Industry and the Director of the Management Institute, Dr. Kadarman who presided over the meetings.

Especially the Indonesian participants were enthusiastic about this initiative. They proposed to form a permanent association that would regularly meet for discussing common problems. It was given the name "Joint Venture Forum".

However, the Forum met only twice more, each time with substantially fewer participants. It was decided to postpone the meetings indefinitely.

It is hoped that similar initiatives will be revived in future.

Stimulating domestic enterprises

Under Section A, above, the expert reported on the fact-finding tour carried out to 50 domestic manufacturing companies. An important finding was the receptiveness of the entrepreneurs visited towards exploring new possibilities, even when their present position still was technologically and financially inadequate.

There is a lively entrepreneurial spirit among many individuals in Indonesia. The most striking example of this was found in a small enterprise in Tegal where the owner of a small metal-working factory equipped with ancient and obsolete machinery was seriously planning to set up the manufacture of parts for automoblie engines.

Upgrading Indonesian consultants

In 19[illegible], the Indonesian Association of Consulting Firms (IKINDO), took the initiative in arranging for a training programme for its members, combined with the promotion of joint ventures between Indonesian and foreign consulting companies. The Dutch Government had made available a grant of $US 1 million for this purpose. The expert was involved in the research of the training needs of the consulting firms. Annex III shows the matrix he used for obtaining information on the subjects in which the firms felt that training was needed.

Of IKINDO's 28 members, 18 responded. Most of them were unfamiliar with network planning (PERT), discounted cash-flow analysis and simulation models. Although further work has been done by IKINDO, with efforts to get the training programmes under way, at the time the expert left Indonesia the realization of the programme was still held up in red tape.

Simultaneously, efforts were being carried out to bring about a joint venture between a Dutch consultant and an Indonesian firm in the field of chemical engineering. This project was on its way to realization at the project's end.

Assistance to individual investors

Assistance and advice was given in 29 projects of foreign investors. In 18 of these the expert was able to find solutions that contributed to the issuing of the Board's approval. These solutions ranged from reconciling the investor's demand for royalty payments with the Government's insistence on justification to modifying proposed technology towards greater local content.

There is a lack of staff with the requisite experience to carry out this kind of promotional work.

Publications

As already indicated, the time is not yet ripe for publishing comprehensive promotional material because of the many ambiguities that still exist in policies and procedures and of the still inadequate infrastructure. Besides, to date the Board still has no budget for it.

One exception is the publication of a newsletter that would appear, for instance, once every three months. It would contain reports on successful new investments, improvements in policies, regulations and infrastructure and other positive news on industrial development.

The expert drafted the following outline:

Quarterly newsletter, PMA

1. Possible names:

Investment News of Indonesia

Industrial Development of Indonesia

Quarterly Bulletin on Indonesian Industrialization

Industrial Progress and Foreign Investments in Indonesia

2. Contents

Statistical survey and comments

Listing of the projects approved during the period broken down according to type of industry, country of origin, wholly owned or joint-venture, and linked to the totals from 196[illegible] onward

Brief factual description of each project

Procedural guidance

Excerpts of main points in booklet "Invest in Indonesia" linked to actual procedure forms A and B

Practical pointers such as
(a) Negotiating tax-holiday
(b) Negotiative duty-exemptions

New decrees and regulations

Procedural changes

Scope for new investments, for instance:
(a) Off-shore manufacturing
(b) Results of specific research reports:
Werner, on textiles; Japan Gasoline, on Petrochemicals; FGU-Kronberg, on metalworking industries

Infrastructural development

Industrial estates

Power generation

Roads, railroads, shipping, airports

Communication systems

Natural gas

Development in financing facilities

State banks

Development banks, such as IDC, IDFC, BAPINDO etc.

Labour and wages

General statisitics on unemployment and other relevant demographic data

Regional availability and skills

Wages, regionally and in particular industries

Unions

Legislation

Feature story

Brief report on a particularly noteworthy event in a region, town or specific industry

3. Mailing lists

Banks, Indonesian and abroad

Chambers of Commerce

Transnational companies abroad

Indonesian embassies and consulates abroad

Foreign embassies and consulates in Indonesia

Businessmen's associations, Indonesia and abroad

Business publications, Indonesia and abroad

Business research institutes, Indonesia and abroad

Consulting firms, Indonesia and abroad

4. Policies and organization

Editorial policies

Facts, no opinions

All information based on official statements must be checked with source

All information on private business must be checked with the companies involved

Data and facts derived from other publications must be acknowledged

Contributions from outside experts must be signed by the authors

Business policies

To be determined whether and from whom subscription rates will be levied and whether advertising will be possible

Organization

Editorial staff

Administrative staff

Accounting

Printing

Mailing

It is regrettable that the absence of a fixed budget and of qualified personnel still prevents the publication of this newsletter. It would no doubt be benificial for stimulating the interest of international businessmen in Indonesia.

Despite these adverse circumstances a considerable amount of work was done by the expert and two junior staff members of the Board on:

A general information booklet on Indonesia

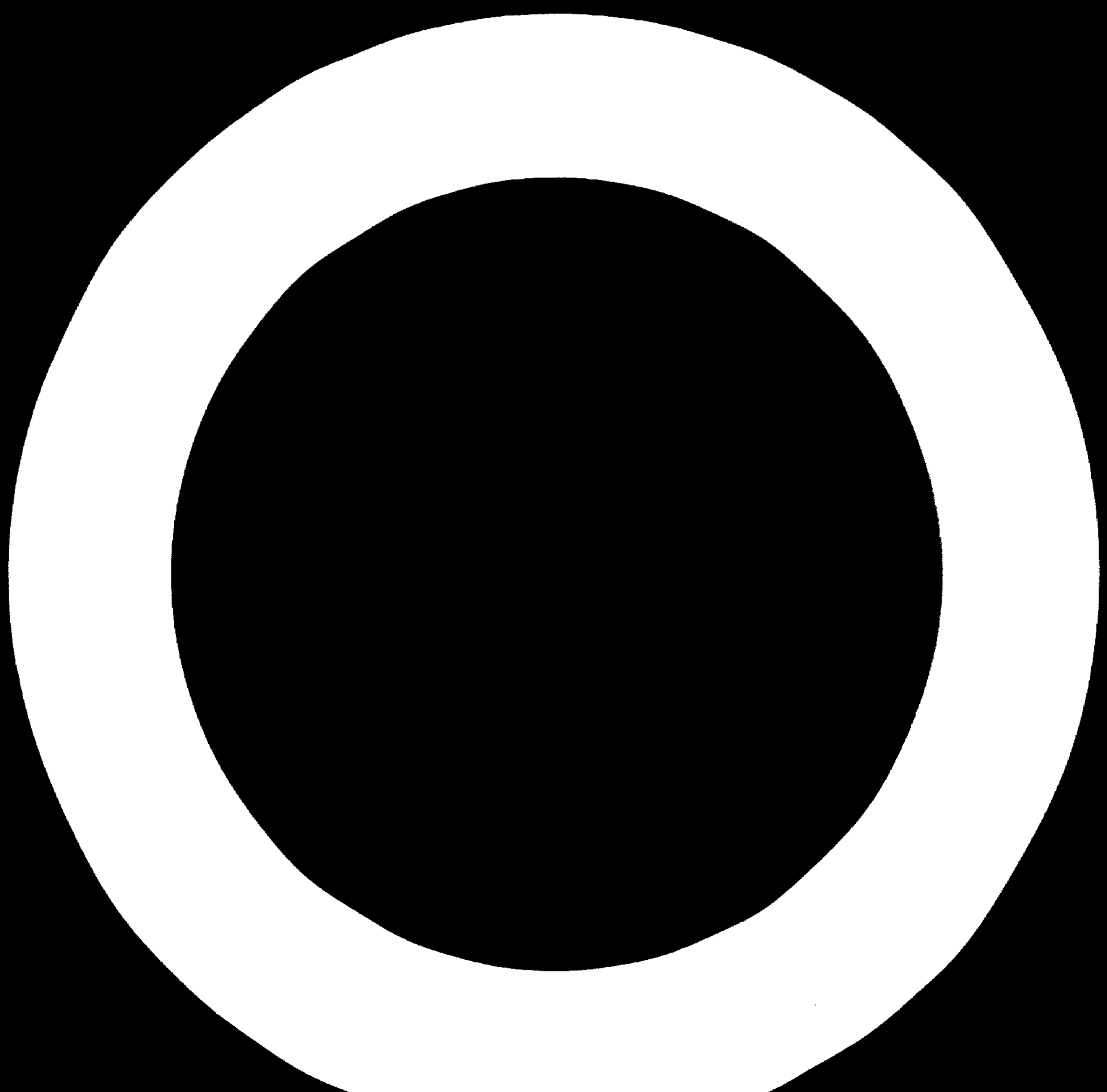
A brochure describing the investment climate

A brochure on taxation

A brochure on industrial priorities

Many meetings were held in which other staff members took part for discussing the drafts of various chapters for these brochures. The discussions were invariably inconclusive because of the uncertainty about the statements and descriptions of regulations, situations and possibilities for investments.

Until policies and procedures are more clearly defined and experiences more uniform, the issuance of such publications would do more harm than good.



II. CONCLUSIONS AND RECOMMENDATIONS

A basic condition affecting the promotion and implementation of capital investment in Indonesia, and militating against the rapid industrialization which is the Government's objective, is the recent tendency to restrict investments in a number of areas, coupled with maintenance of high tariffs and import prohibitions. In addition, the following conclusions and recommendations have emerged from the project activities.

1. The lack of infrastructure continues to be Indonesia's most serious economic problem. Medium and small-scale industries feel themselves discouraged in investing in the regions, and all industries will lose export competitiveness when they have to arrange for their own infrastructural supply because of the rise in their cost of production.

The building of industrial estates should be strongly intensified.

2. The present fiscal incentive system has a very high opportunity cost: 25% of the invested capital. It cannot be said that it has led to an optimum allocation of investments in the manufacturing sector and it has only a marginal effect on investment decisions.

Tax facilities of the cost-reducing type, such as accelerated depreciation or negotiable tax refund certificates, selectively applied, would be far more effective at practically no cost to the country.

One selective area would be off-shore manufacturing; others would be food processing, export industries and agricultural machinery.

In addition, the tariff system should be overhauled and reasonable duties imposed, or none, on capital goods and raw materials essential for the competitive operation of industry.

3. With a few exceptions, the calibre and competence of the personnel involved in investment evaluations and promotion is too low. This is due partly to the very low salaries that are offered for these positions and partly to lack of training and experience.

Indonesia is a large country which produces excellent young men, in terms of potential and character, for these jobs. They go now into private industry and the professions or they prefer idleness to government employment.

It is strongly recommended that salaries for responsible officers in this field are brought in line with the remuneration offered by the private sector for comparable functions. Equally important is the provision for thorough training.

4. The problem of finance for Indonesia's manufacturing industry is becoming critical. While on the one hand obtaining credit suffers from the inadequacies of loan officers and from malpractices in banks, on the other hand loans are sometimes given too easily. Many of the borrowing firms are just able to cope with the interest payments and have great difficulty in amortizing the loan.

An improvement would be to make the investment credit programme more flexible, giving preferred terms to priority industries, for instance, 10% and 8 years. Simultaneously, a more rational relationship between interest rate for fixed capital and working capital should be established. Demands for working capital can run as high as 60% of the investments, and this calls for a reduction of the commercial rate from 24-30% to 18-24%. Another application of the proposed flexibility would be to provide special credit facilities for export industries. And, of course, intensive training should be given to selected personnel of the banks, coupled with adequate remuneration.

5. The promotion division of the Board is very weak, both in competence and in number. Even if all policies, procedures and circumstances in Indonesia were ideal for a uniform, efficient and systematic promotion effort, the present staff of the Board would not be able to perform this task.

Strengthening of the promotion division must be regarded as imperative, in addition to intensive training and adequate remuneration.

6. As infrastructure progresses, including the expansion of the number of industrial estates (recently Bandung, Medan and Makassar have been taken into consideration), the importance of the regional offices of the Board increases. To date the liaison between Jakarta and the regions has been insufficiently developed.

It is essential that adequate measures be taken now for staffing and training and arrangements made for travel facilities, both for the relevant staff in Jakarta and for the responsible officers in the regions.

Annex I

PROPOSED REGIME FOR OFF-SHORE INVESTORS

The case for keeping required formalities to a minimum and for granting maximum allowable facilities to off-shore (or "foot-loose") manufacturing industries in Indonesia has been often and elaborately made in memoranda by various departments and international advisors, as well as in the so-called "Kiel Report" of November 1973 (An Industrial Development Strategy for Indonesia (Kiel Institute for World Economics)).

The present situation in the Indonesian industrial community, which is marked by scarcity of capital, marketing problems, both domestic and for exports, scarcity of skilled talent and vulnerability to foreign competition, calls still more urgently for a firm and clear policy of strong encouragement to the establishment of off-shore industries. In addition to the advantages of employment creation, strengthening of the balance of payments position, development of labour-intensive technologies and on-the-job training, these industries would at rather short notice contribute to Indonesia's industrialization. It should be stressed that the foot-loose enterprises will bring in their own capital, their own export markets and their own talent and will not compete with Indonesian enterprises in the domestic market.

With this in view the attached proposal for a régime for off-shore industries has been formulated in accordance with a request from Ir. A. R. Soehoed, Vice Chairman of BKPM.

Régime for Off-Shore Manufacturing Industries

1. Approval

Investors applying for approval for setting up an enterprise in Indonesia will receive this approval automatically provided the following criteria are met:

(a) Total production will be exported;

(b) Initially, a minimum of 250 workers will be employed from the start of production;

(c) No irreplaceable Indonesian raw material will be used to any significant degree.

At the same time, the investor will be entitled to the benefits and conditions described under section 2.

2. Benefits and conditions

2.1. Fiscal incentives

2.1.1. Full exemption from corporate income tax for a period of six years from commencement of production;

2.1.2. Full exemption from dividend withholding tax during the full period of tax freedom indicated under 2.1.1;

2.1.3. Exemption from capital stamp duty;

2.1.4. The right to benefit from further tax facilities which may be determined by future legislation and regulation;

2.1.5. The right of offsetting losses sustained during the period of exemption from corporate income tax against the profits made after that period for an indefinite period of years;

2.1.6. Application of accelerated rate of depreciation for accounting purposes;

2.1.7. Exemption from all regional taxes;

2.1.8. Exemption from any special taxes that may be levied in the future on enterprises supplying the domestic market.

2.2. Custom-free operation

2.2.1. Location of the manufacturing operation is preferably in a free-trade zone or on an industrial estate where regular custom-free arrangements have been made. However, permission to operate as though in a free-trade zone in other locations in the regions can also be given;

2.2.2. All machinery, equipment, spare parts, construction materials, raw materials, component parts and other intermediary inputs necessary for efficient production can be imported without carrying duty and sales tax;

2.2.3. Finished products and obsolete machinery can be exported from Indonesia without any export duty or other levies;

2.2.4. Duty free importation of air-conditioners and other appliances, including water pumps and electric power-generating equipment for use in offices, canteens and houses for staff and workers located in the duty-free area;

2.2.5. Neither imports nor exports as indicated under 2.2.2, 2.2.3. and 2.2.4. above will require permission or licence. Opening of LCs is not required.

2.3. Other conditions

2.3.1. For foreign investors the requirement to form a joint venture with Indonesian partners will be waived: a 100 per cent straight foreign investment is permitted;

2.3.2. Loan capital should normally be obtained from sources outside Indonesia;

2.3.3. Expansion of the enterprise with a new product line for export will receive the same benefits as are mentioned under chapters 2.1. and 2.2. above. Expansion of the capacity for the existing product line will not qualify for repeat of benefits (2.1.1. and 2.1.2.);

2.3.4. A comprehensive training programme for Indonesian executives, staff and workers is required to be executed by the investor;

2.3.5. In case the enterprise desires to supply the Indonesian domestic market, a new application based on the prevalent laws, rules and regulations, including the formation of a joint venture with Indonesian investors should be submitted.

Annex II

SUGGESTIONS FOR AN INDEX SYSTEM FOR DOCUMENTATION AND CENTRAL FILING AT BKPA AND BKPMDN

With the creation of an R and R division serving both the domestic and foreign investment board, and the housing of these two institutions under one roof in the near future, the development of a single, unified system for documentation and filing will facilitate information-storage, retrieval, and processing. A system which might meet these requirements is outlined below.

The system is designed on a decimal index-number basis for subjects and geographical areas, with normally three digits for each. That will provide for 1,000 different possibilities of classification for subjects. These 1,000 possibilities then exist for every geographical area chosen. With the present needs for classification of information the potential of the system leaves ample room for expansion.

Once established, this system can be administered rather easily and does not necessarily need the expert knowledge of a librarian. One advantage is that material of different size and shape may be registered under a single number, though some of such material will be stored in hanging files in the filing cabinet, some on book racks and some, perhaps, in a special place for classified material.

A. Definition of the main subject-groups

As a first approach, seven main groups for documentation and filing are distinguished:

(1) Macroeconomics. Under this heading all information will be collected referring to economic, social and political matters in the national or international context. Subdivisions, as can be seen from the table, will be items such as "Law", "Labour" or "Public finance", etc.

(2) Policies and instruments. This section takes into account the special role of the Investment Board in evaluating, designing and, in some cases, implementing policies in the field of domestic and foreign investment. Its subdivisions allow inter alia for storage of information on subjects like "planning"; "fiscal policies"; and "evaluation".

(3) Sectors of production. In this section it is suggested that the ISIC-numbers for classifying all possible sectors and subsectors of economic activities should be followed. As the ISIC-numbers are based on the decimal system, integration will be easily done, by putting a "3" in front of each ISIC-number: 3.121, for example, will refer to "forestry", 3.32 to the "textile industry".

(4) This grouping will be left free for later expansion.

(5) Communication. This section will permit the storage of all information that has to do with the communication of the Board with respect to its functions. This would, for example, cover all correspondence with other government agencies, and firms reports about meetings, and everything that has to do with public relations and similar matters.

(6) Administration. All matters regarding the functioning of the investment board as an institution will be filed under this division. This would contain subgroups, for example, for external correspondence with other government agencies with regard to administrative matters, internal communication, such as circular letters, memos and the like, personnel, transportation, and so on.

(7) Addresses. This group would permit filing of addresses according to fields, such as government agencies, associations, manufacturing firms.

(8)
(9) These section are left free for expansion.

(10) Projects. The number 0 will be reserved for filing of all documents referring to projects which have been applied under domestic or foreign investment law. The special number-index developed for computerization of all relevant data will apply here.

B. Geographical classification

For the geographical classification the numbers of the Universal Decimal Classification (Britain, 1961), are used. Owing to its "age" this system is not always consistent with a more up-to-date classification of countries or regions. However, it is generally accepted and is also used for the central socio-economic documentation which is build up at the U.I. with assistance from BAPPENAS.

By selecting geographical systems and subsystems for the documentation at the Investment Board, the number of single geographical units to be identified should be kept as small as necessary.

According to this geographical classification, three main areas can be distinguished:

(1) 910 Indonesia. As the bulk of the information material collected will be from or about Indonesia, this number can be omitted altogether. This means that only the subject-number is given.

Wherever identification of an area within Indonesia is required, the area number will come after the subject number. An investment promotion programme, for example, specially designed for tourism in Central Java would thus get the number 225 - 922.2, e.g. 2 xx = policies
22 x = investment promotion;
225 = investment promotion for services (hotels, for example); 922 is Java;
922.2 - Central Java.

(2) [illegible] World (or international, or without geographical grouping). This number will be used for all world-wide subjects, e.g. "international trade", or "labour-intensive technologies".

(5) xxx All other areas or countries. For example, [illegible] = Asia; [illegible] = Japan; 5.0[illegible] = Near and Middle East (see list below).

Some further notes:

1. The headings for the subjects, and especially subjects which are given in the following lists, are suggestions only. They form a framework to start with. After experience has been gathered, the system should be reviewed and adjusted to factual needs.

2. All subjects under (1), (2) and (3) refer to general information of importance for the activities of the investment-board.

3. Subject (4) will take care of all communications of the foreign Investment Board with relevance to its functions. That means, for example, any correspondence with other government agencies regarding certain projects, regulations, clarifications, and the like.

4. It should be noted in this context that every project that has been applied for will get a code number. All information relating to a particular project should be filed under this code number (hanging file). To distinguish these code numbers from the other index numbers, they should have "O" in front.

5. Subject (5) will refer to all information with regard to the administration of the Investment Board. So (50), for example, should contain only external correspondence that refers to administrative matters, for example, instructions from the Sekretariat Negara with regard to organization and the like.

6. With regard to addresses two card files are suggested: one, where addresses are stored according to country and subject, as indicated; and another, where the same addresses are stored in alphabetical order.

7. All material to be filed under main subject numbers (1), (2), (3) and (9) will have the number of the region or country in front. This will not apply for subjects (4) and (5) which provide for filing of communications and administration of the Investment Board.

8. Some examples:

(a) Mitsui Trade News

Country number (Japan)	520
Economic activity (trade)	16
Complete number	520-16

(b) Vernon, "The development of an efficient industrial mix in Indonesia"	Country number (Indonesia)	[illegible]
	Policies, macroeconomic planning	20
	Complete number	310-20
(c) Swiss Economic News	Country number (Switzerland)	[illegible]
	General economic report	[illegible]
	Complete number	[illegible]
(d) [illegible]: Investment Promotion Council	Indonesia	[illegible]
	Institutions	[illegible]
	Complete number	[illegible]

Annex II

QUESTIONNAIRE ON DETERMINING TRAINING NEEDS

1. Major tools for Project and Feasibility Studies, Planning and Evaluation:

Kind of technique	Familiar	Not familiar	Used	Not used
1. Gantt charts				
2. Network planning				
3. Simulation models				
4. Break-even analysis				
5. Marginal analysis				
6. Standard and flexible budgeting				
7. Discounted cash flow analysis				
8. Cost-benefit analysis				
9. Probability techniques				
10. Linear programming				
11. Systems analysis				
12. Computer techniques				

2. Indicate in which sections of study any of these techniques are used by your firm:

	Gantt charts	Network planning	Simulation models	Break-even analysis	Marginal analysis	Discounted cash flo	Cost-benefit	Probability techniques	Linear programming	Systems analysis	Computer techniques	Budgeting
1. Land surveys												
2. Economic conditions												
3. Population analysis												
4. Market research												
5. Import and exports												
6. Transportation problems												
7. Sales forecasting												
8. Production planning												
9. Pricing												
10. Storage and warehousing												
11. Distribution channels												
12. Investment estimates												
13. Investment comparisons												
14. Production costs												
15. Raw material surveys												
16. Financing												
17. Manpower estimates												
18. Organization planning												
19. Taxation												
20. Legal factors												
21. Climatological factors												
22. Environmental aspects												

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards even though the best possible copy was used for preparing the master fiche.

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