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Report No. P-1660-IND

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A PROPOSED  
LOAN TO  
THE REPUBLIC OF INDONESIA  
FOR A  
FERTILIZER DISTRIBUTION PROJECT

June 17, 1975

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Currency Unit = Indonesian Rupiah (Rp.)

US\$1.00 = Rp 415

1 Rupiah = \$0.0024

1 Million Rupiah = \$2,410

Fiscal Years

Government of Indonesia

April 1 - March 31

PUSRI

January 1 - December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE  
REPUBLIC OF INDONESIA FOR A FERTILIZER DISTRIBUTION PROJECT

1. I submit the following report and recommendation on a proposed loan to the Republic of Indonesia for the equivalent of US\$68 million to help finance a Fertilizer Distribution Project for P.T. Pupuk Sriwidjaja (PUSRI). The loan would have a term of 15-1/2 years, including 3-1/2 years grace with interest at 8-1/2 percent per annum. The bulk of the proceeds of the loan would be on-lent to PUSRI at the same repayment term, with an interest rate of 12 percent per annum, with the Government assuming the foreign exchange risk.

PART I - THE ECONOMY

2. The latest economic report on Indonesia "Indonesia: Development Prospects and Needs" of April 15, 1975 (708-IND) described and analyzed the structure of production and incomes, the recent changes in the availability of resources, and the medium and longer-term outlook for the Indonesian economy. Country data are shown in Annex 1.

3. In 1969, at the start of Indonesia's First Five-Year Plan, the per capita income of the Indonesian population was probably no higher than half a century ago. A majority of the population lived below a minimum welfare standard, especially on Java. Most were dependent exclusively or primarily on agriculture, where farms were generally very small. Under-employment was widespread. While the inflation of the mid-1960s had been overcome, infrastructure was still in very poor condition.

4. The Government's efforts during the First Five-Year Plan period (April 1, 1969 - March 31, 1974) were successful in putting the economy on the road towards development. Most physical objectives were achieved or nearly so, and there was very substantial rehabilitation of run-down infrastructure and government enterprises in agriculture and manufacturing. Investments increased at a very fast rate, rising from 9 to 19 percent of GNP. While 57 percent of Government development expenditures were financed from abroad, the reliance on foreign financing was much smaller than the level rate of nearly 80 percent foreseen in the Plan. Real GDP increased at an annual rate of over 7 percent. GNP per capita in current prices reached about \$120 in 1973. The Government instituted programs for the labor intensive rehabilitation of infrastructure and other programs which created substantial incomes and employment. In all, however, given the annual increase in the labor force of about one million, one cannot be confident that the employment situation improved during the First Plan period, and from available information it is difficult to judge whether a significant part of the poorest section of the population participated in the gains of development.

5. The Second Five-Year Plan (April 1, 1974 to March 31, 1979) builds on the achievements of the First Plan. While the First Plan dealt mainly with the urgent needs for stabilization under conditions of great scarcity of resources, progress has been such that the Second Plan can give much more weight to such problems as employment, equitable distribution, regional growth, and education. The Plan identifies a number of specific low-income target groups and, in general, adopts an employment oriented development strategy. It aims at a continued growth in investments, needed both because capital intensity will tend to increase as the rehabilitation phase draws to an end, and because more socially-oriented investments will be made. Overall, the Plan expects GDP to grow at 7.5 percent per annum.

6. Over the decade 1961-71, Indonesia's population grew by 2.1 percent a year. However, as a result of changes in the age distribution and declining mortality, the current growth rate is estimated at 2.5 percent. Even under the most optimistic assumptions with regard to fertility decline, the growth rate would only come down gradually, and the population would nearly double by the end of the century. While Indonesia still has substantial unutilized land reserves in the outer islands, <sup>1/</sup> these are limited in relation to the expected population increase, and a further large increase in population pressures - already severe on the inner islands <sup>2/</sup> - must be expected. Since 1969, the Government has been operating and gradually extending a family planning program. The number of acceptors has been increasing rapidly. The Second Five-Year Plan foresees a much more comprehensive attack on the population problem.

7. During the rest of the 'seventies, average annual additions to the labor force are estimated at 1.2 million, increasing to more than 1.4 million in the years 1980-85. In addition, substantial underemployment exists, and there is the risk that even relatively simple technological improvements may eliminate existing employment. The Second Plan's projections show that employment growth would almost keep up with the growth in the labor force, but the employment thrust of the Plan needs to be further strengthened if an appreciable increase in real labor earnings - and a wider spread of the benefits of development - is to be attained.

8. A further acceleration in Indonesia's development efforts should be possible, given the recent favorable developments in its exports, and especially the large increase in the price of oil. Between 1972/73 <sup>3/</sup> and 1975/76, the net oil contribution to the balance of payments as well as to the Government budget is expected to increase by roughly \$2.5 billion, or \$20 per capita. In nominal terms, this is equivalent to about 22 percent of the gross national income in 1972/73. In terms of real goods and services available to Indonesia, the gain is however much smaller. The main

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<sup>1/</sup> All islands except Java, Madura and Bali.

<sup>2/</sup> Java, Madura and Bali.

<sup>3/</sup> Indonesian fiscal year April 1, 1972 - March 31, 1973.

offsetting factor is the large increase in import prices over the three years. Taking this into account, only 30 percent of the original gain remains; in 1972/73 prices, the net gain is \$6 per capita or \$750 million for the economy as a whole, equivalent to 6.5 percent of the 1972/73 GNP.

9. In terms of the budget, part of the increase in oil revenues has been used to protect the domestic consumer and the economy against the wide price fluctuations on international markets through subsidies on major imported commodities (rice, fertilizer, wheat, sugar). The prices of these commodities have risen faster than those of imports in general. Net of current subsidies, the gains in the 1975/76 budget (as compared to 1972/73) amount to only about 4.5 percent of the current (non-oil) GNP. Of this amount, more than half (\$700 million in current prices), is being channeled toward public investments. The remainder is being used for current expenditures and for payments due for the subsidies of the preceding year.

10. From September 1972 to March 1974, the Indonesian economy was under severe inflationary pressure, initially because of a bad harvest in the Fall of 1972, and subsequently as a result of the worldwide increase in commodity prices and the boom conditions in Indonesia itself. By early 1974, the annual rate of inflation had reached nearly 50 percent. The Government took a number of measures to remedy the situation in April 1974. At approximately the same time, international prices of most commodities started to fall. Since then, the annual rate of inflation in Indonesia has declined to about 15 percent and the Government has relaxed some of the earlier measures.

11. Recently, Indonesia's balance of payments and budgetary position have been affected by the inability of PERTAMINA - Indonesia's petroleum company - to meet all its financial obligations. During 1974/75 PERTAMINA, which had undertaken a large and diversified investment program for most of which it had not arranged medium- or long-term financing, faced serious liquidity problems. It began to withhold the legally obligatory pass-through to the Government of part of the revenues received from the foreign companies, as well as taxes due on its own net income. In addition, PERTAMINA failed to meet payments due on certain of its short-term foreign borrowings and some of its other obligations and it faced the prospect of large similar obligations coming due in 1975/76 which it was not likely to be able to meet. Decisive corrective action was taken early in March 1975. The Government resolved to assist PERTAMINA so as to enable it to meet the outstanding debt service obligations. Furthermore, in order to assure orderly and coordinated borrowing in the international market, PERTAMINA and all other state enterprises were instructed to refrain from independent borrowing abroad, and Bank Indonesia was made responsible for raising from international commercial sources the needed funds on their behalf. A systematic review of PERTAMINA's investment plans is currently being undertaken with a view to alteration, reduction and other steps where necessary. The results are likely to have a favorable bearing on the pattern of investment in the years immediately ahead and to result in closer coordination of major investment activities undertaken by state enterprises. However, the withholding by PERTAMINA of part of the payments due on account of oil company

profits to pay foreign obligations resulted in levels of foreign exchange reserves at the end of 1974/75 of less than \$1 billion or about 2.5 months of imports. For 1975/76, the Government expects to receive the normal oil payments which are made by and through PERTAMINA. It also expects a modest increase in foreign exchange reserves during that year.

12. Indonesia has a substantial potential for further productive investment, employment and income growth. In agriculture, a vigorous pursuit of on-going programs in irrigation, development of new varieties and technical services, provision of credit and current inputs, etc., promises to yield high returns. In addition, development of new areas of food or tree crops - partly in conjunction with a rapidly growing transmigration program - has high priority. If production, employment and incomes grow rapidly, demand for agricultural products - especially the high-value ones - will also accelerate, and there will be a need to improve marketing and transport facilities. The industrial potential is good, both for modern capital-intensive natural resource-based activities and for more labor-intensive, partly export-oriented industries. Industrial activity needs to be widely spread; this has implications for the choice and location of future infrastructure projects. In addition, there is a serious backlog of economic infrastructure requirements in many areas, and a need to improve social infrastructure over wide areas of the country.

13. With the increase in resources which have become available since the Second Plan was prepared, the Government is now clearly set on a course of accelerated growth in investment, employment and incomes to realize Indonesia's potentials and provide additional welfare for the broad masses of the people. With a determined effort to mobilize additional resources, and a judicious use of them - and assuming an international economy which is reasonably favorable to Indonesia - very significant progress can be made in this direction. One important element in this strategy will be to increase employment at such a rate that the labor market would tighten significantly. This in turn would create self-reinforcing tendencies, as incomes and demand rise throughout the economy. Thus, the wide spread of the gains of development is not only a prime objective, but also a vital tool in the overall strategy. Improvement in the labor market situation would, however, depend critically on the direct creation of substantial work opportunities by the Government in such activities as transmigration, and urban and rural public works.

14. The resources needed to implement an accelerated investment, employment and income growth strategy are substantial. Assuming only a modest overall increase in the capital intensity of the investment program, and an efficient use of resources, investments would have to double between 1975 and 1980 (for an annual growth rate of 15 percent). Investment would increase from 23 percent of non-oil national income in 1975 to 29 percent in 1980 which, in current prices, implies an increase from \$3 billion in 1973 to \$6.5 billion in 1975 and nearly \$20 billion in 1980.

15. With regard to the foreign exchange requirements for such an investment program it appears that, assuming relatively favorable developments in the export sector (including oil), commitments of foreign funds to the extent of about \$14 billion over the six-year period 1975-1980 will be necessary; for the first four years the necessary commitments are estimated at \$2 billion per annum. In the interest of keeping the debt service reasonable, providing for the contingency of a lower oil income, and leaving room for future borrowing to sustain import growth in the 1980's when export prospects look less favorable, it will be necessary to borrow at least three-fourths of the foreign funds on concessional or semi-concessional terms. Under such a borrowing program, and assuming increased borrowing after 1980, the debt service ratio would reach 10 percent in 1980 and about 18 percent in the late 1980's. With more pessimistic assumptions about future prices and exports of oil, and only a partial adjustment of imports, the debt service ratio could rise to 15 percent in 1980 and 25 percent in the late 1980's. Even with a foreign borrowing of \$14 billion over the next six years, the net transfer from abroad would drop from 6.6 percent of the non-oil national income in 1973 to 2.5 percent in 1975, 2 percent in 1980 and 1.5 percent in 1985. The Inter-Governmental Group for Indonesia (IGGI) met in May 1975 to consider Indonesia's long-term foreign assistance requirements.

16. With the foreign inflows estimated in the paragraph above the domestic savings rate would have to be raised from an estimated 21 percent of the non-oil national income in 1975 to over 27 percent in 1980. While this would be difficult, the Government appears fully committed to it. One important source of additional savings would be the gradual reduction of subsidies, which will become easier to achieve if prices of imported commodities continue to fall. It would also be desirable to increase some taxes for reasons of equity.

17. The Government will also have to take steps to strengthen its capacity to implement its expanding and complex development program, which involves large numbers of people over vast geographical areas. To achieve the objectives, the administrative apparatus and procedures of the Government may have to be adapted in important ways. In this context, it appears that the tendencies toward decentralization of decision making and delegation of responsibility need to be strengthened. Much attention needs to be given to staff requirements of Government agencies, and a massive training effort mounted to ensure the availability of adequate staff to carry out the various programs. To the extent that these training and staffing efforts would take time, temporary use of additional expatriate expertise may have to be considered if the development objectives are to be attained.

## PART II - BANK GROUP OPERATIONS IN INDONESIA

18. As indicated in Part I, Indonesia will continue to need substantial external financial and technical assistance to expand and improve infrastructure and to expand production capabilities and employment opportunities in agriculture, minerals, forestry and manufacturing. With the

continued growth of the economy, the Government will also be able to devote increasing attention to ensuring that the benefits of development are distributed widely. Programs to increase the productivity of small-holder farmers and to resettle farmers from Java on presently unutilized areas in the outer islands, the expansion of labor-intensive industry in Java, the development of new industrial activities in Java and the outer islands, family planning, water supply, education, health and other social programs will therefore have an important place in the development strategy during the period of the Second Plan. The work of both the Bank's headquarters and Resident Staff has been oriented toward these objectives.

19. As of May 31, 1975, Indonesia had received 37 IDA credits amounting to \$561.8 million and seven Bank loans amounting to \$339.0 million. IFC investments total \$58.4 million. An eighth loan amounting to \$41.0 million was approved by the Executive Directors in June. Future lending to Indonesia is expected to be in the form of Bank loans and IFC investments. The Bank Group accounts for about 4.5 percent of Indonesia's total outstanding public debt at the end of 1974. By 1978 it is expected to account for less than 11 percent of total outstanding debt and less than 5 percent of Indonesia's annual debt service obligations. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of May 31, 1975, and notes on the execution of ongoing projects.

20. In accordance with the priorities of Indonesia's Five-Year Plans, about one-third of Bank Group lending to date has been for agriculture. IDA has extended four credits to help rehabilitate Government agricultural estates, producing principally rubber, oil palm and tea, six to assist rehabilitation and expansion of irrigation systems servicing millions of smallholders on Java, two for fisheries and one each for improved seeds multiplication, beef cattle development, smallholder rubber development, sugar industry rehabilitation and smallholder tea development. Industry is of growing importance to the Indonesian economy and the Bank Group has assisted in six projects in this sector: two to expand PUSRI's fertilizer production capacity, two for BAPINDO and one for the Private Development Finance Company of Indonesia (PDFCI) to help these development finance companies expand their industrial lending and one for Indonesia's first industrial estate project. Other sectors to which loans and credits have been extended are power, transportation, telecommunications, education, population, urban housing improvement and water supply. In addition, four credits have been made to assist the Government in preparing and formulating appropriate development programs and projects.

21. The first IDA credit to Indonesia was made in 1968, and almost half of all loans and credits have been made since June 1972. Bank lending to Indonesia began only in June 1974. The program has increased rapidly from a relatively small base, and consequently the undisbursed portion of loans and credits is substantial. Moreover, several credits have financed projects planned for execution over extended periods. Many, in addition, have been associated with institutional reforms involving, inter alia, the creation and reorganization of program and project authorities, drafting of new charters and the enactment of new legislation, all of which has taken time. Thus, a number of projects have experienced delays in the initial

stages of implementation, and some are inherently slow disbursing. However, the performance of most project agencies has improved continuously as organizational improvements have begun to take effect and Indonesian staff have become more experienced in project execution. Despite the improved administrative capabilities, most development projects, including those financed by the Bank Group, have been adversely affected by cumbersome budgetary, procurement and customs clearance procedures. The Indonesian authorities recognize the need to streamline procedures and are considering steps necessary to accomplish this. As a first step, the Government has requested and we have arranged for assistance under the Fourth Technical Assistance Credit (Credit 451-IND) to establish an effective control system in the National Development Planning Board (BAPPENAS) to monitor the progress of development projects. Additional measures to improve project administration are now under consideration by the Government.

22. The future Bank lending program will continue to support the Government's efforts to speed up economic growth and to ensure that the benefits of development are distributed widely. Specifically, it will give high priority to agriculture, concentrating on broad programs of support to increase production of rice and other crops on the inner islands and to expand resettlement and agricultural production on the less populated outer islands. Emphasis will also be given to socially-oriented projects in the fields of population and nutrition, education and urban development. The Bank program will also continue to provide support for the Government in developing the additional industrial capacity and infrastructure which are essential to economic growth. Projects for natural resource surveying and mapping, transmigration and rural development, education, marine transport and highways have been appraised and are expected to be ready for presentation in the first half of FY1976.

### PART III - THE SECTOR

#### The Transportation Sector

23. The transport system in Indonesia consists of highways, railways, inter-island marine services and limited but rapidly increasing air transport. It suffered from lack of maintenance during the 1950s and 1960s and the Government therefore concentrated during the First Five-Year Plan Period (1968/69-1973/74) on rehabilitating important roads, the inter-island fleet and some ports.

24. The railway and highway network on Java is extensive though still in need of rehabilitation or upgrading in many sections. In Sumatra, several unconnected rail lines serve limited regions, and the principal cities are linked by highways of generally low standard. On the other islands, there are only a few roads in areas around ports and towns. The Bank Group has assisted the Government in rehabilitating its road network under three previous projects (Credits 154-IND, 260-IND

and 388-IND). A fourth highway project has been appraised which will assist the Government in carrying out an extensive program of road betterment designed to upgrade high priority roads throughout Indonesia through relatively low-cost investments. The Bank has also recently made its first loan (1005-IND) to assist in the rehabilitation of railways, primarily in Java.

25. Since Indonesia is an archipelago, marine transport services are essential for the economic, social and political cohesion of the country. Shipping services between the islands are provided by the regular liner service (RLS) fleet and by tramping services and sailing vessels. The existing fleet is old and substantial rehabilitation is necessary. The Bank Group has financed one project (Credit 318-IND) which was designed to rehabilitate the RLS fleet, and the staff has appraised a second project for fleet replacement and expansion. Some assistance for ship rehabilitation has also been provided under the development finance loan to BAPINDO (Credit 310-IND). Indonesia has about 300 ports, but the large traffic volumes are concentrated in ten ports in Java, Sumatra and Sulawesi. The major port for fertilizer, after the third expansion of the PUSRI fertilizer plant is completed, will be Palembang on the Musi River in Sumatra. Turn around time of ships in all ports is excessive, and their productivity is limited by poor standards of cargo handling, warehousing and customs clearance. The main ports are being improved with assistance from the Asian Development Bank (ADB), UNDP, the Netherlands and Japan. A Master Plan Study for Tanjung Priok, the port serving Jakarta, is being carried out by consultants financed under the Technical Assistance Credits (Credits 215 and 275-IND). The ADB is serving as executing agency for a Master Plan study of three ports in Java and Sumatra which is being financed by the UNDP.

26. The Government has taken steps to improve the quality of its transportation planning to provide the basis for identifying more effectively intra and inter-modal investment priorities. Between 1969 and 1973, it retained a group of consultants to assist BAPPENAS (Badan Perencanaan Pembangunan, the National Development Planning Board) and the Minister of Communications in transportation planning. These consultants contributed to the collection and analysis of transport data and the establishment of procedures for investment review. The Government has also retained, with financing from the Fourth Technical Assistance Credit (451-IND), five advisors to assist the Department of Communications in transport coordination, investment programming, transport pricing and accounting. The Netherlands Government has also agreed to continue to finance a shipping planning group for the Directorate General of Sea Communications.

27. The Government's strategy as set forth in the Second Five-Year Plan (1974/75 - 1979/80) is to continue the rehabilitation program for transportation infrastructure and to upgrade gradually the country's transportation facilities. This will be supplemented by the provision of new infrastructure needed to exploit recently discovered natural resources,

support the Government's regional development policy and improve the rural transportation network. Public investment in the transport sector during the Second Five-Year Plan was projected at Rp 781 billion (about \$1.9 billion). The size of the plan and the allocation of funds to the various transportation modes are presently being reviewed in the light of increased resources available to the Government.

#### Fertilizer Transportation and Distribution

28. Consumption of nitrogen fertilizer, spurred by Government programs to increase food production, is rising very rapidly; it increased by more than 15 percent per annum from 180,200 nutrient tons in 1964 to 356,000 tons in 1972 and to 443,000 tons in 1974 and is expected to increase to 826,000 nutrient tons (about 1.8 million product tons) by 1983. At the same time, the Government is increasing domestic fertilizer production capacity based on abundant natural gas reserves which serve as a low-cost feedstock for production of nitrogen fertilizers. Three additional urea plants with a capacity of 570,000 TPY of urea each are presently under construction or planned. PUSRI III, which Loan 1089-IND is helping to finance, is expected to reach commercial production in the second quarter of 1977. The other two plants, in East Kalimantan and West Java, are not expected to reach commercial production before 1980, depending on the outcome of a review by the Government presently underway. The Government therefore plans a further expansion of PUSRI by duplicating the 570,000 TPY PUSRI III plant. The gap between demand and domestic supply of nitrogen would then be closed for the first time in 1979 at a level of 650,000 nutrient tons. The Government is presently engaged in securing financing for a 300,000 TPY TSP project at Gresik (East Java) and is considering a further TSP project at Cilacap on the south coast of Java. Whether, with demand growing, a further deficit occurs in 1980, or a surplus for export becomes available, depends on the timing and initial performance of the East Kalimantan and West Java plants. Assuming that these plants do come into production during the early 1980s, it is estimated that Indonesia will have a surplus of some 400,000 tons of urea, about half of the deficit expected in neighboring countries, i.e., the Philippines, Malaysia and Thailand.

29. The rapid expansion in the consumption of fertilizer and the changing pattern of supply in Indonesia are creating a severe strain on the existing fertilizer transportation and distribution network. This is particularly so because the main reserves of natural gas needed for the domestic production of fertilizer are on the islands of Sumatra and East Kalimantan, and the major markets are and will continue to be, on Java and the adjoining islands of Bali and Madura, though their total market share will gradually decline.

30. Fertilizer distribution is presently being carried out by Government-approved importer-distributors, including local fertilizer producers such as PURSI and Petrokimia, which distribute both domestically produced and imported fertilizers. In 1974, PUSRI's share of the market for nitrogen, phosphate and potash fertilizers was some 48 percent (592,000 product tons) of the total fertilizer consumption of 1.2 million product tons. PUSRI expects

to distribute about 1.4 million product tons of fertilizer annually between 1978 and 1982. On this basis, it is expected that PUSRI's share of the market would be at least 70 percent by 1978 and decrease gradually thereafter to about 50 percent in 1982. PUSRI is therefore expected to continue as a major fertilizer distributor in Indonesia.

31. Fertilizer prices in Indonesia have for some years been set by the Government and subsidized at a level that linked the farmgate price for rice, set by the Government through its rice purchase program, with the price of urea and TSP to the farmer so as to provide an incentive which contributes substantially to the rapid increase in fertilizer use. Distribution was not controlled; the farmer could buy as much fertilizer as he wanted. However, in 1973 the Government, in the face of a serious fertilizer shortage, introduced a rationing and distribution system, under which it purchases all urea currently produced by domestic producers at Rp 63,900 (\$154) per ton of urea c.i.f. Java port and also imports urea presently at a cost of \$250 per ton (a substantial reduction from the price of more than \$400 per ton prevailing last year). PUSRI, like other distributors, purchases urea from the Government at Rp 41,850 (\$100.90) per ton export-godown and sells it under Government instructions to local sub-distributors at Rp 55,000 (\$132.50) per ton, thus retaining a margin of Rp 13,150 (\$31.60) to cover the cost of handling, transport, storage and interest on funds borrowed to finance the current assets of its marketing operation. The local distributor stores and distributes the fertilizer to either private retailers or village cooperatives, which in turn sell urea at Rp 60,000 per ton (\$144.60) to farmers who have received a fertilizer allocation. Thus, there is a substantial subsidy on domestically produced fertilizer, and (at present international prices) a much higher one on imported fertilizer. With regard to rice prices, the Government has kept the domestic price substantially below the recent high international prices to avoid large increases in food costs which could jeopardize its stabilization efforts and adversely affect large segments of the Indonesian population. The Government is keeping its rice and fertilizer price and subsidy policies under constant review in the light of international and domestic price developments. Major implications of the fertilizer price policies for PUSRI's operations are discussed in paragraph 53.

32. Over 60 percent of the fertilizer consumption in Indonesia is concentrated in areas covered by two successful programs for promoting intensive cultivation of foodcrops - the BIMAS (Mass Guidance Program) and the INMAS (Mass Intensification) Programs. The rest of the fertilizer is used for other smallholder and estate crop production. Bank Rakyat Indonesia (BRI) is now the sole credit agency for the BIMAS and INMAS Programs, while the estate sector depends on other commercial banking facilities to meet its credit needs, which include the import of fertilizers at prevailing world prices. Credit for fertilizer purchases in all these sectors is currently provided by BRI and other banks at monthly interest rates of 1 to 2 percent; the existing arrangements are adequate to ensure that sufficient credit will be available in the future.

33. When PUSRI produced only 100,000 tons of urea, the output of its first plant, the Regular Liner Service (RLS) fleet could transport PUSRI's total output, though at considerable cost. However, with an increase of PUSRI's output to nearly half a million tons under the first expansion project financed under Credit 193-IND, more efficient means of transport had to be found. PUSRI's marketing consultants proposed a bulk transport system, which would use available 3,000 ton coal carriers with bucket chain self-unloading gear, and small bulk reception and bagging terminals at Surabaya and Cilacap. Unfortunately, while PUSRI was negotiating for the charter of these ships, their ownership was transferred to a different company and the self-unloading gear with about 300 ton capacity per hour was replaced by much less efficient grab cranes; their use results in substantial losses of urea during unloading. PUSRI eventually managed to charter four of the coal carriers plus a bulk carrier from Singapore, but the system is relatively expensive and inefficient and cannot be expanded to handle substantially larger tonnages than the 350,000 tons presently transported in bulk. Imported fertilizer distributed by PUSRI and other distributors is mostly handled through Tanjung Priok and is transported in bags by truck at relatively high cost throughout Java.

34. Very little use has so far been made of the railways for fertilizer distribution. The availability of trucks has not been a problem, given the fast increase in the truck fleet, and it is not expected to pose a problem for the increasing volume to be distributed in the future, when the railways will also be used to transport fertilizer. However, storage capacity at the ports and inland is inadequate and costly in terms of handling, spoilage and losses. Moreover, other commodities, such as cement and grain, whose distribution has also increased, will compete for the limited available storage and rail transport capacity.

35. When the PUSRI III Plant, which Loan No. 1089-IND is helping to finance, comes into commercial operation in mid-1977, close to one million tons of urea will have to be shipped out of Palembang. PUSRI's total fertilizer distribution volume, including phosphate and complex fertilizers, and a small amount of imported urea, will be about 1.4 million tons in 1978. PUSRI therefore decided to develop a more efficient distribution system that would deliver fertilizer at least cost to the farmer, remain flexible enough to be fully usable even if marketing patterns change as other fertilizer plants come into operation, and include use of more efficient ships which could deliver fertilizer at reduced transport costs within Indonesia and, should the need arise, to export markets in the region. A proposed National Fertilizer Distribution Study (para 43) will review additional country-wide distribution needs, taking into account the facilities being provided under the project.

## PART IV - THE PROJECT

### Background

36. During the appraisal of the Second Fertilizer Expansion Project in July 1974, the Government asked the Bank to help finance a fertilizer shipping and distribution system capable of moving PUSRI's future fertilizer output at least cost to its markets and of transporting all types of fertilizer and other agricultural chemicals which PUSRI provides its dealers in order that they may supply the full range of agrochemicals needed by the farmer.

37. The project was developed by PUSRI's marketing department with the assistance of consultants. The project was appraised in November/December 1974. Negotiations were held in Washington in April/May 1975. The Government's negotiating team was led by Dr. Saleh Afiff, Deputy Chairman of BAPPENAS. The appraisal report No. 694-IND is being circulated separately to the Executive Directors. A loan and project summary is contained in Annex III.

### Project Description

38. The proposed distribution system has the capability of moving about one million tons of urea fertilizer by sea from the PUSRI plants at Palembang in South Sumatra to Java, North and West Sumatra and other islands. Some 830,000 tons would be shipped in bulk by self-unloading ships to Tanjung Priok, Surabaya, and Cilacap in Java and to Belawan and Padang in Sumatra. The balance of PUSRI's production of 130,000 tons would be bagged at Palembang and transported by RLS ships to the other islands in Indonesia. The bulk fertilizer, which could be unloaded from the self-unloading ships in all types of weather with practically no loss, would be bagged at the port bulk terminals for shipment in railway cars by block trains, or by highway trucks, to inland storage depots (ISDs). Onward distribution from these depots would be undertaken by PUSRI distributors who will move the urea to storage kiosks owned by cooperatives and retailers in the villages. Total fertilizer moving through the system, including phosphates and complex fertilizer, would be 1.4 million product tons in 1980.

39. The new distribution system to be established under the project will consist of: (a) three shallow draft self-unloading ships of about 7,000 dwt each; (b) expanded, improved or new port bulk fertilizer terminals and bagging plants at five major ports in Java and Sumatra, all with road and rail access; (c) 59 new ISDs of between 3,000 and 10,000 tons capacity, also served by rail and/or road; (d) lease of an additional 22 ISDs on islands other than Java; (e) 175 new specialized railway wagons and four main line and three shunting locomotives and new railway spurs for 27 ISDs in Java; (f) new office space and vehicles; (g) consultant services and technical assistance related to construction and operation of the system; and (h) a study designed to develop a national fertilizer distribution system.

40. The ships' design, chosen from among various alternatives, results in the shortest possible turnaround time at lowest operating cost. They would be capable of operating under all weather conditions, negotiating the Musi River at all tides and unloading at a rate of 500 tons per hour. The ships would be built in accordance with international standards and would be dually classed with the Biro Klassifikasi Indonesia (BKI) and Germanischer Lloyd to assure a high standard of maintenance (Section 3.04 Project Agreement). The ships would be crewed under contract with an Indonesian ocean-going shipping company, but with senior operation personnel (masters and chief engineers) employed directly by PUSRI. The ships would operate for a minimum of 320 days per year with scheduled sailings between Palembang and the various terminals.

41. The new bulk terminals in Belawan and Padang would be located so that the unloading of the ships and the movement of bagged fertilizer out of the bagging plant would not be affected by existing port congestion. The two existing bulk terminals at Surabaya and Cilacap would be expanded. At Tanjung Priok, an existing bulk terminal operated by PERTAMINA Gulf Industrial Processing (PGIP) would be modified for use by PUSRI; unloading facilities and rail movement of fertilizer out of the port would be expanded and modified to meet the requirements of PUSRI's much faster movements of fertilizer. Arrangements have been made with the Port administration to grant PUSRI's ships berthing priority at all times. In addition, a contract satisfactory to the Bank will be entered into between PUSRI and PGIP for the unloading and handling of PUSRI's fertilizer at cost-related rates. The Government, under Section 4.05 of the Loan Agreement, would undertake to secure for PUSRI at Tanjung Priok all necessary services.

42. On Java, bagged fertilizer would be transported from the three bulk terminals and bagging plants to the ISDs, primarily by rail to take advantage of its superior efficiency in long distance land transport. The railway wagons would be owned by PUSRI and would be used exclusively for the transport of fertilizer in block trains to ISDs located over 100 km from a bulk terminal. The locomotives would be owned by the Indonesian State Railways (PJKA). PUSRI would conclude arrangements with PJKA, satisfactory to the Bank, to ensure proper operation and maintenance of PUSRI's rolling stock (Section 3.05 Loan and Project Agreements). Road transport would continue to be handled by private operators.

43. PUSRI would own the ISDs, at least initially, because it is at present responsible for distribution down to the retail level. However, should this arrangement change, or parts of PUSRI's market be taken over by other producers, the project's inland storage and distribution facilities would still be needed to serve the growing markets in Java and Sumatra. The study for the development of a National Fertilizer Distribution system, based upon the proposed project and to be carried out on behalf of the Government by the consultants who developed the PUSRI system, would correlate production facilities and markets and secure compatibility of transport systems so as to achieve a least cost distribution system for all fertilizer consumed in Indonesia. The study would provide a safeguard against needless

duplication of storage and distribution facilities. In addition, the Government would undertake to make every reasonable effort to ensure that any major major new distribution facilities contracted before the study is completed will not contribute to significant underutilization of the facilities included in the project. To the extent that PUSRI would lose part of its West Java urea market to the West Java fertilizer plant, to be constructed about 150 kilometers to the east and expected to be in commercial operation by 1980, the bulk terminal would be used to receive and bag the phosphatic and complex fertilizer imported in bulk to meet the needs of the West Java market.

44. The last link in the distribution chain would be storage facilities at the village level which, while available, are still inadequate. Movement of fertilizer during the wet season is difficult because the rural road network is very poor. Thus, local retailers and cooperatives must store significant amounts of fertilizer to ensure adequate availability during the wet season. The Government recognizes the need for more and improved storage capacity in the villages and is sponsoring a pilot project to determine the most suitable locally produced building materials for storage units under various local climatic and other conditions. In order to ensure that the fertilizer needs of farmers can be met efficiently, the Government would agree to continue its program to extend and improve fertilizer storage facilities at the village level (Section 3.04 Loan Agreement). This subject will also be reviewed under the proposed National Fertilizer Distribution system study.

#### Organization and Management

45. PUSRI is a well managed enterprise by any standard and one of the best in Indonesia. It is a wholly Government owned limited liability company; the Government's interests are represented through a Supervisory Board consisting of representatives of the Ministries of Finance, Industry and Agriculture. Managerial responsibilities for PUSRI's day to day operations rest with a four-man Management Board.

46. PUSRI's Marketing Department is headed by a Marketing Manager, who reports to the Commercial Director. The Marketing Manager oversees divisions for supply and distribution, sales, planning and extension. PUSRI's marketing and distribution personnel are competent and the company is one of the most efficient distributors of fertilizer in the country. At present, about 290 people work in the marketing department; this number is expected to increase to about 450 when the project is completed.

47. PUSRI will carry out the proposed project with the assistance of consultants. Marine Consultants and Designers (USA) have assisted in the design, and letting of the contract for the ships and will supervise construction of the ships; Swan Wooster and Company (Canada) are performing a similar function for the on-shore facilities (bulk terminals

and ISDs). PUSRI has extended the contract of Agrar und Hydrotechnik (Federal Republic of Germany) as marketing consultants. Mollers Ltd (Hong Kong) have been retained to advise PUSRI on marine operations. PUSRI would, under the project, employ an additional 48 months of consultant services to assist in the overall scheduling and movement control required to operate the proposed distribution system effectively and to train PUSRI staff to undertake these responsibilities. With the assistance of these consultants, PUSRI would be able to carry out the project and to operate the proposed distribution system effectively.

#### Project Costs and Financing

48. The total estimated cost of the proposed project is \$130.0 million, of which \$84.0 million would be in foreign exchange. Interest during construction is estimated at \$10 million, including \$6.4 million payable in foreign exchange so that total financing requirements would come to \$140 million. The cost estimates have been prepared by PUSRI's consultants on the basis of an actual fixed price contract for the ships as well as procurement experience in the fall of 1974 and early 1975 for other items. In the cost estimates, provision has been made for physical contingencies of 15 percent for the bulk depots and 10 percent for ISDs equal to about 6 percent of the project base cost estimate. Price contingencies for imported locomotives and rolling stock and other equipment are based on the projected rate of international inflation for such items. Price contingencies on locally procured equipment and civil works are based on the projected rate of inflation in Indonesia of about 20 percent per annum. Price contingencies amount to about 18 percent of total base cost estimates plus physical contingencies (or 25 percent of the base cost estimate if the fixed cost of the ships were omitted).

49. The Government would make available 50 percent of PUSRI's total financing requirements in the form of equity and the other 50 percent in the form of a loan. The proposed Bank loan of \$68 million would finance about 75 percent of the foreign exchange component and almost half of the total financing requirements. The loan would be made to the Government which would make \$2.5 million available in the form of equity to PJKA for the locomotives and would relend the balance of the proceeds to PUSRI. The loan to PUSRI would have an interest rate of 12 percent per annum and a repayment term of 15-1/2 years, including 3-1/2 years of grace. The Government would bear the foreign exchange risk. These arrangements would be incorporated in a subsidiary financing agreement between the Government and PUSRI to be concluded before the proposed loan becomes effective (Sections 3.01(b) and 6.01(b) Loan Agreement). The financing plan would allow both PUSRI and PJKA to meet the debt limitation requirements provided for under previous projects (Loan No. 1089-IND and 1005-IND).

### Procurement and Disbursement

50. All contracts to be financed under the Bank loan and estimated to cost more than \$50,000 would be awarded after international competitive bidding in accordance with Bank Group Guidelines. Those estimated to cost less than \$50,000 would be procured in accordance with sound business practices which are satisfactory. For equipment, local manufacturers would receive a preference of 15 percent or the level of customs duties, whichever is less.

51. In order to complete the distribution system by mid-1977 when the PUSRI III plant goes into production, PUSRI has, under procedures satisfactory to the Bank, let a fixed price contract for the ships and is calling for tenders for other long lead-time items from prequalified suppliers in accordance with the Bank's Guidelines. Fourteen shipyards in eight countries were prequalified to construct the ships, and four submitted bids. The bids were evaluated by PUSRI and its consultants and, after the approval of the Bank, the contract was awarded to Mitsubishi (Japan). As has been noted previously, PUSRI has already, with the approval of the Bank, signed contracts with the consultants who have helped design and will help implement the project. The total commitment under the above contracts for ships, other long lead-time items and technical services is about US\$35 million and the expenditures already incurred are about US\$5.0 million. Expenditures incurred before loan signing would be met by the Government, and no retroactive financing by the Bank is contemplated.

52. The proposed loan would be disbursed for 100 percent of the foreign exchange cost of the ships, locomotives and rolling stock and consultant services. It would also be disbursed for 100 percent of the foreign exchange cost of other imported equipment, materials and supplies and 95 percent of the cost of such items for which contracts have been won by local suppliers after international competitive bidding.

### Financial Projections

53. PUSRI's finances are substantially affected by the policies which the Government introduced after a serious fertilizer shortage in October 1973 led to black marketing of fertilizer and endangered the rice production program on which the price of rice and thereby the cost of living and the stability of the economy depends. The Government, to meet this situation, introduced a rationing and distribution control system and commenced a stockpiling program as a strategic reserve against the vagaries of the world fertilizer market on which Indonesia had to depend given the low level of domestic production at that time. Since PUSRI had acquired considerable expertise in importing and storing fertilizer, it was charged with conducting the major share of the importing and stockpiling program and with supervising the distribution of fertilizer down to the retail level. Operation of this program by PUSRI had resulted in a large build-up of current assets balanced by current liabilities in the form of short-term borrowing from BRI and in large interest costs to PUSRI.

54. This situation was reviewed during negotiations for Loan No. 1089-IND (PUSRI III) and the Government agreed to meet the accounting losses incurred in PUSRI's marketing and distribution operation (at that time estimated to be Rp 1.4 billion over in 1975) by quarterly advance payments. Financial information as of March 31, 1975, supplied during negotiations for the proposed project, revealed that the accounting loss had been seriously underestimated, and it would be agreed that PUSRI would be compensated by August 15 for the actual accounting losses incurred during the first two quarters of 1975, and that subsequently advance payments would be made on the basis of estimates for the last two quarters of 1975. Further, in the same supplemental letter, the Government, in view of the fact that PUSRI was in effect acting as its agent in the stockpile operation, undertook to compensate PUSRI fully for the cost of importing, handling, storing and financing the stockpile once the fertilizer distribution assets were put into service by May 1, 1977. To identify the "stockpile", PUSRI would treat all imports financed under letters of credit and all inventory needed to achieve its sales targets as normal current assets, and all imports and inventory carried over and above such normal inventory as "stockpile". PUSRI will propose to the Government, and the Government will inform the Bank not later than October 1, 1976, of the exact procedures to be used to identify the "stockpile" and to account for the expenses associated with it. On the strength of this Government undertaking, current assets and liabilities relating to the stockpile have been excluded from the financial projections in the appraisal report. On this basis, the project would have an internal financial rate of return of 14 percent.

55. Consolidated projections for PUSRI's entire operations indicate that PUSRI's net profits after tax will rise from Rp 11.7 billion in 1977 to Rp 20.4 billion in 1980 and with the end of the existing tax holiday decline to Rp 12.7 billion in 1982. The overall return on assets is forecast to rise to 18 percent in 1980 and to be about 14 percent in 1982. The current ratio is expected to be about 3.5:1 after 1977 and the debt/equity ratio is expected to be 46/54 in 1978 and to improve to about 33/67 by 1980. In order to help ensure the financial soundness of the company, the financial covenants under Loan 1089-IND would be retained for the purposes of the proposed project. These include a provision that the Government as long as it controls distribution and prices would permit PUSRI to earn a reasonable return on assets in service (Section 4.04 of the Loan Agreement). In addition, PUSRI: (a) would maintain a current ratio of at least 1.2 during the continuation of the present controlled distribution system and 1.4 thereafter, and a debt-service coverage ratio of at least 1.5; and (b) would not incur further debt if this would raise the debt/equity ratio to more than 50/50 (Sections 4.07 and 4.08 of the Project Agreement). The Government and PUSRI would also be required to take all steps necessary to ensure that PUSRI maintains an effective, financially viable and economic transportation marketing and distribution organization (Section 4.03 Loan Agreement and Section 3.03 Project Agreement). As long as the Government stipulates a transfer price between the manufacturing and the marketing operation, the financial viability of the marketing department and the rate of return on marketing and distribution

assets would be reviewed on the basis of separate pro forma income and expense statements and balance sheets, which would allow judgments to be made about the profitability of the marketing operation (Section 4.03 Project Agreement).

#### Economic Benefits

56. The proposed distribution system is the least cost solution of all alternatives considered; it would generate benefits from a reduction in transport costs and fertilizer losses, due to inadequate existing transport and storage facilities. It is estimated that about 75 percent of the total quantifiable benefits would be generated by reductions in transport and distribution cost and 25 percent through reduced fertilizer losses compared to transport in bags. Further substantial benefits compared to the present system would accrue through the avoidance of congestion in ports and land transport; but since these benefits are not quantifiable they are not included in the calculation of the economic rate of return. The economic rate of return for the project is about 20 percent. The economic return reflects the inefficiencies of the present distribution system and the urgent need to improve it in view of the much higher tonnage to be moved. Even under various conceivable pessimistic assumptions such as project capital cost increases of up to 20 percent and benefit decreases or under-utilization of capacity of up to 20 percent, the project would still yield an economic rate of 13 percent.

57. At present, the Government subsidizes consumer prices for fertilizer; the benefits of reduced transport and distribution costs and reduced fertilizer losses could therefore be used to reduce these subsidies, or the Government could choose to lower the current price of fertilizer, in which case the farmer would be the beneficiary. Farmers would also benefit from the increased reliability and quality of fertilizer supplies which would result from the project.

#### PART V - LEGAL INSTRUMENTS AND AUTHORITY

58. The draft Loan Agreement between the Republic of Indonesia and the Bank, the draft Project Agreement between the Bank and P.T. Pupuk Sriwidjaja, the Report of the Committee provided for in Article III, Section 4 (iii), of the Articles of Agreement and the text of a draft resolution approving the proposed Loan are being distributed to the Executive Directors separately.

59. Features of the Loan Agreement and the Project Agreement of special interest are referred to in paragraphs 53 to 55 of this Report. Section 6.01 of the draft Loan Agreement specifies additional conditions precedent to the effectiveness of the Loan Agreement that: (a) the execution and delivery of the Project Agreement on behalf of PUSRI have been

duly authorized or ratified by all necessary corporate and governmental action; and (b) the execution and delivery of the Financing Agreement (under which the funds required for the carrying out of the Project shall be made available to PUSRI under terms and conditions approved by the Bank) on behalf of the Government and PUSRI respectively, have been duly authorized or ratified by all necessary corporate and governmental action. These actions would be discussed in the legal opinions to be furnished to the Bank in connection with the proposed Loan.

60. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

61. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara  
President



AREA  
1,904,639 km<sup>2</sup>

POPULATION  
171.63 million (mid-1972)

DENSITY

Per km<sup>2</sup> of arable land

## SOCIAL INDICATORS

	Indonesia		Reference Countries		
	1960	1970	Bangladesh 1970	India 1970	Philippines 1970
<b>GNP PER CAPITA US\$ (ATLAS BASIS) /1</b>	..	90 /a	0 /a	110 /a	220 /a
<b>DEMOGRAPHIC</b>					
Crude birth rate (per thousand)	..	48 /b,c	44 /c	38 /c,d	45 /b,c
Crude death rate (per thousand)	21	19 /b,c	27 /c	16 /c,d	12 /b,c
Infant mortality rate (per thousand live births)	125 /d	..	110 /c	120-140 /c,d	80
Life expectancy at birth (years)	48	48	46 /f	50	56
Gross reproduction rate /2	2.6 /e	3.2 /b	3.1	2.9	3.3
Population growth rate /2	2.0	2.0 /h	2.6 /h	2.3 /h	3.0 /b
Population growth rate - urban	..	5 /i	..	4 /i	4 /k
<b>Age structure (percent)</b>					
0-14	42 /l	45 /c	45 /c,m	42	43
15-64	55 /l	53 /c	52 /c,m	55	53
65 and over	3 /l	2 /c	3 /c,m	3	4
Age dependency ratio /4	0.8 /l	0.9 /d	0.9	0.8	0.9
Economic dependency ratio /4	1.4 /l	1.5 /d	1.6 /n	1.2	1.5
Urban population as percent of total	15 /l,l	17 /l	..	20 /l	32 /k
Family planning: No. of acceptors cumulative (thous.)	..	175	..	..	409
No. of users (% of married women)	..	..	..	..	2
<b>EMPLOYMENT</b>					
Total labor force (thousands)	34,600 /l	40,100 /d	22,300	221,000 /d,n	13,200 /d
Percentage employed in agriculture	68 /l	62 /d	71	71 /c,d	56 /d
Percentage unemployed	5 /l	2	..	..	7 /d
<b>INCOME DISTRIBUTION</b>					
Percent of national income received by highest 5%	..	..	17 /o,p	25 /p,q	25 /c,p
Percent of national income received by highest 20%	..	..	42 /o,p	53 /p,q	54 /c,p
Percent of national income received by lowest 20%	..	..	9 /o,p	5 /p,q	4 /c,p
Percent of national income received by lowest 40%	..	..	20 /o,p	13 /p,q	12 /c,p
<b>DISTRIBUTION OF LAND OWNERSHIP</b>					
% owned by top 10% of owners	..	..	34 /g,an	..	..
% owned by smallest 10% of owners	..	..	1 /g,an	..	..
<b>HEALTH AND NUTRITION</b>					
Population per physician	35,000 /r	27,650	7,600 /s,t	4,800	9,100 /u
Population per nursing person	..	8,010	72,030 /s,t	5,110	5,390 /u
Population per hospital bed	1,110 /r	1,720	8,120 /u,v	1,620 /t,w	850 /c,w
Per capita calorie supply as % of requirements /5	82 /c,x	82 /c	80 /y	90	82
Per capita protein supply, total (grams per day) /6	43 /c,x	43 /c	..	53	45
Of which, animal and pulse	15 /c,x	14 /c	..	16 /z	22 /t
Death rate 1-4 years /7	..	..	..	..	7 /t
<b>EDUCATION</b>					
Adjusted /8 primary school enrollment ratio	60 /aa	71	50 /z,ab	79 /ac	112 /ac,ad
Adjusted /8 secondary school enrollment ratio	6 /aa	12	13 /z,ae	26 /ac	45 /v
Years of schooling provided, first and second level	12	12	10 /af	12	10
Vocational enrollment as % of sec. school enrollment	20 /aa	28	..	6 /ag	10
Adult literacy rate %	39 /aa	56 /d,ai	..	36 /c,d,ak	72 /ai
<b>HOUSING</b>					
Average No. of persons per room (urban)	1.7 /l	..	..	12.8 /d	..
Percent of occupied units without piped water	..	..	..	..	66 /ad,ap
Access to electricity (as % of total population)	..	..	..	..	23 /ai,ap
Percent of rural population connected to electricity	..	..	..	..	6 /ad,ap
<b>CONSUMPTION</b>					
Radio receivers per 1000 population	7	114	6	23 /a	46 /a
Passenger cars per 1000 population	1	2 /a	1 /a	1 /a	8 /a
Electric power consumption (kwh p.c.)	19	23 /a	12 /a*	108 /a	255 /a
Newspaper consumption p.c. kg per year	0.2	0.2 /a	0.2 /a	0.4 /a	1.7 /b,al

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

/1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.

/2 Average number of daughters per woman of reproductive age.

/3 Population growth rates are for the decades ending in 1960 and 1970.

/4 Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.

/5 FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations. Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/8 Percentage enrolled of corresponding population of school age as defined for each country.

/a 1972; /b 1965-70; /c Estimate; /d 1971; /e 1962; /f Projections, 1973; /g 1951-56; /h 1960-72;  
/i Municipalities, regency capitals and other places with urban characteristics; /j For the definition of urban, see UN Demographic Yearbook 1972, page 154; /k For the definition of urban, see UN Demographic Yearbook 1972, page 155;  
/l 1961; /m 1972-73; /n AID estimate of labor force in age group 15-59; IRRD report gives a figure of 180.4 million based on the 1971 population census. The difference is due to changes in the definition of a worker. In the 1971 census persons were classified only on the basis of their main activities; this led to the exclusion of several categories, such as housewives; /o 1966-67; /p Households; /q 1967-68; /r 1964; /s Number on the register, not all working in the country; /t 1969; /u Government only; /v 1968; /w Including rural hospitals; /x 1961-63;  
/y 1969-71; /z 1969-70; /aa Not including West Irian; /ab Approximate enrollment as percentage of population in six to ten age group; /ac Estimate which includes overage students; /ad 1967; /ae Approximate enrollment as percentage of population in 11-15 age group; /af Up to end of second level; /ag 1965; /ah Public education; /ai 15 years and over; /aj Definition not available; /ak Population of ten years and over based on one percent sample data of 1971; /al Imports only; /am Ratio of population under 15 and 65 and over to total labor force; /an Graphical interpolation; /ao Inside or outside; /ap Percent of dwellings.

\* The Philippines has been selected as an objective country for its geographical similarity and because of its apparent more advanced stage of economic development.

ECONOMIC INDICATORS

	<u>GROSS NATIONAL PRODUCT IN 1973</u>		<u>ANNUAL RATE OF GROWTH (% , constant prices)</u>		
	US\$ Mln.	%	1960 -65	1965 -70	1973
GNP at Market Prices	15369	100.0	1.9	4.9	8.0
Gross Domestic Investment	2911	18.9	3.3	11.5	17.0
Gross National Saving	2083	13.6	5.8	5.1	20.8
Current Account Balance	828	5.4	.	.	.
Exports of Goods, NFS	2957	19.2	1.5	7.8	24.8
Imports of Goods, NFS	3170	20.5	0.2	10.9	21.4

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1973 <sup>1/</sup>

	<u>Value Added</u>		<u>Labor Force</u> <sup>2/</sup>		<u>V. A. Per Worker</u>	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	4243	43.6	30.5	69.0	139	63
Industry	1877	19.3	3.0	6.8	626	285
Services	3609	37.1	8.3	18.8	435	198
Unallocated	-	-	2.4	5.4	.	.
Total/Average	9729	100.0	44.2	100.0	220	100.0

GOVERNMENT FINANCE

	<u>General Government</u>			<u>Central Government</u>		
	(Mln.)	% of GDP		(Rp Bln.)	% of GDP	
	197	197	196 -7	1973/74	1973	1972
Current Receipts				977	14.8	12.9
Current Expenditure				704	10.7	9.8
Current Surplus				273	4.1	3.1
Capital Expenditures				474	7.2	6.4
External Assistance (net)				208	3.1	3.3

<u>MONEY, CREDIT and PRICES</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
		(Billion Rp outstanding end period)				
Money and Quasi Money	230	315	432	690	987	1455
Bank credit to Public Sector	60	57	129	57	37	2
Bank Credit to Private Sector	172	306	451	599	897	1125

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	8.5	9.4	11.4	15.2	14.9	.
General Price Index (Sept. 1965=100)	545	612	638	680	891	1253
Annual percentage changes in:						
General Price Index	17.7	12.3	4.2	6.6	31.0	40.6
Bank credit to Public Sector	33.3	- 5.0	126.3	- 55.8	- 35.1	- 94.6
Bank credit to Private Sector	91.1	77.9	47.4	32.8	49.8	25.4

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

<sup>1/</sup> Conversion at an exchange rate of Rp. 390 = US \$1.

<sup>2/</sup> Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

.. not available  
. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1972	1973	1974
	(Millions US \$) Pre-Est.		
Exports of Goods, NFS	1757	2957	6842
Imports of Goods, NFS	1875	3170	5832
Resource Gap (deficit = -)	-118	-213	1010
Interest Payments (net)	- 46	- 72)	
Workers' Remittances	-	- )	-1236
Other Factor Payments (net)	-318	-543)	
Net Transfers	-364	-615	-1236
Balance on Current Account	-182	-828	- 226
Direct Foreign Investment	258	290	454
Net MLT Borrowing			
Disbursements	447	624	..
Amortization	- 70	-138	..
Subtotal	337	486	635
Capital Grants	..	..	..
Other Capital (net)	181	208)	-176
Other items n.e.i	98	169)	
Increase in Reserves (+)	432	325	687
Gross Reserves (end year)	574	806	1470
Net Reserves (end year)	458	783	1470
Fuel and Related Materials			
Imports	4	5	..
of which: Petroleum	2	2	..
Exports	877	1348	4688
of which: Petroleum	877	1348	4688

MERCHANDISE EXPORTS (AVERAGE 1972-74)

	US \$ Mln	%
Oil	2304	59.7
Rubber	362	9.4
Timber	520	13.5
Tin	98	2.5
Coffee	84	2.2
All other commodities	493	12.7
Total	3861	100.0

EXTERNAL DEBT, DECEMBER 31, 1974

	US \$ Mln
Public Debt, incl. guaranteed	5409 *
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..
DEBT SERVICE RATIO for 1973 <sup>1/</sup>	%
Public Debt, incl. guaranteed	7.8
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

IBRD/IDA LENDING, (May 31, 1975) (US\$ Million)

RATE OF EXCHANGE

Through July 1971	Since August 1971
US \$ 1.00 = Rp 375	US \$ 1.00 = Rp 415
₡ 1.00 = US \$ 0.0027	₡ 1.00 = US \$ 0.0024

	IBRD	IDA
Outstanding & Disbursed	4.1	237.7
Undisbursed	313.4	324.1
Outstanding incl. Undisbursed	317.5	561.8

<sup>1/</sup> Ratio of debt service to exports of goods and non-factor services, with oil exports net of factor payments and imports of the oil sector.

\* Preliminary estimate

.. not available

.. not applicable

THE STATUS OF BANK GROUP OPERATIONS IN INDONESIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of May 31, 1975)

Loan/ Credit Number	Fiscal Year	Purpose	US\$ Million		
			Amount Bank	(less cancellations) IDA	Undisbursed
Two credits fully disbursed			6.0		
127	1969	Irrigation Rehabilitation	5.0		0.1
154	1969	Highway	28.0		0.7
155	1969	Agricultural Estates	16.0		0.3
165	1970	Electricity Distribution	15.0		0.2
193	1970	PUSRI Fertilizer	35.0		1.6
194	1970	Second Agricultural Estates	17.0		4.6
195	1970	Second Irrigation Rehabilitation	18.5		4.2
210	1971	Telecommunications Expansion	12.8		2.4
211	1971	Fisheries	3.5		1.9
219	1971	Education	4.6		2.0
220	1971	Third Irrigation Rehabilitation	14.5		3.4
246	1971	Seeds	7.5		3.8
259	1971	Tea	15.0		5.5
260	1971	Second Highway	34.0		12.9
275	1972	Third Technical Assistance	4.0		1.5
288	1972	Second Education	6.3		5.7
289	1972	Fourth Irrigation Rehabilitation	12.5		4.4
300	1972	Population	13.2		9.6
310	1972	Development Finance Co. (BAPINDO I)	10.0		2.5
318	1972	Inter-Island Fleet Rehabilitation	8.5		5.7
319	1972	Fourth Agricultural Estates	11.0		7.5
334	1972	Second Electricity Distribution	40.0		29.0
355	1973	Beef Cattle Development	3.6		3.1
358	1973	North Sumatra Smallholder Development	5.0		4.0
387	1973	Third Education	13.5		13.5
388	1973	Third Highway	14.0		10.5
399	1973	West Java Thermal Power	46.0		45.2
400	1973	Smallholder and Private Estate Tea	7.8		7.5
405	1973	Sugar Industry Rehabilitation	50.0		48.6
428	1974	Pulo Gadung Industrial Estate	16.5		15.5
436	1974	Private Development Finance Co. (PDFCI)	10.0		10.0
451	1974	Fourth Technical Assistance	5.0		4.7
479	1974	Bali Tourism	16.0		15.8
480	1974	Fisheries Credit	6.5		6.4
514	1974	Jatiluhur Irrigation Extension	30.0		29.8
1005	1974	Railway	48.0		48.0
1040	1975	Jakarta Urban Development	25.0		22.1
1049	1975	Five Cities Water Supply	14.5		14.5
1054	1975	Development Finance Co. (BAPINDO II)	50.0		49.5
1089	1975	Second Fertilizer Expansion	115.0		114.3
1100 a/	1975	Sixth Irrigation	65.0		65.0
			317.5	561.8	637.5

a/ Not yet effective

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of May 31, 1975)

	US\$ Million		
	<u>Amount (less cancellations)</u>		
	<u>Bank</u>	<u>IDA</u>	<u>Undisbursed</u>
Total	317.5	561.8	637.5
Total now outstanding	<u>317.5</u>	<u>561.8</u>	<u>637.5</u>
Amount sold of which has been repaid	0.05 <u>0.0</u>	<u>0.05</u>	
Total now held by Bank and IDA (Prior to exchange adjustment)	<u>317.45</u>	<u>561.8</u>	---
Total undisbursed	<u>313.4</u>	<u>324.1</u>	<u>637.5</u>

STATEMENTS OF IFC INVESTMENTS (as of May 31, 1975)

<u>Fiscal Year</u>	<u>Obligor</u>	<u>Type of Business</u>	US\$ Million		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1971	P.T. Semen Cibinong	Cement	10.6	2.5	13.1
1971	P.T. Unitex	Textiles	2.5	0.8	3.3
1971	P.T. Primatexco Indonesia	Textiles	2.0	0.5	2.5
1971	P.T. Kabel Indonesia	Cables	2.8	0.4	3.2
1972	P.T. Daralon Textile Manuf. Corp.	Textiles	4.5	1.5	6.0
1973	P.T. Jakarta Int. Hotel	Tourism	11.0	-	11.0
1973	P.T. Semen Cibinong	Cement	5.4	0.7	6.1
1974	P.T. Primatexco Indonesia	Textiles	2.0	0.3	2.3
1974	P.T. Monsanto Pan Electronics	Electronic pdts.	0.9	-	0.9
1974	P.T. PDFCI	Devlp. Fin. Co.	-	0.5	0.5
1974	Kamaltex	Textiles	2.4	0.6	3.0
1974	Semen Cibinong	Cement	<u>5.0</u>	<u>1.5</u>	<u>6.5</u>
		Total	49.1	9.3	58.4
		Less Sold or re- paid and cancelled	19.9	1.4	20.9
		Total now held	29.2	7.9	37.5
		<u>Undisbursed</u>			
		(including parti- cipant's portion)	6.4	1.6	8.0

PROJECTS IN EXECUTION <sup>1/</sup>

Cr. No. 127     Irrigation Rehabilitation: US\$5 Million Credit of  
September 6, 1968; Closing Date: December 31, 1975

All the equipment supplied under the credit is being well utilized and disbursements are 98 percent of appraisal timetable. Completion of the project is expected to be delayed in order to complete much needed additional drainage work, the financing of which was not provided for under the credit. These additional costs will be met by the Government. The revised economic rate of return on the project, which was calculated at 50 percent at appraisal, is now expected to be about 25 percent. The closing date has been postponed to December 31, 1975.

Cr. No. 154     Highway: US\$28 Million Credit of June 20, 1969;  
Closing Date: December 31, 1975

Rehabilitation work was substantially completed prior to the original closing date. However, it was necessary to postpone the closing date by one year to December 31, 1975 to complete procurement of a small amount of equipment and materials.

Cr. No. 155     Agricultural Estates: US\$16 Million Credit of  
June 20, 1969; Closing Date: December 31, 1975

With recent improvements in management and much higher international prices the financial situation of the estate groups is improving. The field and factory standards have now been raised to a good technical level and the management has been advised to concentrate on cost control in order to prepare for the time when produce prices are less attractive than they are today. The combined efforts of the management, consultants and IDA supervision missions are yielding good results.

Cr. No. 165     Electricity Distribution: US\$15 Million Credit of  
October 29, 1969; Closing Date: June 30, 1975

See comment for Credit No. 334. The closing date has been postponed by 18 months to June 30, 1975.

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<sup>1/</sup> These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 193      FUSRI Fertilizer: US\$35 Million Credit of June 15, 1970  
(as amended May 1973); Closing Date: December 31, 1975

The urea plant has successfully passed its performance test and is operating at close to rated capacity. The gas gathering and transmission system is also completed and sufficient gas is being delivered to the plant. Disbursements are expected to be completed by the closing date of December 31, 1975.

Cr. No. 194      Second Agricultural Estates: US\$17 Million Credit of  
June 15, 1970; Closing Date: June 30, 1975

After initial delays, there have been considerable improvements in management and these, combined with high prices for palm oil and rubber, have resulted in a much stronger financial position, particularly for the oil palm group (PNP VI). On the rubber group (PNP IV) more effort is necessary to improve fertilizer application and tapping methods. With the rapid expansion of investment on both estate groups, there is a need to employ expertise in financial planning and management, which are now the main constraints on efficient development.

Cr. No. 195      Second Irrigation Rehabilitation: US\$18.5 Million Credit  
of June 15, 1970; Closing Date: November 30, 1976

Problems of quality and progress of construction still exist, but the consultants are tackling these vigorously, and the situation is improving, although not sufficiently to make up for earlier delays. Costs are likely to double the overall appraisal estimate, due to inflation, but the Government will provide any additional funds required. Completion of disbursements will be about two years behind the original schedule. The economic rate of return is however still more than 20 percent.

Cr. No. 210      Telecommunications Expansion: US\$12.8 Million Credit of  
July 13, 1970; Closing Date: December 31, 1975

Contracts for all equipment have been awarded. The closing date has been postponed by 18 months due to delays in delivery of goods. The Government has increased the tariffs to achieve the required rate of return and a new charter for PERUMTEL has also been published.

Cr. No. 211      Fisheries: US\$3.5 Million Credit of July 13, 1970;  
Closing Date: June 30, 1976

The project supplies funds for the construction of 30 fully equipped skipjack boats and technical assistance. It is about 24 months behind the original schedule due to delays in engaging the consultants and in executing the contracts for the shore facilities. No further delay is anticipated. There have been very substantial project cost increases (from \$4.3 million to \$8.5 million). Because of the greatly increased skipjack

prices, however, the project is still expected to be financially viable.

Cr. No. 219      Education: US\$4.6 Million Credit of November 6, 1970  
Closing Date: December 31, 1976

Project implementation is satisfactory. Civil works for the five Technical Training Centers (TTCs) have been completed. All furniture deliveries and installation have also been completed. About 90 percent of the equipment has been purchased and about 60 percent delivered and installed. Three TTCs commenced operation in April 1975 and the remaining two, will commence in June 1975. All will operate at full capacity by January 1976 when the new academic year begins. Over 500 technical teachers have completed or are about to complete their training. Technical assistance financed by the U.K. for the project is also satisfactory. Disbursement has improved considerably. Revised total project cost is now about 40 percent above appraisal estimate. The Government will finance the cost overrun. The project is expected to be completed ahead of schedule.

Cr. No. 220      Third Irrigation Rehabilitation: US\$14.5 Million Credit of  
November 6, 1970; Closing Date: December 31, 1975

Construction remains about two to three years behind schedule partly because of problems with preparation of contract documents and subsequently due to inflation. These have now been mostly overcome. While no further delays are expected, it is unlikely that the time lost could be regained. There has been a considerable increase in overall project costs, which is being met by the Government. The economic rate of return for the project is still over 21 percent.

Cr. No. 246      Seeds: US\$7.5 Million Credit of May 14, 1971;  
Closing Date: September 30, 1977

Project implementation is behind schedule due to initial delays in organization, management, procurement and provision of budgetary funds. The latest supervision mission has reported that development of the seed farm is hampered by the slow execution of a contract to develop irrigation infrastructure and the seed processing plant. The contract for irrigation infrastructure has been renegotiated. The establishment of rice-seed research facilities at the project site is behind schedule due to difficulties in recruiting the necessary technical assistance and delays in providing the required facilities and the equipment. The contract for research technical assistance has now been signed and with the reorganization of the Government's research program, this component of the project is expected to proceed rapidly. The seeds certification service is performing well and development of the Klaten Seed District is progressing satisfactorily. This project is being kept under frequent supervision.

Cr. No. 259      Tea: US\$15 Million Credit of June 14, 1971;  
Closing Date: June 30, 1978

Agricultural achievements to date have far exceeded appraisal expectations necessitating construction and rehabilitation of 3 additional factories. Project completion estimated for December 1977 can probably be advanced by up to one year. Rising costs are creating pressure on fund availabilities and the main challenge for the two PTP's will be to decrease working capital requirements, reduce overhead and indirect costs and improve labor productivity.

Cr. No. 260      Second Highway: US\$35 Million Credit of June 24, 1971;  
Closing Date: September 30, 1975

All construction work is now satisfactorily under way. However, the delay caused initially by slow progress in mobilizing contractors, difficulties in equipment delivery, heavy rains and landslides will result in the project being completed about one year behind schedule. Design standards for the road sections have been slightly lowered and some savings will therefore be achieved. These and other savings are expected to offset construction cost increases.

Cr. No. 275      Third Technical Assistance: US\$4.0 Million Credit of  
December 29, 1971; Closing Date: December 31, 1975

Progress on this project is satisfactory. The closing date has been postponed to complete disbursements for ongoing studies.

Cr. No. 288      Second Education: US\$6.3 Million Credit of March 9, 1972;  
Closing Date: December 31, 1976

Working drawings and furniture and equipment lists for all project institutions have been completed. Physical facilities will be completed and all project institutions will begin operations by the end of 1976. The Government has agreed to provide additional funds to meet the cost overruns due to inflation. Postponement of the closing date by about one year is likely to be necessary.

Cr. No. 289      Fourth Irrigation Rehabilitation: US\$12.5 Million  
Credit of March 9, 1972; Closing Date: June 30, 1977

Civil works and equipment purchase for the main project, Pekalen-Sampean, are proceeding but completion of civil works will be about two years behind schedule. Due to inflation, project costs are likely to be substantially higher than appraisal estimates. Consultants for the various studies are at work with their counterparts. Groundwater investigations have been delayed due to procurement difficulties. The rehabilitation and storage feasibility studies are on schedule. Disbursements are also on schedule.

Cr. No. 300      Population: US\$13.2 Million Credit of April 20, 1972;  
Closing Date: June 30, 1978

Although progress is being made under this project, implementation continues to be hampered by management weaknesses. Lack of clear administrative direction has resulted in overall delays in securing budgetary funds and problems of program coordination. Procurement contracts for vehicles and other equipment have been awarded and UNICEF is assisting in the procurement of materials and supplies necessary for various population control programs. The civil works component is behind schedule, but is now proceeding more rapidly as the capacity of the implementing agency gradually improves. The field worker program has expanded more rapidly than expected when the project was appraised. This project is being supervised closely.

Cr. No. 310      Development Finance Co. (BAPINDO I): US\$10 Million  
Credit of June 7, 1972; Closing Date: December 31, 1976

This credit is fully committed. Disbursements are expected to rise rapidly.

Cr. No. 318      Inter-Island Fleet Rehabilitation: US\$8.5 Million Credit  
of June 28, 1972; Closing Date: September 30, 1976

Progress on this project is satisfactory and disbursements are expected to rise.

Cr. No. 319      Fourth Agricultural Estates: US\$11 Million Credit of  
June 28, 1972; Closing Date: June 30, 1981

The physical progress of the project is ahead of the appraisal schedule and the financial position of the estate group is satisfactory.

Cr. No. 334      Second Electricity Distribution: US\$40 Million Credit of  
September 29, 1972; Closing Date: December 31, 1976

The Jakarta distribution program financed from Credits 165-IND and 334-IND (together \$55 million) has encountered substantial foreign cost increases (\$7.0 million) and implementation delays due to procurement problems and cumbersome management procedures. Many of these difficulties have been resolved, but it is unlikely that the project can be completed before mid-1978, two years behind the original schedule.

Cr. No. 355      Beef Cattle Development: US\$3.6 Million Credit of  
January 31, 1973; Closing Date: March 31, 1980

Progress on this project for development of beef cattle production in the outer islands has suffered from serious delays caused largely by problems in securing Government funds and in clearance of documents by

Indonesian Government departments and consequent lack of essential equipment. Land acquisition and procurement of cattle are proving more difficult than expected, and there has been a substantial increase in total project costs. The means of improving project performance are currently being discussed with the Government.

Cr. No. 358      North Sumatra Smallholder Development: US\$5 Million Credit of February 14, 1973; Closing Date: December 31, 1981

This project has suffered from severe financial and organizational difficulties due primarily to the lack of experience of project management, the remote location of the project and inadequate Central Government support. The Resident Staff has been following the project closely. The rubber replanting program is behind schedule, but with progress now being made it may be possible to accelerate the program in accordance with appraisal estimates. The Government has taken a number of steps to overcome the problems and accelerate project implementation. Project progress will continue to be closely monitored.

Cr. No. 387      Third Education: US\$13.5 Million Credit of June 1, 1973; Closing Date: December 31, 1981

Project implementation is proceeding on schedule, except for a 10 month delay in equipment procurement which has now been overcome. Manuscript testing of the first set of texts has been completed. About 34 million textbooks are scheduled to be printed in August, 1975. Distribution of textbooks to all primary schools is now being planned and will necessitate the use of a number of government agencies. Staff in the provinces have been trained in the use of the textbooks and training courses have commenced for teachers. Lack of travel funds in the provinces has impeded teacher training, but it is expected that this difficulty will be overcome as the project management, which is effective, becomes more familiar with government procedures. Project costs are now estimated at \$56 million, 44 percent above the original estimate because of increased costs of paper and teacher training. The Government is expected to meet all cost increases.

Cr. No. 388      Third Highways: US\$14 Million Credit of June 1, 1973; Closing Date: June 30, 1977

Construction bidding and consultant selection have been proceeding on schedule. Some cost increases, due to inflation, are expected.

Cr. No. 399      West Java Thermal Power: US\$46 Million Credit of June 22, 1973; Closing Date: June 30, 1978

Bids received in November 1974 for the first two 100 mw units at Muara Karang were about 65 percent higher than estimated at the time of appraisal. This, together with construction cost increases, has resulted

in an increase in the total project cost of more than 100 percent. The Government will finance the additional cost. PLN has satisfactorily met the first year targets in its financial recovery plan provided for under the terms of the Credit Agreement.

Cr. No. 400      Smallholder and Private Estate Tea: US\$7.8 Million  
Credit of June 22, 1973; Closing Date: March 31, 1982

The project nurseries are well managed and where rehabilitation has taken place results are encouraging. Technical questions related to loan applications by farmers have been resolved and BRI is expected to proceed with extending credits to tea growers. The contract of the financial advisor to BRI has been extended for another year. Progress on this project is satisfactory.

Cr. No. 405      Sugar Industry Rehabilitation: US\$50 Million Credit of  
June 26, 1973; Closing Date: June 30, 1979

Bids for equipment required for first phase major rehabilitation have been received; a substantial cost overrun is expected, which the Government has agreed to finance. Some organizational problems are now being resolved and disbursements are expected to rise.

Cr. No. 428      Pulo Gadung Industrial Estate: US\$16.5 Million Credit  
of September 14, 1973; Closing Date: December 31, 1978

Despite recent increase in construction costs, the project remains financially viable because revenues from the sale of plots has risen proportionately. Construction has fallen behind schedule due to land acquisition problems, but developed land is being occupied as fast as it is made available. While there is still a backlog of applications for industrial plots, the rate of new applications has fallen off during recent months and the estate is intensifying its promotional efforts.

Cr. No. 436      Private Development Finance Company of Indonesia (PDFCI):  
US\$10 Million Credit of November 2, 1973;  
Closing Date: December 31, 1978

After a long start-up period and difficulties in finding and recruiting qualified local staff, PDFCI has now reached the operating stage. Its commitments are rising at a satisfactory rate.

Cr. No. 451      Fourth Technical Assistance: US\$5 Million Credit of  
January 2, 1974; Closing Date: December 31, 1976

Progress under the project is satisfactory.

Cr. No. 479      Bali Tourism: US\$16.0 Million Credit of June 4, 1974;  
Closing Date: August 31, 1979

Progress under this project is slightly behind schedule due to the lack of experience of the implementing agency and difficulties in coordination with other Government organizations. This situation has steadily improved as local staff have gained experience and project advisors have taken up their positions. Final design of the infrastructure and hotel training school is underway. Preliminary lease negotiations with potential hotel investors are expected to begin around early July.

Cr. No. 480      Fisheries Credit: US\$6.5 Million Credit of  
June 4, 1974; Closing Date: June 30, 1979

This credit became effective on January 8, 1975 and is progressing satisfactorily.

Cr. No. 514      Jatiluhur Irrigation Extension: US\$30.0 Million Credit  
of October 3, 1974; Closing Date: December 31, 1980

This credit became effective on January 10, 1975 and the work will commence soon.

Loan No. 1005      Railway: US\$48.0 Million Loan of June 4, 1974;  
Closing Date: December 31, 1978

Procurement of material and equipment was delayed due to poor procurement organization and inadequate budget allocations for 1974/75; however, this situation has improved since PJKA retained the services of an international procurement agency. Due largely to a lack of spare parts an increasing number of locomotives have dropped out of service, causing a decline in freight traffic. To attain financial viability as agreed in the Loan Documents, PJKA needs to increase revenues by at least 10 percent. Therefore, in May 1975 freight tariffs were substantially increased. A draft of the detailed recovery program for FY75, due to the Bank in September 1974, has not been received.

Loan No. 1040      Jakarta Urban Development: US\$25.0 Million Loan of  
September 27, 1974; Closing Date: December 31, 1977

The first year of the two-year Kampung Improvement Program has been satisfactorily completed. The second year's activities are well underway with first year savings being applied to increase the water supply beyond originally planned levels. The newly formed National Urban Development Corporation is currently seeking consultants both to assist in the development of their operations and to prepare urban projects in other cities. Full responsibility for supervision of consultants designing the Klender Site and Service scheme has been transferred to NUDC so as to ensure preparation of a design with standards appropriate to the low income target population.

Loan No. 1049 Five Cities Water Supply: US\$14.5 Million Loan of  
October 31, 1974; Closing Date: June 30, 1980

This loan became effective May 21, 1975.

Loan No. 1054 Development Finance Co. (BAPINDO II): US\$50 Million Loan  
of November 30, 1974; Closing Date: December 31, 1976

This loan became effective January 14, 1975 and is proceeding satisfactorily.

Loan No. 1089 Second Fertilizer Expansion: US\$115 Million Loan of  
February 28, 1975; Closing Date: August 31, 1978

This loan became effective April 29, 1975

Loan No. 1100 Sixth Irrigation Project: US\$65 Million Loan of  
April 1, 1975; Closing Date: June 30, 1982

This loan is expected to become effective by the end of June 1975.

INDONESIA - PUSRI FERTILIZER DISTRIBUTION PROJECT

Loan and Project Summary

Borrower: Republic of Indonesia

Beneficiary: P.T. Pupuk Sriwidjaja (PUSRI)  
Indonesia State Railways (PJKA)

Amount: US\$68 million equivalent in various currencies

Terms: 15-1/2 years including 3-1/2 years of grace at  
8-1/2 percent per annum.

Relending Terms: Same as repayment terms at 12 percent per annum

Project Description: The project consists of investments to provide a new distribution system for the urea produced by PUSRI at plants in Palembang, Sumatra, together with other types of fertilizer which will be distributed by PUSRI totalling some 1.4 million tons per annum. Specific investments to be undertaken during the project include: acquisition of three self-unloading ships of about 7,000 dwt for bulk shipments; expansion or improvement of three and provision of two new bulk unloading port terminals; construction of 59 inland fertilizer storage and distribution depots; provision of 175 railway wagons, four main line and three shunting locomotives, the latter being owned and operated by PJKA, and 27 railway spurs to inland storage depots; construction and procurement of office space and vehicles, technical assistance to assist and train PUSRI personnel in overall scheduling and movement control, and a study for the establishment of a National Fertilizer Distribution System.

Estimated Cost  
(US\$ Million):

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
1. Ships	-	33.0	33.0
2. Port and inland depots and bagging plants, including land provision and related offices, equipment and spares	34.1	27.0	61.1
3. Railway wagons	-	3.5	3.5
4. Locomotives	-	2.5	2.5
5. Engineering and Technical Assistance	1.0	3.0	4.0
6. Contingencies	11.3	14.6	25.9
7. Total Project Cost	46.4	83.6	130.0
8. Interest during construction	3.6	6.4	10.0
Total Financing Requirements	50.1	89.9	140.0

Financing Plan:

	<u>US\$ Million Equivalent</u>	<u>%</u>
Government	72.0	51.5
Proposed Bank Loan	68.0	48.5

Estimated Disbursements:

	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>
Annual	25.0	30.0	9.0	4.0
Cumulative	25.0	55.0	64.0	68.0

Procurement

Arrangements:

All equipment financed by the Bank loan will be procured in accordance with the Bank's Guidelines. A contract for ship acquisitions with Mitsubishi Heavy Industries has been signed, this being the lowest of four bids received from 14 prequalified yards; prequalification procedures for other long lead items of equipment for the port and inland storage depots is in hand. Civil works will be contracted locally and would not be financed from the proceeds of the Bank loan.

Technical Assistance:

The proposed loan would finance provision of two specialists for two years to set up an appropriate scheduling and movement control system and train PUSRI personnel in its operation. PUSRI has also retained marketing consultants and consultants for design and supervision of construction of the ships and inland distribution facilities.

Rate of Return:

Economic return on project investments is estimated to be 20 percent. Under adverse conditions the return is not expected to be less than about 13 percent.

Appraisal Report:

No. 694-IND dated May 19, 1975.



