

# FILE COPY

DOCUMENT OF INTERNATIONAL DEVELOPMENT ASSOCIATION

Not For Public Use

Report No. P-1450-IND

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

TO THE

REPUBLIC OF INDONESIA

FOR THE

BALI TOURISM PROJECT

May 21, 1974

This report was prepared for official use only by the Bank Group. It may not be published, quoted or cited without Bank Group authorization. The Bank Group does not accept responsibility for the accuracy or completeness of the report.

Currency Unit = Indonesia Rupiah (Rp.)

US\$ 1.00 = Rp 415

1 Rupiah = \$0.002

1 million Rupiah = \$2,415

Government of Indonesia

Fiscal Year April 1 - March 31

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A  
PROPOSED DEVELOPMENT CREDIT TO THE REPUBLIC OF INDONESIA  
FOR THE BALI TOURISM PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Republic of Indonesia for the equivalent of US\$16 million to help finance the Bali Tourism Project. About US\$9.8 million of the proceeds of the credit would be relent to the Bali Tourism Development Corporation (BTDC) for 30 years including six years of grace with an interest rate of 12% per annum and about US\$800,000 would be relent to PERUMTEL (the national telecommunications agency) for 20 years including five years of grace at an interest rate of 12% per annum.

PART I - THE ECONOMY

2. The latest economic report on Indonesia (The Indonesian Economy: Recent Developments and Prospects for 1974/75, November 26, 1973, R73-273) described and analysed the substantial changes which had taken place in the Indonesian economy in 1973. Since then there have been important further developments, especially in oil prices. A Basic Economic Mission is planned for September/October 1974 to reassess Indonesia's longer term development prospects and policies.

3. The Indonesian economy, which was dualistic and export-oriented in the colonial period, was severely affected by the great depression in the 'thirties, and the war, followed by the struggle for independence, in the 'forties. After a relatively brief period of recovery in the early 'fifties, the economy stagnated again in the decade 1957-1967 largely as a result of adverse economic policies. Thus, after a long period of economic difficulties, in which the population nearly doubled, Indonesia has become one of the poorest large countries in the world (1970 population about 115 million, per capita income about \$80).

4. After the Suharto Government introduced an effective stabilization program to combat the economic disruption and spiralling inflation of the mid-1960s, there has been a period of recovery and rehabilitation under the First Five-Year Plan. Real annual economic growth was close to 7% in the period 1968-1972. Domestic savings and investments increased considerably, thus providing the basis for continued economic expansion after the rehabilitation phase. By 1972, investments, excluding those in the oil sector, had grown to an estimated 17% of the GNP, of which more than two-thirds were financed from domestic sources. In agriculture, sustained efforts were made to increase food production, with emphasis on rice. Although a drought in the second half of 1972 led to a setback in food production and a steep increase in prices, production has recovered since then. Efforts to expand food production continue to receive high priority and in this connection the Government plans a large increase in fertilizer imports in 1974, international supplies permitting. Expansion of domestic fertilizer capacity is being actively pursued.

5. Even before the world energy shortage came to a head in the latter part of 1973, the money economy was booming, and real growth was probably accelerating under the influence of steep increases in Indonesia's export prices, a significant physical expansion of production in the oil and forestry sectors, a rapid growth in direct foreign investment (initially in mining, but increasingly in manufacturing), and a large inflow of short-term credit. The same factors, however, also caused significant inflation, reaching a rate of 40% per annum in the beginning of 1974. The Government has taken a number of measures to combat the inflation, most recently in April 1974.

6. The contribution of the oil sector to the economy, which was already increasing rapidly, has taken a quantum jump since September 1973. The Indonesian oil price, which was still \$3.73 per barrel in that month, reached \$11.70 per barrel on April 1, 1974. In addition, Indonesia has renegotiated the contracts with the foreign oil companies to receive a larger share of the total oil proceeds. Thus, while the net oil contributions to the balance of payments and the Government's oil revenues were below \$0.5 billion in 1972/73<sup>1/</sup> (less than 5% of the GNP), they are expected to reach well over \$3 billion in 1974/75, an increase of \$20 per capita. Given also the external and domestic inflation, total exports as well as budgetary receipts will probably exceed \$5 billion in 1974/75; a rough quadrupling in two years.

7. The inflation is, however, also affecting the expenditure side of the balance of payments and the budget. Average Indonesian import prices are expected to increase by 80 percent between 1972 and 1974, with the largest increases occurring in foodstuffs and agricultural inputs (rice, wheat, sugar, fertilizer). To shield the domestic consumer against the effect of high external prices, the Government is subsidizing these imports at an annual cost of nearly \$1 billion. In addition, the Government has to pay more for domestic goods and services (including Government salaries). Thus, about one-half of the additional budgetary receipts will be eroded by the different effects of inflation. Of the other half, a significant part will be spent on real increases in Government outlays, including much-needed gradual salary increases, development expenditures, routine material expenditures, and subsidies to regions. Nevertheless, there will probably remain a budgetary surplus of \$0.5 - \$1.0 billion in 1974-75. The expected overall surplus on the balance of payments is somewhat larger, and foreign exchange reserves may increase from \$0.9 billion on March 31, 1974 to about \$2 billion (about five months of imports at the then expected rate) a year later.

8. These surpluses are not large in relation to Indonesia's needs for additional current and capital expenditures in nearly every field, as specified in the Second Five Year Plan (1974/75-1978/79). Moreover,

---

<sup>1/</sup> Fiscal year starting April 1.

DOCUMENT OF  
INTERNATIONAL DEVELOPMENT ASSOCIATION

NOT FOR PUBLIC USE

FOR  
EXECUTIVE  
DIRECTORS'  
MEETING

For consideration on  
June 4, 1974

IDA/R74-38/1

FROM: The Secretary

May 29, 1974

INDONESIA: Bali Tourism Project

Attached is a copy of page 15 of the President's Report and Recommendation on a proposed credit to the Republic of Indonesia for the Bali tourism project. It has been reported that this page was missing in several copies of the report distributed on May 23 (IDA/R74-38).

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Directors and Department Heads, Bank and IFC



PART V - LEGAL INSTRUMENTS AND AUTHORITY

53. The draft Development Credit Agreement between the Republic of Indonesia and the Association, the recommendation of the Committee provided in Article V, Section 1(d) of the Articles of Agreement of the Association, and the text of a resolution approving the proposed credit are being circulated to the Executive Directors separately. The draft Development Credit Agreement conforms to the normal pattern for credits for tourism projects.

54. The special conditions of effectiveness (Section 6.01 and 6.02 Development Credit Agreement) are that:

- (i) The subsidiary financing agreement between the Government and the BTDC and the subsidiary loan agreement between the Government and PERUMTEL have been concluded and ratified;
- (ii) the Chief of BTDC's Technical Field Unit has been appointed and taken up his post; and
- (iii) the expert in tourism related land development and the hotel industry has been appointed and taken up his post with the BTDC.

55. I am satisfied that the proposed Development Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

56. I recommend that the Executive Directors approve the proposed Development Credit.

Robert S. McNamara  
President

Attachments

May 21, 1974



earlier problems of absorptive capacity are gradually being overcome. Thus, even though some of the expenditures budgeted for 1974/75 (consumers' subsidies) should only be temporary, it will probably not be long before the new resources are fully absorbed.

9. The Second Five Year Plan also provides significant new directions in emphasizing the social, regional and equity aspects of development. It is recognized that, while the Government's initial economic stabilization and rehabilitation programs, as well as a number of specific activities, have benefitted large segments of the population, the benefits of investments in the modern sector - much of it in or around Jakarta - have not been widely spread. Also, the continued high level of agricultural prices after the 1972 crop failure has ultimately benefitted the rural areas, but is severely reducing the real income of the urban poor. The Government's policy to keep the prices of basic commodities in check through subsidization of imports is providing relief, but it is the intention to gradually work out and implement a number of more basic socially oriented policies in the fields of employment, education, housing, etc.

10. In the short and medium run, Indonesia therefore faces the problems of efficient utilization of additional resources, and of the implementation of more socially-oriented policies. In this context, there will be a need for continued international technical assistance for project implementation and institution building. After the new resources have been absorbed, Indonesia will also still need financial assistance to finance further programs to alleviate its poverty. There is therefore a strong case for continued international assistance to Indonesia, even though the country may generate relatively modest budgetary and balance of payments surpluses for a limited period. In all probability, these surpluses will have been absorbed by the time disbursements from new projects become significant.

11. The soft average terms of foreign assistance provided in the context of the Inter-Governmental Group for Indonesia (IGGI), and the rescheduling of pre-1966 external debt obligations (under the 1970 Paris Club Agreement with the Western countries and Japan, and parallel arrangements with several Eastern European countries) have kept Indonesia's public debt service ratio relatively low. Service payments on re-scheduled and subsequently incurred public debt are estimated at \$320 million in 1974, will reach a peak of \$380 million in 1975, and are projected to decrease gradually thereafter. Comparing these amounts with the projected export level of over \$5 billion in 1974/75, and given the fact that Indonesia's external terms of trade will probably remain favorable, it appears that Indonesia now has the capacity to service significant additional debt.

12. The changes in Indonesian economic circumstances discussed above had become apparent by the time of the IGGI pledging meeting in May 1974. As a result, it was generally agreed that program aid was no longer necessary on economic grounds, although some donors will

continue such aid, at least for some time, for reasons of convenience. At the same time, the meeting endorsed the view that a considerable expansion in project aid was warranted to assist Indonesia in carrying out a more ambitious development strategy. Although some members were not in a position to make pledges, it seems likely that total aid commitments (including IBRD loans) in 1974/75 will exceed the aid request of \$850 million.

## PART II - BANK GROUP OPERATIONS IN INDONESIA

13. For the reasons indicated in Part I, Indonesia will continue to need substantial external financial and technical assistance to rehabilitate and improve infrastructure and expand production capabilities in agriculture, minerals, forestry and manufacturing. With the continued growth of the economy, the Government will also be able to devote increasing attention to development of effective programs designed to ensure that the benefits of development are distributed widely. Agricultural programs to increase the productivity of smallholder farmers, regional development in the outer islands, family planning and other social programs will therefore have an important place in the development strategy during the period of the Second Plan.

14. The work of both the headquarters and Resident Staff has been oriented toward these development objectives. The basic economic mission, scheduled for early this fall, will concentrate on questions of employment and income distribution.

15. All Bank Group lending so far has been on IDA terms. As a result of Indonesia's rapidly improving balance of payments and resource position, described in Part I of this report, Indonesia is now able to borrow on less concessional terms. The Bank has therefore informed the Government that all lending after FY74 will be provided on Bank terms. In addition to the Indonesian projects being presented to the Executive Directors at the same time as this project, one IDA credit is expected to be presented to the Executive Directors during the next month.

16. The Bank Group has in the past financed local currency costs under its projects in Indonesia. Such financing will continue to be necessary if the Bank Group is to increase assistance to the agriculture and social sectors, where projects frequently have a low foreign exchange component. In such cases, the Bank Group will therefore continue to provide limited amounts of local cost financing.

17. As of April 30, 1974, Indonesia has received 34 IDA credits amounting to US\$509.3 million. The Bank Group accounts for less than 4% of Indonesia's total outstanding public debt. By 1978 it is expected to account for less than 11% of total outstanding debt and less than 5% of Indonesia's annual debt service obligations. Annex II contains a summary statement of IDA credits and IFC investments as of April 30, 1974, and notes on the execution of on-going IDA projects.

18. In accordance with the priorities of Indonesia's Five-Year Plans, over 35% of IDA lending to date has been for agriculture. The Association has extended four credits to help rehabilitate and develop plantations in the Government estates sector. Other credits for agriculture include four to assist rehabilitation of irrigation systems and one each for a fisheries project, a seeds multiplication program, beef cattle development, smallholder rubber development, sugar industry rehabilitation and smallholder tea development. Industry is of growing importance to the Indonesian economy and the Association has assisted in four projects in this sector. It organized a consortium of lenders to finance a major expansion of the PUSRI Fertilizer plant, assisted in the reorganization and financing of the major state development bank (BAPINDO), provided financial assistance for Indonesia's first industrial estate project, and assisted in the establishment and financing of the Private Development Finance Company of Indonesia (PDFCI). Other priority sectors to which credits have been extended are power, transportation, telecommunications, education and population. In addition, four technical assistance credits have been made to assist the Government in preparing projects and formulating appropriate development policies. A fifth irrigation project is expected to be presented to the Executive Directors soon and projects in rural works, telecommunications, water supply and urban development are under preparation.

19. The first IDA credit to Indonesia was made in 1968, and about half of all credits have been made since June 1971. The program has increased rapidly from a relatively small base, and consequently the undisbursed portion of IDA credits is relatively large. Virtually every credit has been associated with extensive institutional reforms involving, inter alia, the creation of new project authorities, drafting of new charters and the enactment of new legislation, all of which has taken much time. A number of projects have experienced delays, particularly in the initial stages of implementation. However, project execution has improved sharply during the last year as organizational improvements have begun to take effect and Indonesian staff have become more familiar with Bank Group procedures. Given the status of projects at the beginning of calendar 1973, disbursements under Indonesian projects during 1973 were about the same as would have been expected on an IDA-wide basis for a program of the same size and composition. There are, nevertheless, still several projects, including the first agricultural estate project and the smallholder rubber project, which continue to suffer from management weakness and to require continued close attention from the Bank's Resident Staff.

PART III - THE TOURISM SECTOR

Tourism in Indonesia

20. Indonesia's lush tropical scenery and rich cultural heritage offer a wide variety of attractions to the international traveller. However, the development of tourism in Indonesia is quite recent as the number of new arrivals has expanded from only about 26,400 in 1967 to about 300,000 in 1973. This rapid growth in the number of visitors during the last seven years of more than 50% per annum is a result both of the increased business traffic generated by expanded economic activity and a growing number of vacation visitors. About 22% of foreign visitors are from Western European countries, 20% from the United States, 11% from Japan, 10% from Australia and most of the balance from the neighboring countries of Malaysia and Singapore. The contribution of tourism to Indonesia's foreign exchange earnings is still relatively small. In 1973, gross foreign exchange earned from tourism amounted to an estimated US\$50 million and net foreign exchange earnings to about US\$37 million (5% and 3% respectively of non-oil exports).

21. The Government first began promoting travel to Indonesia in 1967 and since then has actively supported the growth of tourism. In 1967, a national advisory board was created to assist in the formulation of national tourism policies, and a Directorate General of Tourism was established in 1969 in the Ministry of Communications to implement tourism policies. The Government also provides incentives designed to attract private hotel investors, including exemptions from import duties and a five-year corporate income tax holiday for projects in high priority areas. The Government has also supported a number of tourist-related technical assistance projects including the UNDP-financed Bali Master Plan, which provides the basis of the proposed project, and a UNDP-financed study of the long-term prospects for tourism in Indonesia. Indonesia also hosted the Pacific Area Travel Association (PATA) conference in March/April 1974, which should help the country's tourist marketing efforts.

22. The lack of suitable hotel accommodation has been the main constraint on the growth of tourism; the number of hotel rooms of international standard has until recently been limited to less than 3,000 in Jakarta, 450 in Bali and 100 in Jogjakarta. By late 1973, the situation began to ease somewhat as a result of the increase in hotel capacity, which has been underway since 1972 in preparation for the PATA conference. As a result of this expansion program, the number of rooms of international standard in Jakarta, Bali and Jogjakarta is expected to double by mid-1974.

23. The hotel industry provides direct employment to about 8,000 people. Both the Swiss Government and the UNDP/ILO are providing technical support for Government hotel training programs, but only the recently inaugurated Swiss-supported National Hotel Institute at Bandung has suitable quarters, equipment and full-time staff. The other public and private hotel training schools which have developed in recent years in Jakarta and Bali are poorly equipped and are staffed by inadequately

trained, part-time teachers. Improvement in training is needed to allow Indonesians to participate more effectively in the opportunities provided by a growing tourist industry.

#### Tourism in Bali

24. Bali's more than two million people are principally engaged in agriculture. The principal crop is rice, grown under irrigation, followed by such dry season crops as corn, potatoes and peanuts. There are also coconut and coffee plantations and some smallscale livestock production and fishing. The population density of Bali is among the highest in the world (377 persons/km) and the scope for additional agricultural production and employment is limited by the severe pressure of population on the land. Industry is still at relatively early stages of development and tourism therefore represents a principal means of expanding productive activity and employment in the future.

25. Bali's main tourist assets are the cultural and scenic attractions of the island. Balinese society, based on an ancient Hindu heritage and a traditional social structure, has a rich cultural tradition which is reflected in the profuse artistic expression and the colorful religious ceremonies of the local people. The natural tropical setting is varied with rugged volcanic mountains, lush rice terraces and sand beaches. Bali thus affords the foreign visitor a unique opportunity to relax in a beautiful tropical environment and to enjoy the cultural opportunities offered by the Balinese dances, music, festivals and religious ceremonies, ancient temples, sculpture and art.

26. With the construction of the Tuban airport near Denpasar in 1967 and its upgrading in 1971 to handle jet aircraft, Bali has become much more accessible to foreign visitors and the number of arrivals has been increasing at an average rate of 27% per annum over the last four years, reaching a level of nearly 100,000 in 1973. The lack of adequate first class hotel accommodation has been the major constraint on the growth of tourism in Bali. Hotels have frequently been overbooked and it has been very difficult to make advance "block" reservations which are essential for group tours. With the completion and expansion of several hotels now under construction, the number of first class rooms should increase from 450 in 1972 to about 1,000 in 1974, but additional hotel rooms will be necessary if accommodation is to expand sufficiently to meet potential tourist demand. Major hotels are concentrated along the beach areas at Sanur and Kuta-east and south-west of Denpasar, the provincial capital and main business center. Until recently, there has been no central planning of tourist development in Bali and tourism has expanded with little regard for the natural and human environment. In the absence of effective zoning and building controls, the Sanur and Kuta areas are becoming over-crowded; individual hotels have varying standards of construction and design and facilities for water supply and sewage are generally inadequate. Insufficient attention has been given to the improvement of the infrastructure needed to support a growing tourist industry. At present, all traffic between the airport and the expanding hotel zone in Sanur passes through Denpasar, adding to the considerable congestion in the town. Also, tourist traffic from the

resorts in Southern Bali to the most attractive scenic and cultural attractions north of Denpasar must pass through the city and then travel over a deteriorating network of roads and bridges which have become inadequate and unsafe with the increase in tourist and commercial traffic. If allowed to continue, the lack of effective planning and controls could contribute to a substantial deterioration in the environment and jeopardize not only future tourist development, but also the quality of life of the Balinese population.

27. With a view towards improving this unsatisfactory situation, the Government engaged consultants (SCETO) to carry out a UNDP-financed study, for which the Bank Group served as Executing Agency. The consultants prepared a tourism master plan for Bali which recommended that future tourist development be concentrated at Nusa Dua, located on the dry, sparsely populated Bukit peninsula at the southern tip of Bali. This land has few alternative productive uses, but is very attractive for tourism, as it has white sand beaches fringed with palm trees, a pleasant climate and a favorable location within 8 km of the Tuban airport. The Government accepted the recommendation of its consultants and requested the Bank Group to help prepare and finance a tourism project in accordance with the guidelines provided by the master plan.

28. The Government also recently established a Bali Tourism Development Board (BTDB), which is responsible for advising the provincial government on the implementation of the tourism master plan and coordinating the tourism activities of other government agencies, private hotel enterprises and local Balinese community organizations. The Governor of Bali is Chairman of the BTDB and the relevant government agencies are represented on the Board. A permanent secretariat to the BTDB has recently been established which would have sufficient staff to plan and coordinate tourist activities. On the basis of the tourism master plan, the provincial government has prepared zoning regulations which are expected to be enacted by decree of the Governor this year. The proposed project would provide BTDB with the services of a planning expert, who would advise on the effective implementation of zoning and building regulations, and the services of an advisor familiar with the socio-cultural environment of Bali and the impact of tourism, who would advise on the means to maximize the participation of the Balinese in the tourist industry and the benefits which they derive from its development. With this assistance, the BTDB would be able to plan and regulate more effectively the future development of tourism in Bali.

## PART IV - THE PROJECT

### Background

29. After completion in June 1971 of the UNDP-financed Bali tourism masterplan and feasibility study of development of Nusa Dua, Japanese consultants (Pacific Consultants), financed under the Third IDA Technical Assistance credit (275-IND), conducted additional detailed site development studies during 1972 and 1973. The project was appraised in June/July 1973 and negotiations were held in Washington in April 1974. The Government's negotiating team was led by Mr. Prajogo, Director General of Tourism. An appraisal report has been circulated to the Executive Directors separately and a credit and project summary is contained in Annex III.

### Project Description

30. The project consists of supporting infrastructure and facilities for the Nusa Dua estate, which will accommodate about 2,500 hotel rooms; a Denpasar by-pass road, an estate access road and improvement of eleven roads in Central Bali; a hotel training school; a 10 ha demonstration farm; and technical assistance to the Bali Tourism Development Corporation (the Nusa Dua estate corporation referred to hereafter as BTDC), the BTDB and the provincial Department of Agriculture.

31. A central amenity core and service center of the estate would consist of an information center, performance center, offices, fire and police stations, a bank and shops. The area would be landscaped from a project nursery with water provided from a separate irrigation scheme using untreated water from nearby wells. Hotels would be constructed by private investors on the estate in accordance with strict zoning standards designed to ensure that hotel construction is of high quality and compatible with the local environment. The height of all hotels would be limited to a maximum of 15 meters, approximately the height of the surrounding palm trees. Basic infrastructure, consisting of road paving, street lights, public water supply, sanitary and first aid facilities, would also be provided for the two villages of Benoa and Bualu adjacent to the Nusa Dua estate.

32. Under the project, an eight km, two-lane access road would be constructed from Tuban airport to the Nusa Dua estate. Within the resort area, an 11 km secondary road and street network would be constructed in order to facilitate access to common facilities and hotel sites. Water would be supplied from a new well field development nearby on the Bukit Peninsula and a treatment plant, storage tank and distribution system would be provided. Sewage would be discharged into oxidation ponds constructed on the shoreline of the inland bay between the resort area and the village of Benoa. The solid waste disposal system would provide for the collection, transportation and disposal of solid wastes in sanitary landfill in an isolated area on the shore between the estate and the airport. The electrical installation provided under the project would consist of a 20 KV transformer station and a standby generator for BTDC and of street lighting for roads, streets and public areas within the resort area. The extension of the existing power system required

to bring power to Nusa Dua from Denpasar, consisting of a 5 MW extension to the 30 MW generating plant near Denpasar, a 70 KV transmission line, switching substations and an underground distribution network on the estate, would be undertaken separately by PLN. Financial assistance has been requested from the United Kingdom for the extension of the power system. A new telephone exchange capacity of 600 lines would be erected in the resort area and would be linked to the existing telephone exchange at Denpasar. In addition, 10 telex extensions would be provided.

33. Outside of the estate, a two-lane road from Tuban Airport to the town of Tohpati, by-passing Denpasar, would be constructed to permit visitors from Nusa Dua, Sanur and Kuta to visit major cultural attractions north of Denpasar without passing through the city. This would greatly ease the growing traffic congestion in Denpasar. The project would also rehabilitate and upgrade eleven roads north of Denpasar totalling about 200 km. These improvements in road surfaces and alignments and bridge construction would ensure better access to tourism sites, reduce significant traffic hazards and facilitate transport of agriculture production in major rice producing areas.

34. The project includes the construction and equipping of a training school to be operated by the BTDC. ILO experts, financed under the UNDP vocational project for hotel and tourism personnel, are assisting the Government in finalizing plans including curricula, staffing, criteria for student selection and a schedule of accommodation and equipment for the school. Initially, the new training center would provide vocational skills to 250-300 basic-level trainees per year and about 100 medium level trainees.

35. To help local farmers grow food products suitable for internationally oriented hotels and restaurants and reduce reliance on imported commodities, the project would provide for a 10 ha demonstration farm. With the help of an internationally recruited agricultural expert, the farm would demonstrate the production of vegetables and vegetable grading, produce quality seed for dissemination to local farmers and help the farmers in contract negotiations with hotels and restaurants. The project would also include technical assistance for improving poultry and egg production, and a small amount of agricultural credit from Bank Rakyat Indonesia.

#### Organization

36. The BTDC, a newly established limited liability company in which the Indonesian Government is the sole shareholder, would be responsible for supervising the construction and for operating the Nusa Dua estate. Overall supervision of the company would be provided by a Board of Supervisors (Dewan Komisaris) consisting of representatives of the main Government Departments concerned, and chaired by the Director-General of Tourism. Management of the estate would be the responsibility of a Board of Directors (Dewan Direksi). The Board would be headed by a President Director, who would be assisted by a Director of Technical Operations and a Director of Finance. A field unit would be established under the Director of Technical Operations, which would be headed by a Chief Engineer who would have responsibility for technical aspects of construction. Qualified senior officials have been appointed to these

boards and any future changes in the President Director, Technical Director, Financial Director, and Chief of the field unit would be made after consultation with the Association. As tourism estate management is a new activity in Indonesia, BTDC would require the assistance of internationally recruited advisors during the early years of the project. The President Director would be assisted by a tourist expert to advise on tourism estate management and lease policies and by a financial expert to advise on general financial policies and to assist in the analysis of investment proposals of hotels and other commercial developers. An engineering expert would advise the Director of Technical Operations on the technical aspects of construction of the estate. These advisors would also be responsible for training Indonesian staff so that they can operate the estate in later years without reliance on outside technical assistance.

37. Arrangements would also be made with the relevant Government agencies for carrying out several components of the project. Under these arrangements, the Ministry of Public Works would be responsible for the construction of roads outside the estate; the national telecommunications agency (PERUMTEL) for the telecommunication component; the national power company (PLN) for the power distribution system to the estate; and the Department of Agriculture for the agriculture component. (See Section 3.01 of the Development Credit Agreement). The BTDC would be responsible for arranging for the construction of other project components by private contractors.

#### Project Cost and Financing

38. The total cost of the project is estimated at US\$36.1 million. The proposed IDA credit of US\$16.0 million would finance about 88% of the foreign exchange component and about 44% of total project cost. The credit would finance retroactively about US\$350,000 of costs incurred since July, 1973 for on-site water investigation studies, final engineering design and technical assistance provided to BTDC. Cost estimates include price contingencies of about 31% and physical contingencies of about 11% of total baseline costs.

39. About US\$9.8 million of the IDA credit would be relent by the Government to BTDC under the terms of a subsidiary financing agreement, satisfactory to the Association, at an interest rate of 12% per annum and with a repayment term of 30 years and payment of principal and accrued interest to commence after six years of grace. About US\$800,000 of the IDA credit for the telecommunications component would be relent to PERUMTEL under the terms of a subsidiary loan agreement, acceptable to the Association, at an interest rate of 12% per annum and with a repayment term of 20 years including a five-year grace period. The Government would bear the foreign exchange risk under these relending operations. The Government would make available as budgetary allocations about US\$5.1 million of the IDA credit to the Ministry of Public Works for the roads outside the estate, and about US\$300,000 for technical assistance to the Bali Provincial Government. The Government would make an equity subscription in BTDC sufficient to cover the balance of the cost of components of the project carried out by the BTDC, including any cost overruns. The Government would finance the balance of the costs of other components of the project from budgetary allocations.

### Procurement and Disbursement

40. Major equipment and civil works contracts would be awarded on the basis of international competitive bidding in accordance with Bank Group guidelines. With respect to contracts for the eleven roads to be improved north of Denpasar, contracts would be tendered either individually or combined into bidding groups, at the bidder's option, in order to permit local contractors to tender for works of a size within their capabilities and to attract foreign bidders. Contracts for small civil works of less than US\$100,000 for the construction of some buildings, the preparation of the solid waste disposal site, and the improvement of the villages of Bualu and Benoa would be awarded after local competitive bidding. These small and scattered contracts, which would be unsuitable for international competitive bidding, are not expected to exceed a total amount of US\$500,000. Furniture contracts (totaling US\$250,000) would also be awarded after local competitive bidding, as the contracts would be small and local firms produce low cost furniture of adequate quality. Telecommunications equipment procured under the project (US\$500,000) would have to be compatible with that presently used in Bali, and it is proposed that PERUMTEL negotiate this purchase with manufacturers of this equipment.

41. For purposes of bid comparison where international competitive bidding is required, qualified local manufacturers would receive a preference of 15% or the level of custom duties, whichever is less. For civil works contracts, local contractors would receive a preference of 7 1/2%.

42. The IDA credit would be disbursed for 100% of the CIF cost of directly imported equipment, 95% of the ex-factory cost of locally produced equipment, and 70% of the cost of off-the-shelf items. It would also be disbursed to meet 50% of the cost of civil works and 100% of the foreign exchange costs of professional services and technical assistance.

### Market Demand

43. While the prospects for future growth of tourism traffic to Southeast Asia are somewhat uncertain due to the potential impact of the energy crisis on air fares, exchange rates and economic growth in tourism generating countries, there are several factors which indicate that tourist traffic to Bali is likely to continue to increase. Bali presently accounts for only 5% of total tourist traffic visiting the major Southeast Asian tourist areas. The growth in the number of group tours to Bali has primarily been constrained by the lack of adequate hotel accommodations. Once additional hotels have been constructed, Bali will be included in an increasing number of group tours, because the island will complement rather than compete with other tourist destinations in the region. Secondly, the number of Australians and other vacationists from neighbouring countries has been growing rapidly in recent years and the increasing availability of special air fare rates under Group Inclusive Tour sales and charter flights should contribute to an expansion in the flow of such tourists. Thirdly, the number of business travellers to Indonesia, mainly Jakarta, is likely to continue to increase with the continued attractiveness of Indonesia for foreign investment and the growing importance of its oil and gas resources. Many business visitors are likely to spend a few extra days in Bali during their visit.

44. After taking into account the potential impact of the energy crisis, the appraisal report estimates that the number of foreign visitors to Bali will increase from 100,000 in 1973 to 287,000 in 1978 and to 540,000 in 1983, when all 2,500 hotel rooms in Nusa Dua will have been completed. This estimate is based on the conservative assumption that the annual growth in tourist traffic to Bali during this period will be 19%, as compared with 27% per year during the 1969-73 period when arrivals were constrained by the lack of suitable accommodation.

45. An additional factor which could affect the rate of tourist development on Bali is the Government's air access policy. In connection with its bi-lateral air negotiations, the Government is seeking a substantial share of the air traffic to Bali for the national airline, Garuda. As part of this effort, the Government has informed foreign airlines serving Bali that they will not be permitted to use Bali as a terminating point in Indonesia and that all flights terminating in Indonesia would have to terminate in Jakarta. Airlines serving Bali on through flights (such as Singapore/Bali/Sydney) and charter flights would not be affected by these regulations. Government authorities are currently reviewing these questions in order to find solutions which would permit Indonesia to take advantage of its promising tourist market and to safeguard the interest of the national airline.

46. In order to ensure the priority development of the Nusa Dua Estate and to avoid the possibility of over-building in Bali, the Government has limited the number of international class hotel rooms outside the Bukit peninsula to 1,600 and has agreed that until 1985 this limit would not be raised without the agreement of the Association. (Section 4.05 Development Credit Agreement). With the construction of the 2,500 rooms at Nusa Dua, the total number of rooms of international standard in Bali in 1983 will be about 4,100. These rooms would have high occupancy rates under any of alternative assumptions made in the appraisal report regarding the future development of tourist traffic. The strong interest of a number of private groups in investing at Nusa Dua provides additional confirmation that the prospects for tourism development are highly favorable.

#### Financial Return of the BTDC

47. BTDC would lease hotel sites to private investors under contracts which would provide for lease charges based on the gross revenue of hotels and service charges to cover the expenses of operating and maintaining common estate facilities. Such charges are expected to be set at a level which would allow hotel investors to earn a reasonable return on their investment and allow BTDC to recover the capital and operating costs of its non-utility assets and to earn an annual rate of return on such assets at full operation of about 8%. Before entering into lease agreements, BTDC would furnish to the Association copies of its model lease and lease sale agreements and a detailed statement of lease policies and would enter into such agreements only in accordance with lease policies agreed with the Association. BTDC would also charge hotels for water supply, sewerage and waste disposal at levels which would allow it to earn an overall rate of return on gross fixed utility assets of 11% after full development (Section 4.07 Development Credit Agreement). To safeguard further its financial position, BTDC would until 1985 not incur any long-term debt other than that required for the financing of the project without the prior approval of the Association (Section 4.06 Development Credit Agreement).

### Benefits and Justification

48. The economic rate of return of the total resort area investment would be 19% over the 25-year economic life of the project. In estimating the gross benefits from the proposed tourism investment, the appraisal report takes account of the total expenditures of tourists who stay in the estate hotels, but not the revenues from international travel accruing to Indonesian airlines as a result of the project. The relevant costs include the capital and operating costs of the project facilities as well as the capital and operating costs of hotels and other superstructure in the project area. Sensitivity analyses indicate that the project would be economically justified after allowing for a range of possible unfavorable variations in investment cost, hotel profitability and timing of construction. Under the assumptions made in the appraisal report, the rate of return on Indonesia's public and private investment on the estate (including that financed by IDA) would be 23%. Separate analyses for the Denpasar by-pass road and the multi-purpose roads north of Denpasar indicate that the economic rates of return of these investments would be 15 and 20% respectively.

49. The proposed project is expected to increase Indonesia's gross foreign exchange earnings by US\$48 million in 1985 when the estate and hotels are in full operation. After taking into account the import component of operating costs (estimated at 40% currently for hotels in Bali), debt service on foreign hotel loans and the IDA credit and dividends paid to foreign investors, the net annual foreign exchange earnings generated by the project are expected to amount to about US\$36 million by 1985.

50. Assuming a typical ratio of 2.0 employees per room in the estate hotels and taking into account the additional employment created in restaurants, shops and other facilities on the estate, the project is expected to create direct employment for about 6,000 people. If the indirect employment generated outside the estate by the increase in tourism under the project is taken into account, total new jobs created would amount to nearly 10,000.

51. In addition to the net revenues generated by the BTDC, the Indonesian Government is expected to collect annual corporate income taxes from hotels amounting to US\$1.5 million by 1985 and over US\$2.0 million by 1990. Municipal governments are expected to receive annual sales tax receipts from project hotels and restaurants amounting to about US\$2.8 million by 1985.

52. In addition to these quantifiable benefits, the proposed project would make a major contribution in directing the development of the tourist industry in a way which allows for the realization of Bali's considerable potential for tourist development while at the same time minimizing the possible harmful effects on the local culture. By concentrating future development at the relatively isolated site of Nusa Dua, tourism can expand without encroaching on land with alternative uses and with a minimum effect on the life of most Balinese. Moreover, the concentration of hotel development in a defined area as opposed to haphazard decisions of individual investors, would simplify planning and zoning decisions and reduce the cost of off-site and on-site infrastructure. The proposed strengthening of the BTDB would also help to ensure effective Government control of tourism development. Finally, the hotel training school and the agricultural component should help the local population to participate in the benefits of a growing tourism industry.

COUNTRY DATA - INDONESIA

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

POPULATION  
119 million (mid-1971)

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

SOCIAL INDICATORS

	Indonesia		Reference Countries		
	1960	1970	India 1970	Philippines 1970	Nigeria 1970
<b>GDP PER CAPITA US\$ (ATLAS BASIS) /1</b>	..	80	110	210	120
<b>DEMOGRAPHIC</b>					
Crude birth rate (per thousand)	..	48	38 /b	42	50
Crude death rate (per thousand)	21	19	16 /b	11	25
Infant mortality rate (per thousand live births)	125	125 /a	120-140 /b	59	150-175
Life expectancy at birth (years)	48	..	49	56 /c	37
Gross reproduction rate /2	..	3.2	2.9	2.9	3.3
Population growth rate /3	2.0	2.0	2.3	3.0	2.5
Population growth rate - urban	..	5	4	5 /d	5
<b>Age structure (percent)</b>					
0-14	44	44	42	43	45
15-64	54	54	55	53	53
65 and over	2	2	3	4	2
Dependency ratio /4	0.9	0.9	1.2 /e,f	1.3 /f,g	0.9
<b>Urban population as percent of total</b>					
Family planning: No. of acceptors cumulative (thous.)	16	17	20	35 /d	23
No. of users (% of married women)	..	175	..	409	..
..	..	..	..	8	..
<b>EMPLOYMENT</b>					
Total labor force (thousands)	34,600 /h	40,100	221,000 /f,i	13,220 /f	24,050
Percentage employed in agriculture	72	63	71 /f	56 /f	70
Percentage unemployed	5	2	..	7 /f	..
<b>INCOME DISTRIBUTION</b>					
Percent of national income received by highest 5%	..	..	22 /p	30 /j,p	..
Percent of national income received by highest 20%	..	..	48 /p	55 /j,p	..
Percent of national income received by lowest 20%	..	..	8 /p	4 /j,p	..
Percent of national income received by lowest 40%	..	..	18 /p	12 /j,p	..
<b>DISTRIBUTION OF LAND OWNERSHIP</b>					
% owned by top 10% of owners	..	..	..	..	..
% owned by smallest 10% of owners	..	..	..	..	..
<b>HEALTH AND NUTRITION</b>					
Population per physician	35,000 /h	26,000	4,000 /b	2,820	24,030
Population per nursing person	..	5,740	4,150 /k	2,050	2,530
Population per hospital bed	1,410 /h	1,200	1,830 /l	910	1,870
<b>Per capita calorie supply as % of requirements /5</b>					
Per capita protein supply, total (grams per day) /6	..	76 /m	84 /n	87 /n	90
Of which, animal and pulse	..	38 /m	48 /n	53 /n	59
Death rate 1-4 years /7	..	13 /m	15 /n	22 /n	14
..	..	..	..	7 /n	..
<b>EDUCATION</b>					
Adjusted /8 primary school enrollment ratio	60	77	79 /o	119 /o	36
Adjusted /8 secondary school enrollment ratio	6	11	28 /o	49	3
Years of schooling provided, first and second level	12	12	12	10	14
Vocational enrollment as % of sec. school enrollment	..	21	6 /p	10 /q	10 /r
Adult literacy rate %	39	56	36 /r,s	72	..
<b>HOUSING</b>					
Average No. of persons per room (urban)	..	..	..	..	3 /t
Percent of occupied units without piped water	..	..	..	77 /q	..
Access to electricity (as % of total population)	..	..	..	20	8
Percent of total population connected to electricity	..	..	..	10 /u	..
<b>CONSUMPTION</b>					
Radio receivers per 1000 population	13	114	21	45 /u	23
Passenger cars per 1000 population	1.1	2.0	1.1	8	1.2
Electric power consumption (kwh p.c.)	16 /v	18	100 /n	229	19
Newsprint consumption p.c. kg per year	0.2	0.2	0.3	1.8 /v,w	0.1

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

/1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1970 World Bank Atlas.

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

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

/4 Ratio of under-15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

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

account of environmental temperature, body weights, and distribution by age and sex of national populations.

/6 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

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

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

/a 1970; /h 1971, estimate; /c 1965/70; /d For the definition of urban see UN Demographic Yearbook, 1971, p. 156;  
/e Ratio of population under 15 and 65 and over to labor force in age group 15-59; /f 1971; /g Ratio of population under 15 and 65 and over to total labor force; /h 1964; /i AID estimate of labor force in age group 15-59. IBRD report gives a figure of 180.4 million based on the 1971 population census. The difference is due to changes in the definition of a worker. In the 1971 census, persons were classified only on the basis of their main activity; this led to the exclusion of several categories such as housewives; /j Households; /k 1966; /l 1968-69; /m 1964/66; /n 1969;  
/o Includes overage students; /p 1965; /q 1967; /r Data covers 9 out of 12 states; /s Population of 10 years and over based on 1% sample data of 1971; /t Lagos only; /u 1963; /v Imports only.

ECONOMIC INDICATORS

	<u>GROSS NATIONAL PRODUCT IN 1972</u>		<u>ANNUAL RATE OF GROWTH (% constant prices)</u>		
	US\$ Mln.	%	1960 -65	1965 -70	1972
GNP at Market Prices	10735	100.0	1.9	4.9	7.0
Gross Domestic Investment	1843	17.2	3.3	11.5	19.8
Gross National Saving	1361	12.7	5.8	5.1	7.7
Current Account Balance	482	4.5	.	.	.
Exports of Goods, NFS	1757	16.4	3.7	7.8	11.5
Imports of Goods, NFS	1875	17.5	0.2	10.9	15.0

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1971

	Value Added		Labor Force <sup>1/</sup>		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	4188	43.6	24.9	62.3	168	70.0
Industry	2267	23.6	3.8	9.5	597	248.8
Services	3151	32.8	10.9	27.2	289	120.4
Unallocated	.	.	0.4	1.0	.	.
Total/Average	9606	100.0	40.0	100.0	240	100.0

GOVERNMENT FINANCE

	General Government			Central Government		
	(Mln.)	% of GDP		(Bln. Rps.)	% of GDP	
	197	197	196 -7	1972/3	1972	1971
Current Receipts	..			585	12.9	10.8
Current Expenditure	..			444	9.8	9.3
Current Surplus	..			141	3.1	1.5
Capital Expenditures	..			291	6.4	4.9
External Assistance (net)	..			150	3.3	3.5

<u>MONEY, CREDIT and PRICES</u>	1968	1969	1970	1971	1972	1973
		(Billion rps. outstanding end period)				
Money and Quasi Money	126	230	315	432	690	987
Bank credit to Public Sector	45	60	57	78	19	33
Bank Credit to Private Sector	90	172	306	442	601	941

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	6.0	8.5	9.4	11.4	15.2	..
General Price Index (Sept. 1966 = 100)	463	545	612	638	680	891
Annual percentage changes in:						
General Price Index	124.8	17.7	12.3	4.2	6.6	31.0
Bank credit to Public Sector	80.0	33.3	- 5.0	36.8	-75.6	73.7
Bank credit to Private Sector	190.3	91.1	77.9	44.4	36.0	56.6

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

<sup>1/</sup> Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

.. not available  
. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	<u>1971</u>	<u>1972</u>	<u>1973</u>
	(Millions US \$)		
Exports of Goods, NFS:	1307	1757	2957
Imports of Goods, NFS	1519	1875	3114
Resource Gap (deficit = -)	- 212	- 118	- 157
Interest Payments (net)	- 29	- 46	- 42
Workers' Remittances	-	-	-
Other Factor Payments (net)	- 172	- 318	- 543
Net Transfers	-	-	-
Balance on Current Account	- 413	- 482	- 742
Direct Foreign Investment	139	258	290
Net MLT Borrowing+Capital Grants			
Disbursements	405	447	626
Amortization	- 83	- 58	- 82
Subtotal	322	389	544
Capital Grants	..	..	..
Other Capital (net)	22	169	209
Other items n.e.i	-	98	24
Increase in Reserves (+)	70	432	325
Gross Reserves (end year)	187	574	806
Net Reserves (end year)	26	458	783
Fuel and Related Materials			
Imports	4	4	5
of which: Petroleum	2	2	2
Exports	515	877	1348
of which: Petroleum	515	877	1348

RATE OF EXCHANGE

<u>Through July 1971</u>	<u>Since August 1971</u>
US \$ 1.00 = Rp. 375	US \$ 1.00 = Rp. 415
Rp. 1.00 = US \$0.603	Rp. 1.00 = US \$0.002

MERCHANDISE EXPORTS (AVERAGE 1971-73)

	<u>US \$ Mln</u>	<u>%</u>
Oil	913	45.5
Rubber	271	13.5
Timber	328	16.3
Tin	72	3.6
Coffee	68	3.4
All other commodities	355	17.7
Total	2007	100.0

EXTERNAL DEBT, DECEMBER 31, 1972

	<u>US \$ Mln</u>
Public Debt, incl. guaranteed	401.3
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..
<u>DEBT SERVICE RATIO for 1973<sup>1/</sup></u>	<u>%</u>
Public Debt, incl. guaranteed	4.2
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

IBRD/IDA LENDING, (March 31, 1974)(Million US \$):

	<u>IBRD</u>	<u>IDA</u>
Outstanding & Disbursed		143.5
Undisbursed		365.8
Outstanding incl. Undisbursed		509.3

<sup>1/</sup> Ratio of Debt Service to Exports of Goods and Non-Factor Services.

.. not available

. not applicable

May 8, 1974



THE STATUS OF BANK GROUP OPERATIONS IN INDONESIA

## A. STATEMENT OF IDA CREDITS (as of April 30, 1974)

Credit Number	Fiscal Year	Purpose	US\$ Million	
			Amount	Undisbursed
127	1969	Irrigation Rehabilitation	5.0	.2
135	1969	Technical Assistance	2.0	.0
154	1969	Highways	28.0	1.0
155	1969	Agricultural Estates	16.0	2.1
165	1970	Electricity Distribution	15.0	4.2
193	1970	PUSRI Fertilizer Expansion	35.0	7.3
194	1970	Agricultural Estates II	17.0	8.8
195	1970	Irrigation Rehabilitation II	18.5	8.9
210	1971	Telecommunications Expansion	12.8	6.4
211	1971	Fisheries	3.5	3.2
216	1971	Technical Assistance II	4.0	.7
219	1971	Education	4.6	4.5
220	1971	Irrigation Rehabilitation III	14.5	7.4
246	1971	Seeds	7.5	6.1
259	1971	Tea	15.0	10.1
260	1971	Highways II	34.0	26.4
275	1972	Technical Assistance III	4.0	2.9
288	1972	Education II	6.3	6.0
289	1972	Irrigation Rehabilitation IV	12.5	7.9
300	1972	Population	13.2	12.3
310	1972	Development Finance - BAPINDO	10.0	8.6
318	1972	Inter-Island Fleet Rehabilitation	8.5	6.5
319	1972	Agricultural Estates IV	11.0	10.3
334	1972	Electricity Distribution II	40.0	38.1
355	1973	Beef Cattle Development	3.6	3.5
358	1973	Smallholder Development	5.0	4.9
387	1973	Third Education	13.5	13.5
388	1973	Third Highway	14.0	13.6
399	1973	West Java Thermal Power	46.0	46.0
400	1973	Smallholder & Private Estate Tea	7.8	7.8
405	1973	Sugar Industry Rehabilitation	50.0	50.0
428	1974	Pulo Gadung Industrial Estate	16.5	16.5
436	1974	Development Finance - PDFCI	10.0	10.0
451	1974	<b>Technical Assistance IV</b>	<b>5.0</b>	<b>5.0</b>
Total now held by IDA <sup>a/</sup>			509.3	360.7

<sup>a/</sup> Prior to exchange rate adjustments

## B. STATEMENT OF IFC INVESTMENTS (as of April 30, 1974)

Fiscal Year	Obligor	Type of Business	US\$ Million		
			Loan	Equity	Total
1971	F.T. Semen Cibinong	Cement	10.6	2.5	13.1
1971	F.T. Unitex	Textiles	2.5	0.8	3.3
1971	F.T. Primatexco Indonesia	Textiles	2.0	0.5	2.5
1971	F.T. Kabel Indonesia	Cables	2.8	0.4	3.2
1972	F.T. Dralon	Textiles	4.5	1.5	6.0

<u>Fiscal</u> <u>Year</u>	<u>Obligor</u>	<u>Type of</u> <u>Business</u>	<u>US\$ Million</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1973	P.T. Jakarta Int. Hotel	Tourism	11.0	-	11.0
1973	P.T. Semen Cibinong	Cement	5.4	0.7	6.1
1973	P.T. Primatexco Indonesia	Textiles	2.0	0.3	2.3
1973	P.T. Monsanto Pan	Electronic pdts.	0.9	-	0.9
1974	P.T. PDFCI	Devp. Fin. Co.	-	0.5	0.5
1974	P.T. <del>Kamaltex</del>	Textiles	2.4	0.6	3.8
		Total	44.1	7.8	51.9
		Less sold or repaid	19.3	1.4	20.7
		Total now held	24.8	6.4	31.2
		Undisbursed (including participants' portion)	8.0	1.8	9.8

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

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

This project includes the supply of earth-moving equipment and machinery to augment hand labor in rehabilitation work on three irrigation systems (in Java) and the construction of a fourth (in South Sumatra). All the equipment supplied under the credit is being well utilized and disbursements are 98% of appraisal timetable. Final completion of the project is expected to be delayed by about two years in order to complete much additional needed drainage work, the financing of which was not provided for under the credit. These additional costs will be met by the Government. The revised economic rate of return on the project, which was calculated at 50% at appraisal, is now expected to be about 25%. The closing date has been postponed to December 31, 1975.

Cr. No. 154 Highways; US\$28 Million Credit of June 20, 1969;  
Closing Date: December 31, 1974

The project is now progressing satisfactorily. The closing date has been postponed by one year to December 31, 1974.

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

This credit is for the rehabilitation of two Government owned estate groups in North Sumatra. The credit became effective six months after signature, the delay resulting from unforeseen difficulties in the appointment of management, advisors and visiting inspectors. Delays in development occurred as oil palm planting material in Indonesia was found to be genetically unsuited and, an unforeseen sharp fall in rubber prices seriously restricted the availability of self-generated funds. With recent improvements in management and much higher international prices for rubber the financial situation of the PNP V is expected to improve.

Now that field and factory standards have been raised to a good technical level the management has been advised to concentrate on cost control in order to prepare for the time when produce prices are less attractive than they are today. The combined efforts of the management, consultants and IDA supervision missions are beginning to yield good results.

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

This project is progressing satisfactorily. The closing date has been postponed by 18 months to June 30, 1975.

---

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

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

The project has progressed satisfactorily after a new time schedule was agreed to allow for time required to meet all conditions of effectiveness and the procurement requirements of all co-lenders. The general contractor now is expected to complete the plant by early July 1974 about one-and-one-half months ahead of the revised schedule. The construction and installation of a natural gas gathering system and a 65 mile transmission line has also been delayed but the plant is now receiving gas for testing and the gathering system is expected to be completed two months ahead of startup.

Cost for the fertilizer plant has increased by about 17% due to currency revaluations and changes made as detailed design progressed and the true composition of the gas became known. The gas system has been enlarged to meet the increased need of the fertilizer complex and to supply a greatly increased usage by Pertamina's refineries and by power plants.

Latest cost estimates show an increase of about 130% against a system capacity increase of 104%. Current estimates indicate a foreign exchange cost over-run of nearly \$30 million compared to the appraisal report estimates. AID, OECF and IDA are contributing \$4 million, \$3.7 million and \$5 million respectively to help finance the foreign exchange cost over-run. The Government will cover the balance required to complete the project.

Despite the capital cost increases the project has become more remunerative. Given the substantially lower capital cost compared to estimates for similar projects presently under consideration, and the presently expected long-range international prices for Urea, the economic rate of return, calculated at 14% at the time of appraisal, should now be in excess of 30%.

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

This project was for the rehabilitation of two Government-owned estate groups in North Sumatra. The credit became effective eight months after signature, the delay resulting from unforeseen difficulties in the appointment of management advisors and visiting inspectors. Delays in development occurred as oil palm planting material in Indonesia was found to be genetically unsuitable, and an unforeseen sharp fall in rubber prices seriously restricted the availability of self-generated funds. However, during 1973 a record 3,200 ha of oil palm were planted on PNP VI and the program will be virtually on target. The 1973 rubber program was reduced following the advice of the last Supervision Mission as PNP IV was over-extended; if the high standards of replanting now being achieved can be maintained, it should be possible to increase the size of future programs again.

Management has improved in the field and factory and reasonable standards are being maintained. More emphasis is required on cost control and management has agreed to take the necessary action. Solid progress is being achieved and PNP VI's financial situation has been greatly helped by the present higher producer prices. PNP IV has also made marked progress during 1973 and is in a satisfactory financial position.

Cr. No. 195 Irrigation Rehabilitation II; US\$18.5 Million Credit of June 15, 1970; Closing Date: November 30, 1974

The project includes rehabilitation and drainage works over 186,000 ha. After a slow start, due to problems with preparation of tender documents and difficulties in obtaining acceptable bids, work is now proceeding somewhat better. Problems of quality and progress still exist, but, the consultants are tackling these vigorously, and this situation is improving. Estimated costs remain within the overall appraisal estimate, but the project will be one year behind appraisal schedule.

Cr. No. 210 Telecommunications; US\$12.8 Million Credit of July 13, 1970; Closing Date: June 30, 1974

After a slow start, due to procurement difficulties, orders for all equipment except the tropospheric scatter system have now been placed. The management consultants have completed their work but have been retained to implement the recommendations being discussed between the Government and the Association to work out appropriate measures. The Government is requesting reallocation of the proceeds of the credit and postponement of the closing date to complete disbursements.

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

After a slow start this project is now progressing satisfactorily. Project management satisfactory to the Association has now been appointed; contracts with engineering and management consultants have been concluded and the consultants have begun work and the contract for the shore facilities has been awarded.

Cr. No. 216 Technical Assistance II; US\$4.0 Million Credit of September 15, 1970; Closing Date: December 31, 1974

This project is progressing satisfactorily, but it has been necessary to postpone the closing date by one year to complete disbursements for on-going studies.

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

The project is about 12 months behind schedule due to delay in the appointment of the architect but is now progressing satisfactorily. Four out of five contracts for civil works have been approved by the Government and the Association, as also have equipment lists. The leader of the team of overseas specialists has arrived and is assisting the training of the first group of technical teachers for the centers. While disbursements were initially slower than expected, it is likely that construction of the five centers will be completed in less time than originally estimated and the final implementation would thus be on schedule.

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

This project covers 202,000 ha and includes rehabilitation and re-introduction of an O & M organization in three irrigation systems, two in Java and one in South Sulawesi. Construction remains about two years behind schedule. The problems with preparation of contract documents, which have caused this delay, have been overcome and, while no further delays are expected, it is unlikely that the time lost could be regained. There has been some increase in overall project costs, and a review is being carried out to determine the effect of the dollar devaluation on civil works and equipment contracts yet to be awarded. Disbursements are improving to about 52% of the level estimated at appraisal. Sensitivity tests run at the time of appraisal showed that a two year delay and 15% cost overrun would reduce the economic rate of return from 25% to 21%.

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

Project implementation is behind schedule due to initial delays in organization, management and effective procurement. These problems are being overcome but, because of procurement delays, inflation, currency revaluation and design changes in the seed processing plant, a 20% cost increase for the original project proposal became likely. However, recent studies indicate that the market size for rice seed may be only about half the original production target. Therefore, the latest Supervision Mission has recommended reduction of the seed production target from 22,000 tons to 12,000 tons per annum in 1977, by which time the need for further development of the seed industry would have been reviewed. The possibility of such a reduction in project output was foreseen at the time of appraisal and provided for in the Credit Agreement. Therefore, two subsidiary seed processing centers will not be constructed and the funds now remaining in the credit will be adequate to complete the project. The expected economic benefits of the project remain substantial with a rate of return of 59%, not including the research and seed certification components whose benefits are not easily quantifiable.

Cr. No. 259 Tea; US\$15 Million Credit of June 24, 1971;  
Closing Date: June 30, 1978

This credit is for the rehabilitation for two groups of Government-owned tea estates in West Java. Despite management weaknesses in cost control and efficiency, progress to date is satisfactory and relationships between management and consultants are good. Recently revised cost estimates for factory rehabilitation and expansion are substantially above appraisal estimates and project consultants have been asked to review them.

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

This project is in Sumatra and consists of construction with supervision of about 200 km. of highway, detailed engineering of further highway sections and a regional development study. The project is about six months behind schedule, but the construction contracts have all been awarded and no further delays are expected.

Cr. No. 275 Technical Assistance III; US\$4 Million Credit of  
December 29, 1971; Closing Date: December 31, 1975

Progress on this project is satisfactory, but it has been necessary to postpone the closing date to complete disbursements for on-going studies.

Cr. No. 288 Second Education; US\$12.5 Million Credit of  
March 9, 1972; Closing Date: December 31, 1976

Project implementation has been slow due to delays in concluding a contract with consultant architects and in recruiting technical assistance. However, the architectural contract has now been signed and the project unit has decided to recruit technical assistance through a FAO Fund-in-Trust arrangement. Project implementation is now progressing satisfactorily.

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

The project is located in East Java and consists of rehabilitation of the irrigation system and the re-establishment of O & M in five non-contiguous areas totalling 229,000 ha, known as Pekalen-Sampean. It also provides for the employment of consultants to assist in the execution of Pekalen-Sampean and for feasibility studies of further irrigation rehabilitation projects. Civil works and equipment purchase for the main project, Pekalen-Sampean, are just beginning and are on schedule. Consultants for the various studies are at work with their counterparts. Groundwater investigations will be delayed due to procurement difficulties. The rehabilitation and storage feasibility studies are on schedule. Disbursements are on schedule.

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

Progress under the project is currently being hampered by organizational weakness and delays in obtaining necessary local currency funds. The procurement of vehicles has also been delayed due to Government ban on importing fully built-up cars. These matters are currently being discussed with the Government.

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

This credit is expected to be fully committed by mid-1974. Disbursements are rising quickly.

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

Progress on this project is satisfactory but the weak financial position of PELNI, the Government-owned shipping company and main sub-borrower, has caused concern. An audit of PELNI has been completed and in consultation with the Association and BAPINDO, the Government is taking appropriate action to strengthen PELNI's financial position.

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

This credit is for the rehabilitation and development of 8,600 ha rubber and 9,400 ha oil palms, including factories, on a group of Government-owned estates in South Sumatra. After a delay of several months to allow additional time to appoint inspection services and executive assistants, this credit became effective on February 1, 1973. The project has recovered from these initial delays and is now progressing very satisfactorily. Agricultural standards are improving rapidly and procurement planning is well advanced.

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

This credit became effective March 12, 1973 and initial progress is satisfactory.

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

Increased costs, due to inflation and exchange adjustments, will be offset by higher sale prices for cattle but have caused cash flow problems, which are being resolved.

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

This credit became effective on August 13, 1973 and has suffered from severe financial and organizational difficulties. The Resident Staff has been monitoring the project closely and Government is considering actions to overcome present problems and accelerate project implementation.

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

This credit was declared effective on August 30, 1973. Manuscript preparation, testing and book production is well advanced. The development of programs for book distribution and teacher training depend largely on the timely recruitment of technical assistance. The Government approached UNESCO for this technical assistance under a contract reimbursable under the terms of the credit and an agreement will be signed to this effect between the Government and UNESCO.

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

This credit for the construction of 124 km. of highway and two bridges in North Sulawesi and the study and detailed engineering of further highways in Java was declared effective on June 25, 1973. Construction bidding and consultant selection are proceeding on schedule.

Cr. No. 399 West Java Thermal Power; US\$16 Million Credit of June 22, 1973; Closing Date: June 30, 1978

This credit became effective on August 28, 1973. The contract for design of the power station has been signed and initial progress is satisfactory.

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

This credit is for the rehabilitation and replanting of smallholder and private estate tea areas and for the rehabilitation of five privately owned black tea factories and the construction of two new black tea factories in West and Central Java. This credit became effective on November 29, 1973.

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

The effectiveness of this credit was delayed because it took longer than expected for the Government to implement legal and institution changes to amalgamate existing PNPs into larger PT estate groups and to establish a joint sugar projects unit to provide overall coordination. These changes have now been implemented and the credit was declared effective in April 1974. However, the Government engaged the necessary consultants' services prior to credit effectiveness and work is proceeding on schedule.

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

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

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

Initial progress under the project is satisfactory.

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

Initial progress under the project is satisfactory.

INDONESIA - BALI TOURISM PROJECT  
CREDIT AND PROJECT SUMMARY

Borrower: Republic of Indonesia

Beneficiaries: Bali Tourism Development Corporation (BTDC), Bali Tourism Development Board (BTDB), PERUMTEL, Bali Provincial Government

Amount: US\$16.0 million in various currencies

Terms: Standard

Relending Terms: US\$9.8 million to BTDC at 12% interest per annum with repayment period of 30 years including six years of grace for payment of principal and deferred interest. US\$800,000 to PERUMTEL at 12% per annum with a repayment period of 20 years including five years of grace.

Project Description: Basic infrastructure at Nusa Dua for development of tourism estate accommodating about 2,500 hotel rooms; construction of estate access road, Denpasar by-pass road and eleven roads north of Denpasar; a hotel training school; a demonstration farm; and technical assistance to the BTDC, BTDB and the provincial agriculture department.

<u>Estimated Cost:</u>	(US\$ million)		
<u>Major Categories:</u>	<u>Foreign</u>	<u>Local</u>	<u>Total</u>
Infrastructure at Nusa Dua	7.4	7.8	15.2
Roads and Bridges	3.5	4.6	8.1
Hotel Training School	0.4	0.4	0.8
Demonstration Farm	-	0.1	0.1
Technical Assistance	0.9	0.2	1.1
Contingencies	<u>5.9</u>	<u>4.9</u>	<u>10.8</u>
	18.1	18.0	36.1
	====	====	====

Financing Plan:

	<u>IDA</u>	<u>Government</u>	<u>Total</u>
<u>Total Project Cost</u>	16.0 ====	20.1 ====	36.1 ====

Estimated Disbursements:

(US\$ million)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Fiscal Year (IDA)					
Annual	1.7	6.7	5.4	2.1	0.1
Cumulative	1.7	8.4	13.8	15.9	16.0

Procurement:

1. Through international competitive bidding except for:
  - (a) Small and scattered civil works contracts of less than \$100,000 for construction of some buildings, the preparation of the solid waste disposal site and improvement of the villages of Benoa and Bualu would be awarded after local competitive bidding.
  - (b) Contracts of less than \$100,000 for furniture for estate facilities would be awarded after local competitive bidding.
  - (c) Equipment for the telecommunication facilities at Nusa Dua would be procured through a negotiated contract with existing supplier.
2. Whenever international competitive bidding is required, for purposes of bid comparison, qualified local manufacturers of equipment would receive a preference of the lesser of 15% or the level of customs duties. Qualified local civil works contractors would receive a preference of 7.5%.
3. Retroactive financing of about \$350,000 is recommended to cover costs incurred for exploratory drilling, detailed engineering and technical assistance for BTDC.

Technical Assistance:

Suitably qualified and experienced experts, acceptable to the Association, would be engaged to provide management assistance and training to BTDC, to assist the BTDB in land use planning and the sociological aspects of tourism development and to assist the local office of the Ministry of Agriculture in developing a model vegetable farm and egg and poultry production.

Economic Rate of Return: 19% on the investment in estate infrastructure  
and hotels.

Appraisal Report: 365a-IND



