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ASSISTANCE IN IDENTIFICATION, PREPARATION AND IMPLEMENTATION  
OF INDUSTRIAL PROJECTS IN SELECTED REGIONS

DP/INS/78/002

THE REPUBLIC OF INDONESIA

Report of the Evaluation Mission\*

Prepared for the Government of the Republic of Indonesia  
by the United Nations Development Programme and  
the United Nations Industrial Development Organization

United Nations Industrial Development Organization  
Vienna

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## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The purpose of the evaluation mission was to assess the overall achievements of the project and to identify needs for further assistance, as well as to suggest contours of future UNDP/UNIDO assistance if justified.

### Conclusions

1. The project DF/INS/78/002 -- a high-risk, high-uncertainty project, quite different from the standard type of UNDP/UNIDO technical assistance projects -- has been plagued by a design containing too many critical assumptions (about factors external to the project) which did not materialize. Unreasonably high expectations in the form of factories in operation ("smoking chimneys") as project outputs, linked with too strong an emphasis on direct-support technical assistance, has caused a wrong type of pressure on the project and has led to a considerable waste of effort. Project progress toward achieving its immediate objective of developing entrepreneurship in the medium-scale industry in selected regions, as well as its results in terms of cost effectiveness (taking into account the considerable budgets involved), cannot be considered satisfactory. A portfolio of regional investment projects in various stages of study and development, with uncertain future prospects, has been developed and assistance to entrepreneurs in different ways (but primarily through market and technical information and studies) has been provided. An operational methodology has recently been introduced and organizational and management systems developed, covering the central office in Jakarta and regional offices in Medan, Samarinda and Ujung Pandang. Systematic transfer of know-how and upgrading of national staff has started only the past six-to-eight months; only a small core of capable nationals exists. The project has gained a certain momentum in the past year, which could serve as a starting point for future efforts in assisting and developing regional industrial entrepreneurship.
2. The project is attached to the Bureau of Planning in the Department of Industry and does not have a permanent status or a separate government budget. The national staff is recruited on the basis of one-year renewable contracts. Persistent problems in recruitment and quality of national staff seem to be related to the fact that experienced or promising personnel cannot be attracted with only annual contracts (and virtually no job security) and the lack of career plans or institutional avenues for on-the-job advancement. A National Team Leader/Project Director has never been recruited. The international experts have been of very varied quality and background; their large turnover has hampered project implementation and continuity.
3. There is a missing link between the project and financing institutions from the early stages of investment project development, which has caused wasted efforts and frustration. It should be emphasized that, from the point of view of financial institutions, there is still a potential for increased funding, taking into account the current low number of new industrial clients per year. This creates a promising opportunity for the project to prepare viable bankable project proposals, but in close co-operation with the banks. In addition, there is a strong interest by the banks in the upgrading of industrial project appraisal skills of their staff.

4. A large number of entrepreneurs, contacted by the evaluation mission, indicated that the most important services which a project like DP/INS/78/002 should offer them in establishing new ventures are: market and feasibility studies, assistance/information regarding financing, technical consulting, and management and entrepreneurship training. Many entrepreneurs seem to have interest for projects requiring an investment around or below \$500.000. Project DP/INS/78/002 has thus far been concentrating on investment projects above this range. As a matter of fact, the project has dispersed its efforts toward any entrepreneur (not just economically weak groups), more regions than the four originally planned, various sub-sectors, a very wide range of project sizes and foreign investment as well as domestic.

#### Recommendations

5. Some positive achievements of the project can form a basis for future activities, which should be reformulated and clearly defined. The Government has to recognize the clearly existing need for continuous industrial entrepreneurship development -- involving investment project identification, preparation and development, upgrading of entrepreneur skills and search for financing and partners -- and make its long-term commitment by institutionalizing and upgrading these services. The Government should also consider whether the current financial incentives for medium-scale industry, especially those for new entrepreneurs, are sufficient to push medium-scale industrial development anywhere close to government proclamations, expectations and macro-objectives.

6. Understanding that the above need is a continuous and long-term one, future technical assistance should concentrate on establishing a permanent counterpart institution which will be able to provide the needed services over a longer period of time. In the near term, in addition to institution-building activities -- staff training, on-the-job-training, team work, institutionalization of methodologies and systems -- there should be a direct-support follow-up to the current portfolio of developed investment projects.

7. The future activities of the institution to be established should include co-ordinating activities between projects/ideas, entrepreneurs and financing institutions; pre-investment studies and consulting services, and training (entrepreneur development training, as well as training of staff of financial institutions and Government staff). These activities should focus on the following priority sub-sectors: agro-based industry, wood-based industry, marine-based industry and downstream of basic metal industry. In the near term, use should be made of the project presence and some current momentum in North Sumatra, East Kalimantan and South Sulawesi. The entrepreneur target groups (beneficiaries) should include current traders and current smaller-scale industrialists ("graduates"), as well as larger-scale industrialists intending to expand/diversify into medium scale industry in the regions (these entrepreneurs might exist in the region or be located in Jakarta). With the first two groups, attention should be focused on investment projects in the range \$200.000 - 500.000.

8. The most realistic "institutional anchorage" at the present time is to have an autonomous body, with its own board, attached to the Department of Industry. This solution has its advantages in the form of an existing budget allocated to the activity of regional entrepreneurship development (although not on a permanent basis) and offers the possibility of effective linkages both on a higher level (through the board and chairman) and operational level (through liaison officers). In the longer term, if properly developed and accepted by end-users, the body could gradually become financially independent -- by charging for its services -- thus not needing government subsidy. At that stage it could be established as a P.T. -- set up and owned by the government and government-owned banks. The board should initially have high-level representation from the Department of Industry, BAPPENAS, BAPINDO, P.T. BAHANA and associations of consultants and entrepreneurs.

9. The institution to be built up should have a central office in Jakarta and initially three regional offices. It could be organized based on the organizational and management procedures currently used by project DP/INS/78/002 (designation of project co-ordinator for each project, appointment of project teams, liaison with regional offices), revised to reflect the early contact with financial institutions and possible joint team work with them. The evaluation mission has given suggestions as to the roles of the central and regional offices as well as national personnel requirements. The central office, as well as the institution, should be headed by a director. The appointment of an experienced, authoritative director with a consulting background, should be made immediately. The management of the institution should be the director's full-time and only responsibility.

10. The evaluation mission has given an outline on the requirements for further international expertise, now to be directed towards an advisory role, on-the-job training of nationals and participation in/conduct of training courses. However, it is unreasonable to expect that 2-3 years of additional UNDP/UNIDO support will create a self-generating industrialization process in the regions or eliminate the need (although a diminishing one) for international expertise, especially of the short-term type. The Government has to recognize the need for this continued entrepreneurship development process by planning to channel some bilateral or multi-bilateral funds for this purpose. As the institution grows, it will be able to charge a fee for some of its services. However, a subsidized fee for studies and training, especially for new entrepreneurs, will have to be continued for an extended period. The Government should be ready to allocate funding for this purpose, particularly to be used for sub-contracting services.

LIST OF ABBREVIATIONS USED

BAHANA, P.T.	-	P.T. Bahana Pembinaan Usaha Indonesia - Government-owned development bank
BAPINDO	-	Bank Pembangunan Indonesia - Development Bank of Indonesia (government-owned)
BAPPEDA	-	Regional Development Planning Office
BAPPENAS	-	National Development Planning Agency
BKPM	-	Investment Co-ordinating Board
EKPM - D	-	Regional Office for Investment Co-ordination
CCITC	-	Co-ordinating Committee for International Technical Cooperation - Secretariat of the Cabinet
COMFAR	-	UNIDO Computerized Model for Feasibility Analysis and Reporting
INKINDO	-	National Association of Indonesian Consultants
IPS	-	UNIDO Investment Promotion Service
KADIN	-	Indonesian Chamber of Commerce and Industry
KANWIL Perindustrian	-	Regional Office of the Department of Industry
KAKANWIL	-	Director of KANWIL
PDFCI	-	Private Development Finance Company of Indonesia
P3ID	-	Project in the Department of Industry dealing with regional industrial development studies
P3ID/UNIDO	-	Indonesian designation for project DP/INS/78/002
REPELITA	-	National Five-Year Development Plan
UPPINDO	-	Indonesian Development Finance Company



## INTRODUCTION

The Third Five-Year Development Plan (REPELITA III) launched by the Government of the Republic of Indonesia (1979-84) stipulated that the Government should create a healthy business climate to promote rapid development of industries in various regions with greater participation of the private business community, co-operatives and state enterprises. New domestic private investment funds equivalent to US\$1.05 billion per year (US\$5.25 billion during the five years) were considered necessary to meet the planned targets.

In the framework of the REPELITA III, the Government had requested UNDP/UNIDO assistance in developing a self-reliant entrepreneurial class through identification and development of industrial projects, primarily in (1) South Sumatra, (2) North Sumatra, (3) South Sulawesi, (4) East Kalimantan, and thus laying a strong foundation for a self-generating industrialization process in these regions.

In June 1980, the project DP/INS/78/002 - Assistance in Identification, Preparation and Implementation of Industrial Projects in Selected Regions - was approved and became operational. The objective of the project was "to assist the Government in developing and promoting new industrial projects and advising on their implementation in selected provinces".

The project has had a UNDP input of over \$4.5 million. The approach used was rather novel and unusual for a U.N. technical assistance project. An in-depth evaluation was therefore foreseen in the original project document. In order to assess the overall achievements of the project, which will be terminated at the end of 1985, and to identify the needs for further assistance, it was agreed by all parties concerned during the tripartite review meeting held on 25 September 1984 to undertake a tripartite in-depth evaluation during the first half of 1985. It was expected that the findings and recommendations of the evaluation could provide, if justified, the contours of future UNDP assistance. The terms-of-reference for the evaluation mission are attached as Annex I.

The members of the evaluation team, as designated by their respective organizations were:

- Dr. Paavo HARJU - Senior Officer  
Bureau for Programme Policy and Evaluation  
UNDP (Team Leader)
- Mr. Bachrum HARAHA? - Special Adviser to the Minister  
Department of Industry  
Government of Indonesia
- Dr. Nikola CATIPOVIC - Industrial Development Officer  
Evaluation Unit  
UNIDO

The mission took place from 18 March to 8 April 1985. In addition to the activities in Jakarta, field visits were made to Medan (North Sumatra) and Samarinda (East Kalimantan). Members of the team contacted numerous government organizations, entrepreneurs and project staff. The schedule of meetings held and visits made is given in Annex II. The list of persons met is attached as Annex III. The reports and documents examined by the mission are listed in Annex IV. The report which follows is based on discussions with well over 100 people and a detailed analysis of relevant material from various sources.

The mission presented its preliminary findings, conclusions and recommendations and discussed them with senior government officials on 4 April. The mission also met twice (on 4 and 8 April) with the Minister of Industry, Mr. Hartarto, and the Secretary General, Mr. Soetyohadi, to discuss the future of the project.

The mission wishes to thank H.E. Mr. Hartarto and Mr. Soetyohadi for their interest in the project. It also wishes to acknowledge the excellent co-operation with all the international and national project staff, but particularly Mr. D. McLeod, the International Team Leader. The mission is grateful to the UNDP Office in Jakarta for the co-operation and assistance provided in carrying out its assignment and appreciates the advice given by Mr. G. Hamdy, Resident Representative, and Mr. G.L. Narasimhan, SIDFA.

PART I. EVALUATION OF THE PROJECT

## 1.1. PROJECT PREPARATION

### 1.1.1. Objectives of the Project

The development objective given in the project document is based on the Third Five Year Plan (REPELITA III) launched by the Government of the Republic of Indonesia on 1 April 1979. It addresses the greatest participation of the business community in the nation's development efforts, the closer cooperation between the Government and the private business community and the promotion of entrepreneurship in order to absorb a sizeable portion of new entrants to the workforce (through raising domestic private investments). As a result of the above efforts, an annual growth of 11% for the industry was to be achieved. Furthermore, the development objective in REPELITA III includes a high priority for a more even distribution of the gains of development among the various regions.

According to REPELITA IV (1984/85 - 1988/89) the industrial development is also a part of the long-range plan directed at the attainment of expansion of employment opportunities, acceleration of foreign exchange savings, support of regional development and the creation of a situation characterized by a more equitable access to business opportunities.

The immediate objective as stated in the project document is as the follows:

To assist the Government to develop and promote new industrial projects and advise on their implementation in selected provinces with a much larger number of projects in the pipeline by means of

- a) identifying and developing industrial opportunities
- b) organizing and conducting pre-investment studies
- c) providing advisory services in locating private and public sector investors (both local and for foreign) as well as sources of finance
- d) instituting systems for project development, selection, promotion and investment follow-up action
- e) assisting in project implementation, i.e. site selection; factory lay out; plant design; erection and start up; production planning, product design, costing, marketing and financial planning, etc.
- f) providing on-job training for managers, technologists as well as personnel of national consulting firms former through assistance in initial operations of the factories and latter through their participation in local consultancy contracts.

The project was planned to be of direct support to those groups in the community who have limited means to arrange investigations and studies for investment opportunities, especially these involving technological considerations.

The above project objective and function will be analyzed in connection with other elements of project design in section 1.1.3.

1.1.2. Macro/Micro and Socio Economic Background

1.1.2.1. Macro trends

The successive oil price rises in the 1970's boosted Indonesia's export earnings from less than 17% of GDP in 1972 to over 30% in 1980. Caused by this growth factor the GDP expanded at an average annual rate of 7.6%. In comparison to the performance of different groups of countries this record was impressive. It was more than double compared with the average growth rate (measured at constant prices as average growth percent per annum) in industrialized countries and significantly above that in developing countries — see Table 1.1.2.1. Caused by this growth factor the terms of trade improved more than 200% between 1973 and 1980 and investment expenditures increased at an average rate of 13% p.a.

Table 1.1.2.1. GDP Growth A Comparative Perspective

Country Group	1970-79 Average	1980	1981	1982	1983	1981-83 Average
Indonesia	7.6	9.9	7.9	2.2	4.2	4.7
Industrialized countries	3.2	1.3	1.3	-0.5	2.3	1.0
Developing countries	4.7	3.0	2.7	1.8	1.6	2.0

As shown in the above table the situation changed dramatically in 1982. The deterioration of the international economy was reflected in the demand for and the prices of both the country's traditional exports and oil. The growth rate in 1982 was only 2.2%, which was one fourth of that in 1980 but still higher than the growth rate in industrialized and developing countries. Caused by the decreasing exports and the increasing imports the current account in 1982/83 was US\$7.1 billion in deficit after being over \$2 billion in surplus both in 1979/80 and 1980/81. Caused by the balance of payments difficulties, the government took fundamental measures in order to continue the growth. These measures included reduction in subsidies on petroleum products, devaluation of Rupiah by 28%, rephasing of public investment projects and liberalization of the financial sector.

Although the growth of GDP has declined, the investment expenditures, according national accounts data, have risen steadily during the period 1980-1983. The share of investments was increased from 20.9% in 1980 to 24.1% in 1983. The combination of a promising home market and relatively easy credit conditions gave stimulation to private investments. However, the liberalization of the financial sector, which has increased the interest rates combined with other financial and market factors, has apparently slowed private investments in 1984 and 1985.

#### 1.1.2.2. Manufacturing

The manufacturing sector of Indonesia increased its share of GDP (measured at constant 1973 market prices) from 8.8% in 1973 to 12.9% in 1979. The average annual growth rate was 12.8% during the above period. This development was partly a result of investment inputs channelled to manufacturing. Altogether, 71% of the implemented foreign investments and 63% of the approved domestic investment inputs in 1977 - 1983 were directed to the manufacturing sector. The share of textile, leather, chemical and rubber subsectors in the implemented foreign investment during the above period was as high as 50%. This was somewhat higher compared with the share of the same subsectors in approved domestic investments, which was 45%.

According to 1974/75 Industrial Census there were 1.234.000 industrial establishments in Indonesia. The household type enterprises, with labour force less than five, form the majority (95%) of the total number of establishments. Although the number of large and medium size enterprises (over 20 employees) was at that time only 0.5 percent, they still engaged 17 percent of the workforce. The number of large and medium scale enterprises was increased in 1979 to 7,960 with 870,000 persons engaged. During this five year period the increase of the labour force in large and medium size enterprises was 208,000, which was 35 per cent of the increase in total employment in the industrial sector during the period.

In order to establish the kind of industrial structure which is capable of contributing -- together with other sectors -- to employment and balance of payments, Indonesia was using two approaches:

- a) the development of capital intensive projects (petrochemicals fertilizers, cement, paper and pulp, basic metals and mining) aiming at replacing imports of intermediate goods or exporting of raw materials; and
- b) the promotion of production from medium and small scale industries for both domestic and export markets using labour intensive technologies. Caused by the problems with the current account deficit, labour intensive industries with low import coefficients have been gaining more importance and many capital intensive projects have been cut.

#### 1.1.2.3. Employment and regional development

Indonesia a country with 13.677 islands forms a land area of 1.9 million sq.km. but its total surface area (including the seas within its boundaries) is over 4.8 million sq. km. It extends 5.110 km. from Northeast Sumatera to Irian Jaya on its southeastern border. The population of Indonesia was 158 million in 1980, distributed by provinces as follows (in millions): Java 96.9, Sumatera 30.9, Sulawesi 11.1, Nusa Tenggara 9.0, Kalimantan 7.3, Maluku and Irian Jaya 2.8. Indonesia's human as well as economic resources are very unevenly distributed among its main regions. Java accounts for almost one half of Indonesia's GDP and 61% of its population, but only 7% of its land

area. Density of population of Indonesia varies from 7,760 persons per Km<sup>2</sup> in the Jakarta District to 2 persons per km<sup>2</sup> in Irian Jaya. The population is growing about 1.8 million per annum. Caused by the large population and its growth about 1.8 million persons are now expected to enter labour market each year and this figure is growing.

There is a genuine question as to how these 1.8 million new entrants to the labour force can be absorbed, given the planned rate of growth of the economy. Although the relative share of agriculture in employment is decreasing, it will still be the principal employer of the incoming new labour force. On the other hand, the government policy is to boost labour intensive industries especially outside Java. According to World Bank observations based on studies in other countries, benefits which may be obtained by spreading industry more evenly across the country through administrative controls may frequently be outweighed by additional costs to the economy because of reduced efficiency and because there are many advantages in locating new investments in close proximity to the major centres of demand (not related strictly with exports) and to the ports (related to exports). However, there are some comparative advantages for certain industrial subsectors in outer regions which the government is intending to make use of through combined macro and micro planning and the establishment of growth centres in order to give employment opportunities as part of regional industrial development.

#### 1.1.2.4. Role and problems of the development banking system

The Indonesian financial system is still at an early stage of development. It is dominated by the banking system which includes Bank of Indonesia (the central bank), five state commercial banks, sixty nine private banks (providing mainly short-term credits) and development banks (which are an important source of long term credit). Until 1983 the Indonesian financial system was tightly controlled by the authorities. The government channelled its financial savings into the banking system in order to achieve a variety of development objectives. There was a mix of special programmes for that purpose. In June 1983 the Government introduced a major reform of the financial sector and, accordingly, the state banks are now free to set their deposit rates, credit ceilings have been eliminated and a number of the above special programmes have been substantially reduced.

These reforms have had a strong impact on the banking system. On the one hand, caused by the increased nominal deposit interest rates, there has been a rapid increase in bank deposits but on the other, from the investors point of view, cost of funds and lending rates of state banks have increased sharply. Nominal lending rates are now 18% for term loans, if available, and 21-24% for working capital. Real lending rates of private banks are even higher and might go up to 35% p.a. The increased lending rates for the investor and the reduction of Bank of Indonesia liquidity credits, which are causing funding problems for the banks, have had an adverse impact on investments.

Given the difficulties faced by commercial banks in providing term finance, the development banks have an important role to play and their role has increased steadily. The share of development banks in the total banking sector rose from 7.5% in 1980 to 8.6% in 1983. The largest of development banks is BAPINDO with total assets of Rp. 856 billion in 1983 (as shown in Table 1.1.2.2.). BAPINDO's total assets were (in 1983) 47.3% of the total assets of development banks, including 27 regional development banks, PDFCI, UPPINDO and PT Bahana. Operations of BAPINDO and PT Bahana will be discussed in more detail in section 1.2.4.

Table 1.1.2.2. Total Assets of Development Banks, December 1983.

Institution	Total Assets	
	Rp. billion	%
BAPINDO	856	47.3
PDFCI	105	5.8
UPPINDO	57	3.1
BAHANA	16	0.9
27 regional development banks	777	42.9
Total	1.811	100.0

The Indonesian development banks are constrained by a number of structural, operational and financial issues. Unless development banks have continued access to lower cost government funds they are likely to continue facing severe funding problems. The prolonged recession of the manufacturing sector and the high interest rates, combined with poor selection and management of projects, are some of the most significant factors responsible for determination of project portfolio quality. Poor selection and management of projects is connected with the shortage of skilled manpower which is a general problem in Indonesia but even more acute in case of development banks.

In essence, it seems that in the present transitional stage of the financial sector the availability of adequate medium and long term financing through commercial banks and the capital market is likely to be a problem, especially for new and indigenous entrepreneurs which form one of the target groups of the project INS/78/002. Therefore, as found by the World Bank, there is a need for more government support, directly or indirectly, to development banks, as well as for an increase in the quality and the capacity of their staff.

#### 1.1.2.5. Regional entrepreneurs

The ability of the public sector to finance development activity has diminished. Therefore, the private sector has been called upon to play an important role by using its entrepreneurship talents in execution of projects and programmes and in capital formation. Both the role and the profile of an entrepreneur located in the regions are discussed in detail in Section 1.2.5.



1.1.2.6. Summary

The purpose of this somewhat lengthy background is to give an overall framework of those key external variables influencing the success of the high-risk project INS/78/002, in which thus far UNDP and the Government together have invested over six million dollars and are planning to invest another three million. Although the project will be carefully, critically analyzed, it has to be borne in mind that the macro environment during the period in which the project was designed is quite different from the environment five years later. In 1978 - 1979 the economy was booming and the expectations, as well as possibilities, for new ventures were high. This is not the case in 1985. However, it seems that there has been and there still is an urgent need for the development of regional industrial entrepreneurship, either directly or indirectly, in order to attain the macro objectives related to the project INS/78/002.

1.1.3. Project Design

The project document, as the design of the project, is voluminous and contains a considerable amount of information, but has several weak points which have created a framework for misunderstanding and frustration. The basic concept and the way of thinking behind the design of the project is similar to the approaches used in connection with parastatals. It appears that the central role of the private entrepreneur and that of other related stakeholders have not been fully taken into account by the designers of the project.

The development objective given in the project document is based on REPELITA III and is outlined in section 1.1.1.

The immediate objective mentioned in the project document addresses the development and promotion of new industrial projects, but is otherwise just a list of project activities and is therefore inadequate. Based on the information available in the project document and as an answer to what the project is specifically trying to achieve, the project objective could have been defined as follows:

Assist Government of Indonesia in the development of entrepreneurship in the medium-scale industry in order to establish and accelerate a self-generating industrial process involving the private sector with emphasis on equity objectives in selected outer regions.

According to the original strategy the operation of the project DP/INS/78/002 should have been linked with both DP/INS/78/003 - Comprehensive Investment Profiles for Selected Regions and DP/INS/78/078 - Assistance to the Development of Small Industry. This integration, however, has not taken place although occasional contacts have been made. It was also a part of the strategy to make use of about 200 project profiles prepared by the Indonesian government IPID project and revised by the DP/INS/78/002 Preparatory

Assistance team, which had found some of them to have potential interest for local investors and financial institutions. Based on the above identified opportunities, the core of the strategy was to undertake project development and implementation studies in conjunction with identified investors. Caused by a variety of reasons, the reality has been quite different.

The sole function of the project mentioned in the project document is that of direct support. However taking into consideration the external factors and the continuous nature of this kind of industrial process, direct support without a combination with institution-building is difficult if not impossible. The emphasis solely on direct support has created serious problems in the implementation of the project.

A number of new industrial enterprises in operation and at various stages of implementation had been defined as the ultimate output of the project. Although this category could be a reliable indicator of the impact of the project on the economy or an indicator of the extent to which objectives are being achieved, it cannot be an output of a U.N. technical assistance project because of too many external factors which are outside the control of the project management, as well as outside the project budget. This discrepancy, linked with the emphasis on direct support, has caused a wrong type of pressure on the project.

One of the main weaknesses in project design was that the project as based on too many assumptions which later proved to be wrong. The main critical assumptions were the following:

- a) An inter-departmental project advisory committee, both at the national level and in each of the selected regions, will be established by governmental decree.
- b) Ministry of Industry will take all necessary administrative steps to provide project inputs and ensure collaboration within and among concerned government organizations, such as development finance institutions, BKPM, Ministry of Industry itself, etc.
- c) Interdepartmental project advisory committee will provide the mechanism for mobilizing and coordinating efforts of Directorates General of the Department of Industry, the financial institutions and the private sector to facilitate project activities.
- d) Identification of project ideas and potential financing interest will be primarily carried out by the government departments/ organizations or financial institutions concerned.
- e) Financial institutions will directly refer projects/investors to the project secretariat for assistance and
- f) Adequate full time manning of three field project offices and the central office will be secured.

None of the above critical assumptions has fully materialized and most of them have not materialized at all.

The phasing of the project in the workplan was not appropriate taking into account the high-risk nature of the project. One pilot field office should have been established first in order to test the approach. By using this pilot as a training ground, other offices could have been established stepwise.

In 1983, when many of the above problems became apparent, an initiative to reformulate the project, which could have led to a better focus of project activities, was not taken up partly for fear to disrupt project implementation. It is the view of the evaluation mission, however, that such a step would instead have been very advantageous.

In general terms, it can be stated that the project design was overly optimistic and reflected the intensive industrial growth of the late 1970's. In essence, it assumed that the main bottleneck for industrial investment is the preparation of a good feasibility study. Good and capable entrepreneurs were assumed to be abundant, as well as the availability of financing. However, reality proved to be quite different.

#### 1.1.4. Means-Ends Analysis

As far as the logic regarding the link between various project design elements is concerned, it is quite satisfactory. The inputs - activities - outputs relationship is, for the most part, reasonable. However, the very strong critical assumptions (about factors external to the project) have been the main cause of problems. These have been discussed in the previous section on project design.

The link between the outputs and immediate objective is somewhat weak. The establishment of a self-generating industrial process involving the private sector is difficult to imagine without a permanent national organization which would be involved with entrepreneurship and industrial project development. The institution-building aspect of the project was not clearly dealt with.

## 1.2 PROJECT IMPLEMENTATION

### 1.2.1. UNDP/UNIDO Inputs

In the original project document, the UNDP contribution was planned at \$4,531,644. According to the latest project budget revision, the UNDP contribution at the end of 1985 is estimated at \$4,626,491. Upt to the end of 1984 UNDP expenditure was \$3,612,069. Table 1.2.1.1. shows the original estimate while Table 1.2.1.2. shows the latest budget revision "0", both broken down by components (experts, sub-contracts, training, equipment, miscellaneous). Although the totals do not differ by much, the individual components differ significantly in the two tables. In the past two years in order to extend the project until the end of 1985 within the planned budget and to make up for the time lost in the first two years of implementation, there has been a noticeable shift from long-term international expertise to short-term expertise and the increased use of national experts and associate experts ( the latter are not indicated in the UNDP budget as they are financed by donor countries).

As far as international experts are concerned, it should be noted that, particularly in the period 1981-1983, the experts were of very varied quality and background, with many not being commercially oriented (while the real need was for aggressive, commercially oriented and experienced consultants). A large turnover of international experts certainly hampered project implementation and continuity, especially in the regional offices which were set up in Medan, Ujung Pandang and Samarinda. The timing of experts has been far from satisfactory and there have been many complaints to the evaluation mission about expert recruitment procedures. The project appears to have suffered significantly from the absence (or only a short engagement) of a market analyst/marketing specialist.

Table 1.2.1.1. ORIGINAL PROJECT BUDGET COVERING UNDP CONTRIBUTION (IN US\$)

		1979	1980	1981	1982	1983	1984	1985	
	us/m	us/m	us/m	us/m	us/m	us/m	us/m	us/m	
<b>10. PROJECT PERSONNEL</b>									
<b>11. Experts</b>									
11-01	Ind. Economist (Team leader) PA	10	49,405	6	27,805	4	21,600		
02	Ind. Engineers	8	39,045	6	28,245	2	10,800		
03	Economist/Analyst	4	21,600	-	4	21,600			
04	Team leader	57	346,800	-	7	37,800	12	69,600	
05	Financial Analyst	48	291,900	-	5	27,000	12	75,600	
06	Market Analyst	48	296,400	-	-	-	12	75,600	
07	Industrial Engineer	48	296,400	-	-	-	12	75,600	
08	Industrial Economist	48	296,400	-	-	-	12	75,600	
09	Factory Establishment	36	226,800	-	-	-	12	75,600	
10	Industrial Economist (Field)	24	145,200	-	-	-	12	75,600	
11	Industrial Economist (Field)	24	148,200	-	-	-	6	37,800	
12	Industrial Economist (Field)	24	151,200	-	-	-	12	75,600	
13	Industrial Engineer (Field)	24	145,200	-	-	-	12	75,600	
14	Industrial Engineer (Field)	24	148,200	-	-	-	6	37,800	
15	Industrial Engineer (Field)	24	151,200	-	-	-	12	75,600	
16	Short Term Consultants	60	373,000	-	-	-	10	58,000	
	Sub-Total	511	3,126,950	12	56,050	22	118,800	106	614,800
14	UN Volunteers		190,000		-		40,000		50,000
15	Travel		113,000		1,000		19,500		28,500
16	Other Costs		23,303		11,303		5,000		-
	Component Total		3,453,253		68,353		123,800		679,300
29. SUBCONTRACT			850,000		-		100,000		200,000
30. TRAINING									
31	Individual Fellowships		50,000		-		20,000		29,000
32	Group Training		30,000		-		10,000		15,000
33	In-service Training		45,000		-		10,000		20,000
	Component Total		125,000		-		40,000		45,000
49. EQUIPMENT			15,000		-		-		-
59. MISCELLANEOUS			88,391		6,391		12,000		21,000
99. UNDP Total Contribution		4,531,664	74,744	145,300	791,300	1,308,700	1,136,900	882,600	192,100

Table 1.2.1.2. LATEST PROJECT BUDGET REVISION COVERING UNDP CONTRIBUTION (in \$ US)

		TOTAL		1979		1980		1981		1982		1983		1984		1985	
		m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$
10.	<u>PROJECT PERSONNEL</u>																
11.	<u>Experts</u>																
11-01	Ind. Economist	10.0	57,048	6.0	27,805	4.0	29,243	-	-	-	-	-	-	-	-	-	-
-02	Ind. Engineer	8.0	37,295	6.0	28,245	2.0	9,050	-	-	-	-	-	-	-	-	-	-
-03	Economist/Analyst	4.0	20,341	-	-	4.0	20,363	(40)	-	-	-	18	-	-	-	-	-
-04	Team Leader	65.5	491,912	-	-	7.0	47,821	12.0	83,255	12.0	92,714	10.5	82,122	12.0	89,400	12.0	96,600
-05	Financial Analyst	49.0	367,809	-	-	-	-	2.4	18,791	12.0	85,850	12.0	88,438	12.0	89,400	10.6	85,330
-06	Market Analyst	26.0	176,595	-	-	-	-	9.1	59,917	4.9	35,231	11.5	78,132	0.5	3,315	-	-
-07	Ind. Engineer	24.0	163,541	-	-	-	-	10.5	68,438	4.9	34,637	8.6	60,033	-	433	-	-
-08	Ind. Economist	36.3	266,499	-	-	-	-	-	-	4.3	29,775	12.0	82,924	12.0	89,400	8.0	64,400
-09	Factory Establishment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-10	Ind. Economist (Medan)	26.0	177,388	-	-	-	-	-	-	12.0	80,920	12.0	81,568	2.0	14,900	-	-
-11	Ind. Economist (Samarinda)	18.0	125,810	-	-	-	-	-	-	-	-	6.9	44,691	5.1	32,819	6.0	48,300
-12	Ind. Economist (Ujung Fandang)	37.0	257,327	-	-	-	-	0.6	780	12.0	89,098	13.4	95,311	11.0	72,138	-	-
-13	Ind. Engineer (Medan)	51.6	382,110	-	-	-	-	9.8	65,926	12.0	89,77	8.8	64,133	12.0	87,600	9.0	74,700
-14	Ind. Engineer (Samarinda)	13.0	88,144	-	-	-	-	-	-	-	-	10.0	68,044	3.0	20,100	-	-
-15	Ind. Engineer (Ujung Pandang)	36.5	239,997	-	-	-	-	-	-	11.4	74,779	9.1	58,518	12.0	78,300	4.0	28,400
-50	Short Term Consultants	91.9	689,829	-	-	-	-	1.1	9,604	8.0	112,355	10.8	9,870	36.0	268,200	36.0	289,800
-99	Sub Total	469.8		12.0		17.0		45.5		93.5		125.6		117.6		85.6	
			3,541,645		56,050		106,477		306,671		725,130		813,782		846,005		687,530
13	Support Personnel		25,033		-		2,274		1,816		656		2,287		10,000		8,000
15	Travel		126,395		1,000		(337)		6,953		14,616		24,163		40,000		40,000
16	Other Costs		32,206		11,304		1,218		3,241		4,466		3,977		4,000		4,000

	m/m	TOTAL	1979		1980		1981		1982		1983		1984		1985	
		\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$	m/m	\$
17 National Experts and Consultants																
17-01 Ind. Economist (C. Office)	18.0	18,000	-	-	-	-	-	-	-	-	-	6.0	6,000	12.0	12,000	
-02 Ind. Economist (Samarinda)	18.0	18,000	-	-	-	-	-	-	-	-	-	6.0	6,000	12.0	12,000	
-03 Ind. Economist	12.0	12,000	-	-	-	-	-	-	-	-	-	2.0	2,000	10.0	10,000	
-04 Ind. Economist	12.0	12,000	-	-	-	-	-	-	-	-	-	2.0	2,000	10.0	10,000	
-05 Ind. Engineer (C. Office)	18.0	18,000	-	-	-	-	-	-	-	-	-	6.0	6,000	12.0	12,000	
-06 Ind. Engineer (Medan)	18.0	18,000	-	-	-	-	-	-	-	-	-	6.0	6,000	12.0	12,000	
-07 Ind. Engineer	12.0	12,000	-	-	-	-	-	-	-	-	-	2.0	2,000	10.0	10,000	
-08 Ind. Engineer	12.0	12,000	-	-	-	-	-	-	-	-	-	2.0	2,000	10.0	10,000	
-09 Market Research	12.0	12,000	-	-	-	-	-	-	-	-	-	2.0	2,000	10.0	10,000	
-10 Marketing Dev. (C. Office)	18.0	18,000	-	-	-	-	-	-	-	-	-	6.0	6,000	12.0	12,000	
-99 Sub Total	150.0	150,000	-	-	-	-	-	-	-	-	-	40.0	40,000	110.0	110,000	
19 Component Total		3,875,279	68,354	109,632	318,681	744,868	844,209	940,005	849,530							
29 SUB CONTRACTS		262,103	-	35,000	5,289	171,814	-	25,000	25,000							
30 TRAINING																
31 Individual Fellowships		97,715	-	-	-	14,430	43,285	25,000	15,000							
32 Study Tours, UNDP Group Trainings/Meeting		85,350	-	-	-	4,418	25,932	30,000	25,000							
33 In-Service Training		59,410	-	-	4,697	4,713	15,000	15,000	20,000							
34 Group Training (Non-UNDP)		-	-	-	-	-	-	-	-							
39 Component Total		242,475	-	-	4,697	23,561	84,217	70,000	60,000							
49 EQUIPMENT		96,670	-	15,046	(856)	36,333	147	39,000	7,000							
59 MISCELLANEOUS		149,964	6,391	3,532	4,861	9,214	18,895	34,179	72,892							
99 UNDP Total Contribution		4,626,491	74,745	163,210	332,672	985,790	947,468	1,108,184	1,014,422							

### 1.2.2. Government Inputs

Up to the end of 1984, the Government of Indonesia contributed 1,361,610,000 rupiahs to the project. This figure will reach 1,765,598,000 rupiahs (over \$1,500,000) by the end of 1985. Table 1.2.2.1. shows the original estimate given in the project document (total of 1,570,000,000 rupiahs), while Table 1.2.2.2. shows the actual contribution, broken down by components to the extent possible (these figures were obtained by the evaluation mission from the Department of Industry). The DP/INS/78/002 government contribution (the project is called P3ID/UNIDO) comes from the government P3ID project which is allocated to the Bureau of Planning, Department of Industry. However, the P3ID/UNIDO budget is intermingled with the regular P3ID budget and does not exist per se. From a formal government standpoint, the P3ID/UNIDO project does not have a budget or a permanent status. More details on this subject are provided in section 1.2.4.

A typical feature of the project has been to establish teams involving international experts and national staff, both in Jakarta and in field stations, consisting of staff recruited specifically for the project on one-year renewable contracts. The teams, however, did not include (with the exception of occasional secondment of regular P3ID staff) regular Government staff (employees). The project teams were from the beginning foreseen to work in parallel with existing Government structures. It is obvious that institution or rather capacity-building, i.e. the transfer of know-how to the Government, can only be very limited under these circumstances.

There have been continuous problems with recruitment of national staff (several professional posts are currently vacant). The main reason appears related to the fact that experienced or promising personnel cannot be attracted with only annual contracts (and virtually no job security) and the lack of career plans or institutional avenues for advancement on the job. The present staff is of very varying skills and qualifications and, all in all, significantly below expectations in the original project document.

A National Team Leader/Project Director ("Senior Staff Economist" in the original plans) has never been recruited, although this issue was brought up by UNDP and UNIDO at practically every tripartite review meeting. The absence of an energetic, qualified and authoritative National Team Leader has very seriously hampered project progress and status. Owing to his numerous other duties, the Executive Chairman was not in a position to give the project the full support originally foreseen.

As part of efforts to extend the project within the budgetary constraints, several national experts were recruited in 1984, financed from the UNDP budget. Although there were problems and delays in recruitment, the experience has not been unsatisfactory. The national experts can be useful in complementing international expertise with local contacts and experience.



Table 1.2.2.1. ORIGINAL PROJECT BUDGET COVERING GOVERNMENT CONTRIBUTION IN KIND (in 000 Rupiahs)

		<u>TOTAL</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>1984</u>		<u>1985</u>	
		m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.
10	<u>PROJECT PERSONNEL</u>														
11.	<u>Counterpart Staff</u>														
11-01	Senior Staff Economist	60		3		12		12		12		12		9	
02	Research Officer I														
03	Research Officer II	60		3		12		12		12		12		9	
04	Research Officer III														
05	Industrial Development Officer I														
06	Industrial Development Officer II	60		3		12		12		12		12		9	
07	Industrial Development Officer III														
08	Field Project Officer I	60		3		12		12		12		12		9	
09	Field Project Officer II	60		3		12		12		12		12		9	
10	Field Project Officer III	60		3		12		12		12		12		9	
11	Implementation Liaison Officer	45		-		-		12		12		12		9	
12	Technical Staff Officer I	9		-		3		3		3		-		-	
13	Technical Staff Officer II	9		-		3		3		3		-		-	
14	Technical Staff Officer III	9		-		3		3		3		-		-	
15	Technical Staff Officer IV	9		-		-		-		3		3		3	
16	Technical Staff Officer V	9		-		-		-		3		3		3	
17	Technical Staff Officer VI	9		-		-		-		3		3		3	
18	Technical Staff Officer VII	9		-		-		-		3		3		3	
19	Technical Staff Officer VIII	9		-		-		-		3		3		3	
11-99	Sub-Total	477	837,900	18	66,780	81	171,360	93	171,360	108	171,360	99	171,360	78	85,680
13.	<u>Support Personnel</u>														
13-01	Adm. Officer(Sectt)	60		3		12		12		12		12		9	
02	Adm. Officer (Field) I	60		3		12		12		12		12		9	
03	Adm. Officer (Field) II	60		3		12		12		12		12		9	
04	Adm. Officer (Field) III	60		3		12		12		12		12		9	
05	Project Secretary	60		3		12		12		12		12		9	
06	Project Secretary (Field) I	60		3		12		12		12		12		9	
07	Project Secretary (Field)II	60		3		12		12		12		12		9	

		<u>TOTAL</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>1984</u>		<u>1985</u>	
		m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.
13.	<u>Support Personnel (cont'd)</u>														
13-08	Project Secretary (Field)III	60		3		12		12		12		12		9	
09	Typist Clerk	60		3		12		12		12		12		9	
10	Driver I	60		3		12		12		12		12		9	
11	Driver II	60		3		12		12		12		12		9	
12	Trainee Officers I	60		3		12		12		12		12		9	
13	Trainee Officers II	60		3		12		12		12		12		9	
14	Trainee Officers III	60		3		12		12		12		12		9	
15	Trainee Officers IV	60		3		12		12		12		12		9	
16	Translator I	48		-		12		12		12		12		-	
17	Translator II	48		-		12		12		12		12		-	
18	Translator III	48		-		12		12		12		12		-	
13-99	Sub-Total	1.044	175,900	45	18,200	216	33,200	216	33,200	216	33,200	216	33,200	135	24,900
15	Travel		103,990		7,230		21,690		21,690		21,690		21,690		10,000
19	Component Total		1,117,790		92,210		226,250		226,250		226,250		226,250		120,580
49.	<u>EQUIPMENT</u>		373,586		81,150		63,514		63,514		63,514		63,514		38,380
59.	<u>MISCELLANEOUS</u>		78,624		8,624		15,000		15,000		15,000		15,000		10,000
99	Government Total Contribution		1,570,000		181,984		304,764		304,764		304,764		304,764		168,960
		=====													

Table 1.2.2.2. LATEST PROJECT BUDGET REVISION COVERING GOVERNMENT CONTRIBUTION IN KIND (in '000 Rupiahs)

	<u>TOTAL</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>1984</u>		<u>1985</u>	
	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.	m/m	Rp.
10.	<u>PROJECT PERSONNEL</u>													
11.	<u>Counterpart Staff</u>													
11-01	Senior Staff Economist	0												
02	Research Officer I	60	3	12	12	12	12	12	12	12	12	9		
03	Research Officer II													
04	Research Officer III													
05	Industrial Development Officer I	60	3	12	12	12	12	12	12	12	12	9		
06	Industrial Development Officer II													
07	Industrial Development Officer III													
08	Field Project Officer I	60	3	12	12	12	12	12	12	12	12	9		
09	Field Project Officer II	60	3	12	12	12	12	12	12	12	12	9		
10	Field Project Officer III	60	3	12	12	12	12	12	12	12	12	9		
11-99	Sub-Total	535,005	66,780	105,370	35,535	88,520	124,800	114,000						
13-99	Sub-Total	587,079	18,200	53,825	106,280	130,946	132,140	145,694						
15	Travel	238,884	7,230	15,570	30,470	31,090	67,980	86,544						
49	EQUIPMENT	48,480	26,100	13,330	7,000	850	450	750						
59	MISCELLANEOUS	356,150	31,980	79,015	89,290	43,950	54,915	57,000						
99	Government Total Contribution	1,765,598	150,290	267,110	268,575	295,350	380,285	403,988						

### 1.2.3. Implementation of Activities and Project Management

Two different phases of the project can be distinguished: one from 1981 to 1983 and the other from 1983 to the present (these phases coincide with two different International Team Leaders). In 1981-1983, much time and money was lost because of the lack of co-ordination between the Jakarta office and the regional offices, and the efforts spent on projects without entrepreneurs or wasted on insincere and/or incapable entrepreneurs. The screening process to prevent this waste of effort was introduced only in 1983 and further developed in 1984. In the first phase, there was a search for new project ideas, with little reliance on project identification done in the preparatory phase prior to 1980. The use of national consulting organizations proved to be unsuccessful, to a certain extent because of unclear terms-of-reference and procedures used in selecting the consultants

The pressure of "smoking chimneys" (industrial enterprises set up and in operation) caused international staff to try for any entrepreneur (not just economically weak groups), any region, any project site and foreign investment as well as domestic. This dispersion of effort without a clear plan applies to a certain degree to the second phase (1983-1985) as well. No systematic approach to the transfer of know-how, i.e. capacity building of national staff, was attempted until 1984. Regardless of skills of the national staff, very little effort was made to integrate them into the project activities or to explain systematically what the purpose of various activities is. International experts worked mostly by themselves which frustrated many of the national who were hoping for more responsibility in assignments. This contributed to the lack of a sense of belonging to the project as well as enthusiasm on the part of the national staff.

The improvements introduced in the second phase of the project since 1983, noticeable particularly in the last six-to-eight months, include a clean-up of the project portfolio, introduction and refinement of screening procedures (both for projects and entrepreneurs), close co-ordination of central and field offices with frequent movement of staff to the regions (important role of associate experts who act liaison officers), introduction of systematic organizational and management planning and control procedures, assignment of project co-ordinators and teams to specific projects, planning of resource allocations, introduction and use of computerized methodology for financial analysis, and the shift toward systematic efforts in capacity building and upgrading of a core of national staff through seminars and job assignments with more responsibility. The type and content of various studies done by the project has improved in the sense that they are shorter and more commercially oriented, while keeping in line with the UNIDO Manual for the Preparation of Industrial Feasibility Studies.

It should be stressed that practically all of the project results described in section 1.3. have been produced since 1983. The type of investment projects that have been dealt with cover a wide spectrum of medium-scale industries

- total investment from \$500.000 to tens of million
- planned number of employees from 30 to several hundred.

#### 1.2.4. Institutional Framework

The project DP/INS/78/002 is actually aimed at the development of regional entrepreneurship through project identification, generation, preparation, upgrading of entrepreneur skills and search for financing and partners, specifically for medium-scale industry projects. The project links with Government organizations, banks and other financing institutions and entrepreneurs are therefore extremely important. The INS/78/002 Project Document somewhat simplistically assumed that this complex relationship would be settled through several advisory committees. As already outlined, most of the critical assumptions regarding effective links did not materialize and the project has been left in a "vacuum" and forced to search for entrepreneurs, financing and Government support, i.e. create links, by itself on an ad hoc basis. The status of project links with the Government, financial institutions, entrepreneur associations and consulting organization can be summarized in the following subsections.

##### 1.2.4.1. Government

The project is located in the Bureau of Planning under Secretariat General of the Department of Industry. The regional offices in Medan, Samarinda and Ujung Pandang are part of KANWIL offices - the regional offices of the Department of Industry. An organizational chart of the Department of Industry is shown in Figure 1.2.4.1. The 78/002 project (named P3ID/UNIDO) is linked to the P3ID project, the original functions of which (collection of data on regional raw material potential and production possibilities, preparatory work for KAKANWIL's annual reporting and planning) are quite different. Still, the Government budget of P3ID/UNIDO is part of the P3ID budget and not a separate entity. The relationship between the two projects is not clearly defined, especially regarding authority and responsibility matters. The organizational chart shown in Figure 1.2.4.2. is a schematic representation of this relationship, both in the Jakarta central location and the regions. There is also a clear difference between the status of staff of P3ID (permanent Government employees) and staff of P3ID/UNIDO (temporary status). This parallelism has caused a significant waste of effort and a working climate which is far from satisfactory (the current atmosphere in the Samarinda office being a notable exception).

The above problems have been reflected in a lack of continuous back-up to the project, especially in the regional KANWIL offices. Without full support and sense of belonging to the project from the regional Government (through the KAKANWIL's office), the chances for success are seriously diminished.

The relationship of the project to BKPM-D and BAPPEDA in the regions has been ad hoc and unco-ordinated, although the mission found significant interest for cooperation in the field.

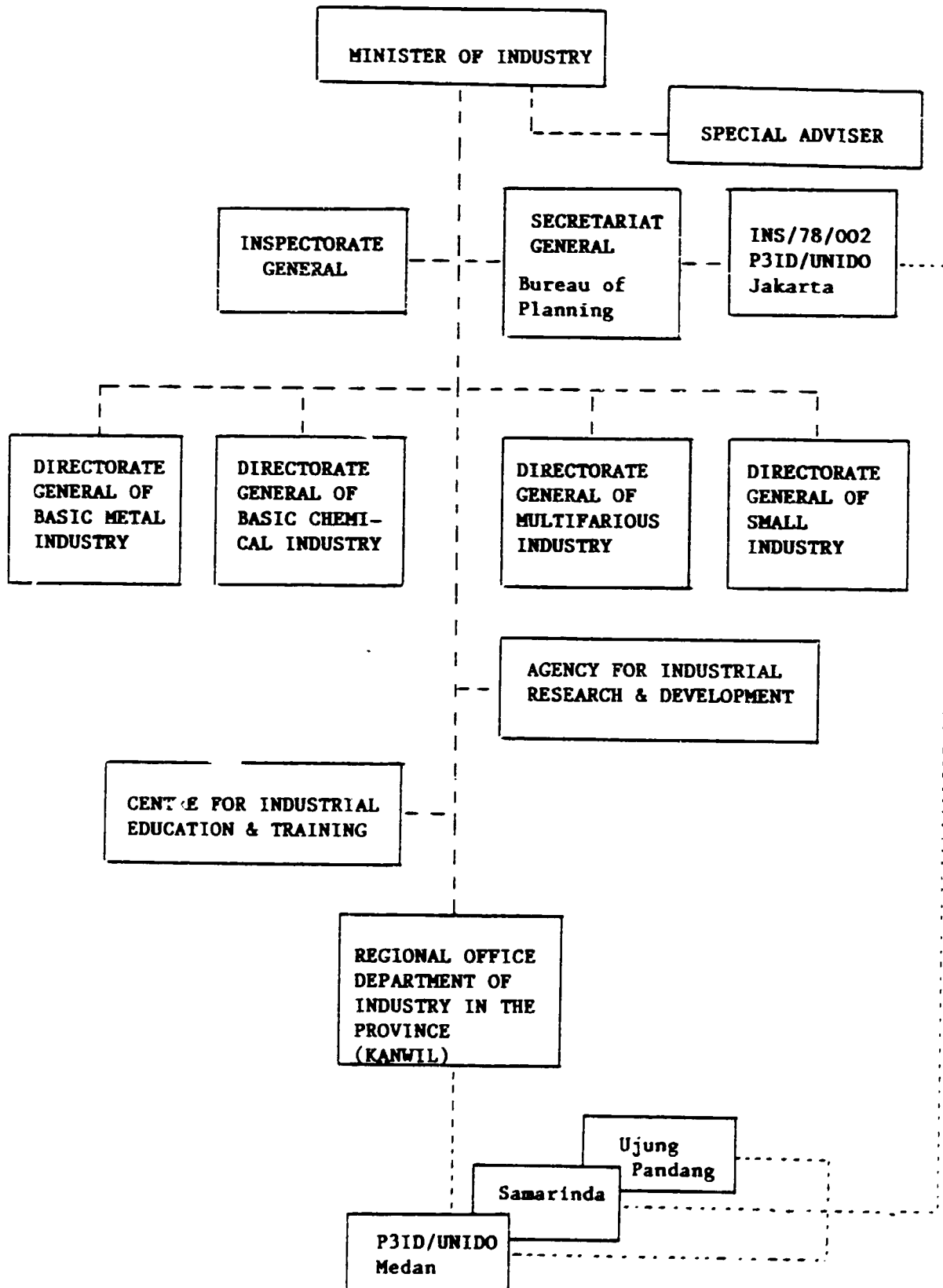
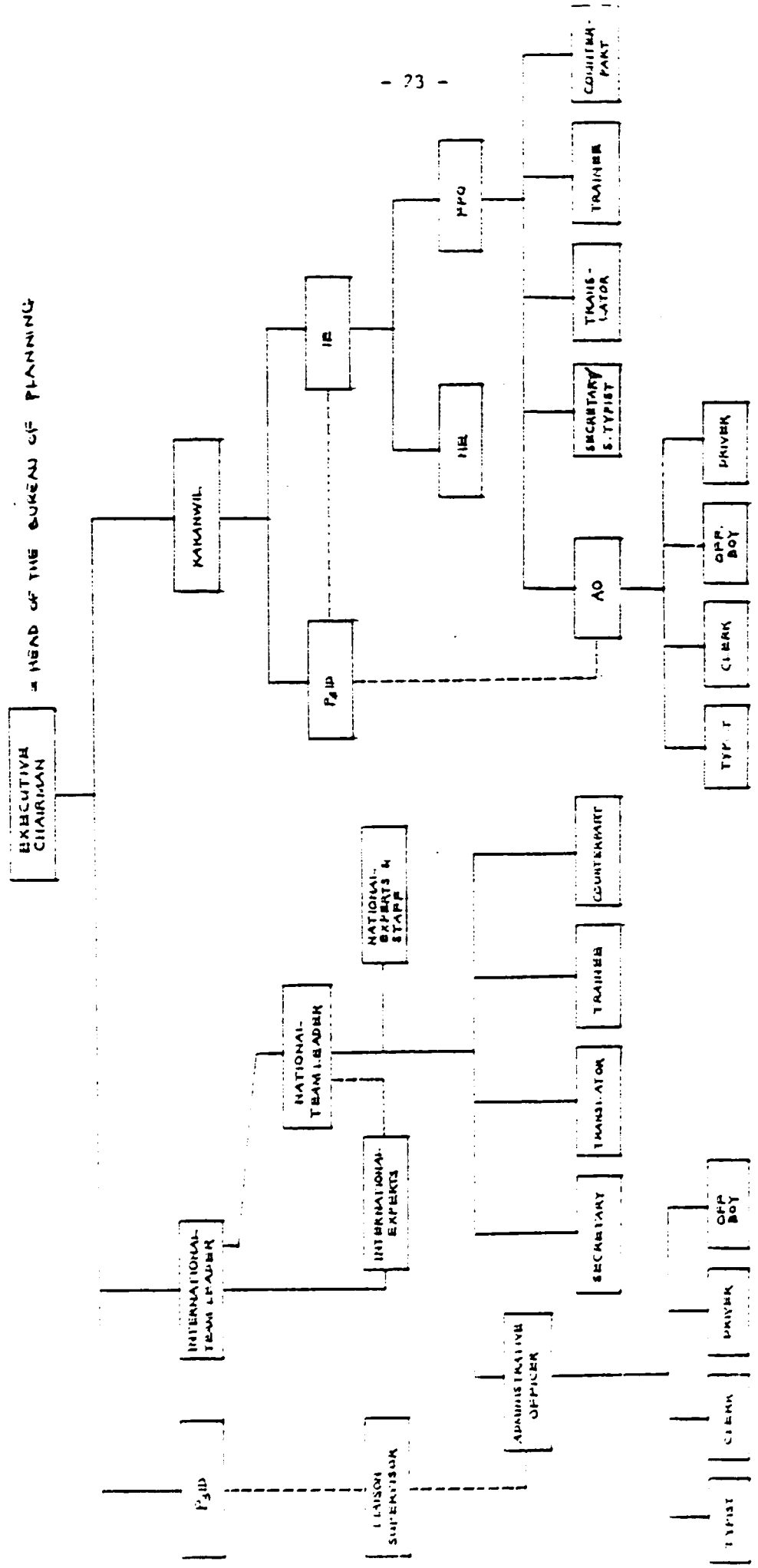


Figure 1.2.4.1. Organizational Chart of the Department of Industry



ITL : International Team Leader  
 ITL : National Team Leader  
 IE : International Expert  
 IE : National Expert  
 PVO : Field Project Officer  
 AO : Administrative Officer

Figure 1.2.4.2. Overall Organizational Chart of the Department of Industry

1.2.4.2. Banks and financial institutions

As mentioned in Section 1.1.2. the Indonesian banking system consists of the Bank of Indonesia, five state commercial banks, 69 private banks, and development banks and financial institutions which are an important source of credit. As examples, two of the development banks/financing institutions are described in more detail below while a summary of others has been made in Appendix V.

BAPINDO (Bank Pembangunan Indonesia)  
Established : 1960  
Total Assets : 856 billion rupiahs (approx. US\$800 million)

Operations :

BAPINDO provides mainly medium and long term investment loans to new and existing business enterprises and projects in industry, shipping, land transportation, and tourism sectors. It also provides short term working capital loans but only to its investment loan borrowers. Through regional development banks BAPINDO is lending investment and working capital loans to smaller industries. BAPINDO is authorized directly to finance projects costing above US\$2.5 million with maturity up to 15 years including grace periods of 6 years. Interest rate is 18% p.a. for investment loans and 20% for working capital loans.

Branch Offices: 21

P.T. BAHANA (Pembinaan Usoka Indonesia)  
Established : 1973  
Total Assets : 16 billion rupiahs (approx. \$15 million)  
Operations :

The objective of P.T. Bahana is to assist small and medium size enterprises by providing equity participation identification of projects and working feasibility studies and to provide necessary funds and expertise required to solve the technical and marketing problems, especially those of economically weaker entrepreneurs in order that they may grow into more prominent entrepreneurs. The interest rate for loans below US\$75,000 is 12% and for loans above that amount 18% - 20%. P.T. Bahana has been financing projects jointly with BAPINDO.

Branch Offices: None

P.T. Bahana's objectives are close to those of INS/78/002 and P.T. Bahana is very willing to co-operate. The total assets are only US\$15 million at the moment; however, negotiations are in progress to channel World Bank funding through P.T. Bahana's machinery. That is an opportunity for INS/78/002.



The mission found a high rate of drop-out of projects for which studies had been or were being done. From the entrepreneur and project staff viewpoint, lack of financing has been indicated as one of the main reasons (in addition to the entrepreneur changing his mind). There has clearly been a missing link between the project and financing organizations from the early stages of investment project development. Early involvement of banks and joint efforts with them could significantly increase possibilities of producing results - investments.

From the banks' side, there is still a potential for increased funding, taking into account the current low number of new industrial clients per year. This creates a promising opportunity for the project INS/78/002 to prepare viable bankable project proposals, but in close co-operation with the banks. To achieve this, the banks consulted by the mission have indicated strong interest in the upgrading of industrial project appraisal skills of their staff and the expansion of their functional capacity through the services of and team work with the project.

The problem of defining the scale of industrial projects which are being dealt with should be mentioned here. The P3ID/UNIDO project priority is medium-scale industry. If we take into account the different definitions given to the mission by banks, Department of Industry and entrepreneurs, we are dealing with projects in the total investment (including working capital) range of approximately \$300,000 to several million. For small scale industry (investment under \$200,000) and special undertakings in agriculture, plantations and fisheries, there is a clearly defined programme of financial stimulation measures (Bank Indonesia, regional development banks). However, for industries in the range of interest for our project, there is a gap between proclaimed Government priorities (reflected in the objectives of our project) and the terms of financing medium-scale industries. Government development banks like BAPINDO and BAHANA remain the only attractive possibilities both for equity and loan financing (with interest rates in the range 12 - 20%, while private banks offer interest rates from 24.5 - 35%).

#### 1.2.4.3. KADIN and entrepreneur associations

The project links to these organizations have not been very strong, maybe because the majority of their members are contractors. However, some industry-oriented members (Association of Young Indonesian Entrepreneurs) have been the source of information regarding the services of our project available to new entrepreneurs. The majority of these entrepreneurs seem to have interest for projects requiring investment below \$500,000. Our project has thus far been concentrating on investment projects above this range.

#### 1.2.4.4. Consultants

The engagement and involvement of local consultancy organizations was foreseen in the project document. The experience was not too encouraging. Although there are some 1500 of these organizations in Indonesia, very few have the specific capabilities related to the activities of our project.

#### 1.2.4.5. Location of the project

On the question of the institutional linkage of the project - the so-called "anchorage" - the following should be said. If the development and promotion of regional entrepreneurship is taken as a broad activity covering project identification, preparation and development, upgrading of entrepreneur skills, and search for financing and partners, then it is not possible to single out one Government organization which has this as its only or mainline activity. Various aspects of the broad spectrum of listed activities are covered by different organizations -- the offices of the Regional Governors, KANWIL's, Directorates General of the Department of Industry, KADIN (especially for smaller-scale industry), BAPPEDA and BKPM (especially for foreign investments and large-scale projects). It was suggested by some parties in the past that the project should have been anchored with BKPM. The mission discussed this issue with BKPM. The idea was rejected by BKPM because of their focus on foreign investments and a much narrower view of investment promotion.

To all of the above organizations, entrepreneurship development and promotion seem to mean different things. Among the most relevant institutions for this activity are banks and development finance institutions. In fact, in some developing countries, development finance institutions are the driving force in the process of entrepreneurship development and promotion. Including them early in the process can facilitate regional development programme design, planning and implementation, as well as speed up licencing procedures.

In conclusion, the exact location of a project such as INS/78/002 might not be as relevant as its very close relationship and co-ordination with various bodies involved in the promotion process, particularly the financing institutions. The freedom to establish links and take initiative appears more important than the physical or formal location.

#### 1.2.5. Role and Profile of an Industrial Entrepreneur

The drive, risk taking ability and the own capital of an entrepreneur are those basic factors on which the project INS/78/002 is assumed to be based, as an assisting link between the entrepreneur, the above mentioned institutional interest groups and the key variables related to the success and viability of new ventures. These key variables can be grouped as follows: (a) availability and growth of markets, technology and the feasibility of the venture; (b) availability of funding for fixed assets, working capital, skilled personnel and other resources; (c) management and other functional skills and systems; (d) licences and fulfilment of other Government rules and regulations. As far as the project INS/78/002 is concerned, the macro objectives will be achieved only through the skills, motivation and decision-making of an entrepreneur. The role of this entrepreneur in the framework of project objectives is shown graphically in Figure 1.2.5.1.

A. Basic Factors

- drive
  - own capital
  - risk taking ability
  - other traits
- of an entrepreneur

connected through

B. Co-operation of the interest groups

C. with Services assisting entrepreneurs who are facing

D. Some "must" factors

E. in order to establish viable new factories or expanding current ones

to achieve

F. Macro Objectives

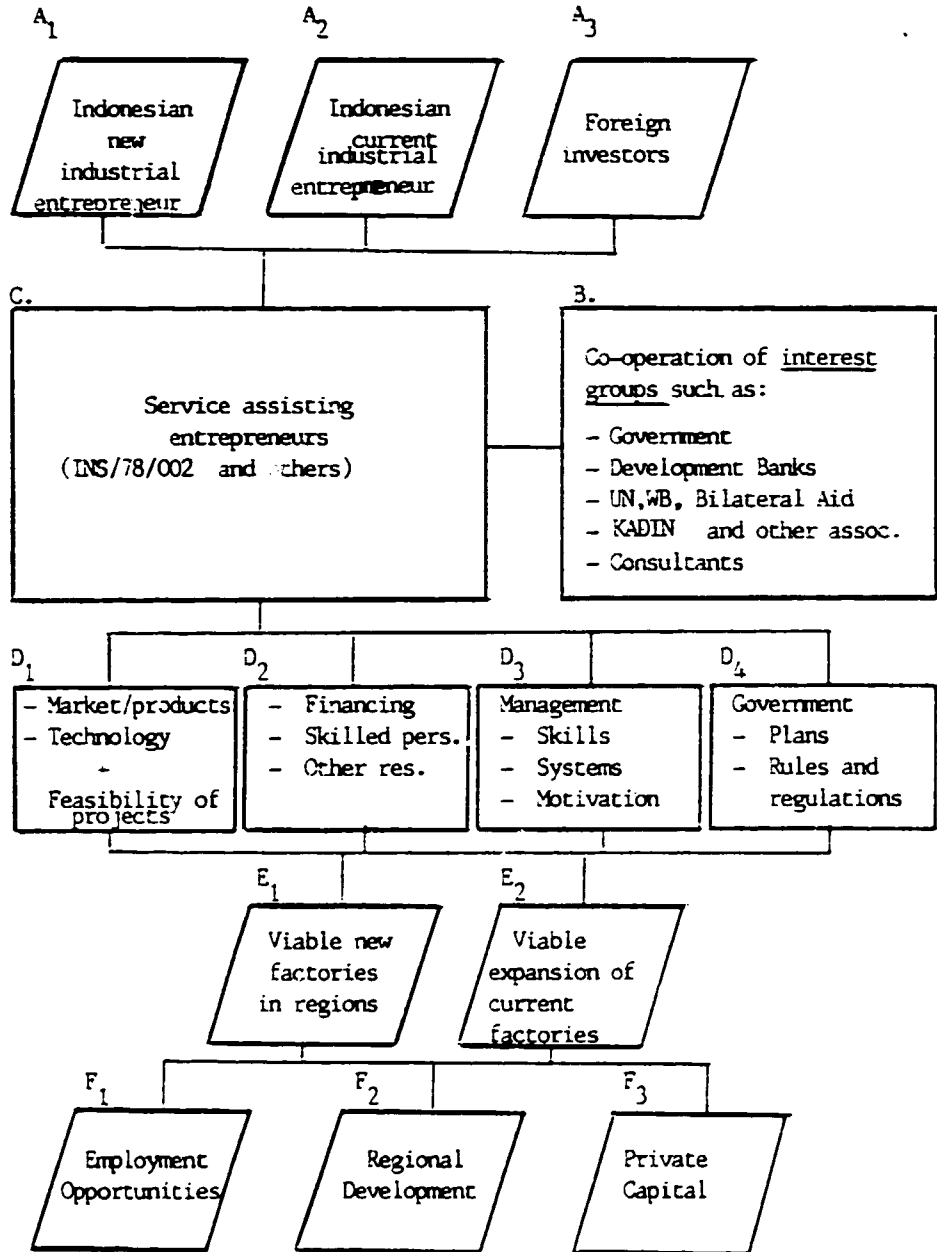


Figure 1.2.5.1. - The Role of an Entrepreneur in the Framework of Project Objectives

In order to get a tangible picture of the types of entrepreneurs in the regions, their problems and expectations regarding the need for assistance, the evaluation mission had discussions with with 30 entrepreneurs, and a more detailed interview with 17 of them. The bankers interviewed had a clear picture about the kinds of entrepreneurs they are dealing with. One of the regional bankers grouped his industrial customers as: current traders; small or medium scale industrialists (graduates) who want to expand/diversify their operations; and large scale industrialists, who are often coming from Jakarta to establish production in the region but are keeping their marketing in Jakarta.

Generally speaking it seems that old traders are business minded but not always interested in long term risk taking having been accustomed to quick profits and short pay-back periods. However, although basically suspicious they often are curious to test new opportunities. Old industrialists might lack the ability of creative thinking and sometimes that of financial control.

The trust between an entrepreneur and an organization which intends to assist him in making the final investment decision (such as the P3ID/UNIDO unit) is extremely important to the success of the joint effort. Because of so many internal and external factors involved it is not easy to win this trust.

Some of the main problems of the entrepreneurs in regions are the following (a) lack of ideas regarding new ventures; (b) lack of management and marketing capabilities; (c) financing problems including lack of sufficient own capital, collateral needed for the loan, and the high rate of the interest; (d) lack of skilled labour; (e) costly studies needed for loans; (f) cumbersome procedures to get licences; (g) transport cost, and (h) other infrastructural problems.

In order to find out what kind of assistance the entrepreneur is expecting in the situation where he either wants to start a new venture or to expand a current operations, interviews were made with 17 entrepreneurs through the use of a structured questionnaire. Although far from scientific reliability, the results give a clear indication that market and feasibility studies are considered to be extremely important, whereas assistance/information regarding financing, services involving technical consulting, and management and entrepreneurship training are rated as very important. Figure 1.2.5.2. gives a graphical interpretation of the results of interviews. It is interesting that essentially the same order of priorities as shown in Figure 1.2.5.2. was obtained in interviews with project experts.

Subject	Scale				
	No	Less	Important	Very	Ex-
	importance	important	Important	important	tremely important
	1	2	3	4	5
1. Market and Feasibility Studies	.	.	.	.	4.8
2. Assistance/information regarding financing	.	.	.	3.7	.
3. Technical consulting	.	.	.	3.5	.
4. Management training	.	.	.	3.2	.
5. Full-scale analysis of operations	.	.	.	3.0	.
6. Assistance to get partners	.	.	.	2.9	.
7. Consulting in administration	.	.	.	2.6	.
8. Assistance/information regarding government regulations	.	.	.	2.5	.

Figure 1.2.5.2. Priorities Given by Entrepreneurs for Different Types of Services

### 1.3. PROJECT RESULTS

#### 1.3.1. Investment Projects in Various Stages of Development

The "Outputs" section of the project document consists of six items, each representing a stage in the development of investment projects. An indicative figure for the number of projects expected in each stage was given. These figures represent the original expectations as far as project results are concerned.

The analysis which follows looks at the number of investment projects in each of the various stages as of April 1985. Annex VI gives detailed information on projects dealt with in stages 2 (projects in preparation, screening and evaluation) through 6 (projects in various stages of implementation). For each investment project listed, the evaluation mission attempted to obtain information about the extent to which the project DP/INS/78/002 assisted various entrepreneurs. Also indicated in Annex VI are sources of ideas or action for each investment project. Annex VII lists the numerous projects in stage 1 (project ideas in stock and at various stages of discussion).

On the basis of Annexes VI and VII the following analysis can be made:

Stage 1. Project ideas in stock and at various stages of discussion/ preliminary screening (new ones as well as some previously rejected ones which are waiting for a better moment or entrepreneur):

130 projects (97 for the three regions where regional offices were set up, 9 country-wide, 9 for Java, 13 for other regions).

(ProDoc did not give a number range for this stage -- "several" project ideas were mentioned).

Stage 2. Projects in preparation, further screening and evaluation:

11 projects (5 in the three regions, 2 country-wide, 2 Java, 2 elsewhere).

Stage 3. Projects in the preliminary study stage:

12 projects (8 in the three regions, 1 Java, 3 elsewhere).

(ProDoc specified 20 - 50 "opportunities at various stages of preparation, screening, evaluation and promotion", which corresponds to stages 2 and 3).

Stage 4. Projects in the final study stage (market study, pre-feasibility study, feasibility study, financial evaluation) - bankable proposals in various stages of finalization:

8 projects (3 in three regions , 1 country-wide, 2 Java, 2 elsewhere).

(ProDoc specified 20 - 30 projects for this stage).

Stage 5. Bankable proposals awaiting decisions (bank loan, licence, contract negotiations, final entrepreneur decision):

6 projects (2 in the three regions, 1 country wide, 1 Java, 2 elsewhere).

(ProDoc specified 20 - 30 projects in this category).

Stage 6. Projects in various stages of implementation, that are or were assisted by project 78/002 in one or more previous stages:

2 projects

(Pro Doc specified 10 - 20 in this category).

The two projects are:

Mouldings and dowels - Ujung Pandang (now in the equipment installation phase; strong entrepreneur who went into expansion and diversification; project did market and distribution study; could be classified as future "additional smoke to an existing chimney").

Laminated particle board - Lampung (existing plant having marketing problems; "chimney without smoke"; project currently doing export market analysis and marketing negotiation).

As can be seen, in both cases project INS/78/002 (P3ID/UNIDO) has had a rather indirect influence on "chimneys".

Stage 7. New factories in operation.

No projects in this category. However, it was already mentioned that it is illogical to have this as an output of a UN technical assistance project. The same, to a somewhat lesser extent, is applicable to stage 6.

The project team considers all of the projects in stages 2 - 5 still active. Only three projects have previously been dropped after a study, when entrepreneurs decided not to go ahead. In a number of cases, the P3ID/UNIDO project discouraged entrepreneurs from making a commitment toward a non-viable investment project.

Regarding the chances for success/implementation of the active projects, it must be pointed out that detailed information on the export market is often a bottleneck. The project team considers 5 projects in stages 2 - 4 as very promising, while of the 6 projects in stage 5 some could materialize since they are quite close to a decision.

The evaluation team examined closely a number of pre-investment studies for projects listed in Annex VI. The studies examined are indicated in Appendix IV. The team found them to be of satisfactory quality, containing realistic analyses and recommendations. The most detailed studies are of the pre-feasibility level (by international standards) but that is the highest level of techno-economic elaboration required by most Indonesian banks. The studies follow the general lines of the UNIDO Manual for the Preparation of Industrial Feasibility Studies.



### 1.3.2. Systems Instituted for Project Selection and Development

In the "Activities" section of the project document, it was indicated that the project should establish criteria for project selection, determine suitable screening procedures, design procedures for approvals and licencing and develop an organizational system/network. These procedures and systems have been established and instituted and are of satisfactory quality.

It should be noted that the project had only a superficial involvement in assistance to investment project implementation since only very few such advanced projects appeared or were brought to that stage.

### 1.3.3. Results not Foreseen in the Project Document

Among project results not planned in the original project document but nevertheless achieved are the following:

- A number of studies or preliminary investigations conducted in regions outside the four originally planned.
- Seminars and courses on the preparation of pre-investment studies introduced and conducted. The mission considers these of very high quality and a definite first step in the institution-building activities not originally foreseen in the project document. The courses also serve as a basis for national personnel evaluation. There are three levels of courses: a) Project Representatives Course (4 days duration) for selected regional representatives from the Department of Industry (with the aim of familiarizing them with project activities and thus extending the scope of the project to more regions); b) Basic Course on Preparation of Pre-Investment Studies (2 weeks duration) for all national staff and selected Department of Industry Staff, and c) Advanced Course on Preparation and Evaluation of Feasibility Studies (4 weeks duration) for persons who successfully completed course b). Courses b) and c) use a large number of very good case studies.
- Computerized system for financial feasibility analysis and reporting (COMFAR) installed and in use, with several national staff trained for its operation. This system has improved the quality of financial analysis in studies and introduced uniform/standardized presentation.
- Criteria and procedures for screening potential sponsors/entrepreneurs introduced and used.

The project document did not foresee the project staff being actively involved in seeking financing for clients. However, as mentioned in Section 1.2.4. the reality was quite different. Among the contacts established, the notable ones are with the UNIDO Investment Promotion Service in Tokyo and the Asian Development Bank (regarding potential financing of projects related to marine-based industries).

#### 1.3.4. Results vis-a-vis Plans

The project progress toward achieving its immediate objective and its cost effectiveness (taking into account the considerable budgets involved) cannot be considered satisfactory. Particularly disappointing were the first two years which can be considered as lost. From a purely numerical standpoint, in terms of the number of investment projects dealt with by DP/INS/78/002, the number for stages 1 - 3 is within the range planned in the project document. However, the number of actual projects in higher stages (4 through 7) becomes progressively lower and well below expectations. These project results have to be viewed in light of the deficient institutional framework (with its missing links), the profile of the regional entrepreneur and the numerous assumptions about factors external to the project (critical assumptions) which did not materialize as planned in 1979/80.

From its very beginning, this has been a high-risk, high uncertainty project, quite different from the standard type of technical assistance projects characteristic for UNDP/UNIDO. In more ways than one, this project is an experiment, with important implications for future similar UNDP/UNIDO technical assistance undertakings.

The project has gained a certain momentum in the past two years. A new project portfolio has been created, as well as a certain awareness in the Department of Industry and in the regions that a significant promotional organizational effort is needed in order to get regional medium-scale industry development anywhere close to government plans and proclamations.

The mission is of the opinion that, unless significant changes are made regarding institutional co-ordination and close linkages, particularly with development finance organizations, the progress of projects in the existing portfolio toward implementation will not be much different than in the past.

PART II. CONCLUSIONS AND RECOMMENDATIONS

## 2.1 CONCLUSIONS

### 2.1.1. The Project

1. The project DP/INS/78/002 -- a high-risk, high-uncertainty project, quite different from the standard types of UNDP/UNIDO technical assistance projects -- has been plagued by a design containing too many critical assumptions (about factors external to the project) which did not materialize. Unreasonably high expectations in the form of factories in operation ("smoking chimneys") as project outputs, linked with too strong an emphasis on direct-support technical assistance, has caused a wrong type of pressure on the project and has led to a considerable waste of effort. Project progress toward achieving its immediate objective of developing entrepreneurship in the medium-scale industry in selected regions, as well as its results in terms of cost effectiveness (taking into account the considerable budgets involved), cannot be considered satisfactory. A portfolio of regional investment projects in various stages of study and development, with uncertain future prospects, has been developed and assistance to entrepreneurs in different ways (market and technical information, search for financing and partners etc.) has been provided. An operational methodology has recently been introduced and organizational and management systems developed, covering the central office in Jakarta and regional offices in Medan, Samarinda and Ujung Pandang. Systematic transfer of know-how and upgrading of national staff has started only the past six-to-eight months; only a small core of capable nationals exists. The project has gained a certain momentum in the past year, which could serve as a starting point for future efforts in assisting and developing regional industrial entrepreneurship.

2. The development of regional industrial entrepreneurship is a broad activity which covers investment project identification, preparation and development, upgrading of entrepreneur skills and search for financing and partners. It should be looked at as a continuing, long-term process to satisfy the macro needs such as the creation of employment opportunities, the raising of private capital and equitable regional development.

### 2.1.2. Institutional Framework

3. The project is attached to the Bureau of Planning in the Department of Industry and does not have a permanent status or a separate government budget. The national staff is recruited on the basis of one-year renewable contracts. Regular government employees are not included. The project team has from the beginning worked parallel with, but not as a part of existing government structures. Institution-building, i.e. the transfer of know-how to the Government, can only be very limited under these circumstances. Persistent problems in recruitment and quality of national staff seem to be related to the fact that experienced or promising personnel cannot be attracted with only annual contracts (and virtually no job security) and the lack of career plans or institutional avenues for on-the-job advancement. A National Team Leader/Project Director has never been recruited. The absence of an energetic, qualified and authoritative National Team Leader has very seriously hampered project progress and status. The Executive Chairman was not in a position to give the project the full support originally foreseen,

primarily because of his numerous other duties. The international experts have been of very varied quality and background, with many not being commercially oriented. Their large turnover has hampered project implementation and continuity, especially in regional offices.

The project has practically had a sideline status and has experienced a lack of continued back-up and support from the Department of Industry. As a consequence of emphasis on direct-support technical assistance by international experts to entrepreneurs, as well as the temporary status of the project in the Department of Industry, it appears that this current activity of entrepreneurship development would practically come to a halt without further international assistance.

4. In order to effectively reach the stated macro objectives, co-operation between the project and the entrepreneur has to be closely linked with government organizations and banks and financing institutions, both at the central and regional levels. The project document foresaw that this complex relationship would be taken care of through several advisory committees. In essence, it was assumed that the main bottleneck to industrial investment is the preparation of a good feasibility study, and that capable entrepreneurs and financing are readily available. Since these assumptions did not materialize, the project was left in a "vacuum" and had to look for entrepreneurs, financing and government support on an ad hoc basis.

The missing link between the project and financing institutions from the early stages of investment project development has caused wasted efforts and frustration. It should be emphasized that, from the point of view of financial institutions, there is still a potential for increased funding, taking into account the current low number of new industrial clients per year. This creates a promising opportunity for the project to prepare viable bankable project proposals, but in close co-operation with the banks. In addition, there is a strong interest by the banks in the upgrading of industrial project appraisal skills of their staff.

5. For the scale of industries relevant to project DP/INS/78/002, i.e. total investment in the range of approximately \$300.000 to several million, there is a gap between proclaimed government priorities (reflected in the project objectives) and the terms of financing which are not as favourable as those for small-scale industry.

6. Current or potential industrial entrepreneurs in the regions consist of current traders, small and medium scale industrialists who want to expand and large scale industrialists (often from Jakarta) who want to establish production in the regions. Old traders represent a significant potential, having the business-minded drive but lacking long-term risk taking willingness (as a result of current orientation toward quick profit). However, although basically suspicious, they are curious to test new opportunities. To win the trust of an entrepreneur is not easy for a unit/organization intending to assist him in the decision making. This trust is extremely important for the joint effort.

A large number of entrepreneurs, contacted by the evaluation mission, indicated that the most important services which a project like DP/INS/78/002 should offer them in establishing new ventures are: market and feasibility studies, assistance/information regarding financing, technical consulting, and management and entrepreneurship training.

7. A large number of entrepreneurs seem to have interest for projects requiring an investment around or below \$500.000. Project DP/INS/78/ 002 has thus far been concentrating on investment projects above this range. As a matter of fact, the project has dispersed its efforts toward any entrepreneur (not just economically weak groups), more regions than the four originally planned, various sub-sectors, a very wide range of project sizes and foreign investment as well as domestic.

8. If the development of regional industrial entrepreneurship is taken as a broad activity covering project identification, preparation and development, upgrading of entrepreneur skills and search for financing and partners, then it is not possible to single out one government organization in Indonesia which has this as its only or main-line activity. Various aspects of listed activities are covered by different organizations.

The exact location of an institution/unit which a project such as DP/INS/78/002 is going to assist might not be as relevant as its very close relationship and co-ordination with various bodies involved in the industrial entrepreneurship development process, particularly the financing institutions. The institution should have a regional presence and network. The freedom to establish strong operating links and take initiative appears more important than the physical or formal location. Steps have to be taken to push the current unit from the sideline and upgrade its status.

In some developing countries, development finance institutions are the driving force in the process of entrepreneurship development and promotion. Including these institutions early in the process can facilitate regional development programme design, planning and implementation, as well as speed up licensing procedures.

9. There is a continuous need for the type of services offered by the project DP/INS/78/002, as a link between entrepreneurs, ideas/opportunities and financing organizations. However, if significant changes are not undertaken regarding the institutional co-ordination and close linkages both on the central and regional level, particularly with development finance institutions, the progress will not be much different than in the past.

## 2.2. RECOMMENDATIONS AND GUIDELINES FOR FUTURE ACTION

The recommendations given below are based on lessons learned from current activities of the project and the analysis of external opportunities and constraints made by the evaluation mission.

### 2.2.1. General Institutional Framework

1. The need for the general type of entrepreneurship development services offered by the project has been established and their continuation is fully warranted. Some positive achievements of the project can form a basis for future activities, which should be reformulated and clearly defined. The Government has to recognize the need for continuous industrial entrepreneurship development and make its long-term commitment by institutionalizing and upgrading these services.

The Government should also consider whether the current financial incentives for medium-scale industry, especially those for new entrepreneurs, are sufficient to push medium-scale industrial development anywhere close to government proclamations, expectations and macro-objectives.

2. Understanding that the above need is a continuous and long-term one, future technical assistance should concentrate on establishing a permanent counterpart institution which will be able to provide the needed services over a longer period of time. In the near term, in addition to institution-building activities -- staff training, on-the-job-training, team work, institutionalization of methodologies and systems -- there should be a direct-support follow-up to the current portfolio of developed investment projects, as well as the development of new ones.

### 2.2.2. Suggested Profile of the Project

3. The future purpose and activities of the institution to be built up as well as the international technical assistance, have to be based on the priorities and plans of the Government, the needs of regional entrepreneurs and the needs and expectations of financial institutions, whose participation is crucial for achieving the macro-objective of new employment opportunities. These activities should include:

a) Co-ordinating activities between projects/ideas, entrepreneurs and financing institutions

- a1 - screening of ideas
- a2 - screening of investors
- a3 - joint planning and implementation of project-wise cooperation/work

b) Studies and consulting services

- b1 - sub-sectoral studies
- b2 - project identification
- b3 - market and technical studies/consulting services
- b4 - pre-feasibility studies
- b5 - establishment of terms-of-reference for detailed feasibility studies
- b6 - evaluation of feasibility studies and detailed project proposals

c) Training

- c1 - entrepreneur development training (tailor-made for a specific entrepreneur or training packages of different levels of sophistication for groups of entrepreneurs). (This type of training can also be used as a promotion tool for services of the institution and as an information channel regarding services of financial institutions).
- c2 - training of staff of financial institutions (upgrading of their skills in project evaluation/appraisal, technical and market analysis, computerized methods of feasibility analysis, etc.)
- c3 - continuous training of own staff and Government staff, both centrally and in the regions (the training of own staff will be particularly intensive in the initial stages as a pre-condition for capacity building)

For each type of training, detailed training packages need to be established. Parts of c2 and c3 could be combined.

4. Based on industrial plans and priorities of the Government, the above activities should be focused on the following sub-sectors:

- agro-based industries
- wood-based industries
- marine-based industries
- downstream of basic metal industries  
(to be specified in detail by a subsequent project formulation mission)

Since regional industrial entrepreneurship development remains the immediate objective, the presence of the institution/project in the regions is essential.



In the near term, use should be made of the project presence and current momentum in North Sumatra, East Kalimantan and South Sulawesi. National capacities/capabilities should first be built up and favourable conditions created through activities in these three regions. After that is done, activities could be spread to other regions making use of the pilot experience and results. Of the 130 project ideas currently in stock, about 100 cover these three regions. Additional regions should be determined by the Government. Caution should be exercised and a step-wise approach adopted in order not to spread the resources too thin (as was the case during 1981 - 1985).

The entrepreneur target groups (beneficiaries) should include current traders and current smaller-scale industrialists ("graduates"), as well as larger-scale industrialists intending to expand/diversify into medium scale industry in the regions (these entrepreneurs might exist in the region or be located in Jakarta). With the first two groups, attention should be focused on investment projects in the range \$200,000 - 500,000.

#### 2.2.3. Links to be Established

5. Because of the nature of services described under recommendation no. 3, very close linkages of the institution offering these services have to be established with:

- government organizations (Department of Industry, BAPPENAS, BKMP; on central and regional levels)
- banks/financing institutions (on strategic and operational levels, both centrally and in the regions) -- BAPPINDO and PT Bahana, for example
- entrepreneurs (individually or through associations), and
- consultants/consulting organizations.

The purpose should be to link, through the services of the institution assisted by the project, viable business ideas, capable entrepreneurs and the funding possibilities of development banks in order to create new ventures or to expand/diversify current industrial operations. Figure 2.2.3.1. is a graphical representation of the basic links needed.

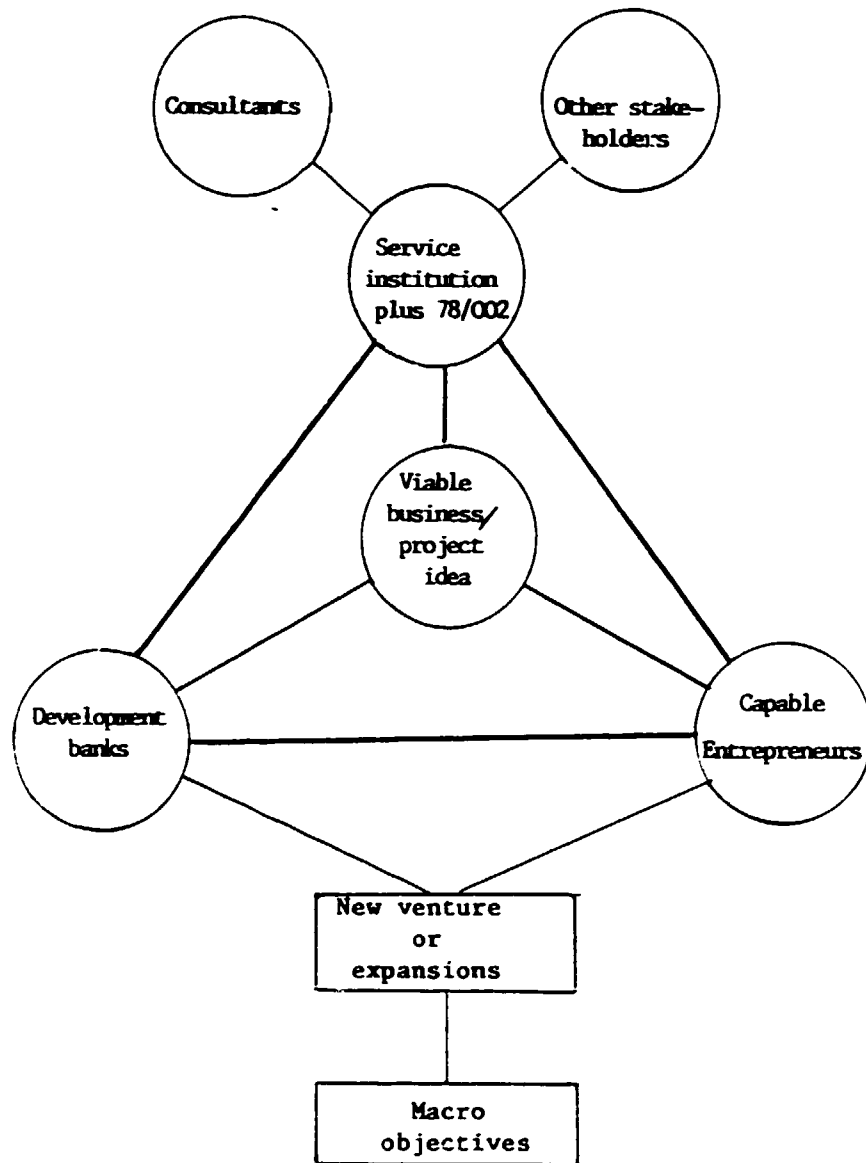


Figure 2.2.3.1. Basic Links Needed to Achieve Macro Objectives

#### 2.2.4. Organization of the Project

6. From an organizational standpoint, having in mind recommendations no. 1 - 5, the following criteria are important for considering the so-called anchorage of the institution:
  - maximum degree of autonomy (or possibility for step-wise reaching of autonomy)
  - regional representation
  - permanent staff of acceptable quality (motivated by career plans, on-the-job advancement possibilities, sufficient salary level)
  - separate budget
  - status recognized and supported by the rest of the organization where it is anchored
  - possibility of establishing effective links described under recommendation 5.

The two anchorage alternatives considered by the mission are:

- 1 - autonomous body set-up and owned by government-owned banks and financial institutions
- 2 - autonomous body (with its own board) attached to the Department of Industry.

Alternative No. 1 exists in several developing countries and has been found viable. This alternative was discussed with several financial institutions, but the mission was given indication that at this moment such a set-up would not have sufficient support. This possibility should, however, be discussed at a higher government level.

Alternative 2 involves the Department of Industry. This anchorage has its advantages in the form of an existing budget allocated to the activity of regional entrepreneurship development (although not on a permanent basis). Alternative No. 2 offers the possibility of effective linkages both on a higher level (through its board and chairman) and operational level (through liaison officers). In the longer term, if properly developed and accepted by end-users, the body could gradually become financially independent -- by charging for its services -- thus not needing government subsidy. At this stage it could be established as a P.T. -- set up and owned by the government and government-owned banks (alternative no. 1). This concept could be started with medium-scale industry activities, but could be later expanded to industry in general.

7. The institution to be built up should have a central office in Jakarta and initially three regional offices.

The role of the central office should be: co-ordination/management of regional offices; provision of specialized expertise (with mobile teams to be dispatched to regions when necessary); development of training systems/programmes and conducting of training, both centrally and in regions; opening and maintaining of close links with banks and financing institutions (the basic agreements/contracts having been made on strategic/board level).

The organization of the central office should include

- project unit
  - preparation - research and investigations
  - operations - further development of project/study
  - liaison with financial institution
- training unit
- administration unit.

The project unit could be organized based on the organizational and management procedures currently used by project DP/INS/78/002 (designation of project co-ordinator for each project, appointment of project teams, liaison with regional offices), revised to reflect the early contact with financial institutions and possible joint team work with them.

The central office, as well as the institution, should be headed by a director. The appointment of an experienced, authoritative director with a consulting background, should be made immediately. His qualifications should not be restricted to a "senior economist", as foreseen in the original project document. The management of the institution should be the director's full-time and only responsibility. The central office should initially consist of not more than 8 professionals (the currently used job descriptions could be used as a basis for adequate revisions). Personnel evaluation procedures, currently introduced by project DP/INS/78/002 in conjunction with training seminars, could be used to select the core staff of the institution. The remaining positions could then be filled with new appointees, who should also go through the training and selection procedure before permanent appointment.

The role of the regional offices should be: generation of ideas; contacts with entrepreneurs; links with regional financial institutions; project/study development in co-ordination/association with central office; organization of entrepreneurship development training, making use of central office resources. These offices should be entrepreneur - oriented. They should have a head of the office, with a consulting background, who should be the promotion and contact man for entrepreneurs. He would do the screening of entrepreneurs and the planning of joint efforts with local financing institutions. Each regional office should also have an officer working on specific projects and linked closely with the project unit in the central office. Initially, each office could have an assistant (corresponding to current trainee), who could later be upgraded to the officer position. A small administration unit would also have to be included. Appropriate office space

should be available, which is not the case at the moment. A certain privacy is needed to discuss various issues with an entrepreneur. If this type of office space cannot be offered by KAKANWIL offices, other alternatives should be considered, including the office of the Governor.

The regional offices should have a dynamic advisory board. If possible and if interested, the chairman of this board could be the Governor of the region. Otherwise, the membership structure of the regional advisory board should reflect that of the board in Jakarta.

Recommendations 6 and 7 are reflected in the organizational chart of the institution, which is shown in Figure 2.2.4.1.

8. International expertise should be directed more towards an advisory role, on-the-job training of nationals and participation in training courses. In the central office, the following expertise is essential:

- Chief Technical Adviser (Adviser to the Director) - economist or engineer with extensive experience in consulting and managing of consulting organizations; should be relieved of administrative duties.
- market information/marketing expert
- finance/development banking expert
- training adviser

All of these experts should be commercially oriented and experienced in the preparation of pre-investment studies.

Considering the particularly low degree of capacity building, i.e. transfer of know-how, in the regional offices during the project DP/INS/78/002, the presence of an international expert (industrial economist or engineer with consulting experience) in each regional office for approximately one year appears essential.

Short-term technical expertise will have to be provided flexibly as required by investment projects being developed.

The inclusion of associate experts in international assistance is recommended, particularly in the liaison of central office with regional offices. The possibility of posting one associate expert (or even a full-fledged expert) in Vienna to deal with market information/marketing and maintain important contacts for the project in Europe should be seriously examined since export market information appears to be one of the major bottlenecks in investment project development in Indonesia. This posting could be made in such a manner that two or more similar current UNIDO projects benefit from it.

INS/78/002

INSTITUTION

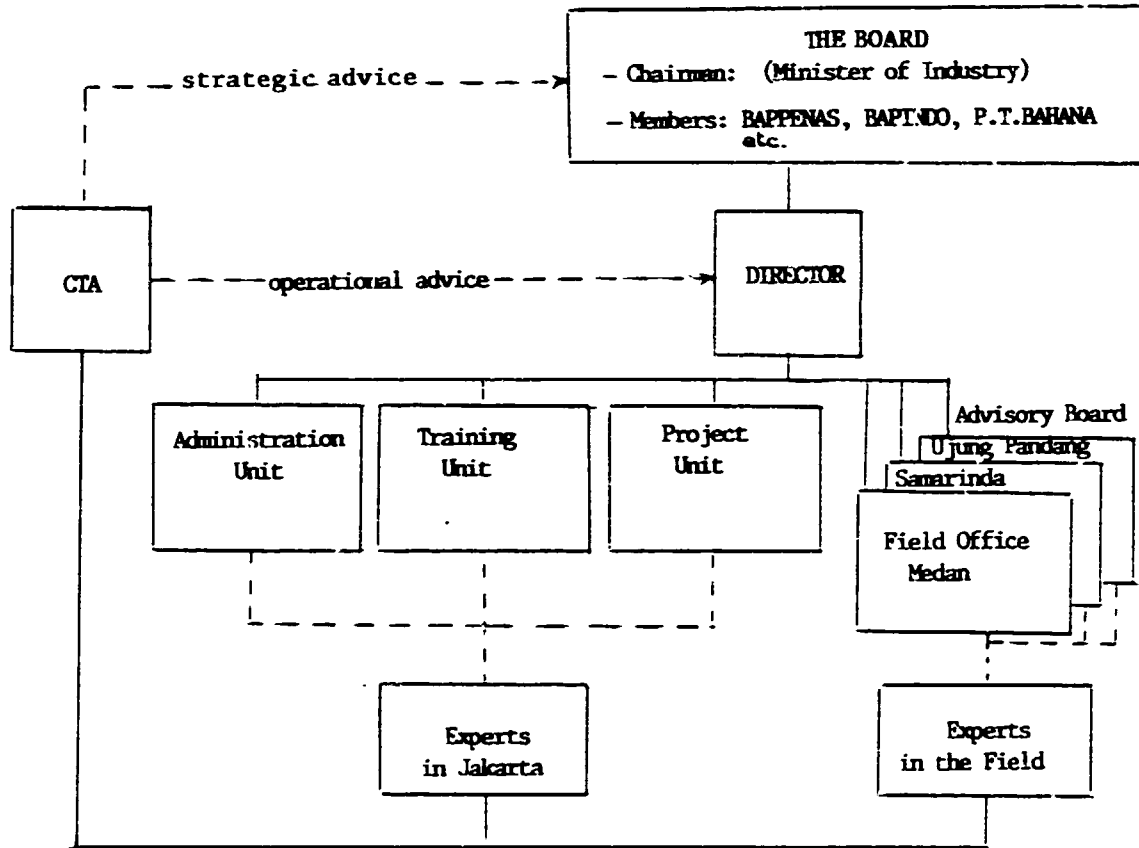


Figure 2.2.4.1. Suggested Organizational Chart of the Institution

Note: The Chairman of the Board should be the Minister of Industry and the members should consist of representatives of the main stakeholders such as BAPPENAS, BAPINDO, P.T. BAHANA, KADIN and associations of consultants and young businessmen.

National experts could be used in the interim period until the foreseen institution is fully built up. However, all national staff should be on the same budget in as near future as possible.

Study tours and fellowships should be used in the future exclusively for the purpose of national staff following-up a particular group of projects or a sub-sectoral study.

Funds will have to be provided for the use of local consultants (sub-contracting) and specialized expertise in local universities. Consultants will have to be carefully selected on the basis of registration and screening through the UNDP/World Bank project - "Upgrading of local consultants (TPPKI)". A group of selected consultants would be trained by the project in the preparation of pre-investment studies in order to establish a standardized approach and upgrade their capacity. The selected consultants should first be tried on smaller assignments.

9. It is unreasonable to expect that 2-3 years of additional UNDP/UNIDO support will create a self-generating industrialization process in the regions or eliminate the need (although a diminishing one) for international expertise, especially of the short-term type. The Government has to recognize the need for this continued entrepreneurship development process by planning to channel some bilateral or multi-bilateral funds for this purpose. As the institution grows, it will be able to charge a fee for some of its services. However, a subsidized fee for studies and training, especially for new entrepreneurs, will have to be continued for an extended period. The Government should be ready to allocate funding for this purpose, particularly to be used for sub-contracting services.

10. The evaluation mission considers recommendations 1 - 9 as necessary steps toward creating a viable institution worthy of financing through IPF resources. Unless the proposed recommendations dealing with institutional, organizational and personnel changes cannot be implemented in one year's time, the mission considers that the earmarked funds should then be allocated for another purpose.

11. The mission suggests that a working group for the follow-up of its recommendations be formed, headed by Mr. Bachrum Harahap, the national team member of the mission, and the UNIDO SIDFA. The working group should report to the tripartite review meeting to be held within the coming three months.

A n n e x e s



TERMS OF REFERENCE

Tripartite In-depth Evaluation of  
DP/INS/78/002

Assistance in Identification, Preparation and Implementation  
of Industrial Projects in Selected Regions

I. Background

The Third Five-Year Development Plan (REPELITA III) launched by the Government of the Republic of Indonesia (1979-84) stipulated that the Government should create a healthy business climate to promote rapid development of industries in various regions with greater participation of the private business community, co-operatives and state enterprises. New domestic private investment funds equivalent to US\$1.05 billion per year (US\$5.25 billion during the five years) were considered necessary to meet plan targets.

In the framework of the REPELITA III, the Government had requested UNDP/UNIDO assistance in developing a self-reliant entrepreneurial class through identification and development of industrial projects, primarily in (1) South Sumatra, (2) North Sumatra, (3) South Sulawesi, (4) East Kalimantan, and thus laying a strong foundation for a self-generating industrialization process in these regions.

In June 1980, the project DP/INS/78/002 - Assistance in Identification, Preparation and Implementation of Industrial Projects in Selected Regions - was approved. The objectives of the project are:

- To assist the Government in developing and promoting new industrial projects and advise on their implementation in selected provinces with a much larger number of projects in the pipeline by means of:
  - (i) identifying and developing industrial opportunities;
  - (ii) organizing and conducting pre-investment studies;
  - (iii) providing advisory services in locating private and public sector investors (both local and foreign), as well as sources of finance;
  - (iv) instituting systems for project development, selection, promotion and investment follow-up action;
  - (v) assisting in project implementation, i.e., site selection, factory lay-out, plant design, erection and start up, production planning, product design, costing, marketing and financial planning, etc.; and
  - (vi) providing on-the-job training for managers and technologists as well as personnel of national consulting firms, the former through assistance in initial operations of factories, and the latter through their participation in local consultancy contracts.

In order to assess the overall achievements of the project, which will be terminated at the end of 1985, and to identify the needs for further assistance, it was agreed by all parties concerned during the last TPR meeting held on 25 September 1984 to undertake an in-depth evaluation. It is expected that the findings and recommendations of the evaluation can provide, if justified, the contours of future UNDP assistance.

## II. Scope and Purpose of the Evaluation

In accordance with the provisions contained in Chapter 3470 of the Policies and Procedures Manual (PPM) and the relevant guidelines described in UNDP/PROG/FIELD/150 of 30 September 1982 as also the Revised Policies and Procedures of UNDP for Monitoring Evaluation and Reporting currently under field test, the primary purpose of the evaluation mission, in relation to the inputs provided both by UNDP and the Government, is to:

1. Assess the achievements of the project against the set objectives, targets and expected outputs; this will include a re-examination of the adequacy of project design.
2. Examine the extent to which the results/outputs achieved by the project have contributed towards rapid development of industries in the region through greater participation of the private business community.
3. Identify and assess the factors which facilitated the achievement of the project's objectives or deterred their fulfillment.
4. Make recommendations for future action or follow-up.

As part of the above tasks, the mission will specifically review:

- (a) Existing institutional framework for the project -- whether it was appropriate for the activities of the project and whether any other approach could have improved the results.
- (b) The way in which the national decision-making mechanisms with respect to the project were organized and their effectiveness (project advisory committees at national and regional levels, and the project secretariat).
- (c) The extent of involvement of the project team in the various actions during the stages of project identification through pre-feasibility/feasibility/bankability studies and investment promotion activities, and effectiveness of the methods followed for each stage. The extent to which national/counterpart agencies have carried out or have been involved in supportive actions such as investor identification, financing interest identification, etc. and the effectiveness of the institutions and arrangements employed. The review shall examine the above in the context of selected completed projects rather than in a general manner.

- (d) The extent to which the project team has been involved in the implementation phase of the projects that were developed, and the effectiveness of the modalities employed for providing industry with specific assistance in such areas as technology evaluation, plant design, equipment selection, etc.
- (e) The extent to which systems and methodologies have been developed, identified and instituted in counterpart agencies for project development, promotion and investment follow-up.
- (f) The Government's action on the recommendations and proposals made by project team with a view to improving project promotion where needed; Government support such as introduction of incentives, accelerated issuances of licenses, improved bank interest rates and favourable treatment of the industrial projects taken up by the on-going project, etc.
- (g) The extent to which a viable national capability is being established which can effectively continue with the work after the project is over, both within the Government as well as with private consultants (consulting firms). The training system introduced for building up national capability for project execution and the efficiency of the methodology applied for the purpose. Extent to which national institutions such as consulting firms have been involved and have been trained to provide a viable, on-going national capability.
- (h) Insofar as appropriate at this point in time and in relation to inputs into the project by UNDP and Government, examine the impact of the project on the industrialization of the regions covered, in addition to individual industrial projects directly assisted by the project team, with concrete examples such as: the success in attracting groups of trading entrepreneurs to co-operate with manufacturing entrepreneurs, building up of regional industrial entrepreneurship, introduction of industrial policy to the regions, etc..

### III. Composition of the Mission

The mission will be composed of the following:

- One representative of the UNDP (Team Leader)
- One representative of the Government of Indonesia
- One representative of UNIDO.

These representatives should not have been directly involved in the design, approval and implementation of the project.

#### IV. Consultations in the Field

The mission will maintain close liaison with the UNDP Resident Representative in Indonesia, the concerned Government organizations and the project's national and international staff as well as SIDFA.

The mission is also expected to visit at least two or three of the field offices, make intensive contact with existing and/or potential industrial entrepreneurs, as well as with some of the existing institutions that were involved in the project's efforts.

Although the mission should feel free to discuss with the authorities concerned all matters relevant to its assignment, it is not authorized to make any commitments on behalf of UNDP or UNIDO.

#### V. Time-table and Report of the Mission

Insofar as required, the UNDP and UNIDO representatives will receive briefings at their respective headquarters. Upon arrival in Jakarta, the mission will be briefed by the UNDP Resident Representative, who will also provide the necessary substantive and administrative support. The mission will attempt to complete its work within 2-1/2 weeks, starting in Jakarta on 18.3.85. Upon completion of its work, it will be debriefed by the Resident Representative. At the end of the mission, the UNDP Resident Representative will organize a meeting involving senior Government officials, where the mission will present its initial findings, conclusions and recommendations, and be ready to discuss these.

The report should be prepared in draft in the field along the lines indicated in the attached outline. It should be presented to the Government in draft form so that there is an opportunity to discuss it. The report should be submitted in final form to UNDP and UNIDO. The UNDP will be responsible for formal submission of the report to the Government and for reporting on the results of the evaluation to the Governing Council of UNDP.

Annex II

SCHEDULE OF MEETINGS HELD AND VISITS MADE

- 18 March
- Briefing at UNDP - Jakarta
  - Visit to the Department of Industry
  - Meeting with UNIDO Team Leader and P3ID Project Secretary
- 19 March
- Meeting with Head, Bureau of Planning, Department of Industry, and P3ID Project Officer
  - Meeting with entrepreneurs PT Ria Cipta Utama and PT Pompa Aneka in project central office
  - Discussions with UNIDO Team Leader
- 20 March
- Meeting with BAPINDO
  - Meeting with Japanese businessmen, potential foreign partners
  - Meeting with INKINDO
  - Discussions with national project staff
  - Meeting with PT Bahana
  - Discussions with international project staff
- 21 March
- Meeting with UPPINDO
  - Meeting with Bank Indonesia, Small Enterprise Development Project
  - Meeting with entrepreneurs PT Marble Sumbar
  - Meeting with PDFCI
- 22 March
- Discussions with international project staff
  - Discussion with SIDFA
- 23 March
- Meeting with Directorate Genral of Multifarious Industries and Directorate General of Basic Metal and Machinery Industry at the Department of Industry
  - Meeting with BAPPENAS
- 24 March
- Travel to Medan
- 25 March  
(Medan)
- Meeting with project staff-Medan Office
  - Meeting with entrepreneur PT Dwifa Sumatera
  - Meeting with BKPM
  - Meeting with P3ID Project Secretary
  - Meeting with entrepreneurs PT Juta Jelita
  - Meeting with Secretary, Kakanwil Perindustrian

- 26 March (Medan) - Meeting with entrepreneurs PT Hortimex  
- Meeting with KADIN  
- Meeting with BAPINDO  
- Visit to entrepreneur CV Lariza  
- Meeting with BPDSU  
- Travel to Jakarta
- 27 March (Samarinda) - Travel to Samarinda  
- Visit to project TCAD (German Agency for Technical Co-operation)  
- Meeting with entrepreneurs PT Yasaka Raya  
- Visit to the PT Kalimantan Plywood Industries  
- Meeting with project staff - Samarinda office
- 28 March (Samarinda) - Meeting with BAPINDO  
- Meeting with KADIN  
- Meeting with Provincial Parliament  
- Meeting with BAPPEDA  
- Discussions with international and national project staff
- 29 March (Samarinda) - Meeting with Bank Indonesia  
- Meeting with Kakanwil and P3ID Project Officer  
- Travel to Jakarta
- 1 April - Meeting with entrepreneur PT Astra  
- Meeting with PT Bahana  
- Meeting with BKPM
- 2 April - Meeting with World Bank  
- Debriefing at UNDP  
- Meeting with Director General of Multifarious Industries at the Department of Industry
- 4 April - Presentation of preliminary findings and recommendations to senior government officials (BAPPENAS, CCITC, Department of Industry)  
- Meeting with Minister of Industry and Secretary General  
- Discussions with the Bureau of Planning, Secretariat General, Department of Industry.
- 8 April - Meeting with Minister of Industry and Secretary General.

LIST OF PERSONS MET AND INSTITUTIONS CONTACTED

Government

Department of Industry - Jakarta

H.E. Hartarto	- Minister of Industry
Mr. T. Soetyohadi	- Secretary General
Mr. S. Ardjanggi	- Director General, Multifarious Industries
Mr. E. Jogasara	- Director General, Basic Metal and Machinery Industry
Mr. I. Elias S.E.	- Head, Bureau of Planning Secretariat General
Mr. A. S. Siagian	- Head, Bureau of International Co-operation, Secretariat General
Mr. S. Sahardjo	- Director, Programme Development, Directorate General of Multifarious Industries
Mr. T. C. Syarief	- Director, Programme Development, Directorate General of Basic Metal and Machinery Industry
Mr. G. Pudjantojo	- Bureau of Planning, Secretariat General (P3ID Project Secretary)
Mr. Z. Achmad	- Bureau of International Co-operation, Secretariat General

National Development Planning Agency - BAPPENAS - Jakarta

Mr. M. Siregar	- Deputy Chairman, Economic Planning and Development
Dr. Sajudi	- Deputy Chairman Population and Manpower Planning

Co-ordinating Committee for International Cooperation - CCITC,  
Secretariat of the Cabinet - Jakarta

Mr. M. Widodo

Investment Co-ordinating Board - BKPM - Jakarta

Mr. Sanyoto	- Vice-Chairman
Mr. A. Az	- Deputy Chairman, Planning and Promotion

Regional Office of the Department of Industry - KANWIL Perindustrian - Medan

Mr. A. Sembiring - Kakanwil Secretary  
Mr. P. Hutauruk - P3ID Project Secretary/Project  
Officer Designate

Regional Agency for Investment Co-ordination - BKPM-D - Medan

Mr. Z. Effendi - Chief, Programming Section,  
Division of Planning and Promotion

Regional Office of the Department of Industry - KANWIL Perindustrian - Samarinda

Mr. Herman Pr. - Director - Kakanwil  
Mr. M. Umriyansjah - P3ID Project Officer

Regional Development Planning Office - BAPPEDA - Samarinda

Mr. S. Sukardi - Chairman  
Mr. R. Asia - Chief, Economic Division

East Kalimantan Provincial Parliament

Mr. A. Tohir - President  
and 6 parliamentarians

UNDP

Mr. G. Hamdy - Resident Representative  
Mr. M. So - Deputy Chief, Division I  
Regional Bureau for Asia and  
the Pacific (New York)  
Mr. A. Patten - Deputy Resident Representative  
Mr. G. L. Narasimhan - UNIDO Senior Industrial Development  
Field Adviser (SIDFA)  
Mr. R.T. Batra - Assistant Resident Representative

Financial institutions

Development Bank of Indonesia-Bank Pembangunan Indonesia (BAPINDO) - Jakarta

Mr. Kuntoadji - President (also Chairman,  
TPPKI - Project for Improvement and  
Development of Indonesian  
Consultancy)  
Mr. M. Abdurahman - Manager, Project Promotion Department



Bank of Indonesia - Jakarta

Mr. T. Brumsveld - Consultant (World Bank Expert),  
Small Enterprise Development Project  
(SEDP), Department of Credit for  
Small Enterprises (UKK).

PT Bahana Pembinaan Usaha Indonesia - Jakarta

Mr. B. Darus S.E. - Director  
Mr. Z. Iskandar - Manager, Business Development

Indonesian Development Finance Company - UPPINDO - Jakarta

Mr. R. Warganda - Project Department Head,  
West Region

PT Private Development Finance Company of Indonesia - PDFCI - Jakarta

Mr. T. Raki S. - Assistant Manager

Development Bank of Indonesia - BAPINDO - Medan

Mr. Mulyoto - Director  
Mr. M. Pujiyanto  
Mr. K. Minhar  
Mr. S.R. Putra

Regional Development Bank of North Sumatra - BPDSU - Medan

Mr. Z. Yunan - Director  
Mr. I. Harahap - Head, Credit Department  
Mr. S. Effendi - Investment Credit Unit

Development Bank of Indonesia - BAPINDO - Samarinda

Mr. Machwi - Director  
Mr. Suvito - Branch Manager

Bank Indonesia - Samarinda

Mr. D. Idroes S.E. - Director

Consulting organizations

National Association of Indonesian Consultants - INKINDO - Jakarta

Mr. Hertatijanto Sh. - Executive Director of INKINDO  
Mr. W. Wiratman - Chairman of INKINDO and  
President of Wiratman and  
Associates, Consulting Engineers  
Mr. A.M. Pedju - First Vice-Chairman of INKINDO and  
Director of PT Encona Consultants

Entrepreneur Associations

Chamber of Commerce and Industry of North Sumatera - KADIN - Medan

- |                  |  |
|------------------|--|
| Mr. W.H. Siahaan | - Chairman, Industry Department<br>KADIN - North Sumatera, and<br>Managing Director of PT Mutiara<br>Mukti Farma   |
| Mr. A. Abas      | - Executive Secretary, KADIN-<br>North Sumatera, and General<br>Manager of PT Masaya Trading and<br>Industrial Co. |
| Mr. B. Sukma     | - Chairman, Tourism Department,<br>KADIN - North Sumatera, and<br>Managing Director of PT Eka Sukma<br>Wisata      |
| Mr. H. Hutabarat | - Chairman, District KADIN-Medan   |

District Chamber of Commerce and Industry - KADIN - Samarinda

- |                  |                                       |
|------------------|---------------------------------------|
| Mr. R. Sulaiman  | - Department Chief,<br>District KADIN |
| Mr. S. J. Syawab | - Director, PT Dharma Perdana Muda    |
| Mr. A. Darongke  | - Director, PT Udama Katraya          |
| Mr. Abubakar Sh. | - Director, PT Madya Jasa             |
| Mr. Maswar       | - Chief, PT Inhutani Samarinda        |
| Mr. Endang       | - PT Waskita Karya                    |
| Mr. M. Emilzola  | - CV Adlan                            |
| Mr. S. Bambang   | - Deputy Chief, PT Abdi Karya         |

Individual entrepreneurs/companies

- |                       |  |
|-----------------------|--|
| Mr. J. Rasyid Sh.     | - Director, PT Ria Cipta Utama -<br>Jakarta                            |
| Mr. J.B.P. Maramis    | - Executive Vice President,<br>PT Ria Cipta Utama - Jakarta            |
| Mr. Masduki           | - Director PT Pompa Aneka -<br>Bandung (pump manufacturing<br>project) |
| Mr. H. J. Sirie       | - Director, PT Marble Sumbar<br>Padang (marble tile project)           |
| Mr. D.V. Halim        | - PT Marble Sumbar - Padang<br>(marble tile project)                   |
| Mr. R. Tan            | - PT Astra International Inc,<br>Jakarta (canned pineapple project)    |
| Mr. Fachri Sjahruddin | - Managing Director, PT Dwifa Sumatera-<br>Medan (switchgear project)  |
| Mr. C. Kun Hoa        | - Administration Manager,<br>PT Juta Jelita - Medan                    |

- |                   |  |
|-------------------|--|
| Mr. E. Mulyono    | - Plant Manager, PT Juta Jelita-Medan (canned shelfish project)  |
| Mr. T. Pandia     | - PT Hortimex - Medan (fruit puree project)  |
| Mr. Pitoyo        | - PT Hortimex - Medan (fruit puree project)  |
| Mr. P. Sahar      | - Deputy Director, CV Lariza-Medan (knock-down rattan furniture project)   |
| Mr. R. Samalo     | - Director, PT Yasaka Raya Shipping and Trading Co. - Samarinda (engineering services project)   |
| Mr. R. Lolang     | - PT Gemini Agro Karya - Samarinda (engineering services project)  |
| Mr. Rolei         | - Manager, Purchase and Supply Department, PT Kalimantan Plywood Industries - Samarinda (engineering services and cassava starch projects) |
| Mr. Soekamto S.E. | - President, PT Jaya Mukti Perkasa-Samarinda (poultry feed project)  |
| Mr. Syafruni      | - Manager, PT Jaya Mukti Perkasa-Samarinda (poultry feed project)  |

Other persons and organizations

- |                   |   |
|-------------------|---|
| Mr. V. Nehru      | - Economist, World Bank - Jakarta   |
| Dr. B. May        | - Team Leader of Project "Technical Co-operation for Area Development" (TCAD), German Agency for Technical Co-operation - Samarinda |
| Mr. M. Hagino     | - Assistant General Manager, NKK Nippon Kokan K.K - Tokyo, Japan (potential foreign partner for pump manufacturing project)         |
| Mr. H. Endo       | - Counsellor of Manufacturing Dept., Japan Casting Co., Ltd. - Kawasaki - Shi, Japan (potential foreign partner)                    |
| Mr. T. Tsujimura  | - Engineer, Japan Casting Co., Ltd.- Kawasaki - Shi, Japan  |
| Ms. S. Hatakenaka | - Engineering Consulting Firms Association - Tokyo, Japan.  |

UNIDO international experts - project DP/INS/78/002

- |                 |                                  |
|-----------------|----------------------------------|
| Mr. D.R. McLeod | - Team Leader - Jakarta          |
| Mr. V. Nelms    | - Financial Analyst - Jakarta    |
| Mr. G. Lindauer | - Industrial Economist - Jakarta |

Mr. D. Sussman	- Industrial Engineer - Medan
Mr. W.B. Miller	- Industrial Economist - Samarinda
Mr. H. Cornelissen	- Associate Expert, marketing - Jakarta, Samarinda
Mr. J. Hansen	- Associate Expert, marketing- Jakarta, Medan

National Staff - project DP/INS/78/002 (P3ID/UNIDO)

Mr. Z. Achmad	- National Expert, finance and economics - Jakarta
Mr. Swasono	- National Expert, industrial engineering - Jakarta
Mr. D.A. Ramelan	- National Expert, market research- Jakarta
Mr. T. Siregar	- National Expert, industrial engineering - Medan
Mr. A. Rifai	- National Expert, industrial economics -Samarinda
Mr. B. Isa	- Industrial Development Officer, industrial engineering - Jakarta
Mr. Suwartono	- Industrial Development Officer, industrial engineering - Jakarta
Mr. R. Rasyid	- Industrial Development Officer, industrial engineering - Jakarta
Mr. M. Nasution	- Field Project Officer, industrial engineering - Medan
Mr. P. Soeyanto	- Field Project Officer, economics- Samarinda
Ms. G. Nian Djani	- Industrial Research Officer, economics, marketing - Jakarta
Mr. R. Prijadi	- Senior Trainee, industrial engineer - Jakarta
Mr. M. Siahaan	- Trainee, industrial engineering- Medan
Mrs. S. Sutjiningsih	- Trainee, economics - Samarinda
Mr. R. Simajuntak	- Administrative Officer - Medan
Mr. Subhandhy	- Administrative Officer - Samarinda
Mr. W. Panggabean	- Translator - Medan
Mr. L. Dos Reis	- Translator - Samarinda
Mrs. M. Sutanto	- Secretary - Jakarta
Mrs. S. Warasputi	- Secretary - Samarinda

REPORTS AND DOCUMENTS EXAMINED

Project Background and History

1. Project Document DP/INS/78/002 - Assistance in Identification, Preparation and Implementation of Industrial Projects in Selected Regions, 26 June 1980.
2. Project Progress Report (by S. I. Husain), for 1981 - 82, June 1982.
3. Report of the Tripartite Review Meeting, 10 September 1982.
4. UNIDO Internal Evaluation System, Project Evaluation Report, 15 September 1982.
5. Project Progress Report (by D. McLeod) for period 1 January- 30 June 1983.
6. Report of the Tripartite Review Meeting, 8 September 1983.
7. UNIDO Internal Evaluation System, Project Evaluation Report, 7 December 1983.
8. Project Progress Report (by D. McLeod) for period 1 October- 31 December 1983.
9. Project Progress Report (by D. McLeod) for period 1 January - 30 June 1984.
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7. Review of Client's Prefeasibility Study for a Poultry Feed Mill, prepared for P.T. Jaya Mukti Perkasa, Samarinda, March 1985

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5. REPELITA IV, Five Year Plan 1984-1989, Republic of Indonesia, 1984.
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7. Industrial Development Review Series - INDONESIA, UNIDO/IS.458, 18 April 1984.

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SUMMARY OF INFORMATION ON DEVELOPMENT BANKS AND FINANCIAL INSTITUTIONS

INSTITUTION	SERVICES		MAIN SECTOR	INTEREST RATE	SERVICE FEE	CONDITIONS			OTHER SERVICES	LOANS ADVANCED IN 1963 (IN MILLION DOLLARS)
	LOANS	EQUITY PARTICIPATION				COLLATERAL	LOAN EQUITY RATIO	PERIODS (MAXIMUM)		
1. MEXICO/BANCO	By 300 mil (maximum) By 1000 mil (maximum)	maximum 33%	Industry	13-14%	1%	Project (local) usually 100%	631-334	3 years	3 years	17,394
2. FI BANCA PARAGUAYANA S.A. ASOCIADA	By 30 mil (maximum) By 100 mil (maximum) By 300 mil (maximum)	maximum 50%	Industry, agri- business, service	By 15 mil-12% By 75 mil- 10-20%		Project (local) in the case of high risk local needed other guarantees	331-333	3 years	3 years	6,137 (1962)
3. BAFINSA	By 300 mil (maximum) By 6000 mil (maximum)	limited	manufactures; agri industries; transportation services, and ser- vicially projects that use foreign exchange credit	10% investment 3% floating ca- pital		Project (local) (100%), and if it is needed (150%)	631-335	15 years	Depends on cash flow	700,010
4. FI ALIAN INDOCHINA	Maximum by 1000 mil	maximum 33%	all sectors especially for companies who have account at Bank Siam City	2%		The whole assets of the project	301-302	1 year		61,000
5. FIAN	By 100 mil (maximum) By 1300 mil (maximum)	limited	Manufactures, agri industries, services	3%	1%	Project (local) 100%	301-301	3 years	Depends on cash flow	16,025
6. FI MALAYA	Maximum by 300 mil no maximum	maximum 33%	Industries: Food & beverage, machinery, textile, chemical	3% for 600 loan 1% for 100 \$ loan	1%	Project (local) (100%), if necessary 150%	401-401	3 years	1 1/2 year	105,000
7. FI SINGAPORE	Maximum by 300 mil no maximum only for working capital (about 50%) max 200 200%	with foreign partners as long they have no local part max 200 max 200%	no limited	3%		Depends on appears	651-331 usually it depends on shareholders related and first class guarantees	1 year		121,000
8. BAHASA PLUS S.A.	Maximum by 1 mil no maximum		Industries	100% + 1%		Depends on appears		1 year	Depends on cash flow and appears	
9. F. MUTUAL INTERNATIONAL FINANCE CORPORATION (MIFC) INDONESIA	Maximum by 1000 mil only for working capital		Manufactures, and trade	2%		100%		3 years		973
10. FI SINGAPORE	Maximum by 100 mil no maximum		Industries, trade, and contributions	11-22%		Usually more than 100% of loans	601-601	3 years	6 months	115,500

US  
C

SUMMARY OF CURRENT INVESTMENT PROJECT STUDIES

CODES

A. Project Number and Location

- J - dealt with from Jakarta Central Office
- M - Medan
- P - Padang
- S - Samarinda
- U - Ujupandang

B. Source

1. Team Member, National
2. Teamn Member, Foreign
3. Kakanwil
4. Ministry of Industry
5. KADIN
6. Entrepreneur/investor personally
7. IPS Tokyo
8. Other

C. Work Completed

Studies

- M. Market
- T. Technical
- E. Economic
- F. Financial
- B. Bankable Study
- PF. Prefeasibility Study
- FS. Feasibility Study

Non-Study Assistance

- X. Financial Negotiations
- Y. Licensing Negotiations
- Z. Joint Venture Negotiations
- N. Technical Aid
- C. COMFAR



Annex VI (cont'd)

PROJECT		DATE OF ENTRY	LOCATION*	SOURCE	WORK COMPLETED
No.	Title				
<u>STAGE 2 Preliminary Evaluation</u>					
J 290	Aluminium Ddownstream	4/84	Medan	2	3 - M
J 298	Charcoal	5/84	Kupang	4	2 - PF
S 403	Integrated Wood Industry	6/84		(6)	2 - M
J 420	Aluminium Holloware	9/84	C - W	6	Z
S 424	Engineering Services	9/84		2	2 - T
J 441	Galvanizing Plant	8/84	Medan	2	2 - T
J 442	Gears for Electrical Motors	10/84	Java	6	2 - M
J 443	Building Materials	12/84	C - W	2	2 - M
J 445	Crystal Glassware	12/84	Lampung	2	2 - T, 2 - M
J 451	Machine Tools	2/85	Java	7	N, Z
M 452	Palm Oil Machine Ind.	2/85		2	2 - T
<u>STAGE 3 Preliminary Study</u>					
P 218	Limestone	7/83		3	3 - PF C
S 223	Sawmill, Sangkulirang	8/83		6	3 - PF C
S 239	Charcoal, Sangkulirang	8/83		6	
M 282	Canned Shellfish	3/84		3	2 - PF
J 291	Frozen Shrimps	4/84	Lampung	6	3 - PF
J 400	Industrial Fasteners	6/84	Java	6/2	3 - M
S 409	Bentonite	8/84		6	3 - T
M 446	Rattan Furniture	1/85		2	2 - F, 2 - T
M 231	Fruit Puree	9/83		6	2 - T, 3 - M
M 448	Rattan Furniture	2/85		3	2 - F, 2 - T
M 449	Rattan Furniture	2/85		2	2 - F, 2 - T
J	Fish Processing	8/84	Maumere	1/2	2 - PF

\*For J - no. projects (c-w = country-wide)

Annex VI (cont'd)

PROJECT		DATE OF ENTRY	LOCATION*	SOURCE	WORK COMPLETED
No.	Title				
<u>STAGE 4 Final Study</u>					
M 157	Canned Pineapple	5/83		6	3 - T, 3 - M, 3 - F, 4 - PF
U 216	Fish Processing, Kendari	6/83		2	3 - T, 3 - M, 3 - F, 4 - PF
J 224	Traffic Lights	8/83	Java	5	3 - PF Z
S 242	Cement Tiles	8/84		6	3 - T
J 281	Pump Manufacturing	3/84	Java	6/1	Z, 2 - M, 3 - M, 3 - T, 4 - PF
P 299	Corrugated Board	5/84		2/3	2 - M, 3 - M, 4 - T, 4 - PF
P 273	Marble Tiles	2/84		6	3 - T, 3 - M, Z, N, 4 - PF
J 116	Wooden Boats	6/84	C - W	2	C 2 - T, 2 - M, 3 - T, 4 - T, 4 - M.
<u>Stage 5 Bankable Proposals</u>					
M 119	Switchgear	3/83		6	X, Z, 4 - PF
J 250	Aluminium Sheet and Foil	9/83	Java	6	4 - M, Y, Z
U 256	Salt Refining	10/83		3	4 - PF C
J 286	Woodchips	3/84	C - W	2	Adm. support

Annex VI (cont'd)

PROJECT		DATE OF ENTRY	LOCATION*	SOURCE	WORK COMPLETED
No.	Title				
J 288	Sawmill, Irian Jaya	4/84	Jayapura	6	C
J 289	Charcoal, Irian Jaya	4/84	Jayapura	6	(from other stage)
<u>Stage 6 Implementation</u>					
U 272	Mouldings and Dowels	2/84		2	2 - T, 3 - M, 4 - T, 5-F, N
J 297	Laminated Particle Board	5/84	Lampung	1	2 - M, 3 - M, 3 - E, 4 - M, 5 - M

Annex VII

LIST OF PROJECTS IN STAGE 1  
(Project ideas in stock and at various stages of discussion)  
(screened 18 March 1985)

	LOC. (*)	NO.	SOURCE	DATE
Abaca Fibre		U-179	3	5/83
Acid, Fatty and Downstream, Freon, Formaldehyde	Java	J-441	6	10/84
Adhesives Production in Samarinda		S-148	2	5/83
Agrobased Industry Development, Aceh		A-268	4	1/84
Aircraft Repair and Maintenance Service		M-401	7	6/84
Alcohol Production Study	S.Sul.	J-225	6	8/83
Aluminium Casting, Die Casting and Forging Facility		M-271	2	1/84
Aluminium Processing Downstream		M-113	6	3/83
Aluminium Power Transmission Fitting and Fixtures		M-119A	6	3/83
Aluminium Tubing Fabrication		M-270	2	1/84
Aluminium Wire Products		M-269	2	1/84
Aroma Dispensers		M-168	2	5/83
Banana Processing		S-210	6	5/83
Bandsaw Production for Timber Industry, West Java	Java	J-436	2	8/84
Bandsaw Production, Small Scale Industry		S-141	2	5/83
Beverage, Soft - Bottling		U-178	6	5/83
Board, Duplex-Factory		M-160	3	5/83
Boats, Fiberglass - Production, Samarinda		S-423	2	10/84
Broom-Stick Manufacture		S-402	2	6/84
Building Materials - Basic Study	C-W	J-443	6	12/84
Boatbuilding, Wooden-Kendari	Kend.	J-414	2	9/84
Carbon, Activated - from Coconut Shells, Pontianak	W.Kal.	J-280	6	3/84
Carbon and Charcoal, Activated		P-254	6	9/83
Carrageen from Seaweed		U-188	3	5/83
Cashewnut Processing, South East Sulawesi		U-129	3	3/83
Cassava Glue Production		S-200	2	5/83
Cassava Pellet Production		S-211	2	5/83
Cassava Starch Production		S-143	2	5/83
Cattle Feed		M-232	2	9/83
Cement Industry, Downstream		P-234	3	9/83
Charcoal - Countrywide	C-W	J-275	2	2/84
Charcoal, Kupang	W.Timor	J-298	4	5/84
Chicken Slaughtering		S-208	8	5/83
Chipboard Mill, MDF - Banjarmasin		S-217	6	6/83

(\*) LOC - Location for J-no. projects (c-w = country-wide)

	LOC.	NO.	SOURCE	DATE
Cinnamon Processing	W.Sum.	J-404	2	6/84
Citric Acid		U-126	3	3/83
Cocoa Bean Processing		U-406	3	7/84
Coffee Instant, West Sumatra		U-194	6	5/83
Coffee Instant, Production, East Timor	E.Timor	J-428	1	7/84
Coir Fibre Rubberised		U-184	2	5/83
Coir Fibre Production, Pontianak	W.Kal.	J-296	2	4/84
Concrete Blocks		U-410	6	8/84
Containers, Marine		M-165	2	5/83
Convertors, AC/DC		M-166	3	5/83
Cotton Jersey Fabric		U-187	3	5/83
Cotton Seed Oil Development		U-229	4	8/83
Duck Slaughtering		P-279	6	2/84
Earth, Bleach - Surabaya	Java	J-102	6	1/83
Earth, Diatomaceous		M-110	6	3/83
Engine Rebuilding Facility Development	C-W	J-434	2	8/84
Feed, Animal		U-125	3	3/83
Feed, Poultry		S-243	2	8/83
Feed, Shrimp - Pelletized		U-249	6	9/83
Fish, Smoked	C-W	J-294	2	4/84
Fish, Integrated Cannery-Kendari		U-216	6	6/83
Fish, Preservation - Canning		M-109	2	3/83
Flushdoor Production		S-240	2	8/83
Fructose Syrup		S-259	6	10/83
Furniture and Joinery Production		M-114	2	3/83
Furniture Production		U-174	2	5/83
Galvanizing Plant	C-W	J-411	2	8/84
Gasifiers	Java	J-105	4	1/83
Gummedtape Production		S-238	6	8/83
Hydraulic Presses and Shears	Java	J-107	6	1/83
Housing Prefabricated and Components		S-236	2	3/83
Iron Foundry		S-154	3	5/83
Kaolin Production		M-115	3	3/83
Limestone Production		S-142	3	5/83
Lime Production		P-218	3	7/83
Luggage and Suitcases Manufacture		M-118	2	3/83
Margarine		U-130	3	3/83
Marquisa Juice		M-124	6	3/83
Match Factory, Pontianak		S-410	6	4/83
Meal - Fish, Processing	C-W	J-293	2	4/84
Meat Processing and Cold Storage		S-258	2	10/83
Metal Sector Projects	C-W	J-263	2	11/83
Milk Production and Marketing		P-426	3	4/84

	LOC.	NO.	SOURCE	DATE
Modular Furniture for Prefab Housing		S-146	2	5/83
Molasses Utilization, South Sulawesi		U-100	6	2/83
Motors, Outboard - Maintenance		S-153	2	5/83
Nuts and Bolts		U-197	2	5/83
Oil Cnadenut and Roast Candenut		M-112	2	3/83
Oil, Cooking Oil		S-260	6	10/83
Oil, Palm Oil and Downstream Product Development		M-412	6	9/84
Panels and Fixtures, Electrical	C-W	J-215	6	6/83
Paper Packaging, Downstream		U-172	3	5/83
Particle Board, Laminated		S-297	6	5/84
Particle Board and Plywood, Laminated		S-237	6	8/83
Particle Board and Products thereof		S-403	6	6/84
Pineapple Cannery, Siantar		M-111	6	3/83
Pineapple Cannery, Parapat		M-157	6	5/83
Pineapple Cannery, Muara Kaman		S-205	8	5/83
Plywood, Palu		U-186	6	5/83
Plywood, Marine Production - Lampung/Samarinda	C-W	J-422	2	10/84
Pulp and Paper Mill - Integrated		M-163	3	5/83
Pumps, Well Head and Gear, West Java	Java	J-431	2	9/84
Rattan Furniture for Export South-East Sulawesi		U-198	2	5/83
Rattan Furniture Production, Palembang	S. Sum.	J-416	2	9/84
Rattan Furniture Production, Padang	S. Sum	J-417	2	9/84
Rattan Furniture Production Ujung Pandang	S. Sul.	J-418	2	9/84
Sago Starch		U-189	3	5/83
Salt from Seawater		M-159	3	5/83
Shipbuilding, Surabaya	Java	J-225	6	9/83
Ships Hardware Production, Central Java	Java	J-430	2	10/84
Shipyard, Lampung		S-413	2	9/84
Shellfish Processing and Aquaculture		M-283	6	3/84
Shrimp Production		S-262	6	10/84
Shrimp Processing		P-221	3	7/83
Skipjack Tuna, Whole - Freezing in Maumere		U-284	6	3/84
Slaughterhouses, Downstream		U-219	3	7/83

	LOC.		SOURCE	DATE
Stone Crushing, Bontang		S-206	3	5/83
Sulphur Refining		M-108	3	3/83
Switch Gear, Control Gear and Lighting Fixtures		M-161	6	5/83
Tanks, Storage for Rainwater		M-117	2	3/83
Tile, Marble - Marons		U-195	3	5/83
Tools, with Hardened Steel, Production and Repair	Java	J-433	2	8/84
Toys, Wooden - Production	C-W	J-121	2	5/83
Tuna Fish Canning		U-127	7	3/83
Tuna Processing		U-227	3	8/83
Valve, Cast Iron - Production	Java	J-429	2	7/84
Vegetable Cold Storage, Medan		M-432	2	8/84
Wall System Interior		S-145	2	5/83
Woodchip Plant, Malili, South Sulawesi	S.Sul.	J-277	6	2/84
Woodchip Production Pontianak	W.Kal.	J-427	6	8/84
Wooden Furniture, Medan		M-419	2	10/84
Wood Processing Industries, Secondary Development		S-236	6	8/83
Wood Processing Equipment		M-167	2	5/83
Woodworking Complex, Integrated		S-241	6	8/83
Wood and Rattan Furniture		M-122	2	3/83
Workshop, Engineering Service, Samarinda		S-424	2	10/84

SOURCES OF PROJECT IDEAS - SUMMARY

Source:	<u>Project Ideas in Stock</u>		<u>All Stages 1-6</u>	
	<u>No.</u>	<u>% approx.</u>	<u>No.</u>	<u>%</u>
1. Team member, National	1	1	4	2.3
2. Team member International	55	43	70	40.5
3. Kakanwil	26	20	31	18.0
4. Government/MoI	3	+2	4	2.3
5. Bank	-	-	1	.6
6. Entrepreneur/ Investor	41	31	58	33.5
7. KADIN	1	+1	1	.6
8. BKPM (D)	2	+1	2	1.1
9. IPS	1	1	2	1.1
<b>Total</b>	<b>130</b>	<b>100</b>	<b>173</b>	<b>100%</b>