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Working Paper

on

ROLE OF PRIVATE ENTERPRISE IN THE ECONOMIC DEVELOPMENT OF INDONESIA

by

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CURRENCY EQUIVALENTS

Currency: Rupiah (Rp.)
Par value not yet established.
There are two official, fluctuating rates, whose values as of December 31, 1969, were as follows:

B.E. Market Rate 1/

US$1	= Rp. 326
1 Rupiah	= US$0.003
1 million Rupiahs	= US$3,067

D.P. 2/ **Rate**

US$1	= Rp. 379
1 Rupiah	= US$0.003
1 million Rupiahs	= US$2,639

1/ Transferable foreign exchange designated as "Bonus Export".

2/ "Devisa Pelengkap", or complementary foreign exchange.

INTRODUCTION

The Republic of Indonesia has large land area, range and abundance of natural resources and big manpower. The country has therefore, good potential for a viable economy. But for over two decades, from 1942 to 1965, its economy has been continuously subjected to severe strains and stresses resulting from war, struggle for independence, and internal disorders, uprisings and unrest. It is only during the past three years, with the progressive policies followed by the present Government, that the country is now well on its way to economic stability. At this stage, Indonesia is both an opportunity and a challenge -- opportunity for the Indonesians to press forward with their plans for economic rehabilitation and development and challenge to the countries of the free world to render all possible assistance to them in their great effort that is needed for the purpose.

Private enterprise in Indonesia had remained suppressed over a long period. The need for the revival and revitalization of the private sector, as an important instrument for accelerating economic progress, is now recognized by the new Government. Number of useful measures have already been taken towards this objective and with results. This paper, which is the result of my two short visits to Indonesia (from 4th November to 20th November 1969, and again from 28th January to 8th February 1970), contains recommendations designed to further encourage the growth of private enterprise in Indonesia -- to free the creative power of human energies -- the human atom -- to accelerate the development of Indonesian economy.

Washington D.C.
February 1970

N. M. Uquaili

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a) Country and its Resources

The Republic of Indonesia comprises of thirteen thousand islands. Total land area is 735,381 square miles. Present population is around 118 million. Main concentration is in the two islands of Java and Madura, which together constitute under 7% of the land area but have two-thirds of country's total population.

Indonesia is the most important of the Asian countries, east of the Persian Gulf, producing oil. Besides oil, the country has other mineral deposits -- tin, bauxite, coal and nickel. There are indications for potential deposits of copper, manganese, lead, zinc, iron ore, titanium, mercury, antimony, asbestos, chromite, sulphur and even some silver, gold and diamonds. 60% of the land area is covered by forests, largely untapped. Fishing potential is immense.

With such manpower and vast natural resources, Indonesia had the potential of becoming one of the prosperous nations of Asia. Today the picture is, however, different. Main reason for the poor state of the economy has been dominance of political and ideological objectives, over economic issues, pursued during the period of struggle for Independence following the end of World War II.

b) Struggle for Independence and Economic Consequences

During the period of this struggle, Indonesian economy remained subjected to severe strains and stresses. There was large scale take-over of foreign owned enterprises -- agricultural estates, factories, banking, insurance companies and business houses. These measures adversely affected production, distribution and exports, so that foreign exchange reserves were eaten up.

By 1965, external staggering debt, contracted to keep the country going during periods of confrontations, could no longer be serviced. Mounting spiral of inflation, let loose by large scale deficit financing to cover Government's ever growing expenditures on unproductive ventures, sky-rocketed prices of goods and services, creating for the Government grave internal situation which developed into an economic crisis.

First October 1965 saw the eruption. The Revolution consumed thousands of lives, but out of it had emerged, early in 1966, a new Government with a new outlook -- a Government determined to bring about economic stability and progress.

c) Towards Economic Stability and Progress

Most immediate problem facing new Government was to contain mounting inflation. A balanced budget, tight control of credit, a system of floating exchange rates, supported by flow of external assistance and re-scheduling of external debt payments, formed the core of such a program launched towards the end of 1966.

Further measures included easing of controls and greater reliance on market forces, return to original owners of foreign properties which had been earlier taken over by the Government, passing of Foreign and Domestic Investment Laws providing for tax concessions and other facilities to encourage new investments by private entrepreneurs, both foreign and local.

Inflation is now reasonably under control, exchange rates have achieved a measure of stability, rise in prices is under check, production in all sectors is picking up and export earnings are rising.

At this stage of return to stability, private enterprise can play an important role in accelerating economic development of Indonesia. It is necessary therefore to assess present level and potential of private enterprise in the country and consider measures for its growth.

II. PRIVATE ENTERPRISE POTENTIAL

Before the outbreak of Second World War in 1939, private enterprise in Indonesia largely comprised of foreign business houses, role of Indonesians being restricted to a few small industries and local retailing business.

In 1958-59, Dutch private enterprises were taken over by Government. Business interests of other foreign investors were also taken over during the years 1963-65, so that by the end of 1965, foreign private enterprise, as such, had ceased to operate in Indonesia.

Local private enterprise remained restricted to small business and retail trade. In fact, Government dominance in business management and rigid price and distribution controls which had to be enforced during this period due to shortages, had further curtailed even limited business operations of local entrepreneurs. Their already small share in commercial activities had further shrunk during these years.

With the take-over by new Government early in 1966 and the change in policy towards private enterprise, private sector activities were now being revived. Apart from foreign owned estates and factories, since returned to their original owners, 177 proposals for new investments had been approved up to the end of December 1969, under the Foreign Investment Law. Up to the same period, 221 proposals had also been approved under the Domestic Investment Law, mostly very small projects.

While response from private foreign investors is encouraging, number of local entrepreneurs is small and their resources very limited. Local private enterprise is today the weakest link in the chain of economic development of Indonesia.

There are, however, a number of favorable factors for the future growth of local private enterprise in the country.

In fact, compared with several other under-developed countries, Indonesia has a better potential for the building up of local private entrepreneurs. But this will need more facilities, better environment and increased institutional support. Still progress in the beginning is likely to be slow but as the momentum is gained the progress will become worthwhile and rewarding -- rewarding for the local people and for the country.

III. RECOMMENDATIONS FOR THE GROWTH OF PRIVATE ENTERPRISE

To facilitate and promote private enterprise, provide opportunities for its participation in productive fields and lend to it the necessary institutional support, so as to enable it to grow into a strong force for accelerating economic development of Indonesia, following recommendations are made:

a) Facilitate and Promote

1. A separate corporate law be enacted and pending such an enactment, present provisions of the Dutch Commercial Code applicable to corporate sector, be reviewed and suitably amended to remove immediate difficulties.

2. Investment Board be suitably strengthened, so that entrepreneurs are able to obtain all necessary Government permissions and approvals (Central, Provincial and Local) through that agency, thereby saving time and frustration experienced under the present arrangements.

3. Procedures for sanctioning applications from domestic investors need to be much simplified. In fact, all industries up to a certain size in terms of investment and based on locally available raw materials might be freed from Government sanctioning procedures.

4. After the procedures for sanctioning domestic investments are simplified, Investment Board may open offices at a few suitable places outside Java so that applications from domestic investors from those areas and development of industries in those areas, are encouraged.

5. Steps be taken for the establishment of industrial Estates at suitable places to make readily available land, water, power and other facilities, so as to avoid present delays in the selection and acquisition of suitable sites.

6. Government give suitable preference in price in purchasing its requirements of goods locally manufactured, as against similar goods imported from abroad.

7. An independent Tariff Board be set up to examine tariff problems of industries and make recommendations to Government, so as on one hand to give protection to local industries and on the other hand keep under check smuggling operations which are encouraged by high tariffs.

8. Business operations of all Government agencies be reviewed, with a view to identify areas which could be opened up for local private enterprise, relieving Government agencies of retail business. These areas could include retail sale, at Government departmental store, of fertilizers, insecticides, improved seeds, etc., and procurement of rice from small farmers for ultimate sale to Government in bulk.

b) Provide Opportunities for Participation in Productive Fields

9. Arrangements be made, wherever possible under Technical Assistance Programs, for country-wide surveys in different fields of economic importance to the economy, where this is not being already done. For example, a survey for Land Utilization to explore possibilities in the outer islands (where only 5%

to 10% of land is now under cultivation) for the development of new agricultural estates for different crops and cattle breeding. There could be survey for the development of Paper and Pulp Industry, etc. Based on such surveys, feasibility reports could be prepared for specific projects, with their possible locations. Ready availability of surveys and feasibility reports for specific projects based on such surveys, would stimulate interest of private investors, particularly foreign investors, for their possible participation in the setting up of such new enterprises.

10. Arrangements may also be considered for the setting up of an agency, which would prepare and make available to the local entrepreneurs, feasibility studies on different industries, largely in the small range, to stimulate interest of local entrepreneurs and on the basis of which interested local entrepreneurs would then approach development financing agencies for financial assistance. This may take the form of an Industrial Advisory Centre suitably staffed. The Centre could also be approached by any local entrepreneur for a feasibility study on a project of his choice, in which he is thinking of making an investment.

c) Lend Institutional Support

11. For the proper exploitation of rich resources of materials and manpower, Indonesia needs number of development agencies that could meet medium and long term credit needs of small, medium as well as larger enterprises in productive fields, for promoting such enterprises and lining up finances and management for their establishment and operation.

12. In the present state of private sector growth, it does not seem feasible to establish strong privately owned development finance agency but efforts in this direction now being made by a section of the business community need to be encouraged.

13. Development finance agencies fcr quite some time will have to be largely Government owned and/or supported and engaged in the financing of both private and public sectors but there must be reasonable safe-guards to ensure that the private sector will get its due share of the assistance available. As a promotional effort some of these agencies should also be able to participate in the equity of enterprises promoted, for eventual sale to local Indonesians as their number and resources grow.

14. Notwithstanding its limitations, measures be formulated for the possible re-organization of BAPINDO (Industrial Development Bank) to strengthen its capabilities to operate primarily as a development bank for medium and long term finance needs, largely of existing enterprises, for which there is both need and urgency.

15. (a) The Dutch sponsored new development bank (established at Amstelveen, Holland) which is now proposed to be shifted to Djakarta, should be sufficiently broad based to permit participation in its equity by all those interested in the development of Indonesian economy (agencies of other governments and private interests, both foreign and domestic) so as to have adequate capital base to support external borrowings in keeping with the needs of the economy.

(b) The institutions envisaged in 15(a) should be capable of promoting new industries of importance to Indonesian economy, stimulate interest and confidence of foreign and local investors, be able to line up financing and management arrangements and where necessary and desirable, capable of participating in the equity of such enterprises with the objective of ultimately dis-investing to the Indonesian nationals.

(c) It should be possible to work out an arrangement for coordination between re-organized BAPINDO and this institution.

16. A study be carried out, initially by the Bank of Indonesia, of the operations of Regional Development Banks in Indonesia (23 in number) with a view to their possible and gradual re-organization to serve primarily as agencies meeting medium and long term financing needs in the respective provinces for small and cottage industries, for which also there is great need and scope.

17. Government establish an Equity Participation Fund which might be administered by the re-organized Regional Development Banks to provide temporary equity support to small entrepreneurs to enable them to obtain financial assistance from financing agencies.

18. Consideration be given to the possible re-organization of Bank Bumi Daya (originally established for financing agricultural estates but now drifted more into commercial banking) to largely concentrate on development finance needs of agricultural estates, which is an important sector of the economy.

19. Consideration should also be give to the re-organization of Bank Rakjat (People's Bank) to restrict its financing operations to agriculture so as to meet finance needs of small farmers, both for their current agricultural operations as well as for medium and long term development finance needs.

20. To meet the local equity gap in the case of large projects in the industrial and mineral fields, a Government Development Corporation may be started to meet such equity gaps and generally assist in the promotion of large projects. As and when possible, equity holdings should be disposed of to domestic investors.

d) Revival of Stock Exchange and Development of Money Market

21. After the present company law is amended, activities of the Stock Exchange be revived by persuading about a dozen profitable ventures, including some foreign companies, to offer under a phased program, 10% to 15% of their stock on the stock exchange, at an attractive price, for subscription by local Indonesians.

22. As a first step towards the development of money market, Central Bank may float three-month Treasury Bills initially for banks and Insurance Companies.

23. Problems of private national commercial banks should receive urgent and immediate attention of the Central Bank, so as to improve their operations and strengthen their resources and competitive position.

e) Other Recommendations

24. Revision of the Income Tax Law be expedited so as to:

i. Simplify procedures and minimize discretion of tax officer;

ii. Promote savings from individuals and investment of those savings in productive fields.

iii. Enable corporate sector to save resources for expansion.

iv. Encourage corporate sector to offer their stock for subscription by local Indonesians.

v. Encourage private entrepreneurs to enter the field of agricultural servicing which increase agricultural production.

vi. Encourage establishment of small and medium industries by the local people based on local raw materials and outside Java.

25. Labor laws be reviewed, in particular regulation prohibiting discharge of anyone without consent. Labor incentives be introduced to reward efficiency.

26. The problem of interest rates be kept under review in the context of the over-all economic situation, requiring maximum mobilization of private savings through the banking sector and the need to promote new investments in the industrial and agricultural fields, by the local moneyed people.

27. Development Corporation (or Investment Corporation) referred to in paragraph 20, may also take over, in due course, for management all Government holdings in existing state enterprises, to ensure better supervision and facilitate disposal to local Indonesians, as an when possible, but working under general policy directions of the Finance Ministry.

28. All state enterprises, including agricultural estates and trading houses, be converted into companies with independent Boards of Directors. In the case of each such company, one or two local persons be associated with the management by Government nomination on their Boards. Their accounts be audited by Certified Public Accountants and annually published within specified time. Executives managing state enterprises should form a separate service cadre outside the Government. These measures should improve their operational efficiency, and thereby facilitate their possible take-over by the local private enterprise, except those which Government would like to retain permanently in the public sector.

29. Steps be taken to set up a Central Organization for the training and qualifying of Public Accountants and Auditors to meet growing requirements in business and industry for such personnel.

30. Arrangements be reviewed and strengthened for the training programs in Business Management to provide competent local personnel for the growing enterprises in the country.

1. GENERAL

BACKGROUND INFORMATION

THE COUNTRY AND ITS RESOURCES

1. The Republic of Indonesia is the largest archipelago in the world. It comprises of thirteen thousand* islands of which only about 1,000 islands are inhabited. The largest of the islands is Kalimantan with an area of 208,286 square miles. A very large number of islands are of small size ranging from a few acres onwards. The most important of the islands are the Island of Java and the small adjoining island of Madura, with an area of 51,032 square miles. The total land area of the archipelago is 735,381 square miles, making Indonesia, area-wise, the largest country in Asia after mainland China and India.

2. Much of the country is mountainous (including volcanic mountains) or covered with heavily forested hills. There are vast areas of marsh land and dense tropical growth. In most areas annual rainfall is at least 40 inches but over the equatorial rain belt, covering most of Sumatra, Kalimantan and Sulawesi Islands, annual rainfall reaches 90 to 100 inches. Because of its position close to the equator, the country has tropical climate and high humidity almost throughout the year.

3. According to the last official census taken in 1961, the population of the country was 97 million. At present the population is estimated around 118 million. This population is again very unevenly distributed over the islands. The Island of Java and the small adjoining island of Madura, which together constitute only 7% of the total land area, have around 66% of the country's total population.

4. At the most rudimentary level are the mountain tribes of Kalimantan and West Irian, who have now largely taken to farming. Majority of the people live by subsistence farming around traditional villages. The farming units are generally very small, ranging from under ½ hectare to 5 hectares per family. Of the farmers, about 60% are landless tenants. About 15% of the population lives in urban areas, largest concentration being at the capital Djakarta, with over 4 million people. Around 50% of the population is literate.

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*In all, there are 13,667 islands in Indonesia, of which 992 islands are inhabited. Source: Indonesia - Facts and Figures January 1967, Published by Director, Academy of Statistics, Djakarta.

5. The country is rich in natural resources. East of the Persian Gulf, Indonesia is the most important of the Asian countries producing oil. More areas, including offshore areas, are now being drilled and the prospects for more oil strikes seem promising. Besides oil, the country has other mineral deposits such as tin, bauxite ore, coal and nickel. There are indications for potential deposits of copper, manganese, lead, zinc, iron ore, titanium, mercury, antimony, asbestos, china clay, chromite, sulphur and even some gold, silver and diamonds. Over 60% of the land area is covered by forests, largely unexploited and untapped. Fisheries potential is immense.

6. With such vast and varied resources of materials and manpower, Indonesia has the potential of becoming one of the prosperous nations of Asia. The picture today is different. The main reason has been the dominance of political and ideological objectives over economic issues, pursued during the period of struggle for independence following the end of the Second World War. This struggle had its economic consequences.

THE STRUGGLE FOR INDEPENDENCE AND ECONOMIC CONSEQUENCES

7. Early history of this great archipelago was marked by the rise and fall, over several centuries, of Hindu and Buddhist kingdoms, followed by Islam in the 12th and 13th centuries. Dutch occupied it at the beginning of the 17th century and ruled the islands for 300 years until 1942, when during the Second World War, the Japanese occupied it. Japanese occupation lasted for three years until their retreat in 1945, just before the end of the Second World War. On 17th August 1945, the Indonesian nationalist leaders declared independence of their country. Then followed four years of bitter struggle with the Dutch, who tried to re-establish their authority over the islands. Finally in 1949, an agreement was reached between the Dutch and the nationalist leaders, providing for the transfer of sovereignty to a federally constituted Republic of Indonesia. However, sovereignty over the territory of West Irian was to remain subject of further discussions with the Dutch. This again became an area of dispute with the Dutch for 14 long years until 1963, when the matter was finally resolved under the United Nations auspices. Indonesia assumed full responsibility for the West Irian territory as from May 1963, with a provision for an act of free choice in 1969, to enable the West Irian people to decide whether they wished to remain permanently as part of the Republic of Indonesia. This finally brought to a close the long struggle for the independence of the entire archipelago. In 1969, West Irian people decided to remain within the Republic of Indonesia.

8. During the period of this struggle, extending over two decades, the Indonesian economy had been subjected to severe strains and stresses. Already there was heavy destruction when Japanese advanced in 1942. This was followed by an allied blockade of the

Japanese

Japanese and Japanese counter war measures. After the retreat of the Japanese in 1945, the confrontation with the Dutch further strained the economy. There was a Dutch naval blockade that nearly cut off the trade with the outside world and there was counter blockade by the nationalists to starve the Dutch held areas. The nationalist guerilla army also resorted to scorched-earth tactics for the areas in Dutch occupation. All these operations further crippled the economy.

9. Even after the formal transfer of sovereignty in 1949, the economy of the country continued to be subjected to further stresses. To force the Dutch to negotiate sovereignty over West Irian, a campaign was stepped up and as one of the measures, Dutch properties in Indonesia -- agricultural estates, factories, banks and business houses, were taken over in 1958-59 and handed over for management to civilians and military personnel, who were not experienced in this line of business. Consequently, the economy further suffered through loss of production and loss of exports. Hardly the confrontation with the Dutch had ended by 1963, that confrontation with Malaysia began. The merger in Malaysia of U.K. territories of Sabah and Sarawak was challenged and a "crush Malaysia" campaign was launched. To force the issue, Malaysian and U.K. interests in Indonesia were taken over and placed under Government management. These included agricultural estates, industrial plants, distribution companies, business houses, banking and insurance companies. This policy was subsequently pressed forward and properties of other foreign nationals, U.S.A., Belgium, Swiss, French, Italian, Canadian and Australian were also similarly taken over. All these take-overs had the effect of further disrupting and dislocating the economy. Thus, through a combination of factors and forces, over the period, the Indonesian Government found themselves loaded with more and more diversified and extensive commercial activities, from managing agricultural estates, running industrial plants, to import and export trade and even local retailing business.

10. By early sixties, a situation had been reached under which Government had emerged with a dominant and an ever-increasing role in trade and industry operated through Government servants who lacked incentives andppersonal stake. The inevitable result was reduced production and lower exports. Soon country's foreign exchange reserves were eaten up so that by the end of 1965 reserves had become negative. The staggering external debt, contracted to keep the country going during the periods of confrontations, could therefore no longer be serviced. Hopes of getting more external assistance were fast receding.

11. In the meanwhile country's infrastructure had also deteriorated from years of neglect. Rail, road, port and shipping facilities were in bad shape. Internal communications had therefore become costly, time consuming and frustrating. Above all the mounting spiral of inflation let loose by large-scale deficit financing over the years to cover Government's ever-growing expenditure on

unproductive

unproductive ventures, sky-rocketed prices of goods and services, which created for the Government grave internal situation. The inflation which had long been endemic, had become epidemic. The country had reached the boiling point in its economic crisis. October 1st, 1965 saw the eruption. The Revolution consumed thousands of lives, but out of it had emerged early in 1966, a new Government with a new outlook -- a Government determined to restore economic stability and move towards progress.

TOWARDS ECONOMIC STABILITY AND PROGRESS

12. The most immediate problem facing the new Government was to contain the mounting inflation so as to stabilize the economy. With the advice from the IMF, fiscal and monetary measures have been taken towards this objective. A balanced budget, tight control over credit, combined with the system of floating exchange rates, supported by flow of external assistance and some re-scheduling of the external debt repayments, formed the core of the program launched towards the end of 1966. This was backed by easing controls and placing greater reliance on market forces.

13. Realizing the role and importance of the private sector in the rehabilitation of the shattered economy, as a first step in that direction, Government offered estates and factories owned by foreign investors (other than Dutch-owned properties for which settlement had been reached for the payment of compensation) back to their original owners and a Foreign Investment Law was passed early in 1967 to encourage new foreign investments. The law provided for tax concessions, other facilities and assurances for the setting up of new enterprises as well as for the rehabilitation and expansion of old enterprises which were being returned to their former owners. Investment guarantee agreements (covering foreign investment from respective countries) were signed with U.S., Denmark, Netherlands, and West Germany and negotiations started with a number of other countries, to encourage foreign private investments from those countries. These measures were followed in 1968 by the passing of Domestic Investment Law, extending tax concessions and other facilities for enterprises established by local entrepreneurs. Monopoly of the nine state trading companies in the import and distribution of certain goods was abolished to widen import and distribution channels and permit local private enterprise to share in the business.

14. Monetary and fiscal measures directed towards the stabilization of the economy are now showing results -- inflation is under control, exchange rates have achieved a measure of stability, rise in prices is under check, production is picking up, both in agriculture and industrial sectors and export earnings are rising. The country is fast moving towards economic stability, but the real progress has yet to be made. Basic problem of the country today is to raise total production faster than the population growth -- faster enough and larger enough to yield a cumulative increase that could

be

be visibly felt through improvement in the living standards of the common man, which were now extremely low. And in this, the role of private enterprise seemed crucial. Government has to take steps to gradually shed management of estates, factories and business houses with which the administration is now loaded and which could be better and more efficiently managed by private enterpreneurs, who would have personal stake in the successful operation of those enterprises. Vast resources of the country are waiting to be exploited and for their exploitation private enterprise could play an important role in the country. The growth of able and agressive private enterprise is therefore a must. Government could then concentrate on the rehabilitation and expansion of infrastructure facilities, building up organizational and institutional set-up for promoting and supporting development effort and restricting management to limited number of enterprises, which in the national interests, must continue to remain in the public sector. Private enterprise could do the rest. It seems necessary therefore, to first assess the present level and future potential of private enterprise, and in particular, local private enterprise in the country and then consider measures for its growth as an instrument for accelerating economic development of Indonesia.

2. PRIVATE ENTERPRISE POTENTIAL

15. Duringtthe period of the Dutch rule the economy of the country had remained dependent largely on agricultural production and marketing. They had developed agricultural estates, where rubber, tea, coffee etc. were grown under modern agricultural practices and under the supervision of experienced foreign managers. The Dutch had also built factories for the processing of agricultural products and a commercial net-work for the collection and marketing of raw materials and products of the estates. In the period before the Second World War, some foreign investors had also established few factories for readily marketable consumer goods. The Indonesians had only obtained some experience in small and cottage-scale industries but had little opportunity to get technical training and experience in business management. Consequently just before the out-break of the Second World War in 1939, the private enterprise in Indonesia, largely comprised of foreign business houses, the role of the Indonesians being restricted to few small scale industries and local retailing business.

16. Even after the end of the Second World War and the declaration of independence in 1945, the position so far as the private enterprise is concerned had undergone little change. Organized business houses, factories and estates were still operated by foreign personnel brought in by those who owned these enterprises. It was only during the period of campaign against the Dutch over the West Irian issue that in 1958-59, Dutch enterprises were taken over by the Government and placed under Indonesian management. Business and industrial interests of other foreign investors were also taken over during the years 1963-65 so that by the end of 1965, foreign private enterprise as such, had ceased to operate. Indonesian nationals had gained some experience in the management of larger enterprises but this experience was again restricted to civil servants and personnel of armed forces.

17. During these years of struggle from 1945-1965, there was little encouragement to the local enterprise to come up. Government continued to dominate industrial and business sectors. Local private enterprise remained restricted to small enterprises and the retail trade. In fact, the rigid price and distribution controls, which had to be enforced during this period due to shortages, had further curtailed even the limited operations of the local entrepreneurs. Their already small share in the commercial operations within the country had further shrunk.

18. With the take-over by the new Government early in 1966 and the change in policy and outlook towards the private sector, their activities were now being revived. Already, foreign-owned estates and factories had been largely returned to their original owners and

new

new foreign investments were underway. Since the passing of the Foreign Investment Law up to the end of October 1969, Government had approved 157 proposals for foreign investments. These included 110 proposals for joint ventures, but most of the joint ventures were with Government enterprises as the number and resources of the local entrepreneurs were limited. The number of foreign investments had increased to 177 at the end of December 1969. There were also 28 agreements with Government for oil exploration and production, which was encouraging feature. Under the Domestic Investment Law some 48 investment proposals have been approved up to the end of October 1969 and more applications are now being processed. The number of applications approved from domestic investors had increased to 221 by the end of December 1969.

19. Most of the light or small and medium size industries, mainly producing for the local market, are privately owned. These industries are mostly concentrated in Java, North Sumatra, South Sumatra and South Sulawesi. According to the figures quoted by the Director General, Light Industries, Indonesian Government at the Industrial Seminar held in March 1968, industries existing in the private sector were: -

a) Medium Size	No.
Metal Works	73
Battery Makers	34
Radio Assemblies	29
Television Assemblies	8
Electrical Works	20
Assembly of Sewing Machines	26
Chemical Industries	2
Printing	29

b) Small Scale Industries	
Food and Confectionaries	26,238
Soft drinks	2,160
Cigarettes	1,980
Soap, paints, plastics & matches	1,045
Tooth paste	9
Paper, paper board & stationary	1,207
Wood-working	4,922
Leather works including tanning	2,040
Rubber works	1,382
Hardware & metal products	7,496
Non-motorized vehicles	2,425
Essences & aetherical oils	290
Building materials	5,292
Glass & ceramics	137
Pharmaceuticals	751
Nails, ropes etc.	3,178

20. Local private enterprise is active in cotton textile industry. It is also active in shipping, where in spite of Government dominance, 4 private companies are operating 14 ocean-going vessels and 13 private companies are operating 140 ships for the inter-island traffic. In the case of road transport (motor buses and trucks), the private sector is having a major share of the fleet. There are over 120 privately-owned local commercial banks although their share in the overall banking business is negligible compared to the 5 Government-owned giants. There are also 4 private savings banks and about a dozen foreign commercial banks. In the trading field, Government has 9 state trading companies freely competing with the local businessmen in the import and distribution of commodities. The competition is uneven because Government trading houses have the backing and support of Government-owned banks. This is a big advantage under prevailing conditions when interest rates are high and credit facilities are difficult to obtain. In spite of the odds being against them, local business firms which are large in number, are giving stiff competition to the Government trading houses. Then there are Indonesian-owned agricultural estates, although not as large as those operated and managed by Government and foreign business houses, but these in total area are four times the size of state-owned and foreign-owned estates.

21. Then there is Chinese community, long established in Indonesia, which occupied an important place in the private sector economy. They number about three and one-quarter million, concentrated in the urban areas and engaged in several business enterprises including banking. They were enterprising and skilled in their business activities and almost dominated in their particular business fields. About half the number had already taken Indonesian nationality and some had changed to Indonesian names, but the rest were still nationals of mainland China, and seemed unwilling to assimilate into Indonesian society. In spite of the passing of the Domestic Investment Law in 1948, they hesitated to invest their capital (some of which had already gone out) in industrial ventures. They preferred ready cash business where turnover was quick and profits substantial. This, of course, showed their business acumen under conditions of mounting inflation, but now that the economy was gaining stabilization, there was need for the change of their outlook and attitude for long term investments in productive fields. The solution of the Chinese problem through their assimilation in the Indonesian society could lend strength to the growth of private sector in Indonesia.

22. If under difficult conditions, lack of encouragement and in fact, some discouragement and direct competition with Government operated business enterprises, the local private enterprise in Indonesia has survived, certainly over a period and given the necessary support, Indonesian people have the potential of building up a viable private sector.

23. Factors favorable to the future growth of private enterprise in Indonesia were: -

i. attitude of the new Government towards revival and strengthening of the private sector;

ii. growing operations of foreign private enterprises in the country which will act as a catalyst for improving business techniques and providing training and employment opportunities to the local Indonesians from whom will emerge the future local private entrepreneurs;

iii. large number of civil servants and personnel of armed forces operating and managing Government-owned enterprises are a valuable source on their retirement, for addition to the number of local entrepreneurs;

iv. numerous small traders all over the country, who are in large numbers and who have successfully withstood the difficult economic situation prevailing over the past years, are another important source of private sector growth. For example, a successful grain merchant is a potential sponsor for a rice mill and a successful shoe merchant a potential entrepreneur for a shoe factory; and

v. high literacy percentage (about 50%) of the population in otherwise underdeveloped economy is another important factor that should contribute to the growth of local private entrepreneurs.

24. In fact, compared to several other developing countries, Indonesia has a better potential for the growth of local private entrepreneurs. Their present number and resources are very limited. What is needed is necessary environment and institutional support. Progress will be slow but rewarding and worthwhile the effort. In this context it will be of interest to assess the present problems of private enterprise in Indonesia and then consider measures for accelerating its growth.

3. PROBLEMS OF PRIVATE ENTERPRISE

25. A private sector enterprise is normally constituted as a corporation under the law of the country so that within the framework of that law it is free to operate. At present the Indonesian law on the subject of organization of private companies is the same as the Dutch Commercial Code as it existed prior to the independence of Indonesia in August 1945, as modified from time to time by the Indonesian Government. The basic law was framed to suit the general requirements of Dutch companies which were then constituted under this law. This law contains certain provisions which are not compatible with the present concept of private enterprise. For example, under the law, no share-holder can have more than 6 votes, irrespective of the number of shares held by him in the enterprise. This may have been alright for those companies which were 100% owned by a single owner. But under present conditions, when the foreign investors are required to associate in due course local Indonesians in the ownership of their enterprises, such provisions of the law deter rather than encourage the laudable objective of associating local Indonesians. The same would apply in the case of local entrepreneurs who would be reluctant to widen the ownership of their enterprises outside the family groups for fear of losing control. While the foreign investors are able to conclude separate agreements with the Government to overcome any difficult provisions of the law, the local entrepreneurs cannot do so. What is really needed is a new corporate law containing simple basic provisions, but until this is done, perhaps the present law could be suitably amended. This problem had been discussed with the Indonesian authorities, who were now working out necessary amendments to the existing law for presentation to the Legislature. It is hoped that the necessary amendments to the existing law would be soon carried out.

26. Indonesian authorities are also alive to the need of framing, as early as possible, a separate but simple Company law. Action on the proposed legislation is intended to be taken after the amendments to the existing one are first carried out.

27. A sound but simple corporate law within the framework of which companies can freely operate, is basic to the growth of private sector in a developing economy. Any assistance which the Indonesian authorities may need, to finalize amendments to the existing law and subsequently frame the new law, is therefore a matter of priority.

28. As stated earlier, 177 foreign investments, including joint ventures, had been approved under the Foreign Investment Law and some 221 proposals for investments had been approved under the Domestic Investment Law, up to December 1969. Although in the majority

of

of the cases the approvals were recent and there was a necessary time lag between the granting of approvals and the establishment of enterprises, the progress so far made in the implementation of approved investments suggested need for procedural improvements to accelerate implementatiom of these projects.

29. A private investor, both foreign and local, not only requires Government permission to set up his undertaking, but he also subsequently requires a number of other permissions for various purposes and under various laws before the project is put on the ground. If for each of these permissions he has to approach different authorities - central, regional and local - which is the case at present, a lot of time is lost and there is a great deal of frustration under present conditions. This is especially so when projects are located outside Java and the regional authorities sometimes differently interpret agreements and concessions granted by the Central Government. In order to save the prospective investors from running after and satisfying various departments and agencies, Government might like to designate one agency where the investors may go, not only for getting the initial sanctions for the establishment of their enterprises, but also for all other permissions as well. For this purpose, organization of the Investment Board might be strengthened so that officials from various ministries of the Government either sit there or become readily available there and these officials should be senior enough to either take decisions on the spot on matters concerning their respective ministries, or where necessary, obtain decisions from their ministries. The investors should be able to get all their permissions and approvals through this agency. Such an arrangement would facilitate the setting up of projects more quickly, which is as much in the interest of the investors as it is in the interest of the Indonesian economy. This proposal has been discussed with the Indonesian authorities, who seemed sympathetic to the idea.

30. It is recommended therefore, that the Investment Board be suitably strengthened so that the investors, foreign as well as local, are able to obtain all permissions and approval through single agency so as to expedite implementation of their projects.

31. It is important that investments by Indonesian entrepreneurs are further encouraged by simplifying sanctioning procedures. Towards this objective Government might like to draw up a tentative list of small and medium industries based on locally available raw materials and all applications from domestic investors falling within the framework of this list be promptly dealt with directly by the Investment Board without reference to other Government authorities. The list might include such industries as shoe factories, rice mills, saw mills, oil mills, match factories, cardboard box factories, manufacture of furniture, wood seasoning, leather tanneries, glass manufacture, ceramics, bricks, tiles, plywood, cold storages, fishing, poultry etc. and all industries based on agricultural and industrial waste. Such a list could be revised from time to time and published for the guidance of Indonesian investors.

32. Another method for encouraging Indonesian investors would be to specify a monetary limit within which all applications from domestic investors for any industry (unless specified as a prohibited industry) will be quickly approved -- say industries where total investment is within $100,000 or so. But in such a case domestic investors are more likely to set up assembly plants or formulation industries largely based on imported materials. Perhaps the limit could be raised but the freedom restricted to industries primarily based on local raw materials.

33. Above suggestions had been discussed with the Indonesian authorities, who recognized the need for simplifying existing procedures to further encourage domestic investors.

34. From the national point of view, it is important that industry should be dispersed throughout the islands as much as possible, so that benefits of industrialization are widely spread. In order to encourage domestic investors in areas outside Java, the Investment Board might have small offices situated in other areas where applications from the local people could be received and processed on the spot. At present BAPINDO offices outside Java receive applications from domestic investors and forward the same to the Investment Board at Djakarta. This is a useful arrangement under the existing procedures, but when the procedures for domestic investors are simplified as suggested earlier, offices of the Investment Board will need to be established at few central places in the outer islands so that local applicants receive prompt attention. Of course in the case of foreign investors (including joint ventures) seeking to establish industries outside Java, they can all come to the central office at Djakarta, which they would be visiting in any case.

35. Widespread complaints were heard from the members of the business community about income tax rates and tax administration. This is what one of the businessmen's Association had to say about taxes: -

> "Although on paper, many of the Regulations of the Central Government are reasonable, in practice the public servants in charge execute them according to their own interpretation. This is worse, the further away from the seat of the Central Government.
>
> This is especially true for taxes. Although in theory every kind of tax should be based on law, in practice local authorities do levy all kinds of taxes in order to meet their financial needs.
>
> In practice corporate taxes are not paid according to regulations but on estimates by tax officers. When law procedures are expensive, time-consuming and ineffective, most practical resort is compromise. So the big becomes bigger and the weak becomes weaker."

36. It seems that the income tax law needed a revision to make the provisions and procedures simple but effective and at the same time development-oriented so as to provide incentives for savings and for investment of those savings in productive fields. In the meanwhile, some changes have already been made recently in the income tax regulations to reduce tax rates in the case of small companies and individuals having lower incomes.

37. The tax law has been discussed with the authorities. I.M.F. mission at Djakarta is now assisting in the revision of the Tax Law. For the time being it is proposed to carry out certain basic amendments as regards the rate structure and incentives for savings. Full revision of the law is likely to take more time.

38. To encourage local industries, both Government-owned and private-owned, it is necessary that Government should make all their purchases of goods produced in the country from local sources, giving local production a preference of say, up to 15-20% in price compared to similar goods imported from abroad. Under the free import economy now in operation this seems essential, if the local enterprises, including private enterprises, have to grow.

39. The geographical position of the Indonesian islands and their large number scattered over a vast area, is a smuggler's paradise, especially when the islands are flanked by the free trading areas of Singapore and HongKong. Then the import duties range from 0 to 100% of the value of goods depending on whether the goods are essential or luxury goods. In addition there are import surcharges ranging from 50% to 400% of the duty amount, but generally within 100%. There is sales tax on imports ranging from 0 to 50%. While these provide revenue to Government and considerable protection to local industry, at the same time they encourage smuggling operations in goods, import of which is subject to high rates. The smuggling operations, besides resulting in loss of income to Government also adversely affect local industry, both Government-owned and private-owned and to that extent the private entrepreneurs are discouraged in their operations. This is a difficult problem because on one hand local industries need protection against imported goods and on the other hand, high import charges defeat that very protection through the smuggling of goods. So there is a conflict of interest which needs proper appraisal to establish a balance between need for more revenues and protection to local industries on one hand and keeping smuggling operations under check on the other. Smuggling operations in exports were also reported, partly to escape export duties and partly to finance imports.

40. The entire tariff structure therefore needed a review and appropriate action in the light of the review. For this purpose an independent Tariff Board needs to be set up which could examine the problem in depth and make recommendations to Government. For the present, however, Government had decided to set up a Committee, representing various ministries concerned for reviewing the tariff rates.

41. Surplus labor was another problem. In view of the prevailing situation, especially in the islands of Java and Madura, which were heavily populated and where there was problem of unemployment, Government had imposed restrictions on termination of services of surplux staff, including labor. This restriction makes the labor force indifferent, adversely affecting production efficiency and profits. This is what a businessmen's association had to say: -

> "In 1964 the former Government issued a regulation prohibiting the private companies to discharge anyone without mutual consent. This law at present hampers the establishment of labor intensive industries and should be withdrawn. A proper functioning Labor Arbitration Court should be appointed to settle labor disputes. It is recalled that the Singapore Labor Arbitration Court was set up some years ago with the help of the Australian Government. Indonesia may consider to do the same."

42. If in view of the prevailing un-employment and difficult economic situation, particularly in Java and Madura islands where there is concentration of population, the 1964 labor law cannot be withdrawn from the whole country, Government might like to consider withdrawing it from areas outside Java and Madura and other thickly populated areas. Another measure to ease the over all problem would be to introduce incentives for labor so that those working harder could get their reward related to increase in production. This will require the working out of a separate plan of incentives for each industry. Another idea would be to introduce labor profit sharing in the case of industrial enterprises as an incentive measure. No doubt major solution to the problem can only come when the economy grows so that more job opportunities are created and also when Government plans for transmigration to outer islands get underway. But in the meanwhile the present situation calls for a review.

43. Foreign investors had problems relating to ownership of land on which factories were located and 30 years period for which initially foreign enterprises were allowed to operate. Both these problems had been largely settled by negotiations or could be so settled and therefore no comments are offered.

44. There were some 500,000 civil servants. The number of armed forces was much larger. With the mounting inflation and the consequent sharp rise in the cost of living, their salaries were insufficient to make a living. This has led to a number of abuses which also had their impact on the private sector. With the present resources of the Government, increases in salaries in keeping with the rise in the cost of living was only possible with reduction in their number. This was a sensitive issue that could be difficult to deal with in any country. The solution of the problem demanded enforceable policies that could go against entrenched interests and deep-rooted feelings. But the problem was there and could perhaps be tackled in phases over a period.

45. Then there were number of problems of the private sector relating to movement and marketing of goods. These related to rehabilitation and improvements in the basic infrastructure facilities for which programs were already underway. Transport power and other related problems were now being dealt with on a priority basis and the situation in these respects should substantially improve in the near future.

46. Another problem facing the private sector is the sources for medium and long term credit. Privately owned industries, though small in number and size, had remained neglected during the long period of struggle and internal distrubances. These industries needed medium and long term financing for their balancing and modernization, including replacement of worn out machinery. Quite a number of these industries needed expansion to meet the growing local demand and reduce costs to face competition from imports which were now freely allowed. Then there was the need for similar reasons for balancing and modernization of industries in the public sector. These plants could not be sold to the private enterprise, foreign or local, unless their operations were improved. There was also the need for long term finance for agricultural estates, Government owned and private owned, for their rehabilitation and for the processing of their products of rubber, coffee, tea, etc. New industries had to be promoted to meet country's growing requirements of such essential products as paper, paper-board, cement, fertilizers, etc. For such large industries, foreign investment will be necessary, but may not cover the entire foreign exchange cost, so that there will be need for long term finance in foreign exchange, apart from the large requirements of local currency, again on a long term basis, either as equity or as long term loan, or both. Then there was the problem of building up small local entrepreneurs who needed long term finance and maybe some equity support for establishing or expanding small enterprises. There was therefore, need for agency or agencies, in the country able to provide medium term and long term finance for existing industries and in particular, long term finance for new industries -- small industries, medium industries as well as larger industries. This was necessary if the private enterprise was to play its role in the development of the economy of Indonesia. Lack of adequate facilities and agencies suitably equipped for the provision of medium and long term credit needs of the economy was an important gap, and this is separately dealt with in the next chapter.

4. AGENCIES FOR DEVELOPMENT FINANCE

47. At present, development finance agencies in the country were:

i. Government-owned Development Bank of Indonesia (BAPINDO);

ii. A private development bank (Bank Pembangunan Swasta);

iii. Netherland-based Development Bank for Indonesia;

iv. Regional Development Banks in the provinces; and

v. five State-owned commercial banks which were also allowed to grant medium and long term finance with the approval of the Central Bank.

48. BAPINDO. A description of BAPINDO's constitution and operations is given in Annex I.

Established in 1960 under a special law, as a fully Government owned development bank, it has largely operated as a channelling agent for Government funds, often for projects determined in advance by the Government. Originally intended for financing public sector projects, since 1967 it has also been providing funds for private sector projects for medium term financing. BAPINDO's experience in the field of development finance as such is therefore very limited, and that too for medium term financing only. It had no experience of long term development finance on the basis of economic appraisal of projects. It had 20 branches all over the country and was now engaged in commercial banking as well. It had built up a large staff who included around 100 graduates in science, engineering, chemistry, law and economics. It had therefore qualified staff with some experience who could be trained in the appraisal of industrial projects, which as a development bank, seemed today one of its weak points. An independent audit of its operations is now being carried out by a firm of Certified Public Auditors. A mission from the World Bank have recently carried out its appraisal and the recommendations of this mission on the possibilities of re-organization of the institution are now awaited. Government are keen on the re-organization of this institution, so as to operate primarily as a development finance agency.

49. Bank Pembangunan Swasta - Private Development Bank. A group of local entrepreneurs established the above bank in 1962. Since then it has remained dormant as a development bank. Its paid-up capital is the equivalent of US$ 10,000. It is engaged in small commercial banking operations. It has no potential of growth as a development finance institution.

50. Netherlands-based Development Bank of Indonesia. The bank was formed on 10th March 1969 by the Netherlands Overseas Finance Company acting for the Government of Netherlands and the Indonesian Overseas Bank, Amsterdam, acting for the Central Bank of Indonesia. Of the authorized capital of Dfl. 10 million, Dfl 1,250,000 was initially subscribed by each of the founder shareholders. Head office of the bank is at Amstelveen-Holland and a branch office at Djakarta. The Bank has two managing directors -- one from Indonesia and another from Netherlands, both based at Amstelveen but they frequently travel to Indonesia. The institution is now about to make its first investment.

51. According to a pamphlet issued by this Bank: -

a) Plan

"DBI has been formed as a partnership on equal footing. This principle of equal partnership is meant for the initial bilateral basis as well as for the planned expansion into a development bank on a multilateral basis. The bank will endeavour to encourage other finance institutions outside Indonesia to join the new development bank on an equal footing with the founder shareholders and thus participate in the development co-operation with Indonesia."

b) Object

"The object of DBI is the granting of financial assistance to commercially viable enterprises which contribute to the economic development of Indonesia. If so desired, DBI will also act as an intermediary for such enterprises in obtaining additional funds from finance institutions on an international, regional or national level, as well as in recruiting experts for longer or shorter periods or in obtaining expert advice."

c) Financing

"For the time being, DBI will only grant medium- and long-term guilder loans.

As regards the priorities to be observed, rehabilitation financing will be given preference to the financing of new enterprises; medium-sized enterprises rather than large ones will be financed.

DBI will only finance projects conducted under sound and expert management."

d) DBI offices

"DBI's founder shareholders have -- for practical reasons -- started the Bank's activities from a small office outside Indonesia. This office is established in the Netherlands and will during the initial period of development of DBI act mainly as liaison and inquiry office in Western Europe. It will at the same time promote participation in DBI and establish friendly relations with finance institutions operating on an international, regional or national level, which are interested in developing countries."

52. Since from the very beginning the intention was to widen the equity base of this institution by inviting participation from financial institutions in other countries interested in developing Indonesian economy, the idea was pursued with the authorities of the Bank in November 1969 and it was also suggested that in such a case, head office of such a Bank might well be located at Djakarta. In the same connection, further discussions were held in February 1970 both at Djakarta and at Amsterdam. The present position is as follows:

a) It has been now decided to move the Bank to Djakarta. To do so, it will be necessary to register a new development bank under the Indonesian law. Preliminary steps in this connection were now under way;

b) Recently, preliminary discussions were held at Amsterdam with the representatives of CDC of U.K. and DEG of West Germany for the possible participation of these institutions in the equity of the new institution to be established at Djakarta. Preliminary discussions have also been held with SIDA of Sweden. All three are Government institutions;

c) For the present, intention is to limit the number of participating countries (through their respective institutions) to four or five, including Indonesia, each one to have equal share in the equity of the new institution;

d) There is no intention to offer the equity of the new institution to private interests in Indonesia or other countries;

e) The present partner in the venture from the Netherlands side was Netherlands Overseas Finance Company, which was presently privately owned, but this institution was being shortly converted to Netherlands Finance Company for Developing Nations to be 50% owned by Government of Netherlands;

f) No decision had yet been taken as to who will subscribe the Indonesian part of the equity in the new institution. In all probability, it will be one of the Indonesian Government owned institutions; and

g) No decision has been taken so far on the capital structure of the new institution, but the intention was expressed that to begin with, the figure would be modest, to be increased later on as the need arose.

53. It seems the proposed multi-national development finance company for Indonesia would be a modest institution, owned by Government agencies from four or five countries. The intention seems to be to gain experience, train personnel, restrict operations initially to small and medium projects and gradually grow into a strong institution. This may be conservative and sound development banking under normal conditions, but the present economic situation in Indonesia demands bolder action and forward thrust.

54. Considering the rehabilitation requirements of the economy and the potential for industrial growth, Indonesia needs, besides BAPINDO, a strong development finance company capable of attracting resources and technical personnel from various countries and international agencies interested in the development of Indonesian economy. The new multi-nation institution should therefore have a good capital base to support larger flow of external assistance. Its capital might well be broad based to permit participation not only by Governments desirous of helping Indonesia, but also private interests abroad and in Indonesia. In fact, efforts might be made to make the institution majority private owned. This would inspire greater confidence abroad. Since Indonesia is to have a multi-national development bank, let it be a worthwhile institution in keeping with the needs of the economy.

55. The institution envisaged herein should be capable of promoting new enterprises of importance to the Indonesian economy by taking the necessary initiative, able to stimulate confidence and interest of foreign and local investors, line up financing and management arrangements, and where necessary and desirable, capable of participating in the equity of such enterprises with the objective of ultimately disinvesting to the Indonesian investors as their number and resources grow. Only an institution financially strong and suitably staffed can undertake such operations, for which there is both need and urgency.

56. Proposal for a New Private Development Bank. There is a proposal by the Indonesian businessmen to float a new 100% private-owned development bank. This group is confident that from private Indonesian sources they can raise equity in rupiahs equivalent to about US$ one-half million and that from foreign banks and other foreign interests, all private, they can raise another $1 million. Top management will be initially hired from abroad until local Indonesians are trained. The promoters have received encouragement from the Indonesian authorities. The initial problem is to raise the necessary equity capital from private sources under conditions of monetary stringency and high interest rates prevailing in the country. If the promoters succeed in their efforts, Government should give them all possible support.

57. If the new multi-national institution is broad based, then the private sector in Indonesia might like to join this institution to strengthen its capital base and participate in its activities.

58. Regional Development Banks. This is another institution in Indonesia of which effective use as a development agency seems to have a potential. There are 23 such banks, one in each province, with branches and sub-branches in the interior of the provinces. Their present operations are described in Annex II. Originally intended as institutions for providing development finance in the different regions of the country, these banks have drifted into ordinary commercial banking which is now their main field of operation.

59. With proper re-organization and strengthening of their resources and technical personnel, these institutions could perhaps be more effectively used to assist large numbers of local entrepreneurs engaged in small industrial enterprises spread all over the country, some of which should have the potential to develop into medium-sized enterprises. There is no agency today for providing medium and long term finance for small local entrepreneurs for which there is need and scope. If the private sector in Indonesia has to grow, there is potential in the small business entrepreneurs scattered all over the country.

60. A study of the constitution and operations of all the regional development banks is necessary to formulate proposals for their re-organization as an effective agency for the development effort in the far flung regions of the country. Such a study could be carried out in the first instance by Bank Indonesia.

61. After the study is made, proposals could be formulated for the re-organization, in the first instance, of one or two of these institutions so as to direct their operations to development finance needs in the provinces. Over a period all the Regional Development Banks might be re-organized to finance development needs of small entrepreneurs in the provinces throughout the country. These institutions could gradually shed commercial banking operations for which there are already adequate facilities.

62. State Commercial Banks. Out of funds made available from the budget of the Government, from the Central Bank and out of their own deposits, State-owned commercial banks are allowed to make, with the permission of the Central Bank, medium and long-term advances to their sectors of specialization. These main sectors for the different State-owned banks as assigned to them by Bank Indonesia are:-

Industry and Transportation

Bank Negara Indonesia 1946 - This is in addition to BAPINDO.

Agriculture and Animal Husbandry

Bank Rakjat Indonesia (People's Bank)
Bank Negara Indonesia 1946

Production of Export Commodities

Export-Import Bank Indonesia
Bank Bumi Daya
Bank Dagang Negara
Bank Negara Indonesia 1946

Agricultural Estates

Bank Bumi Daya
Export-Import Bank Indonesia

Mining

Bank Dagang Negara
Bank Bumi Daya

63. All the five banks undertake normal commercial banking operations, including financing of the export and import trade. These comprise the bulk of their operations. With assistance from the Government and the Central Bank they also engage in medium term financing (three to five year credits) in their respective specialized fields but for long term financing they do not have long term funds. Of course, such operations will also require different standards of technical appraisal. These banks are therefore generally more inclined to commercial banking operations which are easier and more rewarding. Lack of long term financing sources is an important gap for all sectors -- industry, transportation, mining, estates and agriculture.

64. There is a particularly urgent need for medium and long term finance for the rehabilitation of agricultural estates which are an important source of country's foreign exchange earnings and which over the years have received little attention for their rehabilitation. These estates are broadly divided into three groups, namely Government-owned, foreign owned and Indonesian owned. Recently, IDA have sanctioned two loans for the rehabilitation of two groups of Government owned estates. It is understood that the Asian Development Bank propose to finance one more group of Government owned estates. The foreign owned estates are expected to meet their rehabilitation needs from funds to be brought in by their owners. This leaves out a much larger number of agricultural estates owned by the local people. Although in size, these locally owned estates are small, both in number and in total area they are important to the economy. Total area under all estates is estimated at 3.356 million hectares and of these, as much as 2.603 million hectares is covered by estates owned by local Indonesians. Bulk of the production of tea, coffee and tobacco comes from these estates. The entire production of pepper and cloves, which are also exported, is from the privately owned estates.

65. It seems desirable, in the economic interest of the country, that adequate arrangements are made to meet rehabilitation needs of all agricultural estates for their medium and long term credit requirements. At present, through funds provided from Bank Indonesia, some medium term financing is being made available to agricultural estates, both government owned and private owned, through Bank Bumi Daya and the Export Import Bank, but these arrangements are inadequate and lack the specialization necessary in such an operation. Bank Bumi Daya had been originally designed to operate as a specialized bank for financing agricultural estates. It had gradually drifted into commercial banking operations. It should therefore revert to its original field of specialization. Bank Bumi Daya might well be re-organized so as to concentrate more on meeting long term and medium term needs of agricultural estates. For this purpose, to begin with, it may be divided into two separate departments -- commercial banking and development finance banking. For the operations of the latter department it should be provided with long term resources and suitable technical personnel specializing in the appraisal of financing of agricultural estates. When the development financing side of its operations sufficiently grows, its commercial banking operations might be restricted to agricultural estates. It should then become a specialized development finance institution for meeting current needs as well as development finance needs of the entire agricultural estates sector of the economy.

66. Elsewhere in the report it had been recommended that to raise production levels, new agricultural estates be developed in the outer islands where land for the purpose was available. Long term finance needs for the development of new agricultural estates could also be provided through the specialized institution. There seems enough scope for an institution specializing in the financing of agricultural estates which form an important sector of the economy.

67. Bank Rakjat Indonesia (People's Bank) with over 600 offices and 700 mobile units spread throughout the islands, provides largely short term credit to the farmers. Then there are about 8,000 village banks engaged in similar operations and supervised by the Bank Rakjat. The Asian Development Bank has recently carried out a survey for improving facilities for agricultural needs, generally for current agricultural operations of small landholders and the Indonesian Government is now considering suggestions contained in this survey. As in the case of agricultural estates, so in the case of small land holders, present arrangements for development finance need to be improved. For buying tractors, low lift pumps or sinking tube wells, small holders also need long term finance.

68. Bank Rakjat (People's Bank) was also originally designed to specialize in the financing of small-holder agriculture. Like other banking institutions in the country, it had also drifted into commercial banking, which was now an important part of its operations, adversely affecting its outlook in the agricultural field. This Bank should also

revert

revert to its original specialization. Apart from financing small holders for current agriculture needs, the Bank should have a separate department for meeting development finance needs of small farmers. This department should be able to appraise needs and provide medium and long-term finance for such development purposes as buying of a small tractor, sinking of a tube well or the installation of a water lift pump so that one more crop can be grown on the same land. It should gradually shed its commercial banking operations and concentrate on the financing of agriculture. Arrangements should be made to provide it with funds for its medium and long term loan operations.

69. As already stated, there are some 8,000 village banks, spread throughout the country, providing finance for current agricultural operations to very small farmers, who are otherwise ineligible for a loan from Bank Rakjat. This is again a very useful institution which needs to be nourished and supported through Bank Rakjat.

70. Today, the basic need of the country is to raise production levels in all sectors of its economy. It is necessary therefore, to build up specialized development finance agencies to meet credit needs of each such sector. The suggestions made above are directed towards this objective. Over a period it is envisaged that Indonesia may have two development finance companies for medium and large industries, a development bank in each province for supporting small industries, a specialized development agency for financing agricultural estates and an agricultural bank solely engaged in providing finance to small farmers, both for current agricultural operations as well as for their development needs. Development finance needs for mining projects could be met through the larger development banks for industry.

71. <u>To Sum Up</u>: -

a) For the proper exploitation of its rich resources of materials and manpower, Indonesia needs number of specialized development finance agencies that could meet medium and long term credit needs of small and medium as well as large projects in the fields of industry, transportation, mining and agriculture.

b) In the present state of the private sector growth, it does not seem feasible to establish strong 100% privately owned development finance agency or agencies or those exclusively intended for the financing of the private sector. Such agencies for long will have to be largely Government owned and/or supported and engaged in the financing of both private and public sectors, but there must be reasonable safeguards to ensure that the private sector will get its due share of the assistance available. Some of these agencies should also be able to participate in the equity of enterprises for eventual sale to local Indonesians.

c) Notwithstanding its past record, present handicaps and future limitations, all possible efforts be made to re-organize BAPINDO (Industrial Development Bank) so as to strengthen its capabilities to operate primarily as a development bank, largely for meeting medium and long term financing needs of existing industries in the small and medium range.

d) The multi-national development bank for Indonesia, which is proposed to be shifted from Holland to Indonesia, should be broad based to permit participation in its equity by all those interested in the development of Indonesian economy (International agencies, Governments and private interests, both foreign and Indonesian), and that it should have adequate capital base to support external borrowings in keeping with the needs of the economy. The institution envisaged should also be capable of promoting new industries of importance to Indonesian economy, stimulate interest and confidence of foreign and local investors, line up financing and management arrangements and where necessary and desirable, participate in the equity of such enterprises with the objective of ultimately dis-investing to the Indonesian nationals as their number and resources grow;

An arrangement could be worked out for coordination between BAPINDO and this institution so that there is no unnecessary overlapping;

e) Bank Indonesia may carry out a study of the constitution and operations of the Regional Development Banks with a view to their re-organization to serve primarily as agencies for meeting medium and long term financing needs for small and cottage industries in the provinces. The re-organization could be carried out over a period, initially selecting one or two banks for the purpose;

f) Bank Bumi Daya be re-organized to specialize in the financing of all agricultural estates, both for their current needs as well as medium and long term development finance needs. For these purposes, its resources and technical personnel, to the extent necessary, be strengthened; and

g) Bank Rakjat should restrict its operations in the financing of small-holder agriculture, both for their current agricultural needs as well as development finance needs, besides supporting and supervising the village banks. It will also need long term resources.

5. OTHER SUGGESTIONS

72. To stimulate private enterprise in Indonesia further suggestions are offered.

73. Government Attitude towards Private Enterprise.

Since the formation of the new government early in 1966, Government's attitude towards the private enterprise has generally been favorable. This is reflected in the number of measures Government has since taken, including the return of estates and factories to their original foreign owners and the passing of the Foreign and Domestic Investment Laws to encourage new investments. Recently, however, in one respect, there has been a reversal of this policy. Government has decided to constitute a Copra Board to control the copra trade now in private hands, especially exports of copra, in order to check trade malpractices. All business houses handling copra will be registered by the Copra Board and their trading operations regulated in the general interests of exports. So far, this is alright, but intention has also been expressed that after some time, all exports of Copra will be handled exclusively by the Copra Board, which means the Government. It is proposed to also establish a Pepper Board for regulating the trade in pepper and eventually exporting pepper on Government account through the Pepper Board.

74. Government must have strong reasons for taking this step but it is urged that in the interest of developing private enterprise in Indonesia, Government might like to avoid as much as possible, direct handling of exports of pepper or copra by a Government agency. The regulations proposed to be issued to regulate private trade in these two items should be given sufficiently long trial. May be that as a result of the experience gained Government would no longer feel the need for taking over directly the export of these items. If the objective is to check malpractices in the trade, generally regulation of the trade is the remedy. Take-overs could lend to new malpractices.

75. It is normally the successful businessmen who enter the industrial field in their respective lines of business. To build up the local private sector in Indonesia it is important that more and more business opportunities are provided to the local entrepreneurs. Towards this objective number of steps could be taken by the Government. For example, retail distribution of petrol through petrol pumps in large number of cases is with the Government-owned PN Pertamina. Local private enterprise could be easily inducted into this business, leaving wholesale distribution with Pertamina. Similarly, local private entrepreneurs could also be encouraged to enter the field of agricultural servicing such as sale of fertilizers, seeds, etc. Even

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the rice procurement operations could be more conveniently conducted through local entrepreneurs who could then sell in bulk to the Government agency. Shops in the big department store at Djakarta now run by the Government, could be rented out to local entrepreneurs. There could be other areas as well which could be taken over by the local entrepreneurs. This will relieve the Government agencies of retail business and gradually build up local private enterprise.

76. It is recommended therefore that business operations of all Government agencies be reviewed with a view to identify areas in which local private entrepreneurs could be encouraged to enter, relieving such Government agencies of retail business.

77. Establishment of Industrial Estates

In an underdeveloped economy, it is always difficult, especially for new entrepreneurs, after they have obtained Government sanction for the establishment of their enterprises, to locate and acquire a suitable piece of land for the purpose, where water, power, road and rail facilities would be available. Governments in underdeveloped areas therefore have earmarked suitable land areas at different points all over the country where the land could be made available with the necessary infrastructure facilities. This promotes and accelerates the development of industries by the private entrepreneurs. These are called industrial estates. These industrial estates also serve the purpose of spreading the industrial development to areas where otherwise the entrepreneurs may never have gone. The arrangement therefore, also avoids concentration of industry and extends the benefit of industrialization to more areas within the country. The matter has been discussed with the authorities who are planning to move in the matter.

78. It is recommended therefore that a survey be undertaken through a competent agency to prepare a project report for the establishment of industrial estates at a few suitable places in the country so that on the basis of the results of the survey, further action in the matter may be expedited.

79. Industrial Equity Participation Fund

In underdeveloped countries, and so is the case in Indonesia, there is generally a large number of small local entrepreneurs with insufficient resources, to be able by themselves to set up a new industry or expand an existing small one. Even where adequate development finance arrangements exist, these entrepreneurs cannot put up sufficient equity capital on the basis of which they can get further assistance from the development finance agency, i.e. a small shoe merchant wanting to put up a small shoe factory cannot put up his share of the contribution to be able to obtain balance as a loan from the development finance agency. Say the project cost is US$ 50,000 but he can only put US$ 10,000 so that he cannot get a loan of as much as US$ 40,000. In

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the case cited, if the entrepreneur could get another US$ 10,000 as equity from such a fund, maybe the development finance company would give him the balance of US$ 30,000 to complete the project. The equity fund therefore is normally placed at the disposal of a development finance agency in the country dealing with small enterprises. The entrepreneur has the right to buy over the Government participation over a number of years on an agreed basis which is generally in favor of the entrepreneur. In this way the funds are rotated to the maximum extent possible.

80. In the conditions of Indonesia a Government Equity Participation Fund placed at the disposal of the reorganized Regional Development Banks could play a vital role in promoting and developing private enterprise in the provinces. There appears a need and justification for such a Fund which could be gradually built up over a number of years and then become a revolving fund. This could only be done after Regional Development Banks are reorganized and equipped to handle this type of operation. Alternatively, this could be a separate agency charged with the responsibility of promoting small enterprises and participating in those enterprises where necessary. There is great need for a promotional agency as well as a financing agency for small enterprises.

81. It is recommended therefore that the question of establishing Government Equity Participation Fund be considered. Such Fund may operate as an independent agency or through the reorganized Regional Development Banks but the fund's objective should be promotion as well as participation in the establishment of small industries in the provinces.

82. Interest Rate Structure

At present, Government owned banks are paying 2 percent per month on 12 month deposits. This was an improvement because some months ago they were paying as much as 6 percent per month on such deposits. Even at the rate of 2 percent per month, annual yield was 24 percent. There would be number of persons with money who would feel if they can get a return of 24 percent per year by merely keeping their surplus money in Government banks why should they go into a venture where the return may not be higher, and where it may take 2 to 3 years before they actually begin to get the return, as would be the case in the establishment of a new industry. While the level of interest rates has helped under inflationary conditions to mop up surplus funds which was both desirable and necessary, such rates may be discouraging investments in new and productive ventures so far as some people were concerned. Steps have therefore to be taken over the period, as the economy improves, to gradually bring down interest rates to a level where these would not discourage investments by local entrepreneurs. The authorities were alive to this situation.

83. It is recommended therefore that the problem of interest rates be kept under review in the context of the overall economic situation requiring maximum mobilization of private savings through the banking sector and the need to promote new investments in the industrial and agricultural fields by the local moneyed people.

84. Development of Stock Exchange and Money Market

In any program of industrial development it is important, both from social and economic points of view, that the largest number of the people in the country are encouraged to place their savings for investment in industry, thereby widening the base of industrial ownership. This is largely achieved through the medium of stock exchanges where shares can be easily bought and sold. An attempt was made in 1952 to establish a stock exchange in Djakarta but since then, due to the abnormal conditions prevailing in the country, the institution of the stock exchange has remained dormant. There are hardly any shares quoted on the stock exchange and hardly any dealings in shares.

85. With large new investments coming in the private sector, mostly through foreign investors, who are again required, as a condition of the permissions, to associate, over a period, local Indonesians in the ownership of these enterprises and with the return of foreign enterprises to their original ownership, again subject to the condition that they will associate local private capital, it is important that the institution of stock exchange is revived and revitalized to facilitate Indonesians acquiring ownership in the shares of industrial enterprises, particularly foreign companies, which within the next five years, would be in any case offering some shares for Indonesian subscription.

86. There are today in Indonesia some good companies making regular profits out of which they can pay handsome dividends. There are also a small number of state enterprises making handsome profits, such as the Cement Company. It might be possible to persuade about a dozen of such companies, including foreign companies, to offer on the stock exchange for sale to Indonesians, under a phased program, about 10% to 15% of their stock at an attractive price so that a beginning is made. It is difficult to make even a small beginning, but then in the course of time the tempo and the volume grows as people benefit from such investments through dividends and capital appreciation of their stocks.

87. A pre-condition for the revival of the stock exchange is replacement of or amendment to the present company law which was framed to suit the business conditions during the Dutch period. A revision of the tax law will also be needed to provide necessary incentives for people to buy shares in companies which offer their stock on the market. A revision of the tax law relating to companies will also be necessary to encourage more and more of the companies to go public and offer their stocks on the market to Indonesians. These tax matters are separately mentioned under tax incentives.

88. It is generally argued that under the conditions in an underdeveloped economy and particularly in the present state of private enterprise in Indonesia, it is not possible to develop stock exchange market. There is a force in this argument but nevertheless a beginning has to be made if the stock exchange market has to be developed, say even over a period of five years, to serve the desired purpose of widening the industrial ownership and participation by Indonesians in the equity of foreign-owned enterprises. This beginning will necessarily be very modest under the present conditions but it could be made and should be made. What is required is 10 to 12 good scrips offered at an attractive price and paying annual dividends at good rates. This is how beginnings have been made in a number of other underdeveloped countries where stock markets have gradually developed and are successfully operating according to local standards. Even their limited operations make their contribution in the gradual growth of private savings for investment in industrial ventures and to that extent promote private sector development.

89. A direction in which the Central Bank could move even now to gradually build up money market is the issue of three-month treasury bills, initially, for commercial banks and insurance companies. All commercial banks in the country are required to maintain a certain proportion of their deposits with the Central Bank and in other liquid forms. Investment in three-month treasury bills would count towards the liquidity requirements of the commercial banks and to that extent banks would be encouraged to invest in treasury bills. Similarly, insurance companies would also have some spare funds for investment in treasury bills. Once the treasury bill market is developed, Government could float twelve-month treasury bonds and then gradually extend the period of bonds so as to develop a market in Government securities of shorter maturities. This will, of course, take a few years but beginning can be made now with the treasury bills as a first step towards building up money market in Government bonds.

90. It is recommended therefore that after the present company law is amended providing for one vote for one share, steps be taken to gradually develop stock exchange from small beginnings.

91. It is also recommended that as a first step towards the development of money market, Central Bank float three-month treasury bills, initially for banks and insurance companies.

92. Private Commercial Banks

There were about 115 private commercial banks in the country owned by local entrepreneurs. Their number had grown to 124 by June 1968 but had dwindled to 115 by the end of June 1969 because of bank failures. There were two bank failures in 1966, one in 1967, five in 1968 and as many as seven up to October 1969. These banks were being squeezed on one hand by Government-owned banks and on the other hand by the foreign commercial banks. To exist these banks, in competition

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with Government banks and foreign banks, had to pay much higher rates of interest on deposits and therefore charge much higher rates of interest on loans. Consequently, their lending operations were becoming risky and their financial position weak. This was an important sector of the economy concerning the private sector, which needed urgent attention of the Central Bank. In the first place, the number of banks was too large so that the individual units were generally too small and therefore not in a position to compete with Government banks and foreign banks. Mergers had therefore to be encouraged to build up few but strong locally-owned commercial banks. Banks so strengthened needed to be supported by the Central Bank through provision of rediscount facilities, etc. on the same basis as available to Government-commercial banks. It was also desirable to consider for them deposit insurance scheme to build up public confidence in these local banks.

93. The Central Bank was already engaged in a study of the problems facing private commercial banks. This study needed to be expedited and early steps taken to promote sound development of private commercial banks in the country, which should also help the growth of local private enterprise.

94. It is recommended therefore that the problems of private commercial banks in the country should receive urgent and immediate attention of the Central Bank so as to improve their operations, strengthen their resources and competitive position.

95. Tax Incentives

Tax incentives are suggested in the following direction: -

i. to stimulate investment in industries in areas outside Java by local entrepreneurs a longer period of tax holiday be allowed for locally-owned industrial enterprises using local raw materials. There would be generally small industries or medium size industries. This should also encourage industries based on local raw materials as against imported raw materials. For industries not covered above, tax holiday periods may remain unchanged;

ii. to stimulate private investment by local entrepreneurs rebate of tax may be allowed up to a certain percentage of annual income where investment is made in a new industrial enterprise approved by Government;

iii. to encourage limited companies, including foreign companies, to offer their shares on the stock exchange, when one is organized, lower the rate of corporate tax for such companies;

iv. to encourage individuals to subscribe for shares offered on the stock exchange when one is organized: -

a. give rebate of tax for investment made in such shares (originally offered on the stock exchange) up to a certain percentage of the annual income of the investor liable to tax; and

b. exempt dividend income from such shares received by individuals from the payment of tax up to a certain fixed amount.

v. to encourage developments in agricultural field through private enterprise efforts, exempt from tax say for a period of five years, profits earned by enterprises from agricultural servicing such as sale of fertilizers, insecticides, sinking of tube wells, fixing of low-lift pumps, and sale and servicing of tractors and other agriculture implements.

96. It is recommended therefore that Government consider tax incentives to encourage (a) industrialization of areas outside Java, (b) listing of shares of companies on the stock exchange when established, (c) investment by local Indonesians in new industrial enterprises and shares of companies offered on the stock exchange and (d) private enterprise to enter the field of servicing agriculture.

97. New Projects to Stimulate Investments in the Private Sector

To stimulate investments in the private sector, both foreign and local of the nature that will develop economic resources of the country, it was desirable to arrange for a number of surveys and specific project reports based on the results of such surveys. This was necessary to attract investments in larger projects, particularly from foreign investors. For example, substantial foreign exchange expenditure was being incurred on the import of paper when the country had the basic raw materials for producing pulp and paper, not only to meet growing local needs but perhaps even for export. What was therefore required is a survey of the potential market for local needs as well as for possible export of pulp and paper and preparation of feasibility studies for new locations where pulp and/or paper projects could be profitably established and existing plants expanded. Similarly, although country had all the limestone needed, it was short of cement, so that a survey was needed to work out projected requirements for cement, potential for export if any, and based on that survey, feasibility studies for the possible extension of existing plants and for the setting up of new plants with their locations. Arrangements for the setting up of a new cement plant near Djakarta were now in negotiation stages but still an overall survey should prove useful. Another useful area for a country-wide survey and preparation of feasibility studies is increase in the capacity for the manufacture of fertilizers which were in short supply and therefore imported. Government of Indonesia and the World Bank had agreed on survey of the entire sector through consultants to assess future needs over the next ten years, indicating probable locations for new plants. In the meanwhile arrangements were underway for the expansion of an existing fertilizer plant.

98. A land utilization survey seemed desirable to determine the potential for new estates, which could be developed with possible private participation, both from foreign investors and local entrepreneurs. While 70% of the land area in Java and Madura was under cultivation, it was reported that in the outer islands on an average, only 5% to 10% of the area had been brought under cultivation. There seemed therefore potential for developing new areas for agricultural estates which could have a major impact on the economy of the country.

99. To make the country self-sufficient in rice (during last year rice imports were around 700,000 tons), a number of programs were underway to increase production of rice which was staple food of the people. These measures were helping to raise production but the population too was on the increase and the annual increase in population alone needed over 300,000 tons of more rice each year. To supplement existing efforts towards rice self-sufficiency, perhaps rice estates in new areas could be developed. Similarly, a land utilization survey might open up the possibilities of growing cotton in certain areas and in that case, cotton estates could be developed to meet growing requirements of local cotton textile industry which now annually imported 200,000 bales of cotton. In fact cotton was now being successfully grown on experimental basis in East Java and Nusatengara islands. What was needed a drive to bring under cultivation sufficient area in these islands to make the country self-sufficient in cotton. According to information available from the 15th to the 17th century, Indonesia was a substantial exporter of cotton and this cotton was mostly grown in Lesser Sundas (now Nusa and Tenggara islands). There were also possibilities of developing banana plantation estates at suitable points near the ports as an export industry. Possibilities also existed for developing estates for cattle breeding to meet country's requirements for beef, milk and milk products which were in short supply. If Land Utilitism survey suggested the possibilities for developing new agricultural estates for different purposes and specific feasibility reports were prepared for each of such projects indicating locations and profitability, foreign and local entrepreneurs may come forward to participate in developing some of these estates. Indications were that foreign investment might be forthcoming for the development of new estates for banana plantations for export and for cattle breeding estates or ranches.

99. A survey on tourism in the Bali area by UNDP was being undertaken. This was likely to suggest projects for promoting tourism (hotels and other facilities) in the area. Under the 5-Year Plan new projects for tourism had been assigned to the private sector.

100. It was understood that a survey of the mineral resources was also being arranged under a United Nation's program. This might also open up opportunities for further mineral exploitation in which the private sector could also participate, both foreign and local. But in such cases also it would be desirable to arrange in advance for the preparation of feasibility studies in the case of each such project. Private sector would be more attracted when feasibility studies were available.

101. After survey in each field and the preparation of specific project feasibility reports, it will be necessary to have an agency charged with the responsibility of firming up each such project in all its aspects -- a promotional agency. Such an agency will have to seek out suitable investors, foreign and/or local, line up financing and management arrangements, including any participation by the agency where necessary or desirable, and see that each project is moved onto the ground and completed as quickly as possible. Any investment by such an agency, where the private sector has joined in the investment, should be in the nature of an investment which is ultimately intended to be sold to local private enterprise as it grows. Under the present conditions in Indonesia promotional agencies established by Government seems to be the way out to initially promote larger projects in specific fields of economic growth with maximum possible participation from foreign investors and local entrepreneurs. Again there may have to be different promotional agencies for different fields. For example, for promoting specific projects in the mineral field, there could be a Mineral Development Corporation; for new agricultural estates there could be Agricultural Estates Development Corporation and for larger industries there could be Industrial Development Corporation. Initially, one such promotional agency might be established (Development Corporation of Indonesia) with a nucleus staff to even arrange for surveys and preparation of specific feasibility studies on projects and then expanded as projects are launched.

102. Surveys in different major economic fields, feasibility studies in specific projects developed as a result of such surveys, and the establishment of promotional agency or agencies to push forward such specific projects, would not only accelerate the development process but also help to mobilize private sector resources, both foreign and local, for the development of the country. Bulk of the participation in larger ventures would, however, come from foreign investors but the local enterprise would also have an opportunity to participate and it is through such participation that the local entrepreneurs will get the necessary training for their future growth. Some of these functions could well be taken over by the Multi-national development bank.

103. Some similar arrangements were needed for promoting medium and small industries suited for local entrepreneurs to encourage investments by them. As already stated he is today the weakest link in the chain of economic development of Indonesia. In the case of small industries it may not be necessary to undertake detailed surveys but preparation or at least assistance in the preparation of feasibility studies for specific projects and a promotional effort are both necessary and desirable. How this much needed assistance can be provided to the local entrepreneurs is a matter that needs urgent attention. Future growth of the local entrepreneurs in Indonesia will largely depend on such assistance for which a solution has to be found. Perhaps it could take the form of an Industrial Advisory Centre suitably staffed.

104. It is recommended that arrangements be made, wherever possible under Technical Assistance Programs, for surveys in different fields of economic importance to the economy, where this is not being already done. Based on such surveys feasibility reports be prepared for specific projects with their possible locations. Ready availability of surveys and feasibility reports for specific projects based on such surveys would stimulate interest of private investors, particularly foreign investors, for their possible participation in the setting up of new enterprises;

105. It is recommended that arrangements also be considered for the setting up of an agency which would prepare and make available to the local entrepreneurs feasibility studies on different industries in the small and medium range to stimulate interest of local entrepreneurs and on the basis of which interested local entrepreneurs would then approach development financing agencies for financial assistance. This may take the form of an Industrial Advisory Centre suitably staffed. The Centre could also be approached by any local entrepreneur for a feasibility study on a project of his choice in which he is thinking of making an investment;

106. It is further recommended that it would be desirable to establish promotional agencies to push forward large specific projects in specified fields, i.e. Agricultural Estates Development Corporation for new estates, Mineral Development Corporation for new mining projects and Industrial Development Corporation for new large industries. One such promotional agency (Development Corporation for Indonesia) might well be established in advance with a nucleus staff to even arrange for surveys and preparation of specific feasibility studies on projects and then expanded as projects are launched. This corporation should specialize in filling equity gaps.

107. Government-Owned Enterprises

There are already large numbers of Government-owned enterprises, agricultural estates, factories, and trading houses. In order to improve their efficiency of operation and open up possibilities for participation therein by local private enterprise as it grows, the following measures are suggested: -

i. convert all the enterprises into independent and separate companies registered under the ordinary company law; Government were now moving in this direction;

ii. Each company to have an independent Board of Directors with one or two directors from the private sector, experienced in the line of business, nominated on the Board;

iii. all enterprises should be required to prepare their annual profit and loss accounts and balance sheets within required time limits, have these audited by independent auditors (Certified Public Accountants) and publish their

annual

annual accounts so that the results of their operations should become public. Such a course would alert the management and improve their operational efficiency;

iv. make a separate cadre of managers and other executives of the state enterprises as distinct from Government servants so that while they could be transferred from one enterprise to another enterprise, they should not be able to go back to Government service as such. This would give them a sense of belonging to the enterprises, which is good, both for the enterprises and for them. Personnel working in these enterprises are a source of future growth of private enterprise in Indonesia;

v. In the case of profitable enterprises, when stock exchange is established, offer 10% to 15% of the shares, one by one and over a period, to local Indonesian investors so that there is participation of local private Indonesians in the ownership of these enterprises and they become investment and business minded; and

vi. wherever possible, sale of these enterprises may be made to local private Indonesians singly or jointly on the condition that they will not hold more than 50% in the share capital while the balance of 50% will be either offered to private Indonesian nationals or will remain with the Government as an investment until taken over by other local investors. The idea is that in case of dis-investment by the Government, such enterprises should have wider ownership for obvious reasons.

108. It is recommended that all state enterprises be converted into companies with independent board of directors and that as a first step towards private sector participation, one or two local private persons be associated with the management of each enterprise through Government nomination on the board of directors of such enterprises. It is further recommended that the accounts of all state enterprises be annually published within specified time, duly audited by Certified Public Accountants. It is also recommended that the executives managing state enterprises should form separate service cadre outside the Government so as to give them a sense of belonging to the enterprises.

109. Holding Agency for Government Investments in State Enterprises

Number of state enterprises in the industrial field and Hotel Indonesia were promoted by the State Industrial Bank between 1951 and 1960. Government portion of the equity in these enterprises was held by the State Industrial Bank. With the merger of the State Industrial Bank in BAPINDO (Industrial Development Bank), these

investments

investments were first transferred to BAPINDO but shortly thereafter were transferred to the Central Government where these were held in different ministries according to the nature of the enterprise. Foreign enterprises which were nationalized between 1957 and 1965 (except those since returned to their owners) were also held by the different ministries of the Central Government according to the nature of the enterprise. This was the position until recently when Government decided to centralize these investments in the Ministry of Finance where a separate department was being set up for the purpose. This was a move in the right direction.

110. But in order to more effectively keep a watch on these investments and facilitate dis-investment wherever possible, a separate agency or a holding company may be established for the purpose to operate on business principles. This may be done after the new department has collected all the investments and some experience of centralization is gained. The Holding Company should have a Board of Directors who should be capable of looking after the investments through periodical returns to be obtained from all enterprises and who should be able to take steps for gradual disinvestment to the local private entrepreneurs as opportunities arise. Association of local entrepreneurs in the management and equity of such enterprises recommended elsewhere, should help in the dis-investment process. The Holding Company should operate under general policy guidelines laid down by the Finance Ministry. The holding company may be the same Government Development Corporation, referred to earlier.

111. It is recommended therefore that after some experience of centralization has been gained, a separate Holding Company be formed to manage all Government investments in state enterprises but operating under general guidance of the Finance Ministry.

112. Profession of Certified Public Accountants and Auditors

As the private sector grows, they are going to need the services of professional accountants for the audit of company accounts and for certifying such accounts. The same would also apply to state enterprises as these are converted into companies. These professional accountants also render other services for the private sector such as assisting in the formation and registration of companies etc. It is important therefore that Indonesia should build up qualified professional public accountants.

113. At present, five universities in Indonesia hold examinations for qualifying as accountants. After qualifying from one of these universities, a candidate has to work in a Government agency for three years and then he can practice as a public accountant. There is an Indonesian Institute of Accountants of which membership is restricted to accountants who have so qualified.

114. There are today in Indonesia about 400 qualified accountants, mostly in service with different organizations. In public practice the number is reported to be around 30 only who work with 17 firms of practicing accountants and auditors.

115. The profession of public accountants and auditors needs to be placed on a firmer footing for the growing needs of Indonesia. As in other countries, there might be a central agency for conducting examinations and for arranging for the practical training which is normally undergone in the office of a practicing auditor. An early beginning has to be made to have during the next few years sufficient number of qualified accountants to man the services that will become available for qualified accountants in the growing private sector and to meet the growing requirements for Certified Public Auditors.

116. It is recommended therefore that steps be taken to set up a central organization for qualifying and training of Public Accountants and Auditors to meet growing requirements in business and industry for such personnel.

117. Business Management Training Programs

For the growth of the private sector and in particular local private enterprise, it is essential to have arrangements where those employed in business organizations and those seeking to enter business and industry get basic training in the techniques of modern business management.

118. There is National Institute of Administration which provides training facilities for Government servants, including those employed in State enterprises. This institute has recently sponsored a project for Formulation and Project Evaluation course in cooperation with the Economic Development Institute of the World Bank. Arrangements were now being made to begin such a course from April/May this year. Private sector would have an opportunity to participate in this course. For the private sector the main institute providing management training is the Institute for Management, Education and Development (P.P.M.). How far the existing arrangements are adequate for meeting growing needs of private sector for efficient managers and business executives, is a matter that needs careful assessment by a competent agency. To the extent that the existing arrangements for business training need to be strengthened, necessary steps should be taken well in advance of the growing need.

6. CONCLUSION

119. Economic problems, confronting Indonesia's new leadership, were both colossal and complex. Destruction during the Second World War, confrontations and internal disorders extending over 23 years and beginning from the Japanese occupation in 1942, had destroyed the economic fabric of the country. But the potential for economic regeneration of Indonesia, in terms of human and natural resources, was immense and so was the determination of the new Government to work out programs for economic stabilization and progress. A number of measures, taken on the economic front over the past three years, were beginning to bear fruit. The country was now on the threshhold of the turning point from economic stability to rehabilitation and progress.

120. The situation now seemed right for the private sector to step up its activities in developing country's vast economic resources. This could largely free the Government to devote its attention, energies, and resources for the rehabilitation and improvement of infra-structural facilities which were in bad shape, and rehabilitation of which could further support the private sector's efforts in the development field. Thus, combined and coordinated efforts in the development field, both by the Government and the private sector, could maximize the economic progress of the country. This is what Indonesia needed today the most, and towards this objective were directed the policies of the present Government.

121. Already, foreign private enterprise was active rehabilitating and improving their old enterprises which had been returned to them by the new regime. Confident about the future of Indonesia and encouraged by the policies being pursued by the present Government, proposals from foreign investors for fresh ventures were pouring in. New investments were mostly in extraction industries such as mining, oil exploration, forestry and fishing. These were the fields in which there was great potential, both for the foreign private enterprise as well as for speedy economic growth of Indonesia. Establishment of manufacturing plants was recently gaining their growing attention. Encouraged by the policies of the new Government towards private enterprise, as well as entry of large numbers of foreign investors, local Indonesians were also coming forward for rehabilitating and extending the few enterprises which they now owned and for the setting up of new enterprises. But their numbers and resources were limited and this was the weakest link in the chain for the future economic development of Indonesia.

122. This weak link in the chain is the child of past history. It is capable of growing into full manhood but that will need time, nourishment and support. Compared to several other developing countries, in Indonesia a number of factors are favorable to the growth of local private enterprise capable of taking active part in the future economic development of the country. Progress in this field, in the beginning, is likely to be slow, but when the momentum is gained the progress will become worthwhile and rewarding -- rewarding for the people themselves, and for the economy of the country.

123. Since the new regime came into power, a number of measures have been taken to stimulate the private sector, both domestic and foreign. These have yielded results, but more remains to be done, in particular, for the growth of Indonesian entrepreneurs. There is the need for a basic corporate law, which is the foundation for building up the private sector. The tax law has to be re-oriented to provide incentives for savings and for the investment of those savings in productive ventures -- ventures productive for the country as well as for their sponsors. Procedures for the establishment and operation of privately owned enterprises have to be simplified. Opportunities have to be brought out through surveys and feasibility studies to facilitate participation of the private sector both domestic and foreign, in specific projects, so as to mobilize internal and external resources, know-how and management for the growing development needs. Development agencies have to be reorganized through strengthening of their resources and management so as to be geared for medium and long term finance needs of different sectors of the economy and new agencies have to be established for stepping up the tempo of development. Then steps have to be taken, particularly to encourage, promote and strengthen the growth of local private entrepreneurs so vital in the economic development of any country.

124. Some suggestions and recommendations have been made herein for achieving the above objectives -- broadening the field and facilities for the private sector, both foreign and local, so as to maximize their contribution to the economic development of Indonesia. In these suggestions, the role of specialized institutions is vital. Experience in a number of developing countries has shown that maximum progress in the development field is achieved through specialized institutions carefully established, suitably staffed and charged with responsibility in specific fields of development. For this very reason, Indonesia also needs a number of specialized institutions suitably equipped to support, promote and push forward development in different sectors of the economy. Important recommendations therefore relate to the institutional set-up. These recommendations cover: -

a) For medium and large enterprises, including transport and mining

i. Possible re-organization of BAPINDO. Notwithstanding its past record, present

handicaps

handicaps and future limitations, perhaps the institution could be re-organized to operate primarily as a development finance agency largely for medium-sized loans for balancing and modernization of existing enterprises, for which there is both need and urgency.

ii. Establishment of a new multi-national development finance Company, broadly based, with participation from governments and private sector, interested in the development of Indonesian economy, with a decent equity base to support external assistance from different sources, inspire confidence of domestic and foreign investors and push forward industrial development of the country.

b) For small enterprises

iii. Gradual re-organization of the Regional Development Banks (23 in number) to operate primarily as development finance agencies in their respective provinces for supporting and promoting small enterprises in the interior of the country for which also there is scope and need.

iv. Establishment of a Government Equity Participation Fund which might be administered by the re-organized Regional Development Banks to provide temporary equity support to small entrepreneurs for their new projects or expansion of existing projects.

v. Establishment of an Industrial Advisory Centre that provides guidance and assistance to small entrepreneurs in the preparation and appraisal of their projects to be able to get assistance from a development bank.

c) For large-scale agriculture (Agricultural Estates)

vi. Possible re-organization of Bank Bumi Daya (originally a specialized bank for agricultural estates) designed primarily to meet the development finance needs of agricultural estates, both Government-owned and privately-owned -- and enable it gradually to shed its commercial banking business except that relating to agricultural estates.

d) For small-holder farming

vii. Re-organization of Bank Rakjat (People's Bank) to restrict its financing operations to agriculture so as to meet the finance needs of small farmers, both for their current agricultural operations as well as for their development finance needs.

e) For promoting larger enterprises, particularly those based on local raw material resources

viii. A Government-owned Development Corporation which will be primarily concerned in meeting equity gaps for the larger projects and generally assisting in the promotion of such projects.

125. The suggestions and observations contained herein have been discussed with the Bank's mission staff at Djakarta and with the Indonesian authorities. In the light of the discussions, some changes have been made in the suggestions as originally drafted. As the suggestions cover a wide field, it is realized that their implementation will have to be spread over a period, depending upon many factors, including the economic and political situation in the country as it develops. The intention has been to present at one place a number of these suggestions, even the gradual implementation of which over a period should promote economic development and, in particular, stimulate the growth of private domestic entrepreneurs, which for the Indonesian economy is a must. It is only through the combined efforts of the Government and the activised private sector that the pressing problems of the country in the economic sphere could be more effectively tackled.

In 1968 funds from the budget were again made available to BAPINDO (Rp. 6.2 billion) for medium-term loan for public sector projects. Amount unutlized in 1968 was allowed to be carried forward to the following year.

From April 1969, Government budget allocation was placed at the disposal of the Central Bank for being channelled to the state-owned banks including BAPINDO. The amount was to be used for medium-term loans to public and private sector projects mixed with funds made available by the Central Bank and out of deposits of the banks themselves. BAPINDO also continued to grant short-term loans, mostly for working capital needs, to private sector projects out of its deposit resources.

BAPINDO balance sheet as on June 30, 1969 is attached. It will be observed that its deposits were small compared to loan operations which were largely financed out of Government funds and funds made available by the Central Bank.

BAPINDO
Development Bank of Indonesia

CONDENSED FINANCIAL STATEMENT
(in million Rupiahs)

ASSETS	June 30, 1969
Cash	206
Banks	2,957
Short Term Loans	5,901
Medium- and Long-Term Loans	3,787
Letter of Credit	5,063
Premises & Equipment	457
Sundry Accounts	855
	19,226

LIABILITIES	
Capital Paid Up	60
Profits & Reserves	1,164
Demand Deposits	1,552
Time Deposits	1,374
Loans	7,585
Bonds	15
Government Participation Funds for Industrial Development	6,508
Sundry Accounts	968
	19,226

Source - BAPINDO
Exchange rate for accounting purposes - Rp. 400 = US$1

IBRD/DFC
December 17, 1969

ANNEX II

REGIONAL DEVELOPMENT BANKS

Indonesia is divided into 25 provinces or regions each headed by a Governor. 23 of these regions each have a Regional Bank. Between them the 23 banks have 30 branches and sub-branches. Most of the regional banks were otherwise not active enough. 20 of these banks were furnishing returns to the Central Bank which suggests that remaining 3 banks were dormant. These banks were operating under Central Government Act. No. 213 of 1962.

The share capital (which generally is very small) in each case is contributed by the Provincial Government and/or a local authority. Board of Directors is nominated by the Provincial Government and Governor of the province is generally Chairman of the Board of Directors. Other directors are normally local officials but in one or two cases non-officials had also been appointed to the Board. The resources of these banks were derived from deposits from the public as well as from regional Governments and local Government agencies in the area. Their lending operations covered a wide field from short term working capital needs of small industries in the area to short-term loans for housing, small business and even farming. These banks, due to lack of long-term resources were not in a position to provide medium- and long-term development loan for which they seem to have been primarily established. Like other banks in Indonesia they have also drifted into short-term commercial banking operations. The need for medium- and long-term development finance remains unattended.

The volume of operations of these regional development banks may be judged from their consolidated figures for 20 of these banks as on 30th June 1969 as furnished by the Central Bank. These are attached. Their combined deposits were over Rp. 4.35 billion.

One of the active of these banks was the Regional Development Bank at Bandung (for the province of West Java). This bank had 14 branches and 240 employees of whom 40 were graduates. Several of them were graduates in engineering, agriculture and law. Banks' statement of position as on 30th September 1969 (attached) showed paid-up share capital Rs. 2500, Reserves and P/L balance Rp 6,171,000 and deposits Rps. 717,520,000.

Another of the active banks was at Djakarta. This bank at the end of October 1969 had paid up capital Rps 500,000, Reserves Rps. 11,472,168 and deposits Rps. 1,388,303,236. This bank had loaned out only Rps. 165,276,124 so that bulk of the funds were held in deposits with other banks. 90% of the loans had been made for commercial operations.

The existence of these banks spread throughout the provinces is of considerable advantage although their present operations are restricted generally to commercial banking. The question is whether these institutions could be re-organized to serve as development finance agencies in each province. If re-organization could be carried out, these institutions might well concentrate on development finance needs of small entrepreneurs in the provinces, for which there is both scope and need.

Initially, Bank Indonesia might well carry out appraisal of these banks and then seek expert assistance. Maybe in the beginning, one or two of these institutions, better staffed for the purpose, could be re-organized by separating their commercial banking operations and directing their activities towards development finance. Their resource position would need to be strengthened and some changes may also become necessary in their constitution. The process may be slow but it should be worthwhile the effort.

COMBINED FINANCIAL STATEMENT OF 20 REGIONAL DEVELOPMENT BANKS

ASSETS	AS AT June 30, 1969 Rp. 000
Cash	340,000
Bank Indonesia	1,412,120
Other Banks	848,851
Loans	2,213,789
Notes Receivables	255,409
Receivables	137,751
Fixed Assets	159,734
Sundry	291,295
Total Assets	5,659,922
LIABILITIES AND OWNER'S EQUITIES	
Owner's Equities	507,276
Account Payable	374,871
Time deposits	722,722
Demand deposits	3,631,364
Notes Payable	8,022
Sundry	415,667
Total Liabilities	5,659,922

Source - Central Bank of Indonesia
Exchange rate for accounting purposes - Rp. 400 = US$1

IBRD/DFC
December 17, 1969

REGIONAL DEVELOPMENT BANK BANDUNG

Statement of position as on 30th September 1969

ASSETS		LIABILITIES	
Cash	126,062,720.38	Capital (Regional Government)	2,500.00
Balances with Central Bank	60,515,808.86	Reserves	14,053.00
Balances with Other Banks	106,917,210.27	P/L balance	61,696,696.40
Loans	397,253,422.50	Demand deposits	485,141,676.35
Furniture and fittings	3,039.67	Savings and Time deposits	232,379,124.44
Other Assets	19,348,073.76	Miscellaneous items	116,743,897.24
Miscellaneous items	185,877,671.99		
Total	895,977,947.43		895,977,947.43

Source Regional Development Bank, Bandung

IBRD/DFC
December 17, 1969

BANK BUMI DAYA
(Bank for Agricultural Estates)

CONDENSED BALANCE SHEET AS ON 30th JUNE 1969
(In thousand rupiahs)

ASSETS

Cash	1,449,561
Central Bank	3,440,176
Other Banks	110,214
Debtors	28,790,481
Securities	28
Foreign Banks	7,895,094
Premises and inventory	664,747
Sundry Accounts	1,264,776
	43,615,077

LIABILITIES

Capital paid up	300,000
Reserves	1,997,956
Profit/loss account	1,107,271
Demand Deposits	10,036,260
Time Deposits	5,636,233
Foreign Exchange Liabilities	5,649,403
Loans payable	18,662,370
Sundry Accounts	225,584
	43,615,077

Source - Central Bank

IBRD/DFC
December 17, 1969

ANNEX IV

NEW FOREIGN INVESTMENTS IN INDONESIA

Sanctioned up to, end October 1969

I. RETURNED FOREIGN ENTERPRISES 14

Direct investments. . 13
Joint enterprises . . 1

II. INDUSTRY 60

Direct investments. . 9
Joint enterprises . . 51

III. FORESTRY 33

Direct investments. . 10
Joint enterprise . . 23

IV. MINING 8

Direct investments. . 8
Joint enterprise . . 0

V. FISHERY 6

Direct investments. . 2
Joint enterprises . . 4

VI. PHARMACY & HEALTH. 10

Direct investments. . 3
Joint enterprises . . 7

VII. AGRICULTURE. 2

Direct investments. . 0
Joint enterprises . . 2

VIII. PLANTATION 5

Direct investments. . 0
Joint enterprises . . 5

IX. PUBLIC WORKS & REAL ESTATE 7

Direct investments. . 1
Joint enterprises . . 6

X. TOURISM 7

Direct investments . . 0
Joint enterprises. . . 7

XI. COMMUNICATION 5

Direct investment. . . 1
Joint enterprises. . . 4

TOTAL: 157

Direct investments: 47

Joint enterprises : 110

Total : 157

IBRD/DFC
December 17, 1969

I. RETURNED FOREIGN ENTERPRISES

No.	Name	Product	Investment (million US $)
1.	Unilever Ltd	soap, cooking oil, cosmetics	1,50
2.	Good Year Rubber & Tire Industry	tire and tube	13,00
3.	Singer Sewing Machine	sewing machine assembling	1,10
4.	Faroka S.A.	cigarettes	0,23
5.	BATA Shoes Factory	shoes	0,61
6.	British American Tobacco	cigarettes	0,13
7.	P.T. Heinekens Bier	bier	0,36
8.	Union Carbide Ltd	dry cells	2,65
9.	Nord Sumatera Plantation (Belgium) **)	estate products (rubber palm oil, etc)	5,00
10.	P.T. Filma	cooking oil, margarine	0,35
11.	N.V. Handel Maatschappy en Rubberfabriek "HOK LIE" (Singapore)	rubber sheet and crumb-rubber	0,33
12.	N.V. Sunan Rubber Handel Maatshappy (Singapore)	rubber sheet and crumb-rubber	0,30
13.	Prodenta	tooth paste	0,24
14.	Fraser & Neave	soft drink	1,00

*) additional investment

**) joint venture with state estate enterprise

II. INDUSTRY

A. DIRECT INVESTMENT

1.	Oriental & Development Product	hair wigs	0,25

2.	Kiwi Polish Product Ltd	shoe polish	0,20
3.	Ahrend Groep N.V.	repair shop for fine instrument	0,27
4.	Gordon L. Ness Association	electronics	0,37
5.	Rheem Australia Industry	steel & plastic containers	0,25
6.	Geigy S.A. Basel	insecticides gronulate	1,24
7.	Prima Ltd Singapore	flour	15,00
8.	Max Factor	cosmetics	0,50
9.	P.T. Oriental Indonesia Development Hongkong	ballpoints	0,65

B. JOINT ENTERPRISES

1.	Peter Cremer (West Germany) + P.T. Lokok	pelletized cattle fodder	0,25
2.	Bonanza Ind. Dev. SA Panama + P.T. Arafat, INKOPAD	flour	15,00
3.	Toyo Menka Inc. USA + P.T. Tumbak Mas	galvanized iron sheet	1,70
4.	Stuckert Trading Co West Germany + Tan Siong Kie	monosodium glutamate	1,00
5.	Cheung Yin Lun (Hongkong) + P.T. Pantja Muda	plastic slipper	0,65
6.	Chuang, Blomberg (Singapore) + PD Union	candy	0,33
7.	Itoh, Kawasaki Steel Corp. + P.T. Zig Zag Medan	galvanized iron sheet	2,00
8.	N.V. Chemische Fabriek Naarden Holland + P.T. Mantrust	essence	0,55
9.	Carl Hansen SA + P.T. Lambretta Service	scooter	5,00
10.	Koffee Export & Import Hamburg Germany + P.T. Karta Trading	instant coffee	1,50
11.	Sankyo Shokukin Japan + P.T. Lima Satu	instant noodle	0,40

12.	Johs Larsen AS (Norway) + T.H. Wulur	instant coffee	1,76
13.	Toyo Menka Incorp. USA + P.T. Bina Logam	steel pipes	2,00
14.	Cooperative Condensmilkfabriek "Friesland Holland" + P.T. Mantrust	sweentened condensed milk	1,00
15.	Australian Dairy Produce Board P.D. Morison	dilo	1,35
16.	World Product Ltd Hongkong + P.T. Inhamex	hairwigs	0,25
17.	The Chloride Electrical Storage Co. + P.T. Sumberbhakti	accumulater battery boxes	0,32
18.	Ajinomoto Japan + State Enterprise Soda Waru Waru + C.V. Hero	monosodium glutamate	5,10
19.	Alberto Culver Canada + P.T. Abdi	detergent, cosmetics	0,20
20.	Guru Papp A/S + P.T. Carya Haksara (Norwegia)	cardboard boxes	2,23
21.	Inter beton NV, Sphinx Cerannique Holland + P.T. Keramika Indonesia	porcelan wares	1,84
22.	Southern United Enterprise Co Ltd Hongkong + P.T. Baliwig	hairwigs	0,40
23.	Afro Asia Industrial Co Ltd + Setio Tirto-atmodjo	enamel wares	0,35
24.	Ann King Co Ltd Hongkong + P.T. Bintang Djaya	freezers, three wheeler refrigeration units	1,00
25.	Society Franco Indonesien D'Equipment (France) + State Electricity Enterprise	transformers	2,00
26.	Dresdner Bank AG + P.T. Galangan Kapal Indonesia Craft	boats	0,12
27.	Sanyo Electric Trading Coy + P.T. Intan Indonesia.	household appliances	2,50
28.	Mitani Metropolitan Thailand + Sidik Danubrata	corrugated cardboard boxes	0,75
29.	Bayer Farbenfabrieken AG + NV Inbumaco	insecticides	0,24

30.	Peter Cremer, Dresdner Bank AG + PD Lokon	pelletized cattle fodder	0,25
31.	Asia Tobacco Singapore + P.T. Molino	cigarettes	6,15
32.	Alfred C. Topper, Siemens + NV Mansur	pelletized cattle fodder	0,63
33.	Impact International Pty Australia + Simon	collapsible tube	0,16
34.	Waren Import Gessellschaft Krohn & Co Germany + P.T. Ometraco	pelletized cattle	0,62
35.	Itoh, Toyobo Japan + P.T. Lontjeng	textile	6,00
36.	Sheng Kie Enterprise Hongkong + Tan Siong Kie	detergent	1,00
37.	Thai Acids Industry Co + Firma Sjam, P.T.	sulfuric acid and aluminum	0,50
38.	Mutsui Co + P.T. Sumber Sedjahtera	galvanized iron sheet	0,70
39.	Marubeni Iida + Nippon Kokan + Sjamsuddin Daeng Mangawing	galvanized iron sheet	1,00
40.	Gulf Oil Corp. USA + State Enterprise Pertamina	packaging fertilizer	1,00
41.	Toyo Menka Kaisha + State Enterprise Sandang	textile	7,00
42.	N.V. Phillips Eindhoven + State Enterprise Ralin	radio, bulb	6,90
43.	Davlyn Steel Corp. Hongkong + P.T. Kaleng Indonesia Indah	tin container	0,50
44.	Trilane Equities Ltd USA + P.T. Upernas	food	0,25
45.	Chesebrough Ponds Inc USA + P.T. Sjailendra	cosmetics	0,25
46.	Tancho Kabushihiki Kaisha + City Factory	cosmetics	0,50
47.	The Lip Fastener Manufacturing Thailand + P.T. Sumber Wangi	fasteners	1,00
48.	The Chemical Corp of Singapore + P.T. Archipelago	sulphuric acid	1,50

49.	South Seas Investment Corp Inc, USA Chemistex Fibers Inc USA + P.T. Darmagatex	synthetic textile	20,00
50.	International Trading Partnership Thailand + P.T. Pabrik Tjat dan Tinta Pacific	pigmen	1,00
51.	Daimatsu Kagyo Ltd + Fa Niaga Raya	shoes	0,30

III. FORESTRY

A. DIRECT INVESTMENT

1.	Cico France	logs	1,00
2.	S.M.G.L. France	logs	0,70
3.	S.C.A.C. France	logs	0,80
4.	Valgoson Philippine	logs	5,00
5.	Sea Log Hongkong	logs	6,00
6.	Korea Development, Korea	logs	48,50
7.	Nippon Koli Japan	logs	2,00
8.	Vitco International United Hongkong	logs	3,00
9.	East Asia Holding and Enterprise Ltd Hongkong	logs	3,00
10.	Frontier Petroleum Coy USA	logs	3,00

B. JOINT ENTERPRISES

1.	Philippine American Tinner Co + P.T. Padma	logs	3,00
2.	De Fijnhout Handel Mij + CV Minas	logs	1,10
3.	Borneo Singapore Corp + P.T. Hutan Sari	logs	1,00
4.	Kokusaku Pulp Industry + P.T. Zeds Trading	logs	2,00

5.	Simanggang Sawmill + P.T. Mitradjaja	logs	0,98
6.	Mitsui & Co/Oji Paper Co Ltd + C.V. Alas	logs	1,00
7.	Vincon Timber Coy Malaysia + P.T. Dayak Besar Timber Coy	logs	5,00
8.	Luna Timber Co Inc Philippine + P.T. Sula Indonesia	logs	2,00
9.	Borneo Company Hongkong + P.T. Indomark	logs	1,00
10.	Timber Industries of the Philippine Inc + P.T. Rekita	logs	2,00
11.	Intercontinental Enterprise + P.T. Sidec	logs	1,00
12.	Simanggang Sawmill Malaysia + P.T. Muntilan	logs	1,00
13.	Limbang Timber Co Malaysia + P.T. Caneca	logs	5,00
14.	Gonzalo Puyat & Sons Phillipine + P.T. Djati Kembang Raya	logs	5,00
15.	Yuling Timber Company Malaysia + P.T. Bina Harapan	logs	3,00
16.	Delong Corp USA + P.T. IRDA	logs	0,25
17.	Mitsubishi Shoji Kaisha + P.T. Kaju Indonesia	logs	2,00
18.	Khong Tai Miri Sawmill + CV Aneka Djaya	logs	1,00
19.	Kalimantan Development Corp (Japan) + State Enterprise PERHUTANI	logs	1,00
20.	The Philippine Consortium for Forest Devel. Inc (Philippine) + P.T. Samudra Gunadarma	logs	1,00
21.	The Philippine Consortium + Fa Sewarga	logs	1,00
22.	Lanao Export Corp SA Panama + P.T. Wira tjakra	logs	1,50
23.	Philippine Lauan Industries Corp + P.T. Rekita	logs	2,00

IV. MINING

DIRECT INVESTMENT (NO JOINT ENTERPRISE)

1.	Freeport Sulphur Co (USA)	copper ore, copper	76,00
2.	P.T. INCO (USA Canada)	nickel ore, nickel prod.	76,00
3.	Billiton Mij (Holland)	tin	7,00
4.	Indonesia Nickel Devel. Co (Japan)	nickel ore	75,75
5.	P.T. Pacific Nickel Indonesia (USA, Holland, Canada)	nickel ore, nickel prod.	76,50
6.	Alcoa (USA)	bauxite, aluminum	76,50
7.	Overseas Mineral Resources Development Co (Japan)	not known yet	0,18
8.	Kennecatt Copper Corp (USA)	general mining	75,77

V. FISHERY

A. DIRECT INVESTMENT

1.	Toyo Menka Kaisha	2,00
2.	Fineon Philippine	1,50

B. JOINT ENTERPRISES

1.	Arafura Pearls Ltd Japan + P.T. Cora	1,00
2.	Ships A/S Norkar Norway + CV Bonito	1,00
3.	Toho Busan Kaisha Japan + P.T. Pelindo Raya	2,00
4.	Nihon Kinkei Hogei Japan + P.T. Yalamina	1,00

VI. PHARMACY & HEALTH

A. DIRECT INVESTMENT

1.	The East Asiatic Co	1,00
2.	Pfizer Corp USA	1,00
3.	Rentokil Group Ltd England	0,24

B. JOINT ENTERPRISES

1.	Arco Ltd Switzerland + P.T. Yoe Hing Pien	0,25
2.	Hoechst Farbwerke + Zainal Abidin	1,62
3.	Bayer Farbwerke + P.T. Djawa Maluku	1,20
4.	CIBA, ZYMA Switzerland + P.T. Dos Ni Roha	0,64
5.	Schering AG West Germany + Trismitro	1,00
6.	Lloyds England + ODO & Coy	4,50
7.	Scanpharm A/S Denmark + P.T. Tempo	1,50

VII. AGRICULTURE

JOINT ENTERPRISES

1.	Mitsui Co Japan + KOSGORO	3,19
2.	Virginia International Co USA + P.T. Rekita	1,90

VIII. PLANTATION

JOINT ENTERPRISES

		Product	Investment (million US $.
1.	Virginia Int'l Co USA + Baginda Siregar Sjarief Bachrum	rubber	0,40
2.	Int'l Rubber Processing Coy Hong-kong + P.T. Suar Karya	crumbrubber	1,00

3.	Numb Corp USA + P.T. SIRA	crumbrubber	0,30
4.	Leng Yuen Trading Singapore +	crumbrubber	1,20
5.	Companie D'Importation et D'Exportation de Tobaccos Belgia + P.T. Gading Mas	tobacco	0,50

IX. PUBLIC WORKS & REAL ESTATE

A. DIRECT INVESTMENT

1.	Amco Asia Corp	3,00

B. JOINT ENTERPRISES

1.	Westminster Dredging Australia + State Enterprise	0,10
2.	Cico France + State Enterprise Djatiluhur	1,00
3.	International Housing Devel Singapore + N.V. Imbamaco	2,60
4.	Amco Asia + State Enterprise Bank of Commerce	2,00
5.	Tosho Sangyo Co + P.T. Lima Satu	0,60
6.	Amco Asia Corp + P.T. Asuransi Umum Bumiputera Muda	0,67

X. TOURISM

JOINT ENTERPRISES

1.	Interarts + P.T. Pembangunan Djaya	0,30
2.	Indo Pacific Devel & Investment Hongkong + P.T. WISMA KARTIKA	2,60
3.	Asia Bowling Coy Hongkong + Mrs. Indrawati Sutrisno	1,65
4.	Southwest Investment & Devel Hongkong + Mr. Wartono	3,00

5.	Pacific Inc USA + Mrs Eveline Halim	'	0,50
6.	Seven Seas Finance & Trade Corp (Philippine) + P.T. Pembangunan Djaya	'	1,00
7.	Ericson Telephone Sales Swedia + Mr Abas & Pohon	'	1,20

XI. COMMUNICATION

A. DIRECT INVESTMENT

1.	Int'l Telephone & Telegraph (ITT)	'	6,10

B. JOINT ENTERPRISES

1.	Schreiner Air Transport (Holland) + J.D. Saras	'	0,13
2.	Bristow Helicopter England + P.T. Masayu	'	0,24
3.	Cicofrance + Ineeco	'	2,50
4.	Torrence Navigation Co (Liberia), Dinars Trading Coy (Panama) + P.T. Maratirta & P.T. Carasudin	'	1,00

Source - BAPINDO

IBRD/DFC
December 17, 1969

AREA AND PRODUCTION OF AGRICULTURAL ESTATES

(Government owned, Foreign owned and Private owned)

Product	AREA / HA			TOTAL		YEARLY PRODUCTIONS/TONS			TOTAL
	State owned P.N.P.	Foreign owned	National & Private owned	AREA / HA		State	Foreign	Nat. & Private	Yearly Prod.
1. Rubber	228,626	211,699	-	440,325		112,448	162,118	512	275,078
2. Coconuts	799	-	1,553,226	1,554,025		141	-	1,379,076	1,379,217
3. Palm Oil/ Kernel	82,160	61,921	-	144,081	M. B	124,110 25,023	56,810 12,750	-	180,920 37,773
4. Tea	14,300	2,152	60,930	77,382		37,286	2,000	38,562	77,848
5. Coffee	20,261	6,025	228,491	254,777		11,114	38,073	126,552	175,769
6. Cocoa	4,902	-	2,893	7,795		769	-	224	993
7. Quinine	1,577	-	-	1,577		1,175	-	-	1,175
8. Tobacco	36,984	-	251,814	288,798		5,557	-	60,492	66,049
9 Tobacco V.	-	-	43,500	43,500		-	-	21,000	21,000
10. Sugar	67,401	-	-	67,401		565,392	-	-	565,392
11. Fibre	4,460	-	-	4,460		8,511	-	-	8,511
12. Manilla hamps	292	-	-	292		473	-	-	473
13. Jute	1,449	-	-	1,449		30	-	-	30

Product	AREA / HA			TOTAL	YEARLY PRODUCTIONS/TONS			TOTAL
	State owned P.N.P.	Foreign owned	National & Private owned	AREA / HA	State	Foreign	Nat. & Private	Yearly Prod.
14. Pinus	4,800	-	-	4,800	Resin 2,974 Turpentine 686	-	-	2,974 686
15. Kapok	2,459	-	142,851	145,310	903	-	20,701	21,604
16. Nutmeg	411	-	16,066	16,477	49	-	688	737
17. Sugar Cane	-	-	39,137	39,137	-	-	175,595	175,595
18 Agave Sisal	-	-	3,951	3,951	-	-	707	707
19. Rosella	-	-	5,477	5,477	-	-	4,574	4,574
20. Sisal	-	-	27	27	-	-	4	4
21. Straw	-	-	1,801	1,801	-	-	6,703	6,703
22. Pandanus	-	-	11,333	11,333	-	-	22,925	22,925
23. Terra Japonica	-	-	12,705	12,705	-	-	3,695	3,695
24. A r e c a	-	-	60,279	60,279	-	-	52 865	52,865
25. Incense	-	-	7,650	7,650	-	-	1,750	1 750
26. Pepper	-	-	38,414	38,414	-	-	57,900	57,900
27. Vanilla	-	-	275	275	-	-	183	183
28. Cinamon	-	-	8,418	8,418	-	-	11,841	11,841

Product	AREA / HA			TOTAL	YEARLY PRODUCTIONS/TONS			TOTAL
	State owned P.N.P.	Foreign owned	National & Private owned	AREA / HA	State	Foreign	Nat. & Private	Yearly Prod.
29. Clove	-	-	50,692	50,692	-	-	7.946	7,946
30. Castoroil plant (recinus communis)	-	-	40,942	40,942	-	-	1,700	1,700
31. Aromatic Herb	-	-	97	97	-	-	270	270
32. Candle Nut	-	-	13,366	13,366	-	-	10,545	10,545
33. Serah (Fragrant grass)	-	-	8,585	8,585	-	-	323,600	323,600
34. Sun Flower Seeds	-	-	10	10	-	-	20	20
35. Piper Cubeba (cubeb)	-	-	160	160	-	-	100	100
36. Pirethrum	-	-	489	489	-	-	-	-
	470,881	281,797	2,603,579	3,356,257				

Note: The number of State owned Plantations (P.N.P.): 29

Djakarta, November 17, 1969

IBRD/DFC
December 17, 1969

Source - BANK BUMI DAYA

FOREIGN GOVERNMENT ACTIONS

"Indonesia revises corporation

and income tax regulations"

Action is designed to offset effects of inflation and reduce tax burden on smaller firms and all individual brackets

The Indonesian Government has changed its corporation and income tax regulations for the 1969 calendar year, in order to offset inflation and reduce the tax burden on small- and medium-size firms and on individuals in all income brackets. The Government said that these changes are essential because the growth in corporate and individual income has not kept pace with rising operating and living costs.

The corporation tax rates continue to range from 20% to 60%, except for cooperatives which are subject to rates ranging from 5% to 20%. However, as in several previous years, the Minister of Finance has adjusted the income brackets to which the rates apply. According to a Minister of Finance decree of Dec. 7, 1968, the maximum rate of 60% now applies to a taxable profit of Rp. 7.5 million ($23,000 at the current BE rate of Rp. 326 per U.S. dollar) instead of Rp. 1.5 million ($4,600).

The specific rates are: for a taxable corporate profit of up to 1.25 million, 20%; between 1.25-2.5 million, 250,000 plus 30% on excess over 1.25 million; between 2.5-3.75 million, 625,000 plus 40% on excess over 2.5 million; between 3.75-5 million, 1,125,000 plus 45% on excess over 3.75 million; between 5-6.25 million, 1,687,500 plus 50% on excess over 5 million; between 6.25-7.5 million, 2,312,500 plus 55% on excess over 6.25 million; 7.5 million and over, 3 million plus 60% on excess over 7.5 million.

The new schedule reduces progressively the tax burden on the lower income firms. Indonesian tax officials point out that the tax burden in 1969, as compared with 1968, for instance, is reduced by about 7% for firms with a taxable profit of Rp. 30 million ($92,000) -- from an effective tax of 59% to 55% -- but it is reduced by 46% for firms with a taxable profit of Rp. 1.25 million ($3,800) -- from an effective tax of 37% to 20%.

Foreign firms will benefit to a lesser extent from the tax revisions since most are large enough to be subject to the 60% rate. The change is of little immediate interest to new investors under Indonesia's foreign investment law since most of these are exempt from corporation taxes for an initial period.

Another Minister of Finance decree dated Dec. 7, made substantial changes in the income tax regulations by changing the tax rates (these now range from 15% to 50% compared with 21% to 60% in 1968), and the income brackets to which they apply. For 1969 the following rates apply: for taxable income up to 120,000 rupiah, 15%; between 120,000-180,000 -- 18,000

plus 18% on excess over 120,000; between 180,000-240,000 -- 28,800 plus 21% on excess over 180,000; between 240,000-330,000 -- 41,400 plus 24% on excess over 240,000; between 330,000-420,000 -- 63,000 plus 27% on excess over 330,000; between 420,000-540,000 -- 87,300 plus 30% on excess over 420,000; between 540,000-690,000 -- 123,300 plus 33% on excess over 540,000; between 690,000-870,000 -- 172,800 plus 39% on excess over 690,000; between 870,000-1.11 million -- 243,000 plus 45% on excess over 870,000; and 1.11 million and over -- 351,000 plus 50% on excess over 1.11 million.

A third decree of the same date revised tax exemptions in 1969. These now amount to Rp. 24,000 for the taxpayer, Rp. 18,000 for his wife, and Rp. 6,000 for each child (up to a total of ten) compared to Rp. 12,600, Rp. 7,200, and Rp. 3,600 in the respective categories in 1968. For a man with dependents consisting of a wife and three children, the increase in tax exemptions in 1969 is nearly 100%.

These changes reduce income taxes considerably for low, medium, and higher salaried workers, including foreign workers in Indonesia. Indonesian officials point out that for a married man with three children with net income of Rp. 1.2 million ($3,680) -- a level attained by few Indonesians -- the effective income tax has been reduced by 40% and by substantially more in the lower income brackets.

For individuals subject to income tax in Indonesia, the tax on income received in foreign currency must be paid in foreign currency. The current rate for conversion into rupiah of income in foreign currency is Rp. 94.50 per U.S. dollar. Thus, a foreigner with a wife and three children earning $20,000 from employment in Indonesia would be subject to a tax of $7,524 in 1969 compared to $10,815 in 1968, a reduction of 30%.

To calculate the tax, the $20,000 is converted to Rp. 1.89 million (at the Rp. 94.50 rate) and exemptions are deducted for taxable balance income of Rp. 1.83 million. The tax totals Rp. 711,000 (Rp. 351,000 plus 50% of Rp. 720,000). This figure is then reconverted to dollars at the Rp. 94.50 rate to arrive at the tax of $7,524, or an effective tax of 38%.

While changes may be made in the conversion rate for foreign currency income to adjust to subsequent inflation, tax officials indicate that it is being held to an appreciated level in order to reduce the tax burden on foreigners the Government wishes to attract as part of its program to improve the foreign investment climate.

Foreign individuals who work in Indonesia for three months or more are considered taxable non-residents and are subject to tax on Indonesian-source income. An absence of one month would probably break the continuity of their residence in Indonesia for tax purposes.

A foreign individual who intends to reside permanently in Indonesia or who resides in Indonesia for twelve months (regardless of his intentions to remain there permanently or not) is considered a resident taxpayer and is subject to tax on his total worldwide income. In computing this income, however, dividends from corporations domiciled outside Indonesia are exempted. Individual taxpayers are given credit for taxes paid

to other countries, but only at the rates at which the same income would have been taxed if earned and taxed in Indonesia.

Payment in kind (such as meals provided by the company or rice for non-managerial employees) and fringe benefits (such as housing or provision of a car) must be included in an employee's income -- valued according to a fairly complicated set of rules -- and are taxed. Indonesia has a tax withholding system aimed at increasing the number of taxpayers and ensuring tax payments. Companies make monthly deductions from their employees' salaries and usually calculate and pay any year-end adjustments.

INTERNATIONAL COMMERCE · March 3, 1969

ANNEX VII

LOAN AND DEPOSITS FIGURES OF PRIVATE INDONESIAN BANKS
(in thousand rupiahs)

	Number of Banks	Demand Deposit	Time Deposit & Savings	Loans Granted
30/6/1966	96	709,426	124,653	607,009
30/6/1967	102	3,167,861	763,266	2,894,663
30/6/1968	124	6,250,239	4,153,676	5,889,433
30/6/1969	115	8,274,332	11,136,109	13,060,496

Source - Central Bank
Exchange rate for accounting purposes - Rp. 400 = US$1

IBRD/DFC
December 17, 1969

ANNEX VIII

LIST OF NAMES OF PERSONS MET

1. Mr. Sri Sultan Hamengkubuwono IX, State Minister for Economy, Finance and Industry Affairs.
2. Mr. Ali Wardhana, Minister of Finance.
3. Mr. Thojib Hadiwidjaja, Minister of Agriculture.
4. Mr. Soemantri Brodjonegoro, Minister of Mining.
5. Mr. Widjojo Nitisastro, Chairman of National Planning Board.
6. Mr. Ali Sadikin, Governor of Djakarta Raya.
7. Mr. Nasuhi, Deputy Governor of West Java Province in Bandung.
8. Mr. Sutikno Slamet, Ministry of Finance (Former Executive Director of I.M.F.).
9. Mr. Barli Halim, Secretary General of Department of Industry.
10. Mr. Subroto, Director General of Marketing & Research, Department of Commerce.
11. Mr. Sujudno Brotodihardjo, Director General of Taxation.
12. Mr. Sadli, Chairman of Investment Board (Foreign & Domestic Investments).
13. Mr. Radius Prawiro, Governor of the Central Bank of Indonesia.
14. Mr. Djuana Kusumahardja, Director of the Central Bank of Indonesia.
15. Mr. S. Pamungkas, President Director of The Development Bank of Indonesia.
16. Mr. M. K. Machdum, Director of the Development Bank of Indonesia.
17. Mr. Priasmoro, Director of the Development Bank of Indonesia.
18. Mr. Susilo Sardadi, Director of Bank Bumi Daya (State Bank).
19. Mr. Masi, Director of Bank Bumi Daya (State Bank).
20. Mr. Gozali, Director of the Regional Development Bank of Djakarta Raya.
21. Mr. Jusuf, President Director of the Regional Development Bank of Bandung.

22. Mr. Komar, Director of The Regional Development Bank of Bandung.

23. Mr. Andang Sumantri, Staff member of The Regional Development Bank of Bandung.

24. Mr. Wijardi, Branch Office Manager of Central Bank in Bandung.

25. Mr. Sujuwono, Branch Office Manager of The Development Bank of Indonesia (BAPINDO), in Bandung.

26. Mr. Aman Abdurrachman, Deputy Manager of Branch Office of The Development of Indonesia in Bandung.

27. Mr. Makmun, Deputy Regional Manager of Bank Negara Indonesia 1946 in Bandung (State Bank).

28. Mr. Rijaja, Branch Office Manager of Bank Negara Indonesia 1946 in Bandung (State Bank).

29. Mr. Sentjaka, Branch Office Manager of Export & Import Bank in Bandung (State Bank).

30. Mr. Eddy, Branch Office Manager of Bank Rakjat Indonesia (People Bank) in Bandung (State Bank).

31. Mr. Subakdja, Branch Office Manager of State Commercial Bank in Bandung.

32. Representative of Branch Office Manager of Bank Bumi Daya in Bandung (Agriculture State Bank).

33. Mr. Abdurachman Nawawi, Director of Import Division of Pantja Niaga Djakarta (State Trading Company).

34. Mr. Ojok Adiwinata, Manager of P.N.P. XII in Bandung (Estate State Enterprise).

35. Mr. Satijatmo, President Director of Pulp & Paper Mill Padalarang (State Enterprise).

36. Mr. Sjueb, Director of Pulp & Paper Mill Padalarang (State Enterprise).

37. Mr. Sapu, Director of Tjipadung Cotton Spinning Mill (State Enterprise).

38. Mr. Srihono, Director of Bandjaran Cotton Spinning Mill (State Enterprise).

39. Mr. Surjana, Head of the Representative of Department of Industry for West Java Province.

40. Mr. Kertopati, Chairman of Stock Exchange Market in Djakarta.

41. Mr. Kutin, Member of Stock Exchange Market in Djakarta.

41. Mr. Oroh, member of Stock Exchange Market in Djakarta.

42. Mr. Sutan Sjah Sam, member of Stock Exchange Market in Djakarta.

43. Mr. Surjadi, member of Stock Exchange Market in Djakarta.

44. Mr. Kahono, member of Stock Exchange Market in Djakarta.

45. Mr. Zuardin Azono, Official of The Central Bank.

46. Mr. Trisno Wibowo, Official of The Central Bank.

47. Mr. Francis Galbraith, US Ambassador for Indonesia.

48. Mr. Masao Yugi, Ambassador of Japan for Indonesia.

49. Mr. Michel Van Ussel, Belgium Ambassador for Indonesia.

50. Mr. H. Scheltema, Dutch Ambassador for Indonesia.

51. Mr. Choudhry, Charge De Affairs of the Pakistan Embassy.

52. Mr. David Cole, Harvard Group for Indonesia.

53. Mr. Diggle, Production & Engineering Consulting Group for BAFINDO.

54. Mr. Blommenstein, Dutch Banker in Djakarta.

55. Mr. A.P.P.J.M. Ditrie, Representative of Dutch Development Bank for Indonesia.

56. Mr. G.L.S. Kapitan, Representative of Dutch Development Bank for Indonesia.

57. Mr. Ryan, Branch Manager American Express Bank in Djakarta.

58. Mr. Fujita, Branch Manager Bank of Tokyo in Djakarta.

59. Mr. E.W. Vlasaty, Branch Manager Chase Manhattan Bank in Djakarta.

60. Mr. Purwadi, British American Tobacco Coy, in Djakarta.

61. Mr. Hans Olessen, Dumex - East Asiatic Company, Djakarta.

62. Mr. T.L. Pang, "Necchi Sewing Machine"/Trading Company Suracc Djaja Bandung.

63. Mr. K. Schwill, "Siemens Indonesia" Bandung.

64. Mr. J. Mahjudin, "Siemens"/Panatraco Ltd. Bandung.

65. Mr. Julius Tahija, Regional Manager of Caltex Indonesia, chairman of P.I.B.A.

66. Mr. Toto Bahri, Financial Director of Indonesian Service Company.

67. Mr. Soegianto, Deputy Director of Indonesian Service Company.

68. Mr. Amaluddin Gani, Chairman of Indonesian Chamber of Commerce and Industry in Djakarta.

69. Mr. R.M. Kusmuljono, Director of P.T. Indoplano.

70. Mr. Rachmat Wirja Sudarma, Travel & Tourist Agency "Wisma Benjamin".

71. Mr. Effendi Dasaad, Dasaad Musim Concern.

72. Mr. Hussain Aminuddin, Group of Indonesian Private Entrepreneurs in Djakarta.

73. Mr. Oei Yong Tju, Group of Indonesian Private Entrepreneurs in Djakarta.

74. Mr. Idham, Indonesian Private Bankers Association.

75. Mr. A. Noor Luddin, Director PT. Masayu (Export & Import Company).

76. Mr. Nahar, Director of PT. Indomilk.

77. Mr. Marzuki Mustafa, Public Relation of PIBA.

78. Mr. Sofjan Tamin, Rahman Tamin Corporation.

79. Mr. Anwar Tamin, Rahman Tamin Corporation.

80. Tisnadi, Commercial Bank Bandung (Private Bank).

81. Mr. N. Pohan, NISP Bank Bandung (Private Bank).

82. Mr. Hakim Alimuddin, NISP Bank Bandung (Private Bank).

83. Mr. Karmaka Surjandaja, NISP Bank Bandung (Private Bank).

84. Mr. Rubangi, Branch Manager Bank Perniagaan Indonesia Bandung (Private Commercial Bank).

85. Mr. Warsoma, Bank Ekonomi Nasional Bandung (Private Bank).

86. Mr. Frans Nata, Textile business, PT. Lontjeng Bandung.

87. Mr. Chanya Chandra, Textile business, PT. Lontjeng Bandung.

88. Mr. Yo Tjon Hoa, Textile business PT. Badan Tekstil Nasional Bandung.

89. Mr. Mahdi, Chairman Chamber of Commerce & Industry of West Java.

90. Mr. Sukar Samsudin, Deputy Chairman of Chamber of Commerce & Industry of West Java.

91. Mr. Erwin, Secretary of Chamber of Commerce & Industry of West Java.

92. Mr. Utomo Josodirdjo, Cyeip, Gorres, Velayo & Utomo.

93. Mr. Jose R. Cedo, Cycip, Gorres, Velayo & Utomo.

94. Mr. Prajogo, Deputy Governor of Djakarta Raya.

95. Mr. Halsey L. Beamer, Private Investment and Industry Officer US AID.

96. Mr. L. Selwyn Goates, Second Secretary of Embassy of the United States of America.

97. Mr. Edmund Auchter, Deputy Economic Advisor (US AID).

98. Mr. Solichin, Governor of West Java, Bandung.

99. Mr. Kurnia, Head of Rural Bank Plered, near Bandung.

100. Mr. Salkonwingena, Office of the Governor of West Java, Bandung.

101. Mr. Hobohm, Cultural Attache of the Federal Republic of Germany, Bandung.

102. Mr. Kasum, Optical Industry, Bandung.

103. Mr. Anwar, Dean of Padjadjaran University, Bandung.

104. Mr. Kemal Seber, I.M.F. Mission, Djakarta.

105. Mr. Jack Saper, I.M.F. Mission, Djakarta.

106. Professor T. Motooka, Asian Development Bank, Djakarta.

107. Mr. R. Moerdyono) Managing Directors, Dutch Sponsored
) Development Bank for Indonesia
108. Mr. R. H. J. Braat) Amstelveen.

109. Mr. Henry De Waal, Managin Director, Netherlands Overseas Finance Company, Amstelveen.

110. Secretary, Netherlands Overseas Finance Company, Amstelveen.

111. Mr. Boonecker, Netherlands Overseas Finance Company, Amstelveen.

112. Mr. R. B. Gandasoebrata, Director, Indonesian Overseas Bank Amsterdam.