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PROJECT PERFORMANCE AUDIT REPORT

INDONESIA - BANK PEMBANGUNAN INDONESIA

(CREDIT 310-IND)

June 27, 1979

Operations Evaluation Department

PROJECT PERFORMANCE AUDIT REPORT

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PREFACE

This is an audit of performance under Credit 310-IND for US$10 million, made to the Government of Indonesia for onward lending to Bank Pembangunan Indonesia (BAPINDO), a Government-owned development finance company. The credit was approved in May 1972 and became effective in August 1972. It was disbursed to an amount of US$9.55 million by August 1977 when, after a cancellation of US$0.45 million, it was closed.

An OED mission visited the country in February 1979 and discussed various aspects of the project, particularly Government-BAPINDO relationship and the institution-building role of the Bank, with BAPINDO officials, representatives of banks and industry, and Government officials. The mission also visited one project financed under the credit. Assistance rendered by Government and BAPINDO officials and representatives of banks and industry during the mission is gratefully acknowledged.

The audit memorandum is based on the Project Completion Report (PCR) prepared by the East Asia and Pacific Regional Office, study of files and discussions with the Bank staff and during the OED mission. The PCR describes adequately the project experience, particularly after the approval of the credit. In view of the long pre-negotiation phase and the measures taken to upgrade the institution prior to credit approval, the Audit Memorandum analyses in detail the role of the Bank Group during this phase, and the institutional development of BAPINDO during the period of the credit. The PPAM also updates information in the PCR. Comments received from the borrower have been taken into account in preparing this report, and are reproduced as Annex III to the Audit Memorandum.

PROJECT PERFORMANCE AUDIT REPORT

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(CREDIT 310-IND)

BASIC DATA SHEET

Amounts (in US$ mln)

	Original	Disbursed	Cancelled	As of 4/30/79 Repaid	Outstanding
Credit 310-IND	10.00	9.55	0.45	-	9.55

Cumulative Credit Disbursement

	1972	1973	1974	1975	1976	1977
(i) Planned	0.30	4.10	8.10	9.70	10.00	10.00
(ii) Actual	0.10	1.70	7.60	8.60	9.30	9.55
% of (ii) to (i)	33.0	41.5	93.8	88.7	93.0	95.5

Project Data

	Original Estimate	Actual or Re-Estimate
Conception in Bank	June/69	June/69
Board Approval	5/30/72	5/30/72
Credit Agreement	6/07/72	6/07/72
Effectiveness	8/10/72	8/10/72
Credit Closing	12/31/76	8/31/77

Mission Data *

	Month, Year	No. of Weeks	No. of Persons	Manweeks	Date of Report
Reconnaissance	Nov. 1968	3	2	6	Jan. 29, 1969
Preappraisal	Dec. 1969	3	3	9	Aug. 7, 1970
Appraisal	Sept. 1971	3	4	12	May 8, 1972
Subtotal		9	9	27	
Supervision I	May 1973	3	3	9	July 3, 1973
Supervision II	Aug. 1975	3	2	6	Feb. 23, 1976
Supervision III	April 1976	3	3	9	June 29, 1976

* In addition, short missions were taken between 1969 and 1971 for discussions and negotiations on related issues.

Follow-on Projects

Loan 1054-IND of US$50.00 million, signed November 20, 1974.
Loan 1437-IND of US$40.00 million, signed June 6, 1977.

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HIGHLIGHTS

Credit 310-IND was the first credit made by the Bank Group to the Government of Indonesia for on-lending to Bank Pembangunan Indonesia (BAPINDO), a Government financial intermediary. BAPINDO was one of the earliest institutions to seek to take advantage of a new direction in Bank Group policy making Government-owned DFCs eligible for Bank financing. It took the Association four years to approve the credit to BAPINDO. A part of this rather excessive time was taken to assess BAPINDO's portfolio and upgrade its accounting system and procedures. The Association also helped in obtaining technical assistance for BAPINDO in the areas of project appraisal, technical assessment and accounts keeping.

BAPINDO's appraisal and supervision practices improved during the period of the credit. BAPINDO also reduced its branches and staff, though not to the same extent as the Association expected owing to local difficulties. Sub-project performance in the initial years was below expectation. BAPINDO carried out some operations at the instance of the Government, reflecting its inability to maintain autonomy.

On the whole, the Association brought about significant reforms in the accounting and operational procedures and practices of BAPINDO during the period of the credit, laying a useful basis for future Bank Group operations. The Bank instituted, at the time of the 1977 loan, a system of managed funds to insulate BAPINDO from the consequences of operations undertaken at the instance of the Government.

Other points of interest are:

- institution of accounting reforms (paras. 16, 34, 65 of PPAM);
- provision of technical assistance (paras. 17, 22, 60-61 of the PPAM, and paras. 2.04, 3.06 of PCR); and
- continuance of high arrears and low profitability (paras. 54-55 of PPAM and paras. 3.14 and 3.17 of PCR).

PROJECT PERFORMANCE AUDIT MEMORANDUM

INDONESIA - BANK PEMBANGUNAN INDONESIA

(CREDIT 310-IND)

1. The Association approved in May 1972 to Government of Indonesia a credit for US$10 million for onward lending to Bank Pembangunan Indonesia (BAPINDO), a Government-owned development finance company in Indonesia. The credit became effective in August 1972, and was fully committed by February 1975, as projected. It was closed, after two extensions, by December-end 1977, with a total disbursement of US$9.55 million, an amount of US$0.45 million having been cancelled.

2. Bank Pembangunan Indonesia (BAPINDO) was formed in 1960 as a wholly Government-owned bank for providing finance to industry, and, soon after, absorbed Bank Industri Negara which was the earlier industrial lending institution in Indonesia. Soon after this, the Government of Indonesia and BAPINDO first made an approach to the Bank for a DFC loan. In 1967, the contact between BAPINDO and the Bank was renewed, for the first time on a consistent and continuous basis. In the initial phase of this set of contacts, the DFC Department, then forming part of the IFC, while retaining the communication line, indicated to BAPINDO its ineligibility for a Bank loan on the ground that the Bank financed only privately-owned DFCs. When, in July 1968, the Bank issued a policy statement widening the scope of its DFC lending operations to include Government-owned DFCs (and, in consonance with this approach, later also transferred the DFC Department to the Bank), BAPINDO became eligible for Bank lending and was quick to stake a claim for a Bank loan to support its operations. In order to appreciate the subsequent course the negotiations took, it is necessary to narrate, though in brief, the early history of BAPINDO and the institutional financing system as it had evolved in Indonesia.

A. BAPINDO - DESIGN OF THE PROJECT

BAPINDO and the Indonesian Financial System

3. Bank Industri Negara (which BAPINDO later absorbed) was set up in 1951 to provide finance to industry which was then mainly in the State sector. The financial system was specialized according to sectors, that is, each Bank was allocated a sector (agriculture, industry, mining and so on) which formed its exclusive field of operations. There was, moreover, only one bank for each sector, so that the borrower's access to a

bank was determined by the sector in which its operations lay. At the same time, there was little differentiation in the scope and extent of functions and operations of the sector banks, that is, each sector bank was expected to meet all the financial needs--whether short- or midium-term, whether for working capital or fixed assets--of enterprises in its sector. The sector banks obtained their resources from deposits, from the central banking authority (through a program which came to be called INVESTASI or the Joint Financing Scheme) and from budgetary allocations made by the Government. The Government and the central banking authority determined the extent of financing to be provided by a sector bank to an eligible borrower according to a priority-scale laid down by them (the balance being required to be met by the borrowing unit from its own resources), and also laid down the terms (the rate of interest and the maturity structure) on which the funds were to be provided by the sector banks.

4. Bank Industri Negara, reflecting the stage of Indonesia's industrialization at the time, was one of the smaller of the sector banks. In 1960, the Government constituted, by statute, BAPINDO, and, soon after, merged Bank Industri Negara into it. The BAPINDO statute was in consonance with the Government's thinking on the organization of the financial system in Indonesia, and gave wide powers to BAPINDO, including collection of deposits, access to central banking and Government funds, raising of loans and providing funds, on short- and medium-term, in the development field. Moreover, BAPINDO was required to undertake such specific functions on behalf of the Government as the Government directed. Thus, the scope and volume of its actual operations were determined by the Government.

5. BAPINDO's history till 1968 was chequered, being determined by industrial, economic and political developments in the country. During the period 1961 to 1966, BAPINDO financed development projects out of funds made available directly from the Government budget. In 1966 BAPINDO was allowed to operate in the general banking field, earlier prohibited. In mid-1966, BAPINDO became inactive in long-term lending, and was confined to short-term loans to medium and small industry. In 1967, the Government assumed direct responsibility for providing long-term finance to industry. Moreover, following a tight money policy and budgetary stringency, BAPINDO was not allowed to accept deposits nor provided Government allocations. BAPINDO was thus confined to managing old loans.

6. By 1968, BAPINDO had built up 20 branches and a staff of 1,370, including 838 as the Head Office staff. The branch offices processed applications directly, and sent them to the head office for approval. BAPINDO had also undertaken operations under Government's directives, as in allocating raw cotton imports to textile mills under

U.S. PL 480 aid and import of rubber crumb machinery for allocation to entrepreneurs under U.S. and French aid. As the inflationary situation gradually began to come under control and the Government's budgetary position improved, a budgetary allocation was made to BAPINDO in 1968 to finance industrial projects, mostly in the State Sector.

7. BAPINDO's organization and accounts at the stage were apparently not in proper shape. While BAPINDO prepared and provided summaries of its accounts (balance sheets and profit and loss accounts), these had not been subjected to external audit duly. An external audit, carried out in 1969-70 for the first time by a private independent auditing firm appointed by BAPINDO at the World Bank's instance, showed deficiencies in ledger-maintenance, in periodicity of reconciliation of accounts and in accounting practices. Moreover, while BAPINDO had provided Rp 412 million (1.6% of the total portfolio) for bad debts, it appeared that a sizeable part of its loans to industrial units in the State sector might not be recoverable.

8. In the meanwhile there had been some evolution in the sectoral system of providing finance, and the structure that had emerged provided financing responsibilities of the banking system as follows:

Bank Pembangunan Indonesia:	Industry, Transportation.
Bank Negara Indonesia 1946:	Industry, Transportation, Agricultural/cattle-breeding.
Bank Rakjat Indonesia:	Agricultural/cattle breeding.
Bank Impor/Expor Indonesia:	Production of export goods, Estates sector.
Bank Bumi Daya:	Production of export goods, Estates sector, Mining.
Bank Dagang Negara:	Production of export goods, Mining.

The Pre-Negotiation Phase

9. While the DFC Department had till 1968 kept nominal relationship with BAPINDO and had maintained contact with the Government, central banking and BAPINDO officials regarding BAPINDO's resource problem, it had not made any serious attempts to study BAPINDO's

operations or its current role and future potential in the country's financial system. These began when BAPINDO approached the Bank for financing under the Bank's new eligibility criteria.

10. Within the next two years to June 1970, there were three Bank missions, mounted at intervals of about nine months, and intended to provide the Bank with a detailed picture of BAPINDO to enable it to determine its DFC financing strategy in Indonesia: the first, an internal (DFC Department) acquaintance mission in December 1968 to determine the policy options for the Bank; the second, a set of consultant (October 1969) and internal DFC Department (December 1969) missions, combined with initiation of an external audit process (commencing September 1969) to determine the scope for private sector development in Indonesia and BAPINDO's role and position in it; and the third, a Bank mission (in June 1970) to discuss the policy options and the strategy of the Bank's DFC lending in Indonesia.

11. The terms of reference of the first mission, in December 1968, were not to appraise BAPINDO but to ascertain and assess the financial system in Indonesia and BAPINDO's role and potential in it. The mission's assessment was that BAPINDO had yet to find a role in Indonesia's economic life and a capability to fulfill it. Apparently the idea of setting up a private development bank or to transfer the Government-owned company into a private development bank seemed premature for lack of private capital, private projects and inflationary trends. The mission recognized that BAPINDO could play an important role as an institutional source of medium- and long-term finance for both State-owned and private enterprises in Indonesia. It also expected BAPINDO, in all probability, to continue its short-term lending and general banking operations though gradually term-lending would become more important. Therefore, the mission ruled out setting up a new privately-owned DFC or converting BAPINDO into a privately-owned DFC. Instead, it recommended improving BAPINDO's technical competence--its organization, project appraisal and follow-up techniques and accounting systems. The mission believed that, considering BAPINDO to be the only institution in Indonesia capable of providing medium- and long-term financing, this (improving BAPINDO's capability) was a practical means of helping the public and private sectors in Indonesia. It then recommended a specific technical assistance program (seconding of experts and provision of training), and suggested an appraisal of BAPINDO for Bank/IDA financing after it had received the technical assistance.

12. The report of the mission was followed by a debate within the Bank on its strategy for DFC lending in Indonesia. Apparently doubts were expressed about improving the capability of BAPINDO by itself, and a suggestion made to create a wholly-owned subsidiary of BAPINDO, to carry on DFC operations and handle Bank Group funds. The Bank also seemed to be averse to using BAPINDO as it had branches.

On the other hand, the Government opposed the idea of setting up a new DFC and suggested that BAPINDO could be converted from a Government channel (as the Bank considered it to be) to a DFC (as the Bank wanted it to be). Moreover, the Government also suggested that other commercial banks be given access to Bank finance. In the meanwhile, the Bank continued to keep up a dialogue with BAPINDO; an internal note made an assessment of the financial system in Indonesia.

13. Under the system of joint financing under which BAPINDO obtained funds from the Government and from Bank Indonesia, the decisions on financing were taken either outside BAPINDO or with a minimal participation by BAPINDO. In either case, control by other Government agencies appeared to be firm and clearly defined. Towards October 1969, the Bank was still open-minded on whether it could be more effective in providing finance through BAPINDO or through other institutions, existing or yet to be created.

14. In the meanwhile, in response to requests for action from the Government and the Resident Mission, the Bank appointed a consultant to examine the role of, and scope for, private enterprise in Indonesia and suggest changes in the legal framework to encourage it; asked the Government and BAPINDO to appoint, from a list of four auditing firms, a firm of external auditors to review its accounts and accounting practices; and agreed to send, in December 1969, a mission to assess BAPINDO's capability of being made a suitable channel for Bank finance, and if so, to propose the necessary changes and improvements.

15. The one-man consultant mission visited Indonesia in November 1969. It assessed the role of, and scope for, private enterprise in Indonesia. On the question of the DFC structure in Indonesia, the consultant suggested reorganizing BAPINDO and strengthening regional development banks through Bank Indonesia. As regards the specific issue of the agency for channeling Bank funds, the consultant felt that the Development Bank for Indonesia (a joint venture promoted by Bank Indonesia and the Netherlands Finance Company for Developing Countries, with majority holding by the Dutch Government and its head office in the Netherlands at the time), properly established and staffed, might become a medium for World Bank Group financing even earlier than BAPINDO.

16. The reports issued by an audit firm, appointed by BAPINDO, were highly critical of the state of account-keeping practices of BAPINDO, and made detailed recommendations for setting them right. The auditors were unable to satisfy themselves independently concerning substantial loans from the Government for investment needs as also from Bank Indonesia for refinancing loans plus what appeared to be serious doubts concerning the collectibility of past loans due for

recovery. Therefore, as regards the accounts ending December 31, 1969 the auditors were unable to give an opinion on the fairness of the financial statements taken as a whole. One consequence of the auditors' reports was that the Bank recognized that any technical assistance package for reorganizing and strengthening BAPINDO would need to include an accounts expert.

17. Finally, the Bank mission in December 1969 examined BAPINDO's organization and operations in great detail (para 2.04 of the PCR). Its main recommendation was to transform BAPINDO into an institution specializing in providing term finance mainly to small- and medium-scale enterprises. The institution would have a sound capital structure and possess wide range of expertise and experience, and sound operational, technical and accounting procedures. It was to be autonomous in its decision-making, and capable of taking initiatives in its field of operations. The report made recommendations on the nature of technical assistance needed by BAPINDO and identified areas in which it should be provided.

18. The first six months of 1970 were devoted to a consideration of these various findings and the basis for undertaking discussions with the Government. The Bank appeared to have come to the conclusion that BAPINDO, at that stage, was not capable of using capital effectively or a viable financial institution. In the discussion on the preliminary draft of the consultant's report, the Government, while recognizing the need for more development finance institutions, had not supported the idea of re-constituting the (Dutch-sponsored) Development Bank of Indonesia; the Bank, therefore, favored setting up a traditional type of development finance company associated with the World Bank Group. The Bank was thus gradually pushing towards a three-tier DFC structure: (i) regional DFCs; (ii) BAPINDO concentrating on financing small- and medium-scale industries, mainly in the field of rehabilitation and modernization; and (iii) a new multinational DFC in which foreign shareholders and the Government (directly or through BAPINDO) were each to take minority shareholdings.

The Negotiation Phase

19. It was with this package that a Bank mission went to Indonesia to discuss a program for Bank lending to the DFC sector in Indonesia. In the discussions the Bank suggested a revision in BAPINDO's charter and the need for BAPINDO to shed commercial banking activities and to close the branches (and, consequently, to reduce staff). The Government was reluctant to change BAPINDO's basic law or reduce its operations or branches. The Bank representatives affirmed their conviction that there would be need for a new development finance company even after BAPINDO's successful reorganization.

20. At this stage it was apparent that the Government was keen on developing BAPINDO into an effective industrial financing institution, and was seeking the Bank's help for this purpose; as the Bank noted, the Government was determined not to abandon BAPINDO, but to reconstruct it. Following the discussions, the Bank advised the Government that it was desirable the Government should take no significant action on BAPINDO without prior consultation with the Bank (later amended to read that the Government had agreed that it would advise the Bank of any significant action it intended to take on matters concerning BAPINDO); that the Bank would prepare a detailed commentary on the requirements of an amended BAPINDO law; and that the Bank would commence work on the preparations for setting up a new development finance company along the lines of other such institutions financed by the World Bank Group.

The Pre-appraisal Phase

21. The next one year, approximately from August 1970 to August 1971 was devoted to determination and commencing of implementation of steps to reorganize and strengthen BAPINDO and attempts to promote interest in the traditional Bank-style DFC. Almost each mission and each visit by Bank staff to Indonesia was devoted to discussion of these two issues.

22. With the receipt of the auditors' report, the Bank's attention was turned to determining the quality of BAPINDO's portfolio, reorganizing its capital structure, and finding advisors for it. A Bank mission, mounted in November 1970, made a fairly detailed study of BAPINDO loans to privately-owned projects and arrived at broad estimates of likely losses on these loans. As a result of the mission's work, the Government agreed to a revised capital structure for BAPINDO by taking off BAPINDO's balance sheet its old loans to State enterprises and increasing its equity. The Bank also asked the Government to bring about changes in the BAPINDO law to bring it in line with the Bank's concept of BAPINDO's activities and operational scope. The Bank's search for advisors led to the recommendation, accepted by the Government and BAPINDO, of three advisors for BAPINDO--one as advisor to the President, one as advisor on development banking and one on accounts. By July/August 1971, these advisors were in position, except that the advisor on development banking left almost immediately to take up a senior position in his home country.

23. In the meanwhile, in August 1970, the Government, concerned about BAPINDO's financial position, asked it to stop term-lending operations. At the same time, the Government gave BAPINDO a substantial emergency line of credit to enable it to meet cash withdrawals in case these came about. In November 1970, the Government issued a directive

to BAPINDO to segregate its commercial banking and development banking operations, to confine itself to development banking and to do commercial banking only in relation to its long-term borrowers. External auditors had carried out an audit of the 1970 accounts, but refused to certify them as internal controls and accounting systems were found to be too unreliable to certify the balance sheet without qualifications. Early in 1971 the Government appointed a new President of BAPINDO.

24. The attempts to promote a new DFC, in the mould the DFC Department had been used to, seemed to make less progress. A steering committee was set up in the latter half of 1970 to stir up interest in and initiate design of the new DFC. The November 1970 mission reported little progress on the subject. Visits by Bank representatives showed that there were problems in raising the local part of the share capital. Ideas canvassed to allow IFC participation as local capital to supplement it, seemed to make little progress.

25. Moreover, the attempt to broaden the shareholding in the Development Bank of Indonesia and to shift its headquarters to Indonesia also did not seem to get off the ground. In the meanwhile, two commercial banks proposed, independently of each other, setting up wholly-owned subsidiaries for medium- and long-term lending. The respective spheres of medium-term lending operations, demarcated by Bank Indonesia, were thus not strictly adhered to by the State commercial banks and the commercial banks were competing with each other in the same fields.

The Appraisal Stage

26. With these developments, the Bank sent in September 1971 a mission to appraise BAPINDO and to report on progress made on the new DFC. The Appraisal Mission reported that in the case of BAPINDO progress was not sufficient to justify the Bank proceeding with the credit, and suggested a new appraisal mission for BAPINDO in January 1972, with possibly an interim visit earlier to review progress. As regards the new DFC, the Mission found that nobody was enthusiastic about the proposal, the Steering Committee had neither been expanded nor made any progress, and the local feeling was that the process to set up the new DFC would be long drawn out and the Bank was pushing too hard.

27. The findings of the mission set off a major debate within the Bank. The Bank had indicated to the Government of Indonesia that on its and BAPINDO's undertaking the reforms suggested by the Bank, BAPINDO would be eligible for Bank financing. The Resident Mission and the Region felt that the Government and BAPINDO had acted on Bank advice and the Bank had committed itself to financing BAPINDO. The Region felt that it was not always possible to achieve in Indonesia

the degree of institutional readiness attainable elsewhere, and the Bank had, as a matter of strategy, in a number of cases, provided funds to agencies in Indonesia as that was the only way of bringing about, within a reasonable period, the changes which were so vital for the progress of Indonesia. On the other hand, the DFC Department felt that the progress made by BAPINDO was not sufficient, and a further delay of four months (the time needed to mount the next mission) was justified. After discussion, it was agreed that the DFC Department would go ahead with the preparation of an appraisal and negotiations based on it, on the assumption that progress made during this process would justify Board presentation in March 1972.

28. By January 1972, progress was made in the sense that a term-lending advisor was identified, a draft BAPINDO Act was submitted to the Bank for comments, and BAPINDO was permitted to resume term lending. There were further discussions on interest rate structure, BAPINDO's accounting system, and disbursement, pre-payment and termination issues in relation to Bank financing. The credit proposal, presented to the Board on May 30, 1972, was viewed as marking the culmination of efforts, over a period of three years, in establishing a broad-ranging scheme of Bank Group assistance to financial institutions in Indonesia.

B. ASSESSMENT OF THE BANK DESIGN

29. By the time the Bank fielded, in September 1971, the mission to appraise BAPINDO for possible Bank Group financing, a period of four years had elapsed since the initiation of contact between BAPINDO and the Bank and a period of more than three years had passed since BAPINDO became formally eligible for Bank Group financing as a result of the revised policy of financing State-owned DFCs. During this period, besides a large number of visits by Bank representatives and discussions, both in the U.S.A. and in Indonesia, between the Government and BAPINDO officials and Bank representative, the Bank, as described above, carried out three major missions (one of them, including a consultant), to determine its DFC lending strategy and the agency for channelling its funds.

Time Spent

30. The lack of knowledge about the local situation in Indonesia, where the Bank was then just initiating the lending process, made it necessary to obtain an understanding of the local economy, its laws and the envisaged role of the private sector in the country's industrial development. The state of BAPINDO, at the time it made its first approaches to the Bank, provided a natural argument for considering potential and possible channels for Bank Group's DFC lending. Even then, it appears that the time taken to arrive at the actual decision was inordinately long.

31. In the first one year, counting from the time when public sector DFCs became eligible for Bank financing and BAPINDO made the first formal approach to the Bank (that is, from July 1968), the main action taken by the Bank was to arrange a visit to BAPINDO, which led to an identification of the issues involved in providing industrial finance in Indonesia and suggestions for an approach to such financing. Over the next three years, the progress made comprised initiation of an audit process, reform in accounting systems and procedures, assessment of the portfolio, and appointment of advisors; three years was a long time to bring this about. Moreover, at the end, the solution found (reform and financing of BAPINDO) was the same as recommended after the first (December 1968) Bank visit on the lines suggested after it, and the subsequent efforts, while enormous in terms of manpower devoted and visits undertaken, represented, in fact, little change in terms of the final decision taken.

Attitude Towards Financing Government DFCs

32. The DFC Department had, in the past, been sponsoring, and providing finance to, privately-owned DFCs, which depended, for their viability, on substantial support from the Government and continued financing by the Bank and other official lending agencies. When at first BAPINDO approached the Bank for assistance, this was the model (later, often referred to as "the traditional Bank-type DFC") which the Bank sought to support. Given this background and the state in which BAPINDO was in July 1968 when the Bank extended the scope of its DFC lending policy, it appeared natural to seek an alternative channel for Bank lending to industry in Indonesia. It was thus that, despite the recommendations of the first Bank mission, the DFC Department initiated the process for locating or promoting a DFC in the Bank's traditional mould.

33. This led to the Bank's second set of missions (including that of a consultant) which sought to identify an alternative channel and, subsequent attempts by the Bank, through visits and discussions, to set up a new DFC in the traditional mould. While the Bank continued its dialogue on the shortcomings of BAPINDO and the need to set them right, it made serious and persistent efforts, including encouraging the formation of a steering group, to promote a privately-owned DFC. These efforts, despite the Government and Central Bank support, came to nought for reasons identified by the first Bank mission: lack of private capital and scope for private investment made such efforts premature at that stage. For the same reasons, the Bank's attempts to turn the Development Bank of Indonesia into a privately-owned local DFC by broadening its shareownership also failed to make any headway. The situation in Indonesia at the time was not receptive to such an institution.

Progress on Reforming BAPINDO

34. The Bank's preoccupation with promoting a new DFC also led to a gradualist approach to up-grading BAPINDO to meet Bank lending criteria. External auditors were appointed in the second half of 1969. However, thereafter, progress was painfully slow: an analysis of BAPINDO portfolio was initiated only at the time of the December 1970 Bank mission; a framework for reorganizing the capital structure was determined, and agreed to with the Government, and advisors were in position only by mid-1971. The shortcomings of BAPINDO--in the areas of organization and accounts-keeping, in project appraisal and supervision capability--had been identified in the first (1968) Bank mission report, and the steps taken, over a period of 2 1/2 years, were almost the same as suggested by that mission. The two significant achievements of the period, subjecting BAPINDO accounts to external audit and analyzing its portfolio, could have been done at least a year earlier, and the latter (as also the positioning of experts) two years earlier, than was actually done.

35. It is argued that the Bank did not have sufficient staff to expedite the process of DFC lending in Indonesia. In fact, some of the work, like external audit, did not need, beyond its identification, Bank action; and some of the advisors were found from outside the Bank. The Bank's appreciation of the task involved, and the final design approved, made no progress beyond that reached under the first (1968-end) Bank mission. The Bank did not devote the additional time to evolving a design for its lending which would be in consonance with, and take full advantage of, the financial system prevailing in Indonesia. Finally, despite its limited staff, the Bank devoted considerable manpower and resources, in terms of missions, visits and consultant time, to the task of arriving at a DFC lending strategy in Indonesia.

Framework for BAPINDO's Operations

36. The strategy which the Bank arrived at ultimately was to provide technical support to BAPINDO with a view to appraising it for Bank lending and to continue steps to promote a privately-owned DFC. From the earliest stages of its contacts with BAPINDO, the DFC Department had emphasized its preference for a specialized term-financing institution; in 1969 the Bank pointed out that the other DFCs associated with the Bank did not have branches. The specific design the Bank suggested for BAPINDO was to set it up as a one-unit institution specializing in term finance, thus requiring it to shed most of its commercial banking functions and also its branches.

37. Over the years Indonesia had built up a structure of banking and financial institutions which seemed to be geared to specializing

banks in various sectors. The result was that the operations of the banks were organized not according to their functions (deposit acceptance, short-term lending) or their maturity (commercial banking, development banking), but according to the activity of the borrower. This was the structure to which Bank Indonesia gave formal recognition in 1969.

38. The Bank's attempts to restrict the scope of BAPINDO's operations did not fit in within this framework. To the extent BAPINDO was required to confine its operations to term financing, it denied BAPINDO commercial banking operations. Moreover, since the other banks (particularly Bank Negara Indonesia 1946 and Bank Dagang Negara) carried on medium-term lending operations (and local currency could be used to make imports), they were able to meet all their clients' needs, leaving little scope to BAPINDO for business from existing units. Both the Government and BAPINDO tried to resist this narrowing of the scope of BAPINDO operations, and the Government referred to the practical difficulty of formally amending the BAPINDO law. The main reason for the Bank's insistence on BAPINDO dropping its commercial banking activities was that till then it was committed to the model of a specialized one-unit DFC operation, unencumbered by commercial banking activities or branches. In the specific case of BAPINDO, this was buttressed by the fact that BAPINDO had proved institutionally weak and the Bank considered it not capable of handling both commercial and development banking activities. Since, however, this concept of functional specialization was not known or practised in Indonesia and commercial banks provided to their clients both working capital and medium-term loans, the Bank's concern about overloading BAPINDO management seemed to be inappropriate to the local context.

39. BAPINDO had an established set-up--personnel, branches--for commercial banking, and its staff had experience of it; what was needed was technical support to strengthen it, which BAPINDO had obtained on its own. The Bank's recommendation to the Government and BAPINDO to drop its commercial lending activities (except in relation to its clients) thus imposed upon BAPINDO a greater strain of adjustment, and was not in keeping with the financial system operating and understood in Indonesia.

40. One consequence of this advice was that BAPINDO was required to close its branches and to reduce its staff. In the situation of Indonesia, the first Bank mission had recognized the practical difficulties involved in such a course. The Government, in later discussions, referred to the same problems, and also mentioned that it might slow down the appraisal, supervision and decision-making processes at BAPINDO. However, the Bank insisted upon this being

done. As experience showed, while BAPINDO made some progress in reducing its branches (mainly by converting them into representative offices) and its staff, this was not to the extent expected by the Bank.

41. Summing up, while the Bank took almost three years to accept BAPINDO as an eligible applicant for appraisal, the actual progress on the reform and strengthening of BAPINDO--except for training BAPINDO personnel and assessment of the quality of its portfolio--was small. Moreover, the Bank imposed upon BAPINDO a narrow degree of specialization not in keeping with the financial system laid down by the central banking authority and prevailing in the country. The DFC Department thus missed the opportunity of fully utilizing the scope allowed under the Bank's new policy, also of innovating by channelling its term-lending activities through a commercial bank, and of allowing access to Bank funds to more than one financing institution (which, in the form of other commercial banks providing medium-term financing to industry, were available in Indonesia)--all objectives which were also in consonance with the needs and wishes of the borrowing country.

C. OBJECTIVES AND EXPECTATIONS

42. BAPINDO having brought about the required changes in its organization, capital structure and operative policies, the Association approved in May 1972 a credit of US$10 million to the Government for on-lending to BAPINDO. It was assumed that there were large investment opportunities and, given resources, there would be adequate scope for business. BAPINDO was expected to emerge as the sole provider of medium- and long-term funds to industry, tourism and transport sectors. It was expected that the funds would be used to finance small- and medium-scale enterprises, and they would be committed over a period of two to three years.

43. The process of institutional development initiated prior to the credit approval, as was to be expected, was proposed to be continued during the period of the credit. Further, specific changes and reforms were expected to be carried out in the short run. BAPINDO's operating costs were considered to be on the high side. BAPINDO was expected to close down a large number of branches (transferring its short-term accounts to other State banks), and to reduce its staff substantially. It was also expected that it would shed its commercial banking activities, except those for its clients. A Policy Statement (reproduced in the Appraisal Report No. DB-90a), in line with policy statements adopted by other Bank-associated DFCs, required BAPINDO to carry on its operations on an independent analysis of project viability. BAPINDO was expected to enjoy autonomy in its operations.

Finally, it was expected that a draft BAPINDO law, discussed with and approved by the Bank and in keeping with the Bank's views on DFC functioning, would be passed soon.

D. BAPINDO OPERATIONS

Use of Bank Funds

44. It was expected that the Credit would be committed and fully disbursed by December 1976. In fact, the Credit was committed by March 1975, and, disbursed, after two extensions and a cancellation of US$0.45 million, by August 1977. The profile of actual disbursement, after showing a lag till December 1975 in relation to projected disbursement, shows a close correspondence with it over the subsequent years.

45. The flow of sub-projects was slow in the initial stages, and the Association's first supervision mission concentrated on the need to expedite this flow and thus the process of disbursement under the credit. As the advisors performed the training job and built up BAPINDO's appraisal capability, the flow of appraisals increased considerably, particularly in 1974.

46. In all, 26 sub-projects were financed out of the Credit, 18 of them for a total amount of US$9.1 million being above the free limit US$100,000. The rather large number of sub-projects above the free limit indicates that the free limit, in relation to the scale of projects coming up in Indonesia and the amount of financing required for them, was on the small side--a cautious approach justified by the past history of BAPINDO and the fact that the Credit represented the Bank Group's first operation with it.

47. The rather large amount of financing involved in sub-projects above the free limit requires further explanation. The average financing per sub-project above the free limit was US$530,000 (or more than five times the free limit) against about US$53,000 for sub-projects below the free limit. Only five sub-projects were above this average, and two sub-projects (one textiles and one cement) accounted for almost 50% of the amount under the Credit. It is apparent that the size distribution of the sub-loans was highly skewed, and the large sub-projects substantially helped in raising the scale of operations of BAPINDO and in the pace of commitment and disbursement of the Credit.

48. The sub-project costs and their characteristics are given in Annexes 1 and 2 of the PCR. They show that, except for the concentration arising out of the two large sub-loans, the distribution of the Credit in size, industry and geographical area was evenly balanced. Data on the sub-projects is given in Annexes 4 and 5

and are analyzed in Section 4 of the PCR. During a visit to one of the sub-projects, an OED mission found that the plant had been operating at about two-thirds capacity and had made its first profit in 1978. It had been facing shortage of raw materials and working capital. BAPINDO had appointed an officer (for a period of three months) to examine its books and bring about improvements in accounting practices. BAPINDO had also required it to appoint, besides the family selling agency, another independent selling agent.

Overall Operations

49. The following table gives, on a commitment basis, the projected and actual level of operations of BAPINDO over the years 1972 to 1975:

		In Rp Billion				
		1972	1973	1974	1975	Total
Term Loans						
Investment	Projected	4.00	6.00	8.00	10.00	28.00
	Actual	2.27	7.30	17.04	19.53	46.14
Working Capital	Projected	1.00	1.50	2.00	2.50	6.00
	Actual	0.70	2.64	5.11	5.13	13.58
Raw Cotton Loans	Projected*	10.13	10.13	10.13	10.13	40.52
	Actual	14.36	38.54	16.41	-	69.31

* Source: Appraisal of Bank Pembangunan Indonesia (BAPINDO), Report No. DB-90a, Annex XII.

In addition, BAPINDO made equity investments and small co-financing loans with regional development banks for which the Bank had not projected any operations, and it made no short-term loans (against a Bank projection of Rp 2.55 b.) over the 1972-1975 period. In respect of all categories of operations (other than short-term loans), Bank projections proved conservative in relation to actual operations.

50. The actual operations to some extent also reflect characteristics of BAPINDO's project-financing activities and realities of the investment and financial situation in Indonesia. Apparently, the sharp jump in term-loan operations was due mainly to the setting up of large projects (cement, textiles) in the country and the large amounts of financing (referred to in para. 47 earlier) done by BAPINDO in relation to them. So also the provision of investment loans for working capital reflected the larger amount of total operations and

the consequent larger working capital needs of the enterprises; the proportion of working capital to investment loan financing varied between 25 and 35% (actual) against a uniform 25% projected by the Bank.

51. Further, the Bank had expected that raw cotton loans, given mainly at the instance of the Government, would be frozen at a level of Rp 10.13 billion per annum (See Annex XII, Appraisal Report No. DB-90a). In fact, in each of the first three years raw cotton loans substantially exceeded this level, and amounted over the three-year period to Rp 69.31 billion (a level 75% above the four-year forecast total), till the Government took away this function from BAPINDO from 1975 onwards. In 1977, outstandings under these loans were transferred to a managed fund account.

52. Finally, in two respects--equity financing (arising also partly through investment in Government projects and partly through conversion of arrears into equity) and co-financing with regional development banks--BAPINDO operations, though small, were above Bank expectations. Both these activities showed BAPINDO as a body responsive to the local needs and situation and capable of taking initiative, independent of the Bank, in meeting the needs.

53. BAPINDO's operations showed a marked spurt in 1976, after which there was a relapse in the two subsequent years. The fall in operations in 1977 and 1978 was particularly large in long-term loans, made good partially by increase in working capital loans. The following table shows BAPINDO's operations (on a commitment basis) in 1976-78:

(In Rp Billion)

	1976	1977	1978
Long-term loans	35.20	23.64	17.60
Working capital loans	3.46	8.57	8.70
Cofinancing with RDBs	3.09	4.62	3.00
Equity investment	0.24	0.42	1.60
Total	41.99	37.25	30.90

Arrears and Profitability

54. The Appraisal had referred to the high level of BAPINDO's arrears and had expected, on the basis of improved appraisal practices and strict supervision system, that the level of arrears would be reduced. In actual fact, for various reasons stated in para. 3.14 of the PCR, the arrears situation showed little improvement over the

period of the loan. Arrears were due to inadequate appraisals, and cannot be attributed only to state enterprises. While the projected accounts statement had made no provision for bad debts, actual provision on this account was Rp 6.61 billion over the four-year period, 1972 to 1975.

55. Para. 3.17 and Annexures 7 and 8 of the PCR give data on the working and profitability of BAPINDO. These show that the actual profitability of BAPINDO was lower than projected. The major factor in this was a rise in administrative expenses. The Appraisal had referred to the excessive level of administrative expenses and the need to cut them down, and had expected these to be brought about partly through branch-closing and staff retrenchment. In fact, as mentioned above, administrative expenses actually rose, with staff expenses being almost twice the projected level in 1973 and 1974 and thrice that in 1975. Despite this, net income in 1973 and 1974 was higher than projected, mainly due to the sharp differential on interest income and raw cotton accounts; in 1975, net income was lower than projected, mainly due to substantial increases in staff and interest costs.

56. BAPINDO's total income rose over the years 1976 to 1978. However, with a continuing sharp rise in interest cost and salaries, profit before provisions and taxes showed a fall in 1976, and rose in the two subsequent years. Provisions for losses on loans formed almost two-thirds of profits before tax in 1976 and 1977. Accounts for 1976-78 are given in Annex I.

E. INSTITUTIONAL DEVELOPMENT

57. Institutional reform was deemed a process which was to continue during the period of use of Bank Group funds. The main reforms set were: (i) improvement in appraisal and supervision practices, (ii) improvement in accounting system, (iii) closing of branches and reduction in personnel, and (iv) autonomy in operations.

Role of Special Advisors

58. When the Association approved the credit to BAPINDO, BAPINDO had four special advisors: an advisor to the President, a term-lending advisor, an accounts advisor and an engineering advisor. The last three worked as a team, seeking to improve both the overall capabilities and the specific areas for which they were designated. Thus, for example, the accounts advisor helped not only to improve the accounting systems and practices of BAPINDO, but also to guide BAPINDO's appraisal staff in the analysis of the applicants' accounts.

59. The technical advisors operated at two different levels: firstly, providing formal training to the BAPINDO staff in specific fields of appraisal and accounts keeping; and secondly, working on the job (project appraisals) alongside BAPINDO staff in selected cases. Later on, the technical advisors withdrew from this phase, and, participating in committees which considered project proposals as appraised by the staff, sought to provide comments on the appraisals. In addition, the technical advisors also helped formulate guidelines on general policies to be followed by BAPINDO in its operations; for example, the advisors helped draw up the general lending terms of BAPINDO.

Appraisal and Supervision Practices

60. In the initial phase BAPINDO had little technical capability to appraise projects on the lines the Bank Group required. The technical advisors helped build up this capability at the headquarters. Later on, BAPINDO allowed the branches to provide preliminary scrutiny of projects, the detailed appraisal work continuing to be done at the headquarters. While the team was able to transmit techniques of appraisal, it needed longer time and experience in building up judgment required in arriving at recommendations on financing.

61. In effect, a two-tier system of project appraisal developed, with an initial scrutiny by a branch office and further detailed appraisal at the head office. A scrutiny of projects above the free limit (which, as mentioned earlier, covered more than two-thirds in number and more than 90% in amount financed out of the Credit) showed that the quality of appraisals was uneven, but showed improvement over time.

62. Appraisals received after the departure of some of the special advisors showed the important role the advisors played in maintaining the quality of appraisal work of BAPINDO. It appears that BAPINDO could have benefitted from continued technical assistance in this field, both in further upgrading BAPINDO's appraisal capability and in providing formal and on-the-job training to the branch staff.

63. Follow-up activities are now done in two different stages. The Credit Departments deal with the projects till they are set up. A separate Follow-up Department was set up in 1978 to deal with projects after they are set up. Seventy per cent of projects send progress reports regularly. Branches analyse these reports, and also make regular visits to projects. The Follow-up Department has a textile expert, and borrows experts in other fields from the Credit

Departments. It has a separate cell for problem projects. While there has been an increase in staff following the setting up of the Follow-up Department, there has not been much change in its work content. One deficiency in the present system is that no formal arrangements have been made for feedback so far.

64. Supervision procedures were thus improved. However, supervision remained mainly a branch responsibility. While this meant in some sense close supervision of projects, it failed to provide for uniform centralized, project-oriented supervision related to a long-term assessment of their prospects during their implementation and production phases.

Accounting Systems

65. Perhaps the most noticeable improvement made was in the accounting systems and procedures of BAPINDO. The process was initiated by the introduction of external audit; the detailed recommendations of the auditors, based on the audit of the accounts at the head office and at selected branches, relating to maintenance of books, introduction of reconciliation procedures and changes in accounting procedures, were gradually introduced by BAPINDO. In this process, the accounting advisor, inducted as a member of the advisory team, played an important role. The 1973 accounts of BAPINDO were the first to be certified by the external auditors without qualifications.

Branch Offices and Personnel

66. The appraisal had referred to the excessive number of branches and staff which BAPINDO carried. It had stated that about half the number of branches were uneconomic, and suggested a reduction in branches and in staff. BAPINDO reduced the staff by about 40%. This was done mainly by converting some branches (about eight) into representative offices, thereby bringing about a reduction in staff at the offices. As against 20 branches at the time of credit approval, BAPINDO has now 18 branches and representative offices.

67. Both the Government and BAPINDO had always emphasized the difficulty of reducing branches and staff in the context of the situation in Indonesia. While the appraisal had referred to the problem, the Association was insistent upon BAPINDO carrying out the necessary reduction on the ground of viability. Viability, however, has to be determined within the context of the functions of an institution. In the case of BAPINDO, by insisting upon its shedding its commercial banking activities (which were the initial basis of BAPINDO's operations), the Bank Group in effect made a large number of branches

and staff of BAPINDO redundant, thereby necessitating the required reductions. Even then BAPINDO found it difficult to eliminate totally the branch operations, and resorted to the device of turning them into representative offices, thereby maintaining its presence in the areas. BAPINDO indicated to the OED mission the practical difficulties in carrying out the Association requirement.

68. BAPINDO evolved a two-tier system of appraisal and supervision, with preliminary work being done by the branches and the final assessment and decision-making being done at the headquarters. In many ways this is a superior system in that it provides both for closeness of relationship between the client and the lender inherent in the branch system and the uniformity of criteria and independence in decision-making inherent in the final assessment at headquarters. The Bank Group later came to recognize the advantages of branch operations, and, in the seventies, came to encourage the other DFCs associated with it, all of them initially single-office operations, to set up branches to facilitate promotion, dispersal of operations and closer relationship with, and supervision of, outlying clients. In this sense, the Bank's insistence upon the closure of branches by BAPINDO was both impractical and unjustified.

Autonomy in Operations

69. The Bank Group had expected,and in its discussions with Government and BAPINDO officials and comments upon the revised BAPINDO legislation emphasized, that BAPINDO should enjoy autonomy in its decisions. BAPINDO was, and is, a Government-owned institution, and autonomy has to be defined within the context of the institutional system of the country and the ownership pattern of the institution. In BAPINDO's situation and given Indonesia's needs, it was essential for BAPINDO to be responsive, without being subservient, to the views of the Government. Thus what was needed was not autonomy in the sense of independence but autonomy in the sense of insulation of BAPINDO from the consequences of actions which, while being required by the Government, BAPINDO felt to be not justifiable on viability criteria. The Bank Group, therefore, should have devised procedures and systems which would have protected BAPINDO without bringing it into conflict with, or defiance of, the Government.

70. The requirement, and enunciation, of a principle of autonomy by itself was not sufficient as the Government, seeking to carry out various policies, had to resort to existing agencies in the specific fields to implement them. The Government had used BAPINDO in such ways in the past, as in the case of the crumb rubber machinery and raw cotton imports made under foreign aid agreements. In fact, the Government continued to use BAPINDO for various behest operations.

71. BAPINDO indicated to an OED mission that, being a Government institution, it had to accede to the wishes of the Government as they were oriented towards accelerating development of the economy. What BAPINDO should have been encouraged to do was to make an independent assessment of such requests, to advise the Government of their viability, and to act only as agent of the Government (by obtaining funds or guarantees from the Government for such operations) where the Government wanted them to be implemented through BAPINDO despite BAPINDO finding them non-viable. The Association did not provide for such course at the time of approving the Credit or during the period of its use, and BAPINDO continued to carry on the functions at (what the PCR, para. 3.16, calls) the behest of the Government. Later, when such operations were found to lead to losses, the Government agreed to make good such losses, thus protecting, post facto and irrespective of contractual or legal responsibilities, BAPINDO's financial position. The protection arose not out of contractual relationships or out of any safeguards introduced by the Bank Group on a correct assessment of the local context and relationships, but out of the sense of fairness and responsibility shown by the Government. In fact, the Association's intervention in requiring BAPINDO to give up such operations reduced in practice the functional utility of BAPINDO in ensuring healthy industrial development. It was only in 1977 that the Bank suggested the introduction of a system of managed funds under which BAPINDO manages, without risk to itself, funds disbursed at the Government's behest.

BAPINDO's Developmental Role

72. The operations of BAPINDO show another area which the Bank Group had ignored and in which BAPINDO played an important promotional role. At an early stage of negotiation, the Government had referred to the need to upgrade regional development banks existing in the country. The first consultant mission (in November 1969) had suggested that the Bank should make such an effort on a selective basis. Subsequent Bank missions had also been asked to examine the problem. All this, however, led to no specific recommendations or action by the Bank, and the appraisal report on the first credit to BAPINDO, besides making a reference to such banks as part of the financial structure in Indonesia, had not suggested any specific lines of action in regard to them.

73. As BAPINDO began to make improvements in its operating procedures, it also saw the scope for making improvements in the regional development banks and recognized its own responsibility to upgrade these banks. BAPINDO thus entered into cofinancing arrangements with them, and has also provided training facilities to selected personnel from these banks. It is a positive line of action which the audit recognizes as an important element in broadening the institutional structure in Indonesia and upgrading its capabilities.

74. BAPINDO has not had joint financing with either the Private Development Finance Corporation of Indonesia (PDFCI) or with the Indonesian Development Finance Company (IDFC). Recently attempts have been made to carry out syndication arrangements.

Present Organization Set-up

75. Over the period, BAPINDO's organization has evolved to meet the changing needs of its work. The main changes have been in the splitting of the Credit Department into two, and the dispersal of the engineering staff. Annex II to this Memorandum shows the organizational structure of BAPINDO as it was in mid-1972 and at the end of 1978.

F. BANK SUPERVISION

76. The Bank devised and discussed in detail with BAPINDO the lines on which BAPINDO was to submit progress reports. BAPINDO was regular in supplying such reports. As the credit was approved, the Association's supervision effort, both in frequency and in intensity, tended to decline. This may partly have been because the posting of advisors, who maintained direct contact with the Bank, reduced the need for such effort. Since the experts were working for BAPINDO, their obligations were to BAPINDO. It would have been advisable for the Association to recognize this role of the advisors, and to rely on its own supervision missions to ensure adequate supervision and BAPINDO's fulfillment of the commitments and expectations to the Association. The Association should have committed its own supervision resources to this end irrespective of the presence of the advisors.

77. In respect of appraisal, the existence of a low free limit enabled the Association to observe progress in improvement in appraisal capability. The Association's comments on the projects also helped BAPINDO to upgrade this capability. Progress in improving BAPINDO's supervision capability, not subject to such automatic control, was slower.

78. It was, however, in its substantive character that the Association's supervision effort was found to be deficient. Thus, BAPINDO continued for a considerable time to carry on behest operations without adequate appraisal before the Bank became aware of the financial risk involved in such operations and of their not being in conformity with the Bank Group's concept of BAPINDO's autonomy. So also the Association, having laid down requirements regarding reduction of branches and staff, supervised inadequately BAPINDO's compliance with its commitment on the subject.

79. Finally, both the Bank Group and EDI played a substantial role in providing training to BAPINDO staff and exposing them to the working of other DFCs. The Bank Group arranged for training of BAPINDO staff with other DFCs associated with it. EDI provided, through its DFC courses, training to BAPINDO personnel.

G. SUMMING UP AND CONCLUSIONS

80. The Bank Group's relationship with BAPINDO under the first Credit covers a period of eight years, four preceding the Credit approval and four succeeding it. The date of approval marks two different phases in the Bank Group's relationship with BAPINDO, and these need review.

81. The pre-credit-approval phase was marked by an intense dialogue between BAPINDO, the central bank and the Government of Indonesia on the one hand and the Bank on the other. In the initial phase the issue was mainly the eligibility of BAPINDO for Bank Group finance, given its management, organization, accounting system and portfolio. Rather than devote resources to the reform of BAPINDO, the Bank Group favored a new institution, formed and working on the lines of other DFCs associated with it.

82. It should have become evident at an early stage that the pre-conditions for setting up such a DFC--existence of an active private entrepreneurial and banking community--did not obtain at the time. For a considerable time, the interests as expressed by the Government (reforming BAPINDO) and as expressed by the Bank (setting up a new DFC) seemed to be divergent. Essentially, while the Government persisted with its request for funds for BAPINDO and was seeking, and was willing to carry out, Bank suggestions to upgrade BAPINDO, the Bank tried hard to side-step BAPINDO, seeking to promote a new DFC in the Bank's traditional image of such DFCs. It became apparent that the DFC Department was not willing to use the broadened criteria for DFC lending under which Government-owned DFCs became eligible for Bank Group finance.

83. In the process, considerable time was lost in dealing with the issue of upgrading BAPINDO to enable it to become eligible for consideration for Bank financing. An independent audit of BAPINDO was commenced only in late 1969; an appraisal of BAPINDO's portfolio undertaken in 1970; and special advisors placed in position in mid-1971. The long time spent in taking these measures meant also a loss of time in appraising BAPINDO for Bank Group financing.

84. The final solution arrived at was the same as suggested at the end of 1968, and the Bank Group efforts in subsequent years added

little in terms of fresh thinking on the subject. The Bank Group, moreover, required BAPINDO to shed some of its functions, based on its conception of development banking functions, thus missing out on an opportunity to mould an institution fitting in with the institutional structure prevalent in the country.

85. The extent of the Association's surveillance, once the credit was sanctioned to BAPINDO, tended to diminish in relation to the level of activity put in in the pre-approval phase. Perhaps the existence of the special advisors might appear to justify the lower level of supervision effort. However, the Association had built in many requirements which needed close watching. While the quality of appraisals improved, project costs and implementation timings appeared to have been under-estimated, and market assessment found to be inadequate. The Association had expected some operations (raw cotton financing) to stabilize and then to cease; in fact, the operations increased till the Government stopped them. The Association had required BAPINDO to shed staff and branches; while BAPINDO did reduce some staff, it converted some branches into representative offices, indicating the impracticality of the Association requirement in the Indonesian context. The Association emphasized autonomy for BAPINDO; the PCR refers to the large amount of "behest" operations done by BAPINDO during 1972-74. The Association had insisted upon a revised statute for BAPINDO, though the Government had initially preferred a revision in the policy statement rather than a new statute; though a law was prepared and Bank approval given, in fact it was never passed.

86. Institutional development is a long-term process, and improvements in technique have to be analyzed within this frame of long-term development. BAPINDO showed improvement in some areas like project appraisal and accounting systems (though it is difficult, in these areas, to isolate the work of the advisors from their training role), but the improvement noticed in the period of the credit under review was small. Moreover, sub-loan maturities remained unduly short, involving large arrears and the subsequent rephasing of sub-loans. At the organizational level, BAPINDO, as evidenced by its operations, did not reach the degree of autonomy expected.

87. Summing up, the Bank Group appears to have been reluctant, in the pre-approval stage, to take steps to upgrade BAPINDO to make it eligible for Bank Group financing, and thereby to carry out its widened responsibilities. Later, the Bank Group appears to have relaxed its supervision efforts to bring about improvement in BAPINDO's technical capability and to foster its institutional development. BAPINDO thus took longer to reach maturity than what a more willing and energetic role by the Bank Group might have achieved.

Operations Evaluation Department

June 27 , 1979

INDONESIA

BANK PEMBANGUNAN INDONESIA

Summarized Balance Sheets, December 31, 1974-77 (Audited)
and December 31, 1978 (Unaudited)
(Rp million)

Assets	December 31 1976	1977	1978
Current Assets			
Cash on hand and due from banks	4,930	6,217	7,650
Due from Bank Indonesia	4,537	7,394	5,708
Curent maturities of portfolio loans	14,048	13,237	-
Marketable securities	595	10,125	-
Due from managed fund	-	90	-
Short-term working capital loans	-	-	2,646
Short-term raw cotton loans	25,010	3,352	279
Accrued interest on loans	10,752	3,802	5,818
Reserves for possible losses on interest	(1,234)	(1,677)	-
Other current assets	1,137	2,162	14,244
Total Current Assets	59,775	44,702	36,345
Loan Portfolio			
Working Capital Loans			
Industry	10,562	13,675	} 16,857
Maritime	1,325	872	
Subtotal	11,887	14,547	16,857
Investment Loans			
Industry	38,282	46,420	} 69,390
Syndications	4,512	5,368	
Maritime	17,106	18,650	21,611
Subtotal	59,900	70,438	91,001
Cofinancing with RDBs	4,604	7,324	7,886
Government Loans	1,718	2,484	-
Total Loan Portfolio	78,109	94,793	115,744
Less provisions for possible losses	(1,832)	(2,877)	(4,328)
Less current maturities	(14,048)	(13,237)	-
Net Loan Portfolio	62,229	78,679	111,416
Equity Investments	1,816	2,211	3,020
Less provisions for possible losses	(107)	(658)	(658)
Net equity portfolio	1,709	1,553	2,362
Fixed Assets			
Premises and equipment	1,200	1,347	1,424
Total Assets	124,913	126,281	151,547
Managed Fund			
Raw cotton loans/a	-	23,892	23,892
Project aid/b			
Foreign exchange loans (incl. interest)	-	5,296	60,308
Local currency loans (incl. interest)	-	1,411	1,729
Total Project Aid	-	6,707	62,037
Due from managed fund	-	-	2,033
Total Managed Fund	-	30,599	87,962

/a Managed on behalf of Bank Indonesia and Bank Ekspor-Impor Indonesia; management fee not yet decided.

/b Managed on behalf of Bank Indonesia; management fee is 0.4%.

INDONESIA

BANK PEMBANGUNAN INDONESIA

Summarized Balance Sheets, December 31, 1974-77 (Audited) and December 31, 1978 (Unaudited)
(Rp million)

Liabilities & equity	December 31 1976	1977	1978
Current Liabilities			
Cash in banks with credit balance	7	518	-
Demand deposits	2,526	3,539	2,182
Time deposits	5,170	10,941	9,077
Short-term borrowings for raw cotton	22,271	312	111
Short-term borrowings from Bank Indonesia	-	-	-
Accounts payable and accrued expenses	7,848	2,647	4,639
Customers' deposits on letters of credit	3,043	319	2,144
Income tax payable	-	129	-
Current maturities of long-term loans payable	5,493	5,887	-
Liabilities for managed fund	-	-	2,033
Total Current Liabilities	46,358	24,292	20,186
Special Deposits /a	-	3,000	3,000
Long-term Debts			
Government loans	555	544	544
Bank Indonesia loans	18,536	11,548	22,845
State Bank loans	6,629	9,667	9,964
IDA/IBRD loans	12,800	21,200	26,435
Total Long-Term Debt	38,520	42,959	62,788
Less current maturities	(5,493)	(5,887)	(-)
Net long-term debt	33,027	37,071	62,788
Total Liabilities	79,385	64,363	82,974
Equity			
Paid-in capital	43,981	49,981/b	49,981/b
Retained earnings and reserves	1,547	11,936	18,592
Total Equity	45,528	61,917	68,573
Total Liabilities and Equity	124,913	126,280	151,547
Managed Fund			
Short-term obligation for raw cotton	-	19,485	23,892
Project aid fund:			
Foreign exchange cost	-	5,012	60,422
Local currency cost	-	1,133	1,133
Interest payable	-	4,879	2,515
Liabilities for managed fund	-	90	-
Total Managed Fund	-	30,599	87,962

/a In 1977, the Ministry of Finance placed the civil servants' pension fund as a deposit with Bapindo, with interest payable every quarter at the rate of 9.25% p.a. The deposits (each of Rp 1 billion made August 1, September 1 and October 1, 1977) are for a period of eight years.

/b Includes capital reserve of Rp 9,497 million which represents converted loans from Bank Indonesia.

INDONESIA

BANK PEMBANGUNAN INDONESIA

ANNEX I.2

Summarized Income Statements 1974-77 (Audited)
and 1978 (Unaudited)
(Rp million)

	1976	1977	1978
Income			
Interest on term and working capital loans	7,662	12,006	12,980
Income from raw cotton loans	466/a	2,267/b	1,017
Other income	1,571	1,459	3,816
Total Income	9,699	15,732	17,813
Expenses			
Interest on term debt	2,588	4,603	4,727
Other interest/financial expenses	600	1,250	1,240
Salaries and other personnel expenses	3,100	3,555	3,484
Administrative and general expenses	988	1,065	1,197
Miscellaneous write-offs	-	-	1,084
Total Expenses	7,276	10,473	11,732
Profit before provisions and tax	2,423	5,259	6,081
Provisions for losses on loans	1,687	3,474	/c
Profit before tax	736	1,785	
Income tax (45%)	475	992	
Net profit	261	793	
Ratios			
Percentage of average total assets			
Gross income	8.9	12.5	12.8
Financial expenses	2.9	4.7	4.2
Administrative and personnel	3.8	3.7	3.3
Provisions	1.6	2.8	
Profit before tax	0.7	1.4	
Other ratios			
Net profit as % of average net worth	0.6	1.5	
Income from term loans as % of average term loans	12.1	13.9	13.2
Cost of term debt as % of average term debt	9.2	10.9	8.6
Interest spread	2.9	3.0	4.6
Gross spread	6.0	7.8	8.6

/a The sharp drop in income from raw cotton loans was due to discontinuation of interest accrual to Bapindo on the portion of loans (75%) of the two state companies refinanced by Bank Indonesia.

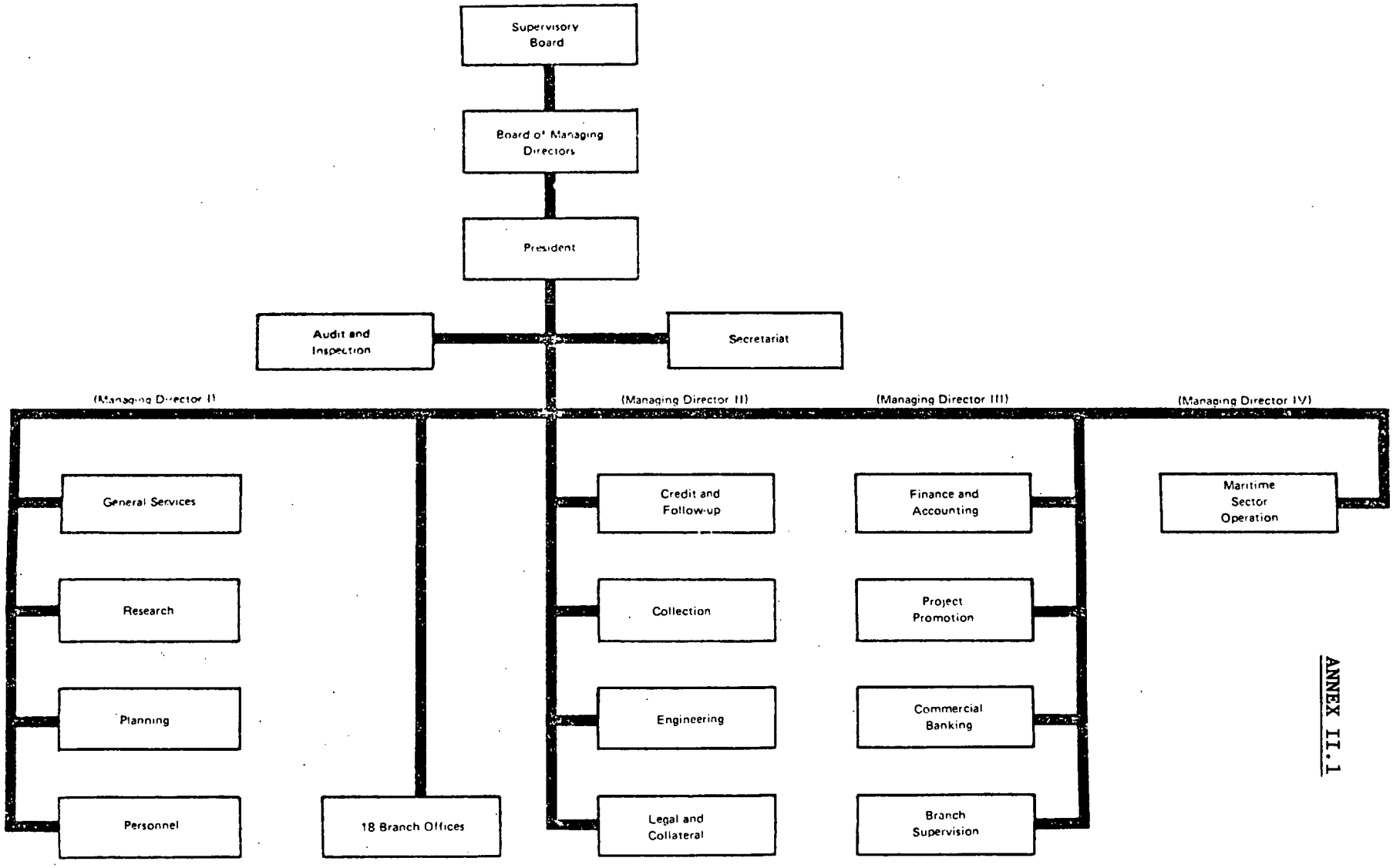
/b Increase in income from raw cotton loans due to penalty and other charges which increased from Rp 137 million in 1976 to Rp 2,173 million in 1977.

/c The provisions for losses on loans for 1978 have not been determined by BAPINDO.

AEP Projects Department
January 25, 1979

ANNEX II.1

BANK PEMBANGUNAN INDONESIA
ORGANIZATION CHART
(1972)



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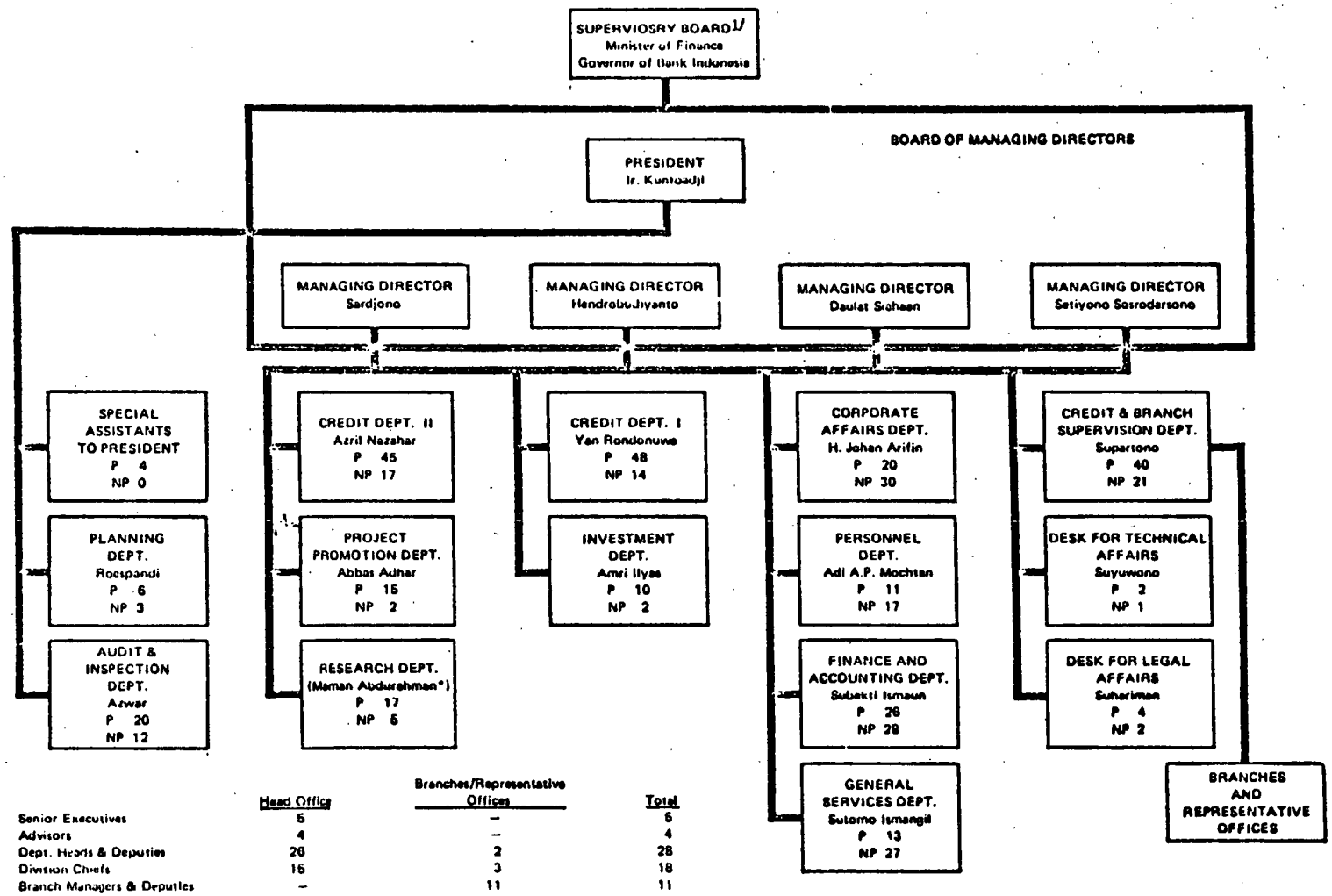
ANNEX II.2

BANK PEMBANGUNAN INDONESIA
ORGANIZATION CHART
(as of December 31, 1978)



	Head Office	Branches/Representative Offices	Total
Senior Executives	5	–	5
Advisors	4	–	4
Dept. Heads & Deputies	26	2	28
Division Chiefs	15	3	18
Branch Managers & Deputies	–	11	11
Offices	245	103	348
Total Professional Staff	295	119	414
Total Non-Professional Staff	189	175	364
	484	294	778

1. The members of the Supervisory Board have delegated their authority to their respective alternates: Dr. Oskar Suriaatmadja (Director General, Ministry of Finance) for Minister of Finance, and Mr. Soeksmono Martokoesoemo (Managing Director, Bank Indonesia) for Governor, Bank Indonesia.
2. P. Professional Staff
   NP. Non Professional Staff

*) Deputy Manager of Research Department.

World Bank – 20014

PROJECT PERFORMANCE AUDIT REPORT

INDONESIA - BANK PEMBANGUNAN INDONESIA

(CREDIT 310-IND)

COMMENTS RECEIVED FROM THE BORROWER

NUMBER : 1992/DIR/79 DD: JUNE 4,1979.

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REURLET AND PROJECT PERFORMANCE AUDIT REPORT OF MAY 4, 1979,

AAA EYE SUGGEST CHANGES AS FOLLOWS :

PAGE I LINE 5 FRAB (FROM ABOVE): ''JULY 1972'' TO AUGUST 1972.

PAGE 1 LINE 9 FRAB: ''US$9.54 MILLION'' TO US$ 9.55 MILLION

LINE 10 FRAB: ''US$ 0.46 MILLION'' TO US$ 0.45 MILLION

PAGE 4 LINE 5 FRAB: ''1,350 INCLUDING 450'' TO 1,370 INCLUDING 838

PAGE 26 LINE 7 FRAB: RAW COTTON LOANS PROJECTED = 10.13 1972 UP TO 1975 SHOULD BE STATED: .... = 10.98 1972 UP TO 1975 WITH TOTAL NUMBER 43.92

SEE ALSO PAGE 27 LINE 3 AND PCR PAGE 58 AND ANNEX 5.

BBB PAGE 41 LINE 8 FROM BELOW: PLEASE DELETE THE SUBORDINATE CLAUSE AFTER THE COMMA

REASON: EYE FEEL THIS IS UNFAIR TO THE SPECIAL ADVISOR

CCC IN FORMAL SENSE BAPINDO HAS ALWAYS HAD DIRECTORATE OF STATE AUDITOR AS EXTERNAL AUDITOR. IN 1969 BAPINDO HAS MADE PROVISION FOR BAD DEBTS TO RP.412 MILLION. THEREFORE EYE PROPOSE TO CHANGE PARAGRAPH 7 PAGE 4 INTO:

BAPINDO'S ORGANIZATION AND ACCOUNTS AT THE STAGE WERE APPARENTLY NOT IN PROPER SHAPE. WHILE BAPINDO PREPARED AND PROVIDED SUMMARIES OF ITS ACCOUNTS (BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS

THESE HAD NOT BEEN SUBJECTED TO EXTERNAL AUDIT DULY IN TIME. AN EXTERNAL AUDIT BY PRIVATE INDEPENDENT AUDITOR CARRIED OUT IN 1969 - 70 FOR THE FIRST TIME AT THE WORLD BANK INSISTANCE, SHOWED DEFICIENCIES IN LEDGERMAINTENANCE, IN PERIODICITY OF RECONCILIATION OF ACCOUNTS AND IN ACCOUNTING PRACTICES. MOREOVER, WHILE BAPINDO PROVIDED RP.412 MILLION (1.6 O/O OF THE TOTAL PORTFOLIO) FOR BAD DEBTS, IT APPEARED THAT A SIZEABLE PART OF ITS LOANS TO INDUSTRIAL UNITS IN THE STATE SECTOR MIGHT NOT BE RECOVERABLE.

REGARDS

KUNTOADJI

BAPINDO

INDONESIA

PROJECT COMPLETION REPORT

INDONESIA - BANK PEMBANGUNAN INDONESIA

CREDIT 310-IND

I. INTRODUCTION

1.01 Bapindo was established as a wholly government-owned development bank in 1960, shortly after which it took over some of the assets, liabilities and staff of the Bank Industri Negara. From 1960 to 1966 Bapindo served not as a development bank but as a conduit for Government funds going to Government projects, which were not necessarily developmental. These operations ceased in 1966, after which Bapindo's functions were enlarged to include commercial banking although these operations remained constrained by organizational problems and a shortage of financial resources. In 1968 the Government enlarged Bapindo's functions to include term-lending operations (of two kinds; to state enterprises and to private and public enterprises via the "Joint Financing Scheme") but in October 1970, Bank Indonesia instructed Bapindo to discontinue making term loans to new clients because of its financial and organizational problems. That restriction was withdrawn by Bank Indonesia in December 1971. In May 1972, IDA approved the Credit under review (Cr. 310-IND), based on SAR DB-90a of May 18, 1972. The Credit was signed on June 7, 1972 and became effective on August 10, 1972. The Credit was fully committed, on schedule, by February 12, 1975, and disbursements reached $9.6 million by the Closing Date, $0.4 million was cancelled. Cr. 310-IND was followed by a second IDA credit of $8.5 million (Cr. 318-IND) in September 1972 for the financing of a rehabilitation program for the Indonesian interisland shipping fleet and two Bank loans in November 1974 (Ln. 1054-IND, for $50 million) and June 1977 (Ln. 1437-IND, for $40 million), both for industrial onlending. In August 1978 Bapindo was appraised for another Bank loan, tentatively of about $50 million.

2. OBJECTIVES OF THE CREDIT

2.01 With its involvement in Bapindo, the Bank Group hoped to achieve two closely related, and essentially long-term, objectives; to help guide Bapindo towards becoming a well-managed and creditworthy financial intermediary specializing in term lending, and to make available foreign exchange resources for the development of the industrial sector.

2.02 The origin of the first credit to Bapindo dates back to 1967. During the two following years the Government of Indonesia (GOI) strongly and persistently urged the Bank to assist in the reorganization and strengthening of Bapindo. While the Bank was in agreement with GOI concerning the importance of a well-managed financial intermediary to contribute to the long-term industrial development of Indonesia, it considered the reorganization of Bapindo to be potentially costly in terms of scarce manpower and other resources to both GOI and the Bank, and therefore urged GOI to consider the alternative of devoting those resources to setting up a new institution which would not be burdened with Bapindo's inheritance. However, GOI insisted on its view that the first priority was to reorganize and strengthen Bapindo. At the 1969 Bank/Fund meeting the Bank agreed to assist GOI in this task.

2.03 The first Bank mission to Bapindo took place in December 1969. It revealed that Bapindo was inefficient, poorly managed and of doubtful financial standing. It had an unduly large staff of about 1,350 employees, and

its network of 20 branch offices was excessive for its needs. It suffered from poor coordination at all levels and its standard of record keeping was poor. It did not have the ability to appraise investment projects for term financing adequately, nor did it engage in follow-up work on its portfolio. The standard of its bookkeeping was inadequate and its accounts had never been audited by independent auditors; consequently, its financial condition and quality of its portfolio at end-1969 could not be ascertained with precision although both were evidently poor. (Bapindo's paid-in capital stood at about $0.2 million while total liabilities amounted to about $7.0 million equivalent).

2.04 From that mission emerged a proposed plan of action which was discussed, modified, and agreed with GOI in June 1970. This, in effect, established the partnership between GOI and the Bank with respect to Bapindo which provided the foundation for, and largely guided, the subsequent reorganization of Bapindo. This plan of action involved, inter alia, the following main elements:

(a) Bapindo was to focus on development financing by providing medium- and long-term financing to small- and medium-sized enterprises mainly in the industrial and transportation fields and principally in the private sector. To that end Bapindo should cease its commercial banking operations, except on behalf of its term loan clients;

(b) Bapindo was to adopt a comprehensive "Policy Statement," drafted in consultation with the Bank, which should provide clear financial and operating guidelines;

(c) on organizational matters: (i) the management was to be strengthened with the appointment of a new president and enlargement of the Board of Managing Directors; (ii) GOI was to grant Bapindo adequate operational autonomy; (iii) the surplus staff and magnitude of the branch network was to be reduced; (iv) departments were to be regrouped and new ones created, principally with a view to improving Bapindo's organizational capacity for project appraisal and follow-up work; (v) a technical assistance program was to be executed by the Bank and jointly financed by UNDP, the Bank and the governments of Australia and Japan; and

(d) concerning financial matters; (i) Bapindo's equity capital was to be substantially increased through both budgetary allocations and conversion into equity of some loans from the Government and Bank Indonesia; (ii) Bapindo's uncollectible loans, representing about 16% of its outstanding term portfolio and 14% of its short-term portfolio were to be written off; (iii) Bapindo was to be relieved of all financial liability with respect to its loans to 19 state enterprises; and (iv) Bapindo's accounts were to be audited by independent qualified auditors acceptable to the Bank.

2.05 An appraisal mission visited Jakarta in September/October 1971 and concluded that satisfactory progress had been made along the previously agreed lines. It was apparent that Bapindo had reached the minimum level of creditworthiness required for an IDA credit, with good prospects, given the full cooperation extended by GOI, of maintaining a continuous improvement in the standard of its future operations.

3. ACCOMPLISHMENTS OF THE CREDIT

3.01 In the light of its objectives (para. 2.01) the Credit was successful in achieving a resource transfer, though a small amount of the Credit ($0.4 million) had to be cancelled (see para. 4.01). Considerable progress has also been made on the institution building objectives, but, because of Bapindo's very weak condition at the time of Bank Group involvement, and because of the necessarily long-term nature of this task, there is still considerable scope for further institutional improvement which can be helped by the Bank's continued lending relationship with Bapindo.

3.02 Viewed against the various elements of the reorganization proposal (para. 2.04) Bapindo's achievements and shortcomings are discussed below.

Bapindo's Role as a Term Lending Institution

3.03 Since 1972, when Bapindo started to make term loans again, its term operations have grown rapidly. In contrast, short-term operations, after a brief increase in 1973, were discontinued altogether by 1975, thereby virtually eliminating commercial banking operations. (para. 2.04). As a result of improvements in internal organization and operational capability, Bapindo was able to increase its term loan approvals from Rp 2.9 billion in 1972 to Rp 42.4 billion in 1975 (figures include both the industrial and maritime sectors). In addition, Bapindo's share of the Government's "Investasi" Program /1 increased from 18% in 1973 to 31% in 1975. In 1974 Bapindo also commenced equity operations (Rp 825 million). In 1973, Bapindo initiated an innovative program for co-financing small business enterprises with selected Regional Development Banks, and lending via this scheme reached Rp 2.2 billion by 1975.

3.04 It is apparent therefore that Bapindo was able to significantly increase its level of term financing. However, its financial assistance to the industrial sector was increasingly allocated to large-scale projects,/2 mainly by state enterprises, which deviated somewhat from the initial expectations of both GOI and the Bank Group. Several factors can be identified as causing this change of emphasis, some of which, perhaps paradoxically, underline Bapindo's progress in developing into a more proficient specialized term-lending institution. First, Bapindo developed its project appraisal

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/1 The "Joint Financing Scheme" referred to in para. 1.01.

/2 The average term loan size increased from Rp 80 million in 1972 to Rp 126 million in 1973, Rp 370 million in 1974 and Rp 514 million in 1975.

capabilities fairly quickly and soon became the only state bank which was equipped to appraise large projects and which could make an independent and constructive contribution to the formulation of such large Government projects. Second, Bapindo participated, through its co-financing scheme with the RDB's, in the financing of small-scale enterprises within the framework of the Government's Investasi program. Therefore, the need for Bapindo also to focus on small-scale enterprises for its own lending operations was not perceived to be urgent. Third, beginning in 1974, Government policy required the state banks to lend only to pribumi enterprises, which had the effect of substantially reducing the opportunities for financing medium-scale projects. Fourth, the creation of an additional financial intermediary which would concentrate on term lending for larger, more complex projects, did not materialize as quickly as was initially hoped. Finally, in an effort to improve its financial position, Bapindo considered it prudent to diversify its portfolio and include some strong large-scale projects, the income from which would partly offset the write-offs from other loans in Bapindo's portfolio. As a consequence of these various changed circumstances it seemed prudent that Bapindo also finance large industrial projects. However, it was clear that Bapindo's shift of emphasis towards financially supporting larger projects occurred partly at the expense of medium-sized projects, and the second loan to Bapindo (1437-IND) was used to address this issue and attempt to establish a better balance in the size distribution of its loan portfolio.

Bapindo's Policy Statement

3.05 Bapindo's Supervisory Board approved a Policy Statement before the Credit became effective. It was drafted in consultation with the Bank Group and has successfully provided the basic framework within which Bapindo has operated. However, there was one provision in the Policy Statement which turned out to be inapplicable, namely 7(d) which specified that Bapindo was "to adopt a level of charges that would allow it a satisfactory return that would also be sufficient to build and maintain adequate reserves." In practice, Bapindo, as it is a state bank, was and still is subject to the interest rate ceilings set by Bank Indonesia, and it was not free to set its own rates. It became apparent therefore that in Bapindo's case the achievement of higher profitability was particularly dependent, not on the level of interest rates, but on the control of costs. Subsequently, Loan 1437-IND addressed this question of cost control.

Bapindo's Organizational Structure

3.06 Management and Technical Assistance Program. Between the end of 1970 and the beginning of 1972, the Government appointed a new president and two new managing directors to Bapindo's Board. Their selection was supported and approved by the Bank Group. As three of the four members of Bapindo's Board were new to development banking, and in order further to strengthen Bapindo's management, it was considered desirable to provide Bapindo with technical assistance, in the form of four advisers; to the President; on long-term financing; on financial management and accounting;

and on engineering. The results were satisfactory and Bapindo's managers gained considerable experience during their first few years in office, although the priority they initially gave to internal reorganization did result in a rather slow improvement in long-range planning and operational planning systems. The performance of the advisers, who were recommended to Bapindo by the Bank Group, was evaluated early in 1974. Their collective contribution to Bapindo's development and improved performance was considerable. It was subsequently agreed between Bapindo and the Bank Group that the number of advisers would gradually be reduced.

3.07 Autonomy. GOI has cooperated fully with the Bank's proposal that Bapindo should be autonomous in its decision-making and operations, and Bapindo has therefore enjoyed adequate operational autonomy vis-a-vis the Government. Bapindo has been subject in general only to the regulatory and advisory powers conferred on Bank Indonesia by the General Banking Act and the Bank Indonesia Act, which are applicable to all banking institutions in Indonesia. Indeed, in some senses the autonomy granted to Bapindo by GOI even exceeded the Bank's wishes, as the Minister of Finance and the Governor of Bank Indonesia, (two members of the Supervisory Board) were preoccupied with state business and therefore allowed Bapindo's Board of Managing Directors considerable freedom of action. This reduced the intensity and effectiveness of supervision and provision of policy guidance. This matter was discussed with GOI during the negotiations for the first Bank loan in 1974. As a result of these discussions, GOI passed a regulation in February 1975 which provided for the delegation of responsibility and authority of the Minister of Finance and Governor of Bank Indonesia concerning their position as members of Bapindo's Supervisory Board to qualified representatives who could devote more time to supervising Bapindo's operations. Since 1975, the two Government representatives, a Director General of the Ministry of Finance and a Managing Director of Bank Indonesia, have provided Bapindo with active guidance and effective supervision.

3.08 Reduction in Staff. The Bank Group recommended a reduction in the number of Bapindo's staff, although the appraisal report (for Credit 310-IND) did concede that in the Indonesian context the retrenchment of several hundred surplus staff was likely to be a slow and difficult process. However, despite the difficulty of this action, Bapindo managed to release 40% (or 570) of its total staff in 1973, both at head office and at the branches. The reduction was handled imaginatively and compassionately and resulted in a general organizational streamlining as well as a sense of renewed purpose amongst the retained staff. However, because the retrenchment covered mainly clerical and lower support staff some overstaffing continued to exist.

3.09 Bapindo's Branch Network. The Credit 310-IND appraisal report stated that about one half of Bapindo's 20 branches were uneconomic and that in consultation with Bank Indonesia, Bapindo should find ways of reducing their number. The agreed "plan of action" of July 1970 did caution, however, that branch closures should only be contemplated when term-lending and commercial banking operations had been successfully separated. Once this was achieved, Bapindo honoured its commitment to reduce its number of branches and in 1973 eight branches were transformed into representative offices, each with a reduced staff. While this represented a substantial improvement, some

relatively minor problems remained; overstaffing at some branches, and/or a business volume too small to justify the existence of a separate branch. In addition there was still a rather unclear demarcation of functions, and therefore duplication of work, between headquarters and branch offices.

3.10 Organization of Departments. As agreed with the Bank, and in consultation with Bapindo's advisers, the management of Bapindo has since 1971 regrouped its departmental functions and responsibilities. Several new departments/units have been created, including a Collection Department; a Branch Supervision Department to coordinate branch operations and the co-financing scheme with the RDBs; a Project Promotion Department to work on new investment opportunities; a Follow-Up Unit within the Credit Department; and a single Engineering Department has been established (while previously the engineering staff was spread throughout Bapindo). The organizational structure of Bapindo today is much improved and more effective than it was prior to 1971.

3.11 Procedures. Bapindo's internal procedures and controls had already improved substantially by the time the Bank Group approved Credit 310-IND, but still further upgrading was required, particularly in accounting standards and procedures. During negotiations, procedures relating to appraisal, follow-up, procurement and disbursement were discussed and satisfactory understandings were reached. In 1972, Bapindo hired outside consultants to improve its internal control and accounting system. Their recommendations were subsequently implemented and by late 1974 the standard of bookkeeping, accounting and internal flow of information had substantially improved. In addition, the input of the advisers assisted in significantly improving Bapindo's appraisal standards, which in the period after 1971/72 were undertaken in a systematic manner, with the financial and technical aspects usually analyzed satisfactorily, although there remained room for improvement in the coverage and analysis of marketing and economic aspects. The quality of individual appraisal reports was sometimes uneven, particularly after the responsible adviser had completed his term, and the time spent on appraisal was initially excessive.

3.12 Bapindo's supervision capabilities took much longer to be established, partly because this function had been almost totally neglected prior to the Bank Group's involvement, and partly because supervision seemed to get a lower priority relative to the improvement of appraisal capabilities. A separate supervision division was not set up until late 1973, the designated division chief was not sent abroad for training until early 1974, and a practical supervision manual was not drawn up until late 1974. Bapindo's arrears problem was therefore to some extent a result of the rather slow progress in setting up effective supervision procedures. Regarding procurement, Bapindo had satisfactory guidelines though initially their implementation did vary with the initiative of the individual project engineers. The engineering adviser subsequently established clearer procurement procedures and as a result procurement efficiency improved. Bapindo's loan disbursements were generally satisfactory though in a few cases collection of relevant documents proved difficult which led to the cancellation of a small portion of some subloans.

Financial Aspects of Bapindo

3.13 Financial Position. The Government cooperated fully and closely with Bapindo and enabled it to take the necessary steps agreed with the Bank Group which were designed to strengthen Bapindo's financial position. The Government increased Bapindo's equity through budgetary allocations and by converting into equity some loans from Bank Indonesia and the Government itself, altogether amounting to equity increases of Rp 2 billion in 1972, Rp 2 billion in 1973, Rp 18.6 billion in 1974, Rp 4.5 billion 1975 and Rp 10.3 billion in 1976. These measures taken by the Government considerably strengthened Bapindo's capital structure. The Government also greatly assisted Bapindo in improving its portfolio by relieving Bapindo of all financial liability with respect to its loans to 19 state enterprises. Bapindo also wrote off a substantial amount of uncollectible loans which further improved its portfolio. Finally, Bapindo had its accounts audited by independent outside auditors who from 1971 onwards certified Bapindo's accounts and from 1973 onwards issued their reports without qualification. These various actions were all urgently required (and supported by the Bank Group) in order to strengthen Bapindo's financial condition and establish its creditworthiness. Through the full cooperation and commitment by both the Government and Bapindo, substantial financial improvements were subsequently achieved. However, some problems remained or emerged later. First, the quality of Bapindo's portfolio necessitated continued and heavy write-offs. Second, partly because of this high level of write-offs and partly because of its high administrative costs, Bapindo was unable to build up its reserves. Third, Bapindo extended some term loans at the Government's behest and without a genuine and independent appraisal, therefore essentially acting as an administrator of Government funds but nevertheless also carrying the financial liability for these "behest loans." And fourth, Bapindo still carried on its books substantial amounts of short-term raw cotton loans, for which it did not carry out independent appraisals, and which had increased to Rp 43 billion by 1974, or 50% of total assets. These problems have been the subject of discussions between Bapindo, GOI and the Bank Group in the course of the long-term lending relationship which typifies DFC operations.

3.14 Arrears Situation. While the Bank Group correctly established at appraisal that the quality of Bapindo's portfolio was poor, it did not at that time have the benefit of any experience of previous DFC operations in Indonesia and therefore, perhaps understandably, it underestimated the extent of the problem and was too optimistic in its outlook for possible progress. While some factors causing Bapindo's serious arrears situation, such as inadequate project appraisal and supervision and Bapindo's limitations in setting its own interest rates were apparent and identified at the time of appraisal, other factors which subsequently slowed down the rate at which Bapindo's portfolio improved only came to light with the Bank Group's growing experience of the changing conditions in Indonesia. These factors were:

(a) the loan repayment record in Indonesia has generally been unsatisfactory, partly due to a legal system which favors borrowers vis-a-vis lenders;

(b) the write-offs made by Bapindo in 1971 proved with the passage of time to be inadequate; by 1976 a further 52% of Bapindo's portfolio of December 31, 1971, had to be written off;

(c) Bapindo's rate of interest on arrears was too low and acted as an incentive for some delinquent borrowers not to repay;

(d) Bapindo tended, at least for the first few years after reorganization, to set unrealistically ambitious and short repayment periods;

(e) delays in the completion of projects which in turn resulted in borrowers' inability to service their debt on schedule;

(f) the Government imposed severe credit restrictions in 1974 in order to control inflation, but this also compounded the liquidity problems of companies;

(g) since early 1974 the Government enforced its policy requiring state banks, including Bapindo, to lend only to pribumi enterprises, many of which were financially and managerially weak;

(h) a sudden occurence of defaults by short-term raw cotton borrowers because of the combined effect of the sharp rise in raw cotton prices and the Government's pricing policy; and

(i) the slowness and generally inefficient performance of the statutory collection agency (PUPN) through which loan foreclosure and legal actions by state banks, including Bapindo, must be channelled.

It is apparent that numerous factors were to blame for Bapindo's arrears situation, several of which could not reasonably have been foreseen. It has taken several years for the full complexity of the situation to emerge, and in some senses also to develop. The Government has been cooperative, however, and during the negotiation of the most recent Bank loan to Bapindo, GOI provided undertakings to carry out an action program which should result in a gradual but substantial improvement in Bapindo's arrears position.

3.15 As far as the short-term raw cotton loans are concerned, Bapindo had in effect been only the administrator of this subsidized program. However, in late 1974/early 1975 virtually all of Bapindo's raw cotton loan clients defaulted on their repayments. As the Government had already agreed to transfer this function to another state bank (Bapindo stopped making raw

cotton loans by 1975), and also because about 90% of the defaults were attributable to two large Government companies, the Government cooperated fully and agreed to compensate Bapindo for any losses resulting from its raw cotton financing. Bapindo expects to be able to liquidate its raw cotton portfolio during 1978.

3.16 Liabilities of State Enterprises. The Government agreed with the Bank Group's recommendation and in 1970 relieved Bapindo of its financial liabilities pertaining to loans to 19 state enterprises. However, at that time the treatment of future loans by Bapindo to state enterprises was not established, and Bapindo did subsequently make a series of loans to such enterprises. While most of these were made at its own initiative and evaluated and appraised according to Bapindo's own lending criteria as set out in its Policy Statement, a few of these loans were made at the Government's behest without a genuine independent appraisal being undertaken by Bapindo. As the accounting treatment of both types of state enterprise loans was the same, Bapindo was in practice carrying the financial liability on a few "behest" loans. During the negotiations for the latest Bank loan the Government again extended its full cooperation on this matter and agreed to segregate such "behest" loans from Bapindo's portfolio. In addition, the Government agreed that this administrative concept would apply to all future loans to state enterprises made by Bapindo at the Government's behest.

3.17 Profitability. The appraisal report of Credit 310-IND conceded that Bapindo's expected profitability would be only moderate with net profits averaging about 8% of net worth over the period 1972-75. These estimates were made by Bapindo and were known to be somewhat overstated as they did not include Bapindo's revised provisions for doubtful loans and write-offs, although the appraisal report expected this omission to be compensated by higher income derived from temporarily surplus funds. However, in actuality these two offsetting factors were not equally large and Bapindo's profitability suffered because of the magnitude of its write-offs (which could not have been entirely foreseen, see para. 3.14). Furthermore, the level of profitability was adversely affected by the unexpected increase in the level of administrative expenses to 2.8 times the expected level in 1975. (As Bapindo was handling a few very large projects the level of administrative expenses in relation to total assets was in fact much lower, at 3.8% compared with the expected 12.8%). It appears therefore that, on the basis of the absolute level of administrative expenses, the size of Bapindo's staff was still too large in relation to its volume of business transactions. Consequently, despite the substantial reduction in personnel and downgrading of some branches, Bapindo's existing branch network and staffing will require further review. This review is continuing and the general cutting of costs will be a matter for negotiation under the prospective fourth Bank loan to Bapindo.

4. UTILIZATION OF CREDIT 310-IND

Rate of Utilization

4.01 The Credit was fully committed, on schedule, on February 12, 1975. However, disbursements for some subprojects totaling $735,000 were subsequently delayed and the Closing Date had to be postponed twice, first to March 31, 1977 and then to August 31, 1977. The delay in disbursement was caused partly by delays in the implementation of some projects and partly by difficulties faced by BAPINDO in collecting complete documentation for submitting reimbursement allocations which eventually led to the cancellation of $449,830.05. The difficulties BAPINDO faced in fully utilizing the Credit are to some extent also a reflection of the fact that this was BAPINDO's first experience with borrowing from the Bank Group.

Subprojects Financed

4.02 With Credit 310-IND, BAPINDO financed 18 A projects totalling $9.1 million and 8 B projects totalling $0.5 million (see Annex 2). Total project cost for the 26 projects was $26.9 million, of which BAPINDO financed 61%, funding 35% of total project cost from IDA and 26% from its own funds. BAPINDO's projections of project cost were generally close to reality with cost overruns and cost savings on all 26 projects almost cancelling each other out (see Annex 5). In estimating project completion dates BAPINDO was not as successful, as less than half of the projects (11 by number) were completed on time while the other projects showed time overruns from between 2 and 22 months, with the average overrun for all projects exceeding 5 months. Two projects were not completed by December 31, 1976. There were many reasons for these delays in project completion, but the most important seemed to be delays in the arrival of machinery (often caused by inability to obtain clearances of equipment from the port) and adverse weather and ground conditions during the rainy season. Other reasons included delays in loan effectiveness due to sponsors problems in fulfilling loan conditions, particularly concerning matters such as obtaining licences, shortages in sponsor's capital contribution, and some technical problems.

4.03 The 26 subprojects are in 10 different sectors (see Annex 4). The largest amount went to the nonmetallic minerals sector (two projects or 35% of the Credit, by amount), mainly for a cement plant, followed by miscellaneous industries (four projects or 18%), textiles (two projects or 17%) and shipping (seven projects or 11%). Geographically, lending was about evenly distributed between Java (49%) and Sumatra (51%)/1 which compares to BAPINDO's overall share in lending to those regions of 85% and 8% respectively. By ownership, the largest share of the IDA Credit went to the private sector (68% by number, 56% by amount). Seventy percent of the projects were for expansion or modernization of existing facilities, while 30% were for new projects. By size, half of the projects involved IDA funds of less than $1 million and by maturity 78% of the loans were for six years

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/1 The financing of the cement project accounted for 32%.

or longer with the longest maturity extending over ten years. Major components of machinery and equipment were procured in eight different countries, eight in Indonesia (indirect foreign exchange financing), seven in Japan, four in Hong Kong, three in West Germany and one each in New Zealand, Taiwan, Denmark and Australia.

4.04 Annex 4 gives some operational and economic data of subprojects financed under Credit-310-IND. Except for the 11 Transport and Shipping projects and the cement plant the projects did not achieve the expected capacity utilization which was mainly due to the delays in project implementation and, in at least 2 cases, due to deterioration in market conditions. Actual overall sales figures were about 25% below expectation and as a consequence some of the projects have fallen into arrears. As of September 31, 1976, 14 of the 26 projects (or 47% of outstanding amounts) had arrears exceeding 3 months involving total arrears of Rp 690 million (11% of amounts outstanding). The arrears under Credit 310-IND more or less reflected BAPINDO's overall arrears position. The 26 projects were expected to create about 3,600 jobs at an average investment cost of $7,000. Actual job creation so far has been about 1,000 less than expected (which would give a cost per job of $9,600) though original estimates may still be achieved when all projects reach full capacity operation. Only four projects, involving less than 5% of all IDA funds would have qualified under the Bank's urban poverty lending program. None of the 26 projects was intended to produce for exports. For the 12 manufacturing projects, BAPINDO calculated rates of effective protection, ranging from minus 33% (a cassava pelletizing plant) to 79% (cement plant) and 85% (textile production). BAPINDO did not calculate economic rates of return for subproject appraisal, as it was not required to do so. The economic analysis of subprojects was generally limited to a few remarks on employment created.

5. OPERATIONAL AND FINANCIAL RESULTS

Level of Operations

5.01 BAPINDO's actual level of operations as compared with the forecasts made at the time of the appraisal of the Credit are summarized as follows:

Commitments	Forecast				Actual			
	1972	1973	1974	1975	1972	1973	1974	1975
Term loans								
Investment	4,000	6,000	8,000	10,000	2,275	7,300	17,037	19,531
Working capital	1,000	1,500	2,000	2,500	699	2,644	5,106	5,131
Maritime	-	-	-	-	64	2,166	3,406	10,128
Short-term loans	755	755	500	535	-	-	-	-
Raw cotton loans	10,130	10,130	10,130	10,130	14,360	38,538	16,407	-
Cofinancing (RDB's)	-	-	-	-	-	22	707	2,213
Equity investments	-	-	-	-	-	-	825	696

5.02 The appraisal report based its operational forecasts on what was known about Indonesia's economic outlook and BAPINDO's operational capacity, but it also recognized that actual figures could readily exceed the forecast by a wide margin. In the event this actually happened, principally because of the rapidly changing and improving resource position of the Government in the wake of the oil price increases of 1973, and because BAPINDO was selected by the Government to finance some very large projects. Also, BAPINDO's selection as the major lender for the maritime sector was made after these projections were completed. Concerning short-term operations, BAPINDO discontinued its regular short-term loans to term loan clients altogether but substantially increased its raw cotton lending in 1973. At that time the raw cotton business was very profitable and the income from it helped BAPINDO to offset the losses arising from its heavy write-offs. Because of problems with repayments which emerged in 1974, and because of the earlier decision to discontinue raw cotton lending, BAPINDO's raw cotton loans in 1974 were less than half the 1973 level and were stopped altogether in 1975. Co-financing and equity operations were started with relatively small amounts in 1973 and 1974. (The appraisal report recognized the scope for these operations but did not include them in the forecasts as at that time their actual occurrence seemed very uncertain.)

Profitability

5.03 The appraisal report stated that BAPINDO's projected profitability would be moderate and, if anything, represented an optimistic estimate. It also pointed out that the revised provisions for doubtful loans and write-offs had not been included in BAPINDO's projections, although this was expected to be offset by higher income from temporary surplus funds. In the event, income from those temporary surplus funds did indeed prove to be higher, but write-offs increased even faster. In addition, the absolute level of total administrative expenses was, by 1975, 2.8 times the expected level. Consequently average net income as a percentage of average equity for the period 1972-75 was much lower (3.2% p.a.) than expected (8.1%).

Financial Position

5.04 The actual increase in total assets far surpassed the projections made at appraisal. The main reasons for this were the substantial increases in term lending and the huge rise in raw cotton loans in 1973. The financial structure of BAPINDO remained sound and in fact was better than expected because of the heavy contributions by the Government to paid-in capital, which amounted to Rp 37 billion, compared with the expected Rp 4 billion (which again illustrates the extent of Government cooperation and commitment to strengthening BAPINDO). Reserves and provisions, however, did not grow as expected because of the heavy write-offs and lower profitability, and reached only 5.6% of total portfolio by 1975 compared with the expected 16.6%. Because of difficulties with loan collections, BAPINDO's liquidity position was, except for 1974, tighter than expected, but because a large part of resources came through timely cash equity contributions no serious difficulties were encountered.

6. OVERALL EVALUATION

6.01 The performance of Bapindo in achieving the objectives (para. 2.01) sought by GOI and the Bank Group in connection with Credit 310-IND can be judged to be satisfactory. An amount of US$9.6 million in foreign exchange was made availbale to the industrial sector in Indonesia, and Bapindo has made considerable progress in implementing the reorganization program outlined in para. 2.04. Concerning the institution building aspects in particular, Bapindo has now reached a level of operational capability (especially regarding project appraisal and follow-up capacity) which makes it a much more effective institution than it was in 1971. It is also true, however, that Bapindo has not yet progressed to the stage of being a "model" DFC, and it still faces many problems including a continuing high level of loan arrears, slow project appraisal work and a relatively low level of institutional efficiency. Much remains to be done, therefore, to further strengthen Bapindo and transform it into an innovative and efficient DFC.

6.02 The lessons to be learnt from the Bank Group's experience with the first Bapindo project are essentially threefold. First, full Government cooperation and support is essential in order to successfully reorganize, or effectively establish, a publicly-owned development finance institution. The relationship between GOI and the Bank Group concerning Bapindo's development has been extremely good. Indeed, it should be quite clear from numerous references in this report that GOI fully honoured and fulfilled the numerous steps outlined in the reorganization program (para. 2.04), thereby considerably strengthening Bapindo's initial position. Similarly GOI has consistently and fully cooperated with Bank Group requests and suggestions for remedial action on issues and problems which emerged after 1971. GOI assistance and commitment to this project has therefore been in large part responsible for facilitating the improvement in Bapindo's operational capabilities. Second, the experience with Bapindo underlines the fact that institution building is a long-term process. The problems which persist and remain to be solved should not therefore be construed as a failure on the part of Bapindo, but instead should be interpreted as a reflection of the necessarily long-term nature of rigorous institutional and operational improvements. This interpretation is especially applicable in Bapindo's case, in the light of its serious weaknesses prior to the 1971 reorganization and in the Indonesian context where industrial expertise and business entrepreneurship are relatively scarce. Third, and finally, the Bapindo experience emphasizes the need to set realistic goals, particularly relating to the rate and extent of expected improvements. Such goals should realistically reflect the capabilities of project management and the scarcity of expertise and entrepreneurship in the Indonesian industrial environment. In fairness, however, such improved accuracy and realism in setting targets can only be expected to materialize after some experience has been built-up with DFC lending in a particular country. There was no such prior experience in Indonesia when Credit 310-IND was appraised.

AEP Projects Department

November 1, 1978

ANNEX 1

BANK PEMBANGUNAN INDONESIA

Estimated and Actual Disbursement of Credit 310-IND
(US$ million)

	Commitments	Disbursements	
	Actual	Estimated	Actual
	(Cumulative)		
FY73			
April - June	0.1	0.3	0.1
FY74			
July - September	1.0	0.9	0.1
October - December	3.4	1.8	0.1
January - March	7.7	2.8	1.3
April - June	9.1	4.1	1.7
FY75			
July - September	9.8	5.4	3.7
October - December	9.8	6.7	4.6
January - March	10.0	7.6	6.2
April - June	10.0	8.2	7.6
FY76			
July - September	10.0	8.8	8.0
October - December	10.0	9.1	8.3
January - March	10.0	9.4	8.5
April - June	10.0	9.7	8.6
FY77			
July - September	10.0	9.9	9.2
October - December	10.0	10.0	9.2
January - March	10.0	10.0	9.3
April - June	10.0	10.0	9.3
FY78			
July - September	10.0	9.9	9.5
October - December	10.0	10.0	9.6

BANK PEMBANGUNAN INDONESIA

List of Subprojects Approved Under Credit 310-IND

roject umber	Name	Activity	Date authorized	Amount authorized (after adjustments)	Amount disbursed (November 4, 1977)
A-1	Fa. Nurni	Food	August 8, 1973	598.6	598.6
A-2	PT. Melawai Hotel	Hotel/tourism	September 27, 1973	279.2	279.2
A-3	PT. Ravitex	Textiles	October 1, 1973	1,632.0	1,630.0
A-4	PT. Marga Sandang	Textiles	October 19, 1973	75.0	75.0
A-5	PT. Mutiara Hotel	Hotel/tourism	October 30, 1973	217.8	217.8
A-6	CV. Gelas Priangan	Cement, ceramics & glasses	January 10, 1973	151.0	127.1
A-7	M.V. Tolando	Shipping/RLS	January 29, 1974	270.7	270.8
A-8	M.V. Towuti	Shipping/RLS	January 29, 1974	270.7	270.8
A-9	M.V. Tombatu	Shipping/RLS	January 29, 1974	268.0	268.0
A-10	M.V. Tomako	Shipping/RLS	January 29, 1974	63.2	63.3
A-11	PT. Semen Padang	Cement, ceramics & glasses	February 28, 1973	3,358.0	3,132.2
A-12	PT. Amien Steel	Metal works	June 4, 1974	159.0	152.0
A-13	PT. Maju Jaya	Pulp, paper & printing	June 4, 1974	192.8	180.1
A-14	PT. Malowopati	Miscellaneous industries	June 21, 1974	838.1	838.1
A-15	PT. Tricopala	Rubber processing	June 21, 1974	111.0	102.7
A-16	PT. Almicos	Metal works	September 16, 1974	165.3	42.7
A-17	PT. United Kingstone	Rubber processing	September 16, 1974	652.5	649.4
A-18	PT. Dewi Sri Sari	Services	February 12, 1975	225.9	198.5
B-1	PT. Sinar Budi	Land transportation	March 1, 1973	42.2	42.2
B-2	Fa. Gumarang	Land transportation	March 1, 1973	21.2	21.2
B-3	M.V. Wayabula	Shipping/RLS	March 22, 1973	32.1	32.1
B-4	Fa. Asri	Rubber processing	October 23, 1973	62.5	60.0
B-5	M.V. Sawu	Shipping/RLS	November 16, 1973	68.9	68.9
B-6	PT. Permata Karya	Land transportation	March 5, 1974	72.8	72.8
B-7	M.V. Tokala	Shipping/RLS	March 18, 1974	95.6	95.7
B-8	CV. Sinar Baru	Land transportation	May 16, 1974	67.5	61.3
Total				9,991.6	9,550.2

ANNEX 3

BANK PEMBANGUNAN INDONESIA

Characteristics of Subprojects Financed under Credit 310-IND

	No.	%	Amount (US$'000)	%
I. Sectoral Distribution				
Manufacturing				
Pulp, paper and printing	1	4	0.193	2
Textiles	2	8	1.707	17
Metal works	2	8	0.324	3
Nonmetallic minerals	2	8	3.509	35
Chemicals	1	4	0.062	1
Rubber processing	1	4	0.653	7
Miscellaneous industries	4	16	1.770	18
Total manufacturing	13	52	8.218	82
Land transport	3	12	0.203	2
Shipping	7	28	1.069	11
Tourism	2	8	0.497	5
Total	25	100	9.987	100
II. Geographical				
North Sumatra	1	4	3.358	34
South Sumatra	3	12	1.747	18
West Java/Jakarta Raya	12	48	2.846	28
Central Java	3	12	0.473	5
East Java	6	24	1.564	16
Total	25	100	9.987	100
III. Ownership				
Private sector	17	68	5.560	56
Public sector	8	32	4.427	44
Total	25	100	9.987	100
IV. Type of Project				
New	5	20	3.017	30
Expansion	13	52	5.901	59
Modernization	7	28	1.069	11
Total	25	100	9.987	100
V. Size (US$'000)				
Up to 100	9	36	0.599	6
Over 100 - 300	11	44	2.311	23
Over 300 - 500	-	-	-	-
Over 500 - 1,000	3	12	2.087	21
Over 1,000 - 2,000	1	4	1.631	16
Over 2,000 -	1	4	3.359	34
Total	25	100	9.987	100
VI. Maturity (years)				
2 - 3.9	9	36	1.475	15
4 - 5.9	7	28	0.714	7
6 - 7.9	2	8	4.193	42
8 - 9.9	5	20	2.878	29
10 and over	2	8	0.728	7
Total	25	100	9.987	100

ANNEX 4

BANK PEMBANGUNAN INDONESIA

Status of Implementation of Subprojects Approved Under Credit 310-IND

Project number	Name	Activity	Type of project /a	Amount disbursed (US$'000)	Project cost Estimated (Rp million)	Project cost Actual (Rp million)	Cost overrun (%)	Share in total project cost financing (%) BAPINDO	Share in total project cost financing (%) IDA	Project completion Estimated	Project completion Actual	Delay (mos.)	Main component procured from
A-1	Fa. Nurni	Food	N	520	734	688	-6	59	31	Aug. 74	June 76	22	West Germany
A-2	PT. Melawai Hotel	Hotel	E	279	669	755	13	45	15	June 76	June 76	-	Domestic
A-3	PT. Ravitex	Textiles	N	1,558	1,555	1,525	-2	52	42	Sept. 75	March 76	6	Japan
A-4	PT. Marga Sandang	Textiles	E	75	436	396	-9	72	8	Jan. 74	June 74	-	Japan
A-5	PT. Mutiara Hotel	Hotel	E	218	417	415	-	75	22	Dec. 73	March 74	3	New Zealand
A-6	CV. Gelas Priangan	NMM	N	86	385	465	21	54	8	Sept. 76	N.C.	N.C.	Japan
A-7	M.V. Tolando	Shipping	M	271	191	168	-12	65	67	Feb. 73	Feb. 73	-	Hong Kong
A-8	M.V. Towuti	Shipping	M	271	187	166	-11	66	68	March 73	March 73	-	Hong Kong
A-9	M.V. Tombatu	Shipping	M	268	112	106	-5	100	100	July 73	July 73	-	Hong Kong
A-10	M.V. Tomako	Shipping	M	63	72	74	-3	89	35	July 73	July 73	-	Hong Kong
A-11	PT. Semen Padang	NMM	B	2,983	3,120	3,060	-2	68	40	Dec. 76	Dec. 76	-	Denmark
A-12	PT. Amien Steel	Metal works	N	152	353	401	14	66	16	Sept. 74	Oct. 75	13	Taiwan
A-13	PT. Maju Jaya	Paper	E	166	143	193	35	55	36	Dec. 74	March 76	15	West Germany
A-14	PT. Malowopati	Agroindustries	N	791	836	829	-1	66	40	July 75	Sept. 75	2	Australia
A-15	PT. Tricoapla	Rubber	B	103	67	77	15	60	56	Sept. 74	Aug. 75	11	Japan
A-16	PT. Almicos	Chemicals	N	43	206	211	2	64	8	Aug. 74	N.C.	N.C.	Japan
A-17	PT. United Kingstone	Rubber	N	649	588	990	68	38	27	March 75	Nov. 75	8	Japan
A-18	PT. Dewi Sri Sari	Services	N	198	220	188	-15	50	44	March 75	Nov. 75	8	West Germany
Average per project				483	572	595	4	60	34			6	
B-1	PT. Sinar Budi	Transport	E	42	38	40	5	73	44	May 73	June 73	1	Domestic
B-2	Fa. Gumarang	Transport	E	21	30	30	-	73	29	March 73	March 73	-	Domestic
B-3	M.V. Wayabula	Shipping	M	32	33	33	-	100	40	Oct. 73	Oct. 73	-	Domestic
B-4	Fa. Asri	Rubber	N	54	40	88	120	30	25	Sept. 74	Feb. 76	17	Japan
B-5	M.V. Sawu	Shipping	M	69	48	49	2	97	58	April 73	April 73	-	Domestic
B-6	PT. Permata Karya	Transport	N	73	65	68	5	71	45	May 74	Oct. 74	5	Domestic
B-7	M.V. Tokala	Shipping	M	96	66	69	5	96	58	Sept. 73	Sept. 73	-	Domestic
B-8	CV. Sinar Baru	Transport	E	61	62	68	10	68	37	Sept. 74	Nov. 74	2	Domestic
Average per project				56	48	56	16	74	42			3	
Total 26 projects				9,142	10,680	11,158	4	61	35			5	

BANK PEMBANGUNAN INDONESIA

Forecast of Operations 1972-75, and Actuals 1972-76

	1972		1973		1974		1975		1976
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Actual
Term loans									
Approvals									
Industrial investment loans	5,714	2,026	6,122	10,207	8,806	18,618	10,511	22,856	33,837
Industrial working capital loans	1,429	820	1,530	3,197	2,202	4,925	2,627	4,809	6,640
Maritime loans	-	85	-	3,611	-	2,310	-	14,693	8,912
Total	7,143	2,931	7,652	17,015	11,008	25,853	13,138	42,358	49,389
Commitments									
Industrial investment loans	4,000	2,275	6,000	7,300	8,000	17,037	10,000	19,531	18,344
Industrial working capital loans	1,000	699	1,500	2,644	2,000	5,106	2,500	5,131	3,031
Maritime loans	-	64	-	2,166	-	3,406	-	10,128	11,038
Total	5,000	3,038	7,500	12,110	10,000	25,549	12,500	34,790	32,413
Disbursements									
Industrial investment loans	2,200	2,059	4,598	3,050	6,845	7,704	8,774	12,205	12,821
Industrial working capital loans	600	-	1,200	1,806	1,710	2,380	2,250	4,321	3,981
Maritime loans	-	85	-	1,331	-	2,606	-	8,937	9,227
Total	2,800	2,144	5,798	6,187	8,555	12,690	11,024	25,463	25,966
Short-term loans									
Disbursements	755	-	755	-	520	-	535	-	-
Raw cotton loans									
Disbursements	10,130	14,360	10,130	38,538	10,130	16,407	10,130	-	-
Co-financing with Regional Development Banks									
Disbursements	-	-	-	22	-	707	-	2,231	3,101
Equity investments									
Disbursements	-	-	-	-	-	825	-	696	262

BANK PEMBANGUNAN INDONESIA

Operational and Economic Data of Subprojects Financed Under Credit 310-IND

Project number	Name	Activity	Capacity utilization Projected (%)	Capacity utilization Actual (%)	Incremental sales Projected (Rp million)	Incremental sales Actual (Rp million)	Incremental employment Projected (Numbers)	Incremental employment Actual (Numbers)	Cost per job created /a (US$)	Rate of effective protection (%)	Repayment performance: Original loan disbursed (Rp million)	Repayment performance: Outstanding at Dec. 31, 1976 /b (Rp million)	Repayment performance: In arrears over 3 mos. /b (Rp million)	Repayment performance: Arrears as % of outstanding (%)
A-1	Fa. Murni	Food	95	30/c	1,818	568	59	34	28,100	-3	406	434	-	-
A-2	PT. Melawai Hotel	Hotel/tourism	80	68/c	418	298	299	253	6,100	/d	341	328	-	-
A-3	PT. Ravitex	Textiles	70	/e	1,668	-	303	31	12,100	3	929	1,000	49	5
A-4	PT. Marga Sandang	Textiles	100	50	4,747	1,879	221	141	4,300	85	209	224	-	-
A-5	PT. Mutiara Hotel	Hotel/tourism	70	56	181	159	160	157	6,300	/d	311	272	20	7
A-6	CV. Gelas Priangan	Cement, ceramics & glasses	90	/a	203	-	133	12	8,400	5	222	245	-	-
A-7	M.V. Tolando	Shipping/RLS	80	113	201	295	/f	/f	/f	/d	110	75	59	79
A-8	M.V. Towuti	Shipping/RLS	60	76	176	174	/f	/f	/f	/d	110	75	59	79
A-9	M.V. Tombatu	Shipping/RLS	65	100	173	226	/f	/f	/f	/d	109	78	61	78
A-10	M.V. Tomako	Shipping/RLS	65	76	182	179	/f	/f	/f	/d	66	55	37	67
A-11	PT. Semen Padang	Cement, ceramics & glasses	90	133/c	4,135	7,275	1,266	1,271	5,800	79	2,091	1,987	-	-
A-12	PT. Amien Steels	Metal works	60	45	3,209	2,418	113	83	8,600	41	259	120	-	-
A-13	PT. Maju Jaya	Pulp, paper & printing	70	15/c	126	20	163	58	2,900	50	107	125	25	20
A-14	PT. Malowopati	Miscellaneous industries	90	2	418	7	124	60	16,100	-33	543	632	90	14
A-15	PT. Tricopela	Rubber processing	70	45	414	273	84	66	2,200	45	45	34	-	-
A-16	PT. Alnicos	Metal works	90	67/c	408	88	54	34	9,400	-7	80	79	23	29
A-17	PT. United Kingstons	Rubber processing	90	85	314	278	124	120	19,200	32	366	487	121	25
A-18	PT. Dewi Sri Sari	Services	90	5	185	13	64	30	22,400	/d	87	119	67	56
B-1	PT. Sinar Budi	Land transportation	80	82	24	25	92	47	1,000	/d	29	13	-	-
B-2	Fa. Gumarang	Land transportation	75	89	204	142	66	21	1,100	/d	21	0	-	-
B-3	M.V. Wayabula	Shipping/RLS	80	110	114	164	49	42	1,600	/d	33	25	17	68
B-4	Fa. Asri	Rubber processing	90	45/c	120	56	64	31	3,300	37	26	21	-	-
B-5	M.V. Savu	Shipping/RLS	65	96	181	225	/f	/f	/f	/d	48	32	26	81
B-6	PT. Permata Karya	Land transportation	60	52	75	65	61	49	2,700	/d	48	31	-	-
B-7	M.V. Tokala	Shipping/RLS	70	98	165	211	/f	/f	/f	/d	66	54	36	67
B-8	CV. Sinar Baru	Land transportation	90	80	94	75	96	85	1,700	/d	44	23	-	-
Average									7,000/g		6,706	6,568	690	11

/a Projected at full capacity.
/b Principal plus interest.
/c Start of operations during 1976.
/d Hotels, ship rehabilitation and local bus transport.
/e Not yet operating.
/f Ship rehabilitation with no new jobs.
/g This figure would increase to US$8,600 of actual employment figures were used.

ANNEX 7

BANK PEMBANGUNAN INDONESIA

Projected Balance Sheets 1972-75, and Actuals /a 1972-76
(Rp million)

Year ending December 31	1972 Forecast	1972 Actual	1973 Forecast	1973 Actual	1974 Forecast	1974 Actual	1975 Forecast	1975 Actual	1976 Actual
ASSETS									
Current assets									
Cash and due from banks	5,419	4,923	7,799	3,032	7,346	9,344	6,642	5,115	9,461
Raw cotton loans	10,130	17,752	10,130	15,205	10,130	43,305	10,130	28,662	25,010
Other current assets	4,014	3,214	2,704	2,841	3,204	6,264	3,739	9,345	12,484
Total current assets	19,563	25,889	20,633	21,078	20,680	58,913	20,511	43,122	46,955
Term loans	13,720	15,888	17,598	19,323	23,123	29,753	31,463	48,918	78,109
Equity investments	-	-	-	-	-	825	-	1,521	1,816
Less provisions	3,016	3,231	3,016	2,828	3,016	3,413	3,016	2,498	3,173
Net term portfolio	10,704	12,657	14,582	16,495	20,107	27,165	28,447	47,941	76,752
Fixed assets	444	496	384	686	319	876	249	1,045	1,200
Total assets	30,711	39,042	35,599	38,259	41,106	86,954	49,207	92,108	124,907
LIABILITIES AND EQUITY									
Current liabilities									
Deposits	1,351	2,122	1,601	1,276	1,851	3,446	2,101	4,972	7,703
Short-term borrowings for raw cotton	8,961	17,110	9,151	14,542	9,276	36,301	9,410	27,514	22,272
Others	485	577	485	1,455	485	4,589	485	6,200	10,884
Total current liabilities	10,797	19,809	11,237	17,273	11,612	44,336	11,996	38,686	40,859
Long-term debt									
Central Bank	8,425	9,074	8,233	8,712	9,355	8,306	11,726	10,356	18,527
IDA credit	-	-	779	212	2,679	2,471	3,595	3,829	3,929
Others	900	748	2,208	202	3,557	871	6,798	3,588	16,064
Total long-term debt	9,325	9,822	11,220	9,126	15,591	11,648	22,119	17,773	38,520
Equity									
Paid-in capital	60	60	60	60	60	29,181	60	33,681	43,981
Retained earnings and reserves	10,529	9,351	13,082	11,800	13,843	1,789	15,032	1,968	1,547
Total equity	10,589	9,411	13,142	11,860	13,903	30,970	15,092	35,649	45,528
Total liabilities and equity	39,711	39,042	35,599	38,259	41,106	86,954	49,207	92,108	124,907

/a Audited.

BANK PEMBANGUNAN INDONESIA

Projected Income Statements 1972-75, and Actuals 1972-76
(Rp million)

	1972		1973		1974		1975		1976
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Actual
Gross income									
Interest on term loans	2,212	1,407	2,203	2,363	2,744	3,214	3,713	5,300	7,662
Income from raw cotton loans	585	1,241	221	832	221	2,157	221	2,535	466
Other income	419	639	602	1,006	671	1,503	653	1,369	1,556
Total gross income	3,216	3,287	3,026	4,201	3,636	6,874	4,587	9,204	9,684
Expenses									
Interest and other financial expenses	658	706	686	625	943	722	1,111	1,884	3,188
Salaries and other personnel expenses	800	825	800	1,502	800	1,546	800	2,468	3,100
Administrative and general expenses	530	423	535	528	510	623	515	914	973
Provision for bad debts	-	1,233	-	443	-	2,317	-	2,617	1,687
Total expenses	1,988	3,187	2,021	3,098	2,253	5,208	2,426	7,883	8,948
Profit before income tax	1,228	100	1,005	1,103	1,383	1,666	2,161	1,321	736
Provision for income tax	37	46	452	495	622	747	972	598	475
Net income	1,191	54	553	608	761	919	1,189	723	260