

PROJECT PREPARATION WITH SPECIAL REFERENCE
TO INDONESIAN FISHERIES

by

Sidarto
Directorate General of Fisheries
Department of Agriculture
Jakarta, Indonesia

Realistic project preparation requires as a starting point information concerning the availability of fishery resources and their marketing potential; projects also have to be related to wider national social and economic policies. The background information required is detailed as well as the possible means of assessing project viability.

1. INTRODUCTION

The purpose of this paper is to give a brief account of project preparations which the Government of Indonesia have undertaken in the past five years in an effort to develop fisheries projects in Indonesia. The experience deals with project proposals which the Government have forwarded to international financing institutions (International Development Agency or Asian Development Bank), and bilateral agencies like the Overseas Economic Cooperation Fund (OECF), Japan. Up to the present the Government has received several loans for which Government-owned enterprises are the executing agencies for implementation. Table I below indicates the summary of loans.

To propose a fishery project for financing by any banks or donor countries, it is necessary first to identify investment opportunities. In Indonesia, as in most other countries, the starting points of identification are two: the availability of fishery resources and their marketing potential. Fishing grounds and resources are normally assessed and surveyed by various agencies and biologists. From the viewpoint of resource availability, the proposed fishing grounds must be adequate to support substantial commercial exploitation. The species to be exploited should have a market either for export or for domestic consumption.

Furthermore, the proposed project has to be examined for consistency with the Government overall economic policy. Indonesia is now implementing her Second Five-Year Development Plan (1974/1975-1978/1979). The Government has accorded high priority to the development of fisheries, which is not only a major source of domestic animal protein supply, but also a potential source of foreign exchange earnings. Indonesia's fisheries development plan envisages the creation of integrated fisheries complexes with well balanced sea and shore facilities. Implementation of the plan requires substantial foreign assistance to meet the necessary capital requirements. Government allocations from the development budget will be confined to creation of the infrastructure.

Table I
External Project Aid to Fisheries Sector by International
Financing Institutions and Bilateral Agency

	Foreign exchange component of loan (US\$ millions)	Financing institution	Approved year
Aer Tembaga Skipjack Fisheries Project	3.5	IDA	1970
Sabang & Benca Tuna Long-line Fisheries Project	7.8	OECF	1970
Riau Fisheries Development Project	2.5	ADB	1972
Sorong Skipjack Fisheries Project	7.9	ADB	1973
Fisheries Credit Project (Ambon Skipjack, Java & South Sulawesi Pond Improvement and Java Trawlers Project)	6.5	IDA	1974
Jakarta Fishing Port Project	28.9	OECF	1974

To summarise, the guidelines for project preparation consist of the following:

1. Introduction
2. Background information
3. Marketing features
4. The Project
5. Organization and management
6. Project benefits and justification

2. BACKGROUND INFORMATION

Background information concerns information on the national economy in general with particular reference to the economic situation in the region where the projected investment is planned to take place. Any such general survey should take into account the targets of the current Five-Year Development Plan with respect to the rate of growth of GDP, employment and the balance of payments, as well as the expected growth of population and other exogenous variables. It should also take account of social policy in general including in particular those aspects of it relating to food supply and the price level.

In addition, background data to a fisheries investment project should include specially fisheries data covering such matters as the distribution and estimated abundance of fish stocks. Information should also be given on the present structure of the industry, i.e. the pattern of the fleet, the availability of storage and processing facilities. Data on the infrastructure is, of course, also relevant and information concerning the availability of power, water, skilled manpower, etc. should also be presented.

3. MARKETING FEATURES

The market aspects constitute a separate section dealing with marketing and distribution of fisheries products. This is very important, because a project, which does not have promising prospects for the marketing of its output either for domestic consumption or export, is unlikely to be economically viable and therefore would not be accepted by any bank or other financing agency.

The preparation of a project should therefore undertake an examination of trends in the demand and supply of the products to be produced by the project under review. In considering demand the relationship between changes in price and the demand for the commodity in question (the price elasticity) should be considered as well as the income elasticity, i.e. how demand for the product reacts to changes in per caput income.

At this stage the institutional arrangements for marketing the product should also be determined. In this respect there are a number of possibilities, the two main alternatives being either through contract or by consignment. Under the former type of arrangement a price is negotiated in advance of delivery, and in addition to price the agreement usually specifies the quantities to be taken by the buyer, the quality of the product, the delivery point and the arrangements for payment. In consignment sales the fisherman (or other producer) usually entrusts the sale to a dealer who charges a commission, usually a percentage of the realized value.

4. THE PROJECT

This section should begin with a physical description of the project. For a fisheries project this will normally consist of the construction, equipment and the operation of fishing vessels, or the establishment of processing plants, e.g. cold stores, freezing plants, cannery, etc., together with refrigerated transport and related installations throughout the distribution system. In some cases the project might require investment in landing places, slipways, repair yards, etc. to which might be attached office buildings, housing and other services.

The period of construction of the project must be specified in terms of calendar year and indicated by an investment time schedule, which includes preparation of tender documents and specifications, procurement procedures, importation of equipment and machinery, transportation of construction material, construction and erection, and initial testing operation. To keep up with the implementation schedule, it is important to observe the guidelines for procurement issued by the lending banks. Normally, the procurement of imported goods and services is undertaken on the basis of international competitive bidding. However, if the contract does not exceed a certain amount, it is awarded on the basis of bids or quotations obtained from a reasonable number of suppliers.

When the scope of the project has been determined, the next step is to estimate the total project costs based on current prices but taking into consideration future price increases during the implementation period. The total project cost can be divided in a number of ways; one such way is to divide between fixed capital and initial working capital, fixed capital can further be divided into the foreign exchange requirements to cover the importation of equipment, machinery and services and the Rupiah cost for local purchases. It is usual to prepare a financing schedule to describe the different sources of funds.

Experience in this respect has indicated that the Asian Development Bank and the Overseas Economic Co-operation Fund (Japan) require that the local Rupiah costs should be met by the Government of Indonesia in the form of a domestic bank loan and Government equity participation. The International Development Association (IDA) the soft loan arm of the World Bank will, however, finance not only foreign exchange costs, but also an element of local Rupiah requirements. Finally, it should be mentioned that the capital structure for the proposed project has always been determined on the basis of debt to equity ratio of approximately 7:3.

5. ORGANIZATION AND MANAGEMENT

As noted above this paper deals with the preparation of Government project proposals to be submitted to international banks or donor countries. Therefore the executing agency for implementation is a Government enterprise. It is important to select an appropriate means for proper implementation and operation. In Indonesia there are three types of Government enterprise: Government Agency (abbreviated Perjan), Public Corporation (Perum) and Public Company (Persero).

Government Agency is an enterprise operating under Ministries and normally engaging in public utilities, like electricity, water supply, railways, etc. The main objective is to serve the public interest. Public company is a Government-owned enterprise engaging the business activities with a purely profit motivation. Public Corporation deals with business which lies somewhere in between the activities of Governmental Agency and Public Company. For commercial operations, projects are normally executed by Public Company or Public Corporation, but for projects where considerable infrastructure facilities are involved and the service rendered is not a purely commercial operation, Governmental Agency is the appropriate instrument for implementation as for example in the case of a fishing port project.

Once the appropriate type of legal entity is selected, it is also necessary to propose the organization and structure of the enterprise. This includes organization chart, job description, departmental organization, and personnel recruitment.

6. PROJECT BENEFITS AND JUSTIFICATION

To test the viability of a project a number of yardsticks can be used. First of all is economic consideration. This involves some calculations comprising projected income statement, project cash flow and the computation of financial and economic rates of return. The projected income statement deals with estimated revenue, estimated operating costs and projected profit. The projected cash flow describes the sources and application of funds over the estimated economic life of the project, and establishes disbursement and repayment schedules. Computation of financial and economic rates of return measures the commercial profitability of the project as well as the social returns. Apart from economic factors, project proposals are sometimes justified on the basis of their employment creating potenti