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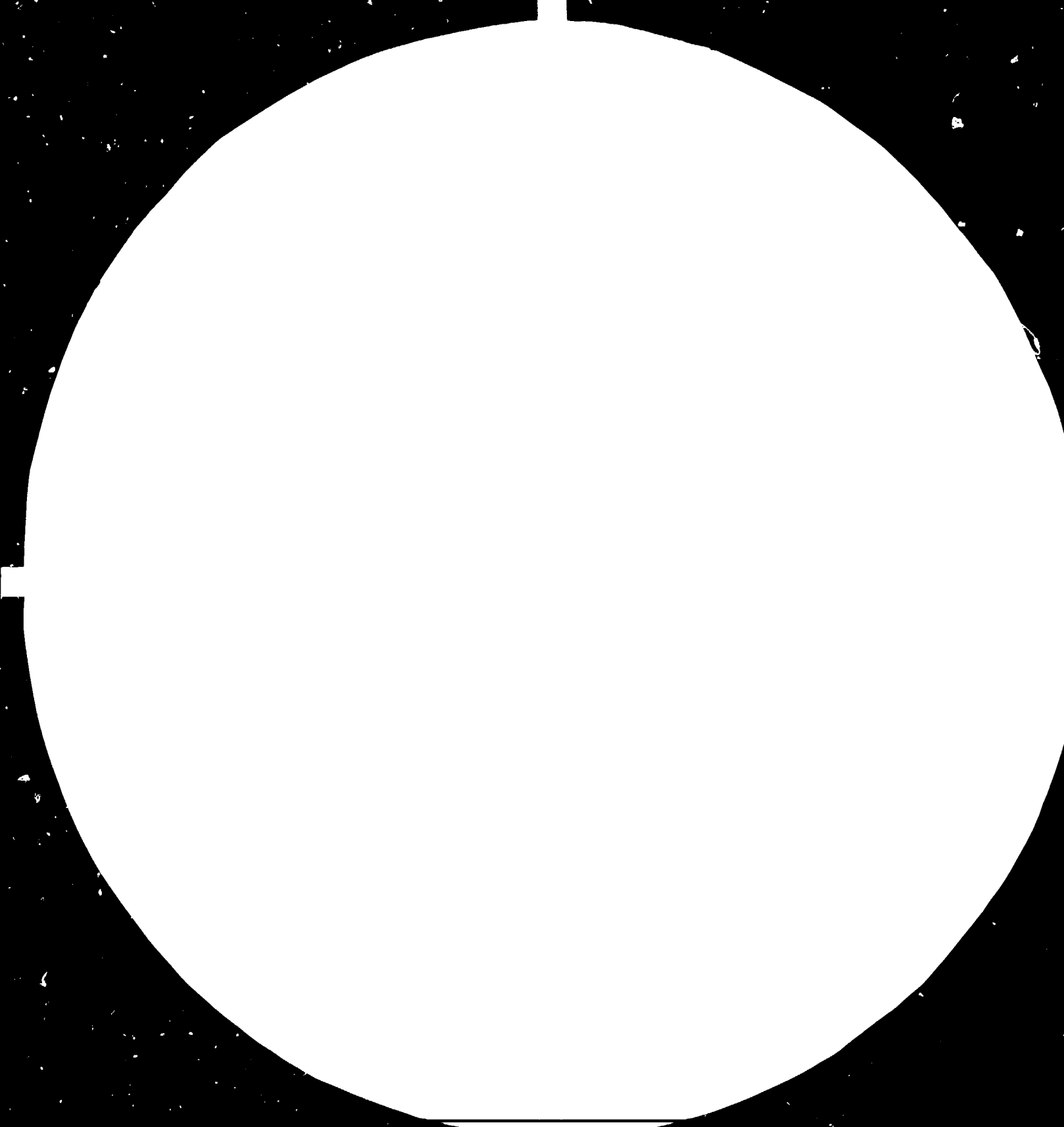

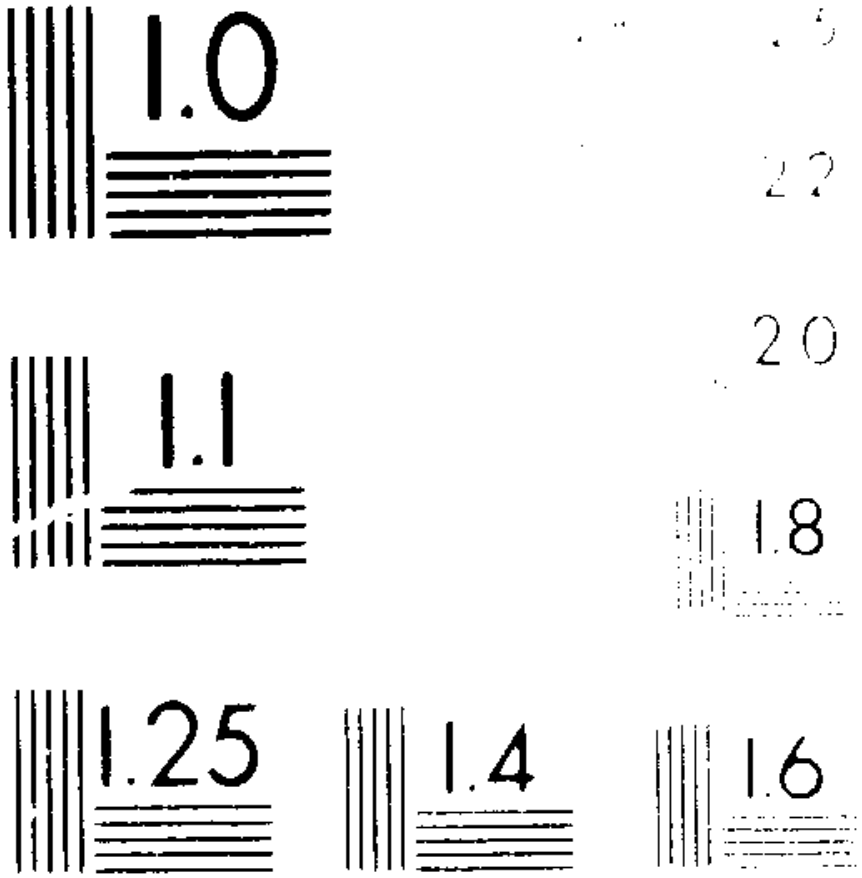
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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

(ASSISTANCE TO THE DEVELOPMENT OF SMALL INDUSTRIES)

DP/INS/78/078

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OCCASIONAL PAPER NO. 39.

Bjørn Eidsvig:

Indonesia.

Proposals for Admittance Procedure for SUIK, Jakarta and other Industrial Estates for Small Scale Industry.

1984

Admittance procedure for SUIK and other Industrial estates for Small Scale Industry.

We refer to our report No. 44 of February 1984 "The SUIK estates for small scale Industries in Jakarta" and to request from the Director for small scale metal industries, Mr Trisura of 10 September 1984. According to his request we hereby have the pleasure to recommend such procedure for admittance of entrepreneurs to the SUIK estate and to other estates where the procedure may fit:

1. To advertise and make known to the public that opportunities exist to start new industry within the estate.

2. To receive applications for admittance containing project information. (To assist in making the application when the entrepreneur is not completely able on his own).

3. To do screening and priority ranking of applications, considering viability and project importance.

4. To approve admittance and to assist in project implementation.

5. To follow up during the operations, controlling that the project remains active, can solve its major problems and make profits sufficient to enable continuation and growth.

6. To submit to DJIK, 1/2 yearly reports, specifying economy situation of the estate operations, occupancy rate, type and volume of industrial activities.

We think that these tasks are the natural responsibility of the estate management, but of course it depends on the actual practical situation whether other organs like the PPIK or the UPT of the estate should be involved.

We can comment a little bit further on the 6 points above as follows:

1: Advertising of vacancies.

As soon as it is seen that any of the sheds will become vacant, and applicantions for admission from high priority potential projects are not available, the vacancy should be made known to the public/interested potential entrepreneurs. An announcement stating size, location, rent and conditions of rental may be made, as one may find useful, e.g. through:

- The Kanwil periodic bulletin
- Meetings of entrepreneurs and potentials (Temu Pengusaha)
- Village meetings in the surroundings
- Newspapers
- Local radio
- Notice boards.

Application forms should be made available simultaniously.

When there are particular projects one want to get started, fit for the estate; after doing some preliminary investigations, one may also make announcements similarly specifically for the project, giving along with the announcement some basic project information.

2. Get Applications.

The application should rather contain so much information about the intended project and the applicant that one can judge the usefulness and the viability of the project. One should therefore preferably use an application form, so as to get the important information, and so as to make it so simple for the applicant as possible to apply.

Proposals for an application form is given in appendix I.
One may follow a procedure first requesting the applicant to complete the application and seeing his thoughts and capabilities, and thereafter to assist him in redoing it, aiming at a best possible solution for his project.
Doing this, is of course as much to assist him to get a best possible project, as for the sake of judging.

3. Screening and ranking of applications.

Having done reasonable efforts to get sufficient applications, and assisted in making them as good as possible, a screening is first to be done, excluding projects that:

a) are not useful to the community
b) will not be sufficiently viable
c) does not fit well within the particular environment, and should rather be refered to a different location.

Some further notes on these questions are available in appendix 2: "Screening and ranking of project possibilities", (originally written for a different purpose).
In controlling the viability should be checked

- The entrepreneur's ability to operate and manage the project
- The reasonability of the market expectations
- The suitability of the equipment
- Whether sufficient means will be provided and are available to operate the project.
- The reasonability of the employment proposals, the working space for them, and whether they will find proper living accomodation outside the working environment.
- The profitability and the break even point of the project
- The size and the technology of the project (Reasonably developed and not too big for a start).

- The fitness of the building for the purpose, and the project to the environment.
- The needs for the project to be accomodated in order to get started.

When projects that deserve to be considered, are too many for the vacancies, a priority ranking may be done.
Priority should first of all be given to projects that:

1. Make products important to the society
2. Are new and represent new technologies
3. Need to be assisted with premises to get started
4. Have a reasonably safe viability.

The preliminary screening and ranking may be done by the estate management.

4. Admittance and implementation assistance.

Probably will it be useful to let a small welfare committee for the estate approve the admittance. The committee may consist of representatives from :

- the estate administration
- BIPIK
- the present entrepreneurs within the estate.

No fees should be involved.

The project should later be given as much assistance as possible to reach best possible solutions in selection and installation of equipment, product design and production arrangements, sales arrangements and economy matters. Ideally spoken, these tasks should be undertaken by the estate management.

5. Foolow up of project operations.

It should be a condition for admittance to the estate, that annual accounts are being submitted, but treated confidentially. The aim being first of all to provide assistance towards improved operations when it is seen as necessary, acting first of all as an early warning system, giving important economy parameters to be extracted.
The estate administration should keep regular contact with the entrepreneurs to ensure that when problems arise, the entrepreneurs will seek assistance from the estate management.

Other signs indicating that involvement and assistance may be required, are of course the following:

- unreasonable arrears in rents
- closed doors or decreased activities in the factory.

6. Reporting.

1/2 yearly formalized brief reports should be issued and copied to the internal welfare committee, to BIPIK and DTIK.
The report should include :

- occupancy rate
- employment, sales and profitability of the individual enterprise
- problems, progress and plans.

7. Vacation of Premises.

Industries doing well and outgrowing their space, should always be encouraged to find their own premises, rather than being given more space. Ideally each enterprise should occupy only one shed of suitable size.

Industries not doing well, retarding and refusing to take assistance and having limited hope of growth, should likewise be encouraged either to sell, to get managerial assistance, or to vacate the place. Reasonable warning should be given for anybody to come up with constructive solutions for improvements before some one possibly being expelled.
The rent agreement must have a clear but constructive clause on this.

It is obvious from this that estate administration is a much more demanding task than just doing renting of premises. It is necessary to involve well trained engineers in the estate administration. The occupancy rate and the activities of the entrepreneurs should normally reflect the efficiency of the estate administration.

Jakarta in September 1984.

Björn Eidsvig,
Industrial Engineer.

Appendix 1.1

APPLICATION FOR RENT OF FACTORY PREMISES.

Within the: ..... estate.

Name: ..... Born date: .....

Post address: .....

Place of living or working (Describe how you can be traced): .....
.....

EDUCATION AND TRAINING/EMPLOYMENT.

From/To	School/Institution/ Exam	From/To	Work or profession	Employer

Present employment or profession: .....

Present earnings: ..... Rp/month. Do you intend to continue in your job ? .....

Which other industries or businesses are you involved in and how ? .....
.....

State name, age and qualifications of possible partners for this project:
.....

INTENDED PRODUCTION Product name and description	Expected sales no/year	Factory price each Rp.	Expected total sales per year Rp.

What experience do you have to manufacture such products ? .....
.....
.....

To whom, and how do you expect to sell the products ? .....
.....
.....
.....

What experience do you have from such sales ? .....
.....

Why do you expect that you will be able to sell that much ? .....
.....
.....
.....
.....
.....

Necessary Production equipment:

Type and capacity or dimensions:	Price	Is the price guessed or from a quotation?	Do you have this already?

SUMMARY OF INVESTMENT		FINANCING	
Machinery & equipment	.....	Own available Capital	.....
Machinery installation	.....	Own available Capital	.....
Electrical installation	.....	Already granted bank loan	.....
Other installations	.....		
Pre operational costs	.....	Expected further bank loan	.....
Working Capital	.....		
Others:	.....	Value of existing machinery	.....
		Others:	.....
Total		Total	
		Value of independant Securities	.....

Appendix 1.3

EMPLOYMENT SPECIFICATIONS	Present:	Expected:	What does the work consist in and how is it done ? .....
Number of production workers	.....	.....	.....
Number of office staff	.....	.....	.....
" " supervisors/ managers	.....	.....	.....
Others:	.....	.....	.....
Total:			.....

	Present:	Expected:
Total Annual Sales		
Annual Variable Costs:		
Materials (Make separate list)	.....	.....
Consumables	.....	.....
Fuel	.....	.....
Electricity	.....	.....
Wages	.....	.....
Other variables	.....	.....
Total		
Annual profit		

Overheads:	Present:	Expected:
Salaries	.....	.....
Rent of premises	.....	.....
Maintenance	.....	.....
Office expenses	.....	.....
Transport/ Travel	.....	.....
Insurances	.....	.....
Audit/accountancy fee	.....	.....
Interests	...	... .
Depreciations	.....	.....
Others	.....	.....
Total		

BUILDING REQUIREMENTS:

Required space:

Production ..... m^2

Raw materials ..... m^2

Finished products..... m^2

Office etc. ..... m^2

What can possibly be accomodated outside ? .....

What type of a building do you apply for ? .....

If you apply for a particular shed, which ? .....

What are the measurements:

x = m^2

Need for electricity ..... KW

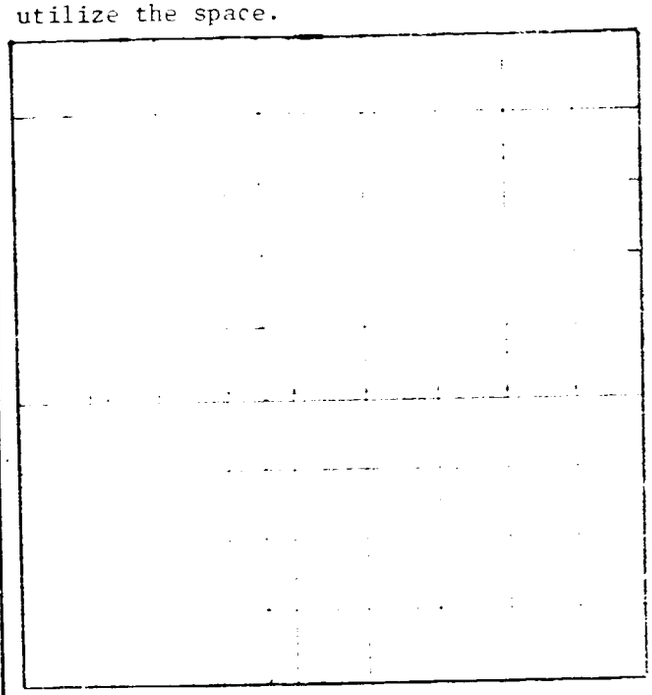
" " water .....

" " drainage .....

" " telephone .....

Other needs ! .....

Make a simple scetch how you will utilize the space.



Comments on the technical building requirements: .....

.....

.....

.....

.....

.....

Planned accomodation of family and workers: .....

If you are already in production, state size and situation of the present building .....

Why do you want to move ? .....

What kind of assistance do you need from the estate ? .....

Why do you think this project should be supported: .....

Appendix 1.5

Other Information: .....

.....

.....

.....

.....

.....

.....

.....

date

Signature.

SCREENING AND RANKING OF PROJECT POSSIBILITIES.

To promote an industrial project, there are only 2 goals that the project must fulfil; but these are very definite:

1. The products or the services of the project must be of value to the society.
2. The project must be sufficiently profitable.

If the outputs of the new enterprise does not improve the situation of the society, you should not promote it, even how profitable it could be for the entrepreneur and his employees.!

There are only 3 ways in which the project can be of real value for the society:

1. That it manufactures products which the people really need: products that makes life better at costs that are not too high.
2. That the production substitutes importation to save foreign currency.
3. That the production is being exported to gain foreign currency.

If the project is not of value to the society; than leave it.
Do not promote it even if it means high profits for the entrepreneur and good employment opportunities !.

Other factors are all related to profitability, including environmental matters, which may require cost in order to limit harmful side effects.

For us particularly to devote time to project promotion, two more conditions should be fulfilled. These are:

1. The project must be small scale. This mean that the required bank financing capital must be limited to a maximum of Rp. 75 million.

2. The involvement of working hours for the promotion should not be unreasonably high comparted with the effects of the project. Hence; projects making more important products, projects employing many people, projects which has good growth potential and projects within new technology on the local level possible to duplicate by promoting further similar projects, should be given the highest priority.

The further questions, more or less related to profitability, are the following:

- Market considerations
- Technology considerations
- Investment requirements
- Raw material situation
- Environmental and location situation
- Concluded profitability.

For the screening out of projects that does not appear sufficiently positive, and the ranking of the acceptable ones, the different areas should receive reasonable attention at least within the following subquestions. Considering the limited time which is available one can obviously not go too much in detail, and finding answers to the questions in the form of figures should be done only to the extent that this is important in the individual case.

1. Market Considerations.

- How big is the demand within the natural nearby market for the products of the project and how does that compare with an expected normal production volume of the project ?.

- To which extent is the local market demand settled by other local manufactures, through Indonesian production in general, and how much is settled through importation ? Can the required share of the market be reached comfortably without too much strain ?

- Which are the prospects on a wider market area, and which extra complications will that involve in terms of freight and communication ? Which is the export potential ?

- How will the project in general be able to compete with the existing net prices from other manufacture ?

- How will the project in general be able to compete with the established manufacturers having long time training and depreciated equipment ?

- How will the project be able to compete in quality ?

- How will the project be able to provide credit-facilities for the sales, similar to the conditions offered within this trade ?

- Can one come to violate any patents, licenses, or other restrictions on the product ?

2. Technology.

It may be possible to establish the project within different levels of technology. One will normally try to make use of the technology which gives the lowest cost per manufactured unit under our local conditions. This will normally for us mean a Semi Labour intensive alternative with individual simple machines.

- Will we be able to operate the processess and to manage the maintenance without too big problems ? Do there so far exist any local experience to operate such equipment ?

- Are we adding any new technology through this project, or are we only repeating what is already present ?

- To which extent can the required equipment be locally available ?

3. Investment Requirement.

What approximately will the project investment be:

- Process machinery	Rp. .....
- Other equipment, tools, factory furniture, transport means;	Rp. .....
- Import fright. and transport costs to get the equipment in position in the factory;	Rp. .....
- Installation cost, electricity, water, etc.;	Rp. .....
- Building costs (only if necessary) or building modifications;	Rp. .....
- Working capital, net.	Rp. .....
- Pre-operational cost. All expenses before production start including interests, rents, salaries, training, etc.	Rp. .....
Total	Rp. .....

Can one expect the investment related to sales volume to be reasonable ?

4. Raw Material Situation.

- Are adequate raw materials of local origin at all times available in sufficient quantities at acceptable prices ?

- Can one expect any of the raw materials to become scarcely available, or prices to increase unreasonably ? Is it possible that a license or a quota system can come to apply ? Can one risk to be refered to one single controlling supplier only ?

- Which are the normal payment conditions in the trade ?

5. Employment.

- How many people will the project require ?

- Will these people be available with the required amount of skill and training ?

- Will the project be strong enough to offer good salaries and working conditions ?

- What will be the investment per employee ? (Preferably under 1 million Rp.)

6. Location and Environment.

- Is the prefered location the place where this project can be run most economically ?

- Are buildings, electricity, water, drainage for effluent, roads and, transport, telephone and communication, as well as employees accomodation sufficiently available there ?

- Will noice, smell, wastes, traffic, dust or smoke create any problems in the local environment ?

7. Concluded Profitability.

In calculating the profitability, the situation related to the above questions are important

If you have time and information enough, do a rough calculation or estimate of the possible projects. If not, try to get a clue about the economy situation within the trade in general.
Contact people within other enterprises as similar as possible. They will let you know. The rough calculation you can do as follows:

- Yearly sales = Net sales price for the product to whole-seller or other first link to be sold to, deducted freight, sales tax, packaging, discounts, and commissions multiplited with:
  80% of the no of products you expect possible to manufacture and sell in a normal year = Rp. .....

- Less Variable cost = Material costs, consumables, electricity, and operators wages, yearly = Rp. .....
  Gross profit = Rp. .....

- Less Fixed costs = Salaries, building rent, depreciation of equipment (10%), interest on total capital involvement (11%), maintenance, office expenses, sales cost, transport, insurance etc. = Rp. .....
  Net profit = Rp. .....
  ==========

From this you can calculated a few economy parameters for comparison with other project alternatives:

- Profit on sales = $\frac{\text{Net profit X 100}}{\text{Yearly sales}}$ = ... % (Preferably over 10%)

- Profit on investment = $\frac{\text{Net profit X 100}}{\text{Total investment}}$ = ... % (Preferably over 30%)

- Break even point = $\frac{\text{Fixed costs X 100}}{\text{Gross profit}}$ ..... % (Preferably under 65%).

Project Screening

Appendix 2.7.

Having done a preliminary investigation/judgement of the project opportunities as specified above, we can now do a screening of the projects. A schedule as below can than be useful:

Project Alternative	SITUATION EVALUATION													
	Society need for the project		Market potential		Technology requirements		Investment and financing requirement		Raw material requirement		Employment demand		Location		Profitability		Potential for growth	CONCLUSION
	Not required	Required	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Acceptable	Not acceptable	Not acceptable
1.																		
2.																		
3.																		
4.																		
5.																		
6.																		
7.																		
8.																		
9.																		
10.																		
11.																		
12.																		

Any project being determined as not required or not acceptable for any of the parameters above must be concluded as not acceptable while the others are acceptable for the further investigations to follow.

It might however, sometimes be worthwile to look into the not acceptable projects once again: Why is it not acceptable ? What can be done about it ? May it be possible to alter the project to make it better fit ? Can the product construction be improved ? Can different raw materials or a different technology be used ? Can the location be altered or other steps be taken ? And how can the profitability be improved upon ?

It is always possible to change and improve a project at this stage !

Project Ranking.

The projects accepted in the screening are more or less important for the society, the profitability and the works involved varies from project to project, the preparation work can be more or less, and the project can have bigger or smaller ring effects. In one project can it be easier to find prospective entrepreneurs and locations than in others.

It is therefore useful to rank the projects which have been accepted in the screening for the sake of putting first of all the main emphasis on promoting the high priority projects.

The ranking can be done in a table like this:

Project	Project Importance	Profitability	Risk	Prospects for enterpreneur and location	Preparatory work related to impact and growth potential	Priority	Comment
1.							
2.							
3.							
4.							
5.							

We propose to limit the parameterss to be judged to the 5 which are specified in the table. Values for the prospects of the projects can be filled with any scale as desired, e.g. a simple 1 - 5 scale for each of them. Priority making should better not be done merely by adding the points together, with or without applying a weight factor to each of the parameters, without rather comparing the scores and adding up with discussion and common sence !

Opportunity study and prefeasibility study.

In preparation at least of larger projects is it common and useful first to prepare an opportunity study, and there-after a pre-feasibility study.

Appendix 2.10

The opportunity study is a roughly worked out economy comparison of several project opportunities. The aim is to find out which of the opportunities offer the best prospect in terms of profitability and other requirements.

The prefeasibility study to follow use to be a bit more thoroughly done study, for the one selected project, to determine whether the expectancies are within reach. Only when being fairly sure of that, is it that one usually will go ahead with a fully pledged feasibility study.

In our small scale project case is it now up to you to judge:
Have the investigations been so throughly done and are the observations so safe that we can go straight ahead with a full scale feasibility study, requiring work and waiting time for several weeks to come ?
And are you also confident enough, that the right selection and priority making is done ?

If you answer is uncertain, is it better to work through the highest priority project once again !

Jakarta 10th October 1984.

UNIDO/PAS 78/078.