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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

85p

Proposal and Recommendations
For the Review of the
Development Loan Committee

INDONESIA - RURAL WORKS

Loan 497-T-035

AID-DLC/P-2027

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IRRIGATION & Farm Roads

**DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523**

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AID-DLC/P-2027

May 16, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Indonesia - Rural Works

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed Six Million eight Hundred Thousand Dollars (\$6,800,000) to the Government of the Republic of Indonesia to be made available to assist in financing the foreign exchange and local currency costs of a rural development project in Indonesia.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Thursday, May 23, 1974. Also, please note your concurrence or objection is due by close of business May 29, 1974. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I - XII

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INDONESIA - RURAL WORKS

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INDONESIA - RURAL WORKSSUMMARY AND RECOMMENDATIONS

1. Borrower: Government of Indonesia (GOI).
2. Amount of Loan: \$6,800,000 (Six Million Eight Hundred Thousand Dollars).
3. Terms:
 - A. Maturity: 40 years, including a 10-year grace period.
 - B. Interest: 2% per annum during the grace period.
3% per annum thereafter.
 - C. Currency: Interest and principal repayable in U.S. dollars.
4. Financial Plan:

(\$ in millions: \$1.00 = Rp. 415)

<u>AID LOAN</u>	<u>GOI Budget</u>	<u>Total</u>
\$6.8	\$13.2 (equiv.)	\$20.0

5. Objectives of Project: The project is expected to promote greater agricultural productivity and rural economic development through rehabilitation or construction of basic rural facilities. It aims to meet a basic need of the poorer rural people, not only through the opportunity given for immediate employment but more important through strengthening the base for productive agricultural activity. Both in the immediate and long term these objectives translate as an effort to increase basic incomes for people in rural areas of greatest need. The project objectives are defined in terms of the Indonesian Second Five Year Plan (PELITA II 1974-79) which gives recognition to the urgency for improvement of basic standards of life of rural people. The Plan places this in context of redressing the imbalance in distribution of the benefits of economic growth which Indonesia has experienced during this past five years. This project represents acceptance by the GOI of the principle that development of Indonesia cannot proceed without attention to the least advantaged in the society.

415 Rp = 1 \$

6. Description of Project: The project will provide financing jointly with the GOI for rehabilitation and construction of basic rural facilities in those sub-districts (kecamatan) of greatest need. Kecamatan will be selected primarily on the basis of per capita agricultural production, reflecting therefore the twin basic needs for greater agricultural production as well as increased rural incomes. The project will be carried out by the Department of Manpower, Transmigration and Cooperatives (DMP) working through the existing structure of Indonesian internal government. Sub-projects will include land clearing, and terracing and planting to prevent erosion, as well as rehabilitation, improvement and construction of such facilities as irrigation canals, rural roads and small bridges.

The focus of project activity will be the kecamatan, a level of government small enough to be close to the people yet broad enough to ensure a significant impact. Sub-projects will be selected initially at the kecamatan level, reviewed at the district (kabupaten) level, approved by the province and forwarded to DMP/Jakarta for incorporation in the overall project budget. Technical assistance for design and budgeting will be provided by the kabupaten level public works office. Implementation will be the responsibility of the kecamatan subject to monitoring by the DMP area office.

The annual budget will be established upon DMP and AID agreement at least three months in advance of each fiscal year (1 April) on the basis of the sub-projects schedule approved by DMP. GOI funds will be advanced quarterly by DMP/Jakarta through local branches of the Bank Rakyat Indonesia (BRI) which will disburse funds to the DMP area representative for payment of labor and purchase of materials. Following each quarter DMP will provide AID with a report of project implementation, including certification of sub-projects completed and undertaking to provide maintenance, notice of problems and remedying steps taken. AID dollar loan proceeds will then be provided to the Department of Finance on a quarterly basis for conversion to local currency (rupiah) and payment as reimbursement for certified completed sub-projects.

The AID loan will provide assistance of two advisors to work with the DMP to improve sub-project selection, advise on implementation and assist in review and monitoring. AID and the GOI will also provide for annual joint evaluation to take place at agreed-upon times during the year.

7. Purpose of Loan: For the years 1975 through 1978 (three of the five years of PELITA II) to finance the cost of the project jointly with the GOI. As noted above, dollar loan proceeds will be provided quarterly to the GOI for conversion to rupiah and reimbursement for completed sub-projects.

Except for certain costs of the expatriate advisors, there will not be any project requirement for use of foreign exchange as such and no AID funds will be earmarked for such purpose.

8. Background of Project: The GOI has recognized that notwithstanding the imposing gains of the Indonesian First Five-Year Plan (PELITA I, 1969-74), imbalance and inequities in income distribution and economic opportunity are still a major barrier to national economic and social development. The problem centers on the rural population who comprise more than 80 percent of Indonesia's 129 million people and is particularly acute where population is most dense, principally the islands of Java, Madura and Bali. In many areas of these islands rural families are without land at all. Landholdings per family average 0.7 hectare and fully 51 percent of those who have their own land own half a hectare or less. Agricultural productivity is low and other employment opportunity is limited.

The GOI through a number of PELITA I programs has attempted to increase agricultural production and improve the state of basic facilities in the rural areas. The BIMAS and INMAS (rural mass guidance) programs through providing improved seed, fertilizer and rural credit are designed to increase basic rice production; the village subsidy program provides a basic payment to village-centered projects with voluntary labor supplied by the villagers themselves; the kabupaten public works program extends throughout Indonesia and emphasizes rehabilitation of medium scale rural infrastructure or construction of new facilities; and lastly and most important because of its focus on the poorest areas, the Food-for-Work program (Padat Karya).

Throughout the five years of PELITA I Padat Karya through food payments for labor has provided a basic support to efforts at increasing production and improving incomes in these poorest areas. Food-for-Work has accomplished much, including rehabilitation of 5,900 kilometers of irrigation canals, improvement of 4,300 kilometers of rural roads, and reforestation and terracing projects covering almost 13,000 hectares.

Food-for-Work however can only operate effectively where food is deficit, although other areas may have lower production, more severe unemployment, lower wage rates, and better project opportunities. The project to be financed under this loan, although successor to Padat Karya, permits the GOI through use of cash wage the flexibility needed to permit activities to be carried out in the poorest areas regardless of such previously limiting factors. It is a PELITA II project exclusively aimed at improvement of the lot of the rural poor and as such has a major role in the goals set for equitable growth under PELITA II.

9. Export-Import Bank Clearance: Received April 1974.
10. Statutory Criteria: Satisfied. See Annex XII.
11. Country Team Views: The Country Team strongly endorses the project. See Annex X.
12. Issues: None
13. Recommendation: Authorization of a loan not to exceed \$6,800,000 (Six Million Eight Hundred Thousand Dollars) subject to the terms and conditions set forth in the draft authorization attached at Annex XI.

CAPITAL ASSISTANCE COMMITTEE:

USAID/INDONESIA

Chairman/Technical Advisor	Thomas O. Brennan
Controller	Alan Gordon
Economist	James A. Norris
Engineer	David C. Woody
Loan Officer	Dennis J. Brennan

AID/WASHINGTON

Chairman	Alexander R. Love
Technical Advisor	Edgar L. Owens
Desk Officer	Larry Smucker
Legal Advisor	Jay Burgess
Loan Officer	Peter Bloom

No engineer?

I. PROJECT DESCRIPTION AND OBJECTIVES

A. Project Description

This \$6.8 million loan will provide funds to finance jointly with the Government of Indonesia a project designed to rehabilitate, improve and construct basic rural agricultural facilities. The total project budget amounts to \$20.0 million, of which the \$13.2 million balance will be provided in local currency (rupiah) by the GOI. The loan will provide funds for the project during three of the five years of the Indonesian Second Five-Year Plan (PELITA II, 1974-79).

The project will focus on poorest rural areas, selected primarily on the basis of per capita agricultural production. Sub-projects will be designed to provide a minimal basis for growth of local agricultural production through rehabilitation and construction of such facilities as irrigation canals, village roads, small dams, rural bridges, etc.

The project will be executed at the sub-district (kecamatan), that level of local government sufficiently close to the people yet broad enough in reach to support a program with significant impact. Sub-projects will be reviewed at the district (kabupaten), approved by the province and finally authorized by the Department of Manpower, Transmigration and Cooperatives (DMP) in Jakarta. Technical design and assistance will be provided by the public works office at the kabupaten.

Sub-projects will generally be short term (three to six months) and labor-intensive. Normally sub-projects will be located close to the homes and villages of those whom the activity will employ and benefit. Immediate supervision will be carried out by the kecamatan with monitoring by the regional DMP office. The AID loan will finance the assistance of two advisors for approximately three years each to work with the project from the national level right down to the kecamatan in improving sub-project selection, advising on implementation and assisting in review and monitoring.

A total budget of \$19.7 million equivalent (excluding \$0.3 million for advisors above) will finance approximately 45 million man-days of labor and will benefit more than 500,000 rural families. At the outset, the project will include 100 kecamatan with gradual expansion to a total of 300 participating kecamatan beginning in the fourth year. This represents an effective commitment in terms of the scale of the problem to be addressed. Expansion of the project will be based upon the experience of the preceding years. Procedures for project selection and implementation will be evaluated each year and improved as necessary.

The AID loan funds will be provided jointly with the GOI funds in a single project budget. The annual budget will be established upon DMP and AID agreement in advance of each fiscal year (which begins 1 April) on the basis of sub-projects approved by DMP. The GOI funds will be advanced quarterly by DMP through local branches of the Bank Rakyat Indonesia (BRI) which will disburse funds to the DMP area representative for payment of labor and purchase of materials. Except for certain costs of the foreign advisors, there will be no requirement for the use of foreign exchange as such and no AID funds will be earmarked for such purpose.

At the end of each quarter of the fiscal year DMP will provide AID with a report of project implementation, including certification of sub-projects completed and undertaking to provide maintenance, notice of problems and steps taken to remedy. AID dollar loan proceeds will be converted to rupiah on a quarterly basis for reimbursement of costs of subprojects certified as completed. In addition to these reports and to the assistance provided toward project improvement by the technical advisors, AID and the GOI jointly each year will evaluate project progress, achievements and problems.

B. Project Objectives

Notwithstanding the rapid growth over the past five years of the Indonesian petroleum, mining and manufacturing sectors, agriculture still accounts for 40 percent of Indonesia's GDP and also provides about 60 percent of Indonesia's employment and over two-thirds of its non-oil export earnings. Regardless of the growth of other sectors, agriculture will continue to be the principal source of income for most Indonesians over the next several decades. The Indonesian agricultural structure is principally made up of almost 20 million small farmholders who dominate the production of nearly all crops. The greatest number of these farmers as well as the bulk of population (some 85 million of the total Indonesian population of approximately 129 million) is concentrated on the islands of Java, Madura and Bali. Production of the farmers on these three islands is concentrated on food crops, particularly rice; on the other islands more effort is directed to export crops, especially coconuts and rubber.

In heavily populated areas farmholdings average only 0.7 hectare and these are even then usually fragmented into several plots. More than half of these small farms are owner-operated, but at least five million farms are held under some type of tenure arrangement, including sharecropping. Productivity is increasing through the efforts of the Government-sponsored BIMAS and INMAS (rural mass guidance)

programs designed through provision of seed, insecticide and fertilizer to intensify and increase production of rice. Nonetheless, the basic production of Indonesia's small farms remains low and in per capita terms leaves much of the population with an inadequate base for living. In a country where the average per capita income is about \$120, the rural population are predominantly at the lower end of the range with a probable average of less than \$95. Throughout Indonesia, but particularly in the twelve provinces in which this project will be implemented, there are hundreds of areas where rural families exist well below any real or supposed poverty line. Even a minimal improvement in rural incomes for these people may represent the difference between the ability to survive in their setting or not, without even considering the basic desirability or necessity of improving what is essentially a substandard of living.

The GOI, while gratified at the success in broad economic terms of the First Five Year Plan (PELITA I, 1969-74), particularly in rehabilitating much of the deteriorated major infrastructure throughout the country, has come to recognize the absolute necessity of redressing the imbalance of income and opportunity which clouds the whole measure of this achievement. It has become urgently evident that continued inequities at the rural level represent not only basic injustice but also a latent threat to the ordered growth of the country. Accordingly this project is designed to provide a basis for increasing the agricultural production and enhancing the opportunities in those areas of greatest need.

Specifically the project aims through the rehabilitation and construction of basic rural production-related facilities -- such as small dams, irrigation sluices, local bridges, rural roads, land terracing, etc. -- to provide intensive assistance to rural production with a consequent opportunity for increase in employment and income. Since the project will focus on the poorest areas, it will at the same time be providing funds for work in the immediate term in just those same areas where low agricultural production and lack of other employment opportunity render the population among the country's poorest.

C. Background

More than 80 percent of Indonesia's 129 million people live in the rural areas and attempt to make a living from farming and farming-related activities. Most of these people have land barely sufficient to support them. Millions more are without land altogether and exist through sharecropping and labor in the fields of more fortunate neighbors. The GOI in the objectives stated for PELITA I recognized the critical importance to Indonesia of massive increase

in agricultural production. Production increases were registered, and it does not detract from this achievement that these gains have been largely nullified by burgeoning population growth.

The BIMAS and INMAS programs were specifically directed at increase in the production of rice, the principal food for the people of Indonesia and main agricultural product of the overwhelming bulk of the small farmer population. By their very nature however -- particularly by virtue of the essential element of rural credit -- these programs primarily benefited the relatively better-off rice farmers.

The GOI is acutely aware of the constraint on national development represented by the problem of the rural poor. Even from the beginning of PELITA I in 1969, the GOI attempted to carry out programs to relieve the most critical cases of rural poverty. For a large part this took the form of traditional disaster relief during periods of flood and famine, but the GOI also undertook on a more constructive basis to improve the base for agricultural production, with the effect also of providing interim but much needed employment and income.

Food-for-Work Program

Following three years of experimentation with a small number of rural projects using PL 480 Title II commodities as wages, the GOI in 1969 instituted an extensive Food-for-Work program. During PELITA I the program carried out a large number of labor-intensive rural works in areas where unemployment, low production and malnutrition were most severe. Food-for-Work undertook 383 irrigation and drainage projects involving rehabilitation of 5,900 kilometers of canals, 106 rural road projects totaling 4,300 kilometers, and 74 reforestation and terracing projects covering nearly 13,000 hectares. Over 55 million man-days of labor were expended and the rural beneficiaries totaled over three million people. See Food-for-Work tables at Annex I.

Kabupaten Works Program

Together with the Food-for-Work program, the GOI in 1970 undertook a national effort at rehabilitation and improvement of rural infrastructure of all kinds. Under this program the kabupaten, of which there are 281 in Indonesia, built or rehabilitated market roads, produce markets, bus stations, district bridges and roads and other infrastructure. Funding was made available to each kabupaten at a rate which equaled Rp. 150 per capital or approximately \$45

million equivalent nationwide during GOI FY 1973/74. This will be doubled in the next fiscal year.

Village Subsidy Program

Finally, the GOI in an effort to improve the basic standard of rural living and give villagers some basic role in their own self-improvement has since 1969 provided a basic subsidy annually to every village in Indonesia. The use of this subsidy has been principally the purchase of materials; labor is donated by the villagers themselves. Most projects are agricultural related although many concern improvement in the village itself through construction of schools, markets, village streets, etc. The subsidy equaled Rp. 100,000 or about \$250 per village in 1973/74 for a total of approximately \$12.6 million equivalent nationwide. This subsidy will also be doubled in the 1974/75 fiscal year.

Each of these programs represents a genuine effort on the part of the GOI to have some beneficial impact at the rural level. Each has had positive effect through improvement of basic rural facilities, betterment of roads, rehabilitation of irrigation ditches, etc. Each at its own level has made a contribution to raising rural incomes through providing an improved base for agricultural production and marketing. Of the three, the Food-for-Work program is especially directed at the poorer rural areas. Of the other two, the kabupaten program has become essentially a nationwide district level public works activity principally done under contract and directed toward larger infrastructure. The village subsidy program is also national in scope; all villages in the country received the subsidy. Projects are diverse but they share in common the characteristics of being centered upon needs of the village and relying on donated labor.

The GOI, recognizing the anomalies in the successes of PELITA I, has determined for PELITA II to work for the redress of inequities in rural incomes and opportunity. Increase in agricultural production itself continues to be essential for Indonesia, but under PELITA II there is now paired with this objective the critical aim of improvement in standards of living of the poorest of Indonesia's rural people. The project to be financed by this loan represents a commitment by the GOI to the principle that national development cannot succeed unless the poorest also share.

D. Place of Project in the U.S. Program

United States assistance to Indonesia is increasingly concerned with the need to assist rural families to produce and earn more.

To meet this need, AID is now working with the GOI to develop projects in the fields of rural health, irrigation, provincial road betterment and river basin development, all projects which have their principal benefits in the improvement of the conditions of life of rural people. This project has the same objective. Through carrying out rehabilitation and expansion of rural infrastructure, offering rural employment opportunity and providing a base for increased agricultural production, this project is an essential element in any United States effort to assist the GOI in its objective to improve rural standards of life.

II. BORROWER AND EXECUTING AGENCY

A. General Organization

The Borrower is the Government of Indonesia (GOI) acting through the National Development Planning Agency (BAPPENAS). The agency responsible for execution of the project is the Directorate General for Manpower Development and Utilization (MDU) of the Indonesian Department of Manpower, Transmigration and Cooperatives (DMP).

The manpower responsibilities of DMP correspond generally to those exercised by departments of labor in other governments. The Department for example is responsible for supervision of labor unions, enforcement of laws respecting conditions of work, maintenance of unemployment registers, manpower development and training, formulation of policy with respect to labor matters, etc. See organizational chart for DMP at Annex II. The responsibility of DMP for this project derives specifically from the Department's manpower development and training duty to provide generally for the necessary skills base for increasing national productivity.

DMP functions throughout the country at the two principal government administrative levels, the province and kabupaten, but also works through its own area (resort) offices which to some degree parallel the internal administrative government levels. Most resort offices for instance are located in the capital towns of major kabupaten. DMP reaches further through sub-resort offices which report directly to the DMP area offices. The effect of this parallel organization is to permit DMP a degree of independence and flexibility in discharge of its functions which it might not have were the DMP representatives simply one more Department of Interior office under the authority of the provincial governors or bupati (heads of the kabupaten).

DMP nonetheless works with the existing structure of internal government in Indonesia and will be doing so in the case of this project. Essentially this means working through the apparatus of the Department of Interior and with the technical departments such as Health, Agriculture and Public Works. Indonesia internally is divided into 26 provinces and special regions. Each of these provinces is headed by a governor appointed by the President and administratively responsible to the Minister of Interior. Each province is in turn divided into kabupaten, and as noted above there are 281 of these. Finally the kabupaten are composed of numbers of kecamatan or sub-districts. This is the level at which this project will be executed.

The major technical departments of government -- Public Works, Agriculture and Health.-- are represented at the province and kabupaten. At both levels the representatives of the technical departments are responsible for administrative and operational matters to the local head of government, the governor or bupati, and to their own department for technical guidance and support. See provincial and kabupaten organization charts at Annex III.

B. Kecamatan Government

The kecamatan is the level at which this project will be executed. There are over 3,000 kecamatan in the country, and except for the village, which is often in the rural areas indeterminate in extent and population, the kecamatan is the lowest reach of direct internal government. Kecamatan are fairly uniform in total population, with 40,000 being typical.

The camat or sub-district head is appointed and holds his office from the Department of Interior. He reports directly to the bupati or head of the kabupaten. The responsibility of the camat is principally to provide for the maintenance of order and harmony within his area. This is in part a policing function and police are in fact assigned to the kecamatan, but in the Indonesian context it also represents a responsibility for composing differences and ensuring a balance of responsibilities and benefits among villages.

To these responsibilities in recent years have been added the special concerns for economic and social development. So far however these tend to be responsibilities on paper rather than in fact. Offices are actually authorized at the kecamatan level for such activities as community development, community guidance, people's welfare and economic affairs but more often than not these are either not filled at all or are occupied by the camat himself or by his deputy. See organization chart at Annex III. More often than not the government at kecamatan level includes simply the camat, the deputy, a clerk and perhaps one other official charged with general and undefined duties with respect to community development. To this is added a small police unit which has no bearing upon the administrative capacity of the kecamatan.

In determining to establish the focus of project activity and execution at the kecamatan level, DMP recognized that this level offers the twin advantages of being close enough to the villages to have immediate contact with their concerns and welfare but able to reach broadly enough to support projects with impact

covering more than single villages. DMP however recognized the administrative limitations restricting the capacity of the kecamatan government. Accordingly as discussed in Section II.C. below, former BUTSI (domestic voluntary service) volunteers are being assigned in the initial year to each of the 100 participating kecamatan.

BUTSI volunteers are all university graduates, are given initial training in practical community development work, and are then assigned for two years to rural villages throughout Indonesia. They live and work at the village level. They work with the village leaders and the village community itself in helping to identify priority needs of the village, determine the requirements for formulation of activities or projects to meet these needs, and organize the village people to work on these activities. The two-year assignment represents a practical and basic rural community development experience with strong emphasis on ability to work with rural people and in implementing technically simple rural projects. For this project the former volunteers will assist the camat in developing overall priorities for the kecamatan; they will also act as a source of technical assistance and advice to the camat in sub-project selection and supervision of implementation.

The camat will also call upon the advice and guidance of principal members of each of the concerned communities. This exchange or dialogue will take place at the point of project selection but should continue throughout implementation. The camat in addition can expect to receive guidance on specific problems from the technical offices at the kabupaten level. Immediate supervision of project work however is the responsibility of the camat, but the former BUTSI volunteer is expected to play a principal role in performing this task and will work with both the kecamatan staff and with the villages concerned. Finally, both the camat and former volunteer will be able to draw upon the support and assistance of the DMP resort or area officer.

The project will at the outset be carried out in only 100 of the more than 3,000 kecamatan in the country. (See listing and map at Annex IV.) Through assignment of the former BUTSI volunteer, the direct assistance of the DMP area office, and the availability of at least limited technical guidance at the kabupaten, these selected kecamatan should have the capacity to participate effectively in the project.

C. Capability of Executing Agency

The Directorate General MDU will be responsible within DMP for carrying out this project. MDU is not only assigned responsibility

to address the issues involved in assistance to rural manpower but is particularly equipped through the immediate experience of the past five years to work with this project.

The Directorate General MDU has been the principal executing agency for the Food-for-Work program. As discussed above this program was formally initiated in 1969 following three years of experimentation with the use of food as wages. MDU mobilized and directed a program which applied an initial annual total of 15,000 metric tons (MT) of PL 480 Title II commodities, and by 1972 AID had doubled its contribution to 30,000 MT. As shown in the Food-for-Work tables at Annex I, the program achieved appreciable success in applying the underemployed rural labor force to work with limited but basic rural maintenance and reconstruction needs. On the GOI side however the program also demonstrated that there exist both the technical skill and sense of priorities from MDU down to the local level capable of planning and carrying out the types of projects that a labor-intensive works program can support. Food-for-Work both in terms of its objectives -- to reach the poorest of the rural areas -- and in terms of the use of the capabilities and resources of DMP is the immediate predecessor to this project.

MDU was responsible for selection of sub-projects, supervision of work underway, and improvement of the program. MDU also had to contend particularly with the difficulties of timely movement of bulk commodities to regions throughout Indonesia. In 1972 MDU instituted a cash wage supplement as part of the Food-for-Work program and while this amounted to only 35 rupiah per man-day it provided the Directorate with experience in working with both commodities and cash to meet project requirements. Although the Food-for-Work program was implemented at the kabupaten level, not the kecamatan, it provided MDU with five years of practical and hard won experience from the national to the local level in administering a program essentially with the same objectives and operational criteria as this present project.

MDU has also the unique experience of working in the most remote and often poorest rural areas through the Indonesian domestic voluntary service or BUTSI Program. This program was initiated in 1971 on an experimental basis with the twin objectives of giving a worthwhile outlet for youthful motivation and to provide needed assistance to poor rural areas. The Directorate General MDU has been responsible for carrying out this program from its inception and this has included recruitment and training of volunteers as well as supervision and assistance to them in the field. As of this moment

there are 500 active volunteers serving throughout Indonesia. More important in its immediate implications for this project however is the availability of some 550 former BUTSI volunteers. As noted in Section II.B. above, approximately 100 of these have been recruited by MDU to return once again to the poorest of rural areas and will be assigned to each of the participating kecamatans under this project to work with the camat. Each former volunteer will report to the DNP resort officer so that DNP (and MDU) will have direct access to the implementing level in the field.

The principal purpose of placing project execution at a basic rural level is to secure local participation and closer identification with local needs. In subproject terms this will mean that activities are not built or carried out to normal standards of the Central Government Ministry of Public Works; it is

sufficient that they basically do the job intended, are safe, and do not harm the surroundings. (In the latter connection, see environmental statement at Annex V.) To ensure these basic requirements are met, however, all sub-projects must involve some degree of technical contribution, either in terms of design, agricultural feasibility, health considerations, etc. This will be accomplished through the representative offices of the technical departments (Public Works, Health, Agriculture) at the kabupaten and province. For each sub-project there will be review and approval by the offices concerned at both these levels, and guidance will be available for specific technical requirements. Design of sub-projects will be carried out where necessary by the kabupaten public works office. Sub-projects having health implications will be reviewed by the Department of Health representative at the same level. Agricultural input will be provided by the kabupaten agricultural office, the representative agency of the Department of Agriculture.

Finally, under the terms of this project the Directorate General MDU will be able to call upon the services of two advisors financed by this loan for a period of up to three years each. Each of these advisors will work with MDU from the central level at Jakarta down to the kecamatan. While involvement with specific sub-projects will necessarily be limited, they will be of considerable assistance to MDU in discharge of its overall responsibilities. See Section III.C. for discussion of advisors' duties.

In summary, the Directorate General MDU has in organization, personnel, availability of assistance and basic experience the capability to carry out this project effectively.

The USAID Director has certified in accordance with Section 611(e) of the Foreign Assistance Act to the capability of the GOI to carry out this project. See Annex VI.

III. PROJECT ANALYSIS

A. Concepts

This project is in concept a clearly differentiated effort on the part of the GOI to address the special problems posed by the poorest rural areas. Consideration had been given to the advisability of combining the project with either the kabupaten works or village subsidy program, but the decision was taken not to attempt either combination. Both the other programs are national in scope, both are materials-concerned and both rely either on contract or volunteer labor.

This project on the other hand by the very nature of the special problem it seeks to address must be locally labor-intensive with a wage paid for work done. It must be able to encompass activities beyond the boundaries of the village yet of less than total kabupaten scope; broad enough to be concerned simply and directly to support of local activities of basic productive viability. The project must be flexible so that areas can be included or dropped as progress indicates but must be able to respond to and stress the special labor-intensive requirements involved in working effectively with the poorest areas. Any attempt to combine the project with either of the other two programs or similarly an effort simply to expand the project nationwide would vitiate its basic purposes and eventually qualify it as no more than one additional rural development activity. To be effective it must be more than that.

In accord with the objectives of the project, activities financed will not only therefore provide immediate employment, but will support developmental improvement so that the base for productive agricultural activity is raised. In concept this should mean that as sub-projects are completed participating kecamatan reach a point where project activity is no longer a necessary support and project efforts can be relocated to other areas of need.

Starting with the base developed through the Food-for-Work program, the project is to be initiated in 100 of the poorest kecamatan in the country. The Directorate General MDU is now working in each of the first 100 kecamatan to review selection of sub-projects and determine the composition of the project for the first year. Expansion of the project through the five years of PELITA II is scheduled to take place at a rate reflecting growth in implementation capacity from the DMP level at Jakarta down to the kecamatan. Each year will build upon the experience of the previous

of
year with improvement / procedures, refinement of criteria, etc.
According to present estimate the phased expansion for the project
through the term of PELITA II, an estimate which reflects the
requirements above, appears as follows:

(First Year	100	Kecamatan)	
Second "	150	"	
Third "	200	"	
Fourth "	300	"	
(Fifth "	300	") 1/

As indicated above, as sub-projects are successfully completed and productive growth or development achieved in a given kecamatan, project activity will relocate to other areas. Accordingly those kecamatan included in the figure for one year may or may not be part of the total for a following year. The ultimate success of the project in meeting its objectives in a given kecamatan will be the determining factor.

B. Operational Criteria

1. Kecamatan Selection

In accordance with the basic project objectives, the primary criterion adopted for selection of participating kecamatan is per capita agricultural production. Rural unemployment surveys may also be used on a limited basis, principally to confirm selections or further define the poverty factors. Reliance on per capita production has two immediate points in its favor. First of these of course is the direct relationship of local productivity as a clear indicator of rural poverty to the basic purpose of the project in increasing productive capacity. Second is the relative absence of other reliable data for the poorer rural areas; agricultural production therefore may in many cases be the only indicator at all.

Surveys for project first-year selection have already been carried out throughout Indonesia by the Directorate General MDU and the initial 100 participating kecamatans selected. See listing and map at Annex IV.

sub-
1/ This loan will assist in financing/projects for the second, third and fourth years.

2. Sub-Project Selection

In selecting sub-projects the Camat will call upon the advice of the leaders of each of the concerned communities with the view to identifying the desires of the people themselves. A basic assumption from the outset is that sub-projects will reflect the priorities and needs of the people at the rural level. The fact however that the leaders of a kecamatan express themselves in favor of a sub-project is not determinative. For obvious reasons, sub-projects must be subject to review and judgment on the basis of other relevant standards.

First of these is the basic requirement that sub-projects when completed will reflect a substantive improvement in the basic capacity of the area for productive development and agricultural activity; that standards of local life and levels of income consequently can be expected to improve as a result of completion of the activity. Preference will be given to sub-projects with potential for long-term employment opportunity from maintenance or services associated with completion of the sub-project. Non-productive activities such as building of mosques or churches, construction of play-grounds or other recreational facilities, etc. will not be eligible for financing under the project.

Second, projects must be labor-intensive in order that the other principal objective of the project be met and as many people as possible given an immediate opportunity for work. As part of this requirement sub-projects are expected to expend between 70 and 80 percent of budgeted funds for payment of wages. This money is intended to be earned and used at a local rural level by the people who do the work. Materials procurement and transport, therefore, which do not involve labor and mean expenditure of funds in the larger towns, will generally be limited to not more than 20 to 30 percent of sub-project budgets.

Third, all sub-projects must conform to and be consistent with the overall development plans prepared by the kabupaten and province. This will be a criterion in review by both these levels of government before approval is given. Accordingly sub-projects which are finally included in the kabupaten and province-approved schedule for the year, and then forwarded to DMP/Jakarta, will in effect have been incorporated into the overall plans of both of these principal internal government authorities. Not all kabupaten have plans, as such, but development priorities are given recognition.

Fourth, sub-projects must conform in size and scope to the need for work and availability of labor within reasonable distance from the sub-project site. Normally sub-project activity will take place close to the homes and villages of the people who will benefit from the result of the activity as well as from the opportunity for immediate employment. Sub-projects will also normally be capable of completion within a relatively short period of time, such as three to six months. This is particularly necessary so that work will not interfere or compete with the requirement for labor during planting and harvest. See subparagraph 5 below.

3. Sub-Project Approval

Once selection of sub-projects has been made at the kecamatan the application including implementation and preliminary budget schedules will be forwarded to the kabupaten for review. As noted above, review will include determination by the planning officer or bupati of consistency with the kabupaten overall development priorities as well as confirmation of need for the specific project.

Once the kabupaten has indicated approval, the kabupaten public works office will provide necessary design, quantities, confirmation of material costs, etc. The completed sub-project application will then be forwarded to the province. Approval by the planning office at this level will include review of the same factors touched upon by the kabupaten and particular province concerns will be addressed in context of the province development plan. In general it is expected that once a sub-project has gone through the selection process and review at the kabupaten, approval by the province should not present difficulties.

Finally, each of the participating provinces will compile and forward to DMP/Jakarta all applications and supporting documentation for all sub-projects to be carried out in the province. DMP/Jakarta review will call upon the Department of Agriculture and the directorates of the Department of Public Works for technical advice as appropriate during the DMP review of the sub-projects. Once DMP/Jakarta has approved the sub-projects, this is communicated to the province.

In view of timing of the GOI fiscal year which begins 1 April, preliminary project approval by DMP/Jakarta must be complete by the end of August of the preceding year. The budget is then submitted in September and finally approved in January. This means that selection, review and approval from the kecamatan through the province level must take place essentially during the first eight months of the year.

4. Technical Considerations

As discussed above under Section II.C. all sub-projects must involve some degree of technical contribution. Irrigation works for example must include judgments with respect to engineering requirements involved in construction or rehabilitation of the facility. It will be important for example to avoid damage to the surrounding areas. Care must be taken not to flood adjoining property by interfering with normal drainage, to deprive adjacent property of water or to restrict access by constructing ditches without culverts, etc. Similarly, road improvement or small bridge construction involve basic technical questions which have to be addressed at the outset of the activity. Agricultural questions will arise in connection with erosion prevention activities and other land and crop related sub-projects.

These technical requirements will be considered during the initial approval stage by the technical offices at the kabupaten, with each activity examined by the kabupaten offices in terms of the separate responsibilities of each. The agricultural representative for example is expected to review sub-projects in terms of soil characteristics, use of fertilizer, spacing of seedlings, etc., and the public works office will address specific engineering requirements.

The kabupaten public works sections responsible for irrigation and roads will generally apply no more than the standards normally used in that area for similar works at the rural level. ^{1/} This will be a lesser design standard than applied by the central Department of Public Works in national projects, but it should be adequate in terms of the requirements of the sub-projects to be carried out under this project.

With respect to the question of capacity at the kabupaten level, there is no question that the technical facilities of public works and other offices at the kabupaten are primarily engaged on activities for their own departments as well as for the kabupaten programs (e.g., kabupaten works program). Nonetheless the limited additional requirements imposed by this project should not tax these facilities beyond reasonable bounds. Evidence of this is already available in context of the Food-for-Work program which has also relied upon the assistance of these technical offices.

^{1/} Irrigation and drainage on the one hand and roads, bridges ("public works") etc. on the other come under directorates of the Department of Public Works. At the province and kabupaten however they are separate offices. See Annex III.

In this connection there has been discussion of a possible loan by the International Bank for Reconstruction and Development (IBRD) to the GOI providing assistance to the kabupaten public works program. The loan amount is still not fixed but would be in the area of \$6.0 million and would be earmarked for technical assistance and training of kabupaten level public works officers. Should this proposal go ahead, it should benefit all public works type activities at the kabupaten level, including this project, through the additional training, experience and personnel which the IBRD loan would support or assist in providing. As noted above, however, if the IBRD loan does not materialize this project is not expected to experience difficulty in securing necessary technical assistance at the kabupaten.

5. Wage Rates

Wages will be paid at the prevailing rate in each participating kecamatan. Two considerations are involved in this decision. The first of these is simple equity; that a person should be paid equally with others for the same type of work regardless of his own personal income difficulties. In terms of image of the project with the local people as well as their morale, DMP is concerned to avoid any implication that by participation in this project rural people are stigmatized or marked as less than equal in their own community. Since in virtually every case project activity will focus upon kecamatan where there is significant underemployment, there is in any event little risk of competing in the labor market. Alternatively, where there are more who need employment than can be absorbed by a sub-project at any one time, the working force will be rotated within the community.

The second consideration involves timing of sub-project implementation. As noted above, most projects should be capable of completion within a relatively short space of time -- three to six months. Implementation will as often as possible be scheduled to begin at a point where work will not overlap with the planting or harvest seasons. The scheduling of sub-project implementation should mean therefore that payment of the prevailing wages in any case would not interfere with planting or harvest. Sub-project implementation may overlap planting or harvest in those kecamatan where even during those periods there remain large numbers of landless unemployed unable to secure work even at these peak farming times - the labor for these sub-projects would obviously not conflict.

6. Operation and Maintenance

Effective operation and maintenance of completed projects of all kinds is a principal problem in Indonesia. DMP proposes in the case of this project to obtain with each sub-project application the undertaking of the kecamatan and kabupaten to provide people and funds as necessary to ensure effective operation and maintenance. The DMP quarterly reports to AID will include in addition to certification of completed sub-projects, certification that such undertaking has been given. From the technical point of view the assistance of the kabupaten public works office will be available for guidance on maintenance; and from the point of view of labor the Indonesian tradition of mutual self-help means that volunteer labor should be available. In addition, beginning in the next fiscal year the GOI is doubling the specific allocations of funds paid by the central government to the kabupaten for operation and maintenance of rural infrastructure.

There is no way however to guarantee that ten years hence small area projects will in fact be properly maintained, that funds required for materials purchase will be made available or people really be willing to work. In a most basic sense reliance must be placed upon the value of the sub-project to the people whom it benefits, and experience in the village subsidy program has shown that in fact this is the only effective guarantee. This in effect puts the problem squarely at the point of selection and emphasizes the requirement that the desires of the people be reflected in selection of the sub-projects.

C. Review and Evaluation

Review and evaluation of sub-project implementation is essential to success of the project. At the most immediate level, the kecamatan, the former BUTSI volunteer in conjunction with the camat will provide a report or evaluation quarterly which will record progress of implementation, problems and steps taken to resolve the problems. These reports will be forwarded to DMP/Jakarta via the DMP area or resort officer. Reports from the former BUTSI volunteer will be a main input to the quarterly reports provided by DMP/Jakarta to AID covering project implementation, including certification of sub-projects completed.

Kabupaten public works and other technical department officers are expected to provide any necessary overall monitoring of sub-project implementation in addition to their responsibility for providing specific technical advice. The kabupaten will report

on progress, accomplishments and sub-projects completed only in context of implementing overall kabupaten development activities. This will however provide a separate review and evaluation of sub-project activity and results. The report and evaluating function of the province will also be limited to review of the sub-projects in terms of the province overall plan. In carrying out this responsibility, teams composed of representatives at the provincial level of public works and the other technical departments will review and inspect projects on the spot throughout the province during the course of each year. The activities carried out under this project will also be subject to such inspection.

As discussed above, two expatriate technical advisors will be financed under the loan. Their principal role is to advise, assist and work with the DMP and lower levels of government charged with responsibility for the program. The success of the program will ultimately rest on the ability of these GOI institutions to carry out these implementation responsibilities. The objective of the assistance is to improve the institutional ability of these involved GOI agencies to carry out each of the project steps.

These advisors will work directly under contract with the DMP. They will be located in Jakarta working on the full range of responsibilities which are to be exercised by DMP/Jakarta. These include the selection of kecamatans to be involved, the review and selection of sub-project applications, preparation of budget documents, review of technical requirements, monitoring project progress and the certification procedure. The advisors will also spend considerable time in the kecamatan level to assist where problems arise and review general progress of sub-project activity. Work at the field level will provide the experience to advise on what steps may be required for improvement of project implementation. The advisors will provide monthly reports to DMP/Jakarta on progress of the project and problems, with their recommendation and evaluation. These reports will be available to AID.

As well as managerial skills needed for the above tasks, the advisors will require a technical background, preferably an engineering degree with experience on rural works or community development type projects. This will enable them to provide needed technical advise on these essentially small construction type projects.

Evaluation of the social and economic impact of the project is an important aspect in order to determine its success and whether or how such projects should be continued. This requires sufficient baseline data at the commencement of sub-projects and follow on evaluation of effects. While an independent evaluation, perhaps by an Indonesian university, was discussed with the GOI, it has determined on a policy basis that field evaluation in rural areas, by universities or non-government entities not concerned or directly charged with responsibility for rural administration, not be included in this project. However, the GOI supports the need for an accurate evaluation in order to measure the

project impact. It is proposing an intra-government "research and development" team including the planning ministry (Pappenas), DMP, Finance and Interior. This team will compile baseline data, review sub-project results and assess the impact. They will be aided by the former BUTSI volunteers in selected kecamantans. Assistance in the evaluation can also be provided by kabupaten personnel familiar with the specific sub-project areas and the two technical advisors funded under the loan.

In general, therefore, a fairly comprehensive evaluation should be possible through the media of the sources discussed above: from the intra-government team, the former BUTSI volunteer, the DMP area officer, the kabupaten and the two advisors.

In addition however AID and DMP/Jakarta will jointly carry out an evaluation during the course of each GOI fiscal year on mutually agreed-upon schedules. Representatives of both DMP/Jakarta and AID will perform formal reviews of a random stratified sample (approximately ten percent) of sub-projects being carried out during the year. The purpose of this inspection will be to: (1) evaluate sub-projects in terms of their success in meeting original objectives; (2) review management procedures, supervision, monitoring, payment, etc., to detect shortcomings, slippages or areas where improvements can be made; (3) determine extent to which completed sub-projects are in accord with technical specifications; (4) provide the basis for effecting required changes in project implementation procedures, including selection criteria, timetables, management techniques, etc.; and finally (5) appraise the impact of the sub-projects on the community. This joint evaluation will be a major policy review and will be a principal factor in establishing the guidelines for the succeeding fiscal year.

Without attempting to overburden the project with excessive reporting requirements or evaluations, the procedures discussed above provide a reasonable basis for adequate project monitoring and evaluation of overall project results both on an immediate and continuing basis.

IV. FINANCIAL ANALYSIS

A. Alternative Sources of Financing

This project is part of the U.S. Government contribution to the IGGI non-food assistance for Indonesia through GOI fiscal year 1974/75. The GOI has specifically requested AID assistance for this project

A number of donors are engaged in assistance to the Indonesian agricultural sector, either directly through specifically crop-related programs or through aid for reconstruction and improvement of rural infrastructure. Donors in the agricultural sector include both the international agencies - the IBRD, Asian Development Bank and United Nations Food and Agriculture Organization - and a range of individual countries - the Federal Republic of Germany, The Netherlands, Japan, the United Kingdom, Canada, France, Australia, New Zealand and Belgium. The IBRD is also currently interested in a program for rural road betterment as well as in a loan to assist the kabupaten works program (see Section III, B. 4 above). Other donors are expected to contribute within the overall IGGI levels to additional projects in agriculture.

With respect to the major purpose of increasing basic rural and agricultural production the project to be financed by this loan is included within the agricultural sector. The focus of the project however on poorer areas and the aim of providing immediate rural employment set this project apart. In view of the specific experience of AID with Food-for-Work as the predecessor to this project, other donors are not expected to provide assistance to similar projects. Accordingly alternative financing is not available from other donors, and Exim Bank has expressed no interest in financing this project.

B. Financial Requirement - Project Costs

Total project cost is estimated at \$20.0 million including the \$6.8 million provided by this loan and \$13.2 million equivalent in rupiah from the GOI budget. The loan amount includes approximately \$300,000 to cover the cost of the two expatriate technical advisors for the project; each will be assigned for a period of approximately three years. The funds for these advisors will be expended in foreign exchange for salaries, allowances, vehicles and international travel; local support costs will be met by the GOI. The \$6.5 million balance of the loan will be converted to rupiah and expended by way of reimbursement to the GOI for project costs already incurred. Apart from the expatriate technical advisors, there will be no requirement for foreign exchange as such and no AID funds will be earmarked for such purpose. Approximately 60 to 70 percent of overall

project costs will be for payment of labor, about six percent for design and other services by the kabupaten public works offices, approximately nine percent for DMP administrative costs, and the balance for procurement of materials and transport. As discussed in Section III B.2 above, for the sub-projects themselves, labor costs are expected to amount to 70-80 percent and materials, transport, design, etc. to 20-30 percent of the remaining sub-project allocations.

Table 1

Summary of Project Costs
(in millions)

<u>GOI FY</u>	<u>No. of Kecamatan</u>	<u>GOI</u> \$	<u>AID</u> \$	<u>Total</u> \$
1974/75	100	2.6	1.6 ^{1/}	2.6
1975/76	150	2.6	2.0	4.2
1976/77	200	3.3	2.0	5.3
1977/78	300	<u>4.7</u>	<u>3.2</u>	<u>7.9</u>
		13.2	6.8	20.0

1/ includes \$0.3 million for technical advisors

C. Arrangement for Provision of Funds

The terms of this loan to the Government of Indonesia will be forty years with a ten year grace period. Interest during the grace period will be at two percent per year and thereafter at three percent per year. Principal and interest will be payable in U.S. dollars in level semi-annual installments.

Budget procedures for the project provide that sub-project selection will be complete and the proposed budget for each following fiscal year (beginning 1 April) be compiled by September of the preceding year. Final approval and establishment of the budget will take place by January following review by the concerned Central Government Departments, particularly by the National Development Planning Agency (BAPPENAS), which is responsible for the development budget, and by the Department of Finance. The budget will provide for disbursements by fiscal year quarter in advance according to the expected implementation schedule set forth in the budget documentation for sub-projects during the fiscal year.

Project funds will be provided by the Department of Finance via the State Treasurer's Office at provincial level to local branches of Bank Rakyat Indonesia (BRI). The BRI local branch will then disburse funds to the DMP resort officer for payment of labor and procurement of materials. Expenditures of funds will be reported both through the

Department of Finance and DMP channels. The DMP quarterly operational reports to AID (see Section III.C above) will also include a report of such expenditures.

This combined report will include a certification by DMP/Jakarta for each subproject completion. This certification of completion, which will include certification of the undertaking by the Kecamatan and Kabupaten to provide for maintenance, will be the basis for AID reimbursement under the project. To the extent of such completion, within sixty days following the end of each quarter of the GOI fiscal year, AID funds will be converted to rupiah for reimbursement of the completed subprojects. The payment amount will correspond to the AID share based upon an annual percentage derived from the division of project costs indicated above in Table 1. Such payment will be made for the actual cost of those subprojects recorded as completed and so certified in the quarterly reports which DMP will provide to AID.

Funds for reimbursement by AID will be made available from the beginning of GOI fiscal year 1975/76 and will assist in financing the project through fiscal year 1977/78. The GOI has already provided a total budget of \$2.6 million equivalent for the first fiscal year 1974/75. While reimbursement in a given year is programmed as the percentage of AID funds to total project costs according to the schedule in Table 1 above, if the project expands at an accelerated rate, the percentage of AID funding can be increased up to a total of 50 percent of the project costs for that year. Thus the drawdown of AID funds could be more rapid than the presently estimated three year period. If the project moves at a slower rate than estimated and all loan funds are not disbursed as the end of three years, consideration will be given to whether the project warrants continued support or funds should be deobligated.

Each quarterly AID reimbursement will require a finding by AID that the project is being carried out satisfactorily in accordance with agreed upon standards. In making this determination AID will rely upon the reports submitted by DMP, the reports and advice of the two technical advisors, and upon the annual joint AID-DMP evaluation to the extent the sampling has been completed by the quarter in question. Should AID determine in any given quarter that the overall progress of the project is unsatisfactory and that no further AID commitment should be made until correction has been effected, release

of AID funds will be suspended. Continuing failure on the part of the GOI to correct recognized serious inadequacies may result in AID terminating assistance to the project. The loan agreement will contain provisions covering both these requirements.

D. Impact on U.S. Balance of Payments

Except for the technical advisors, who will be recruited from the United States, there is no foreign exchange requirement as such for the project and no AID funds will be earmarked for such purpose. All other funds provided by the loan will be converted to rupiah and expended in Indonesia.

V. ECONOMIC AND SOCIAL FACTORS

Eighty-five percent of employment in Indonesia is in rural areas and 72 percent of the rural employed are in agriculture. Although total GDP is estimated to have increased 40 percent in real terms during PELITA I, agricultural production grew by only 10 percent -- and two-thirds of that growth appears to have been from the forestry and estate crop subsectors which account for less than five percent of total agricultural employment. These statistics as well as considerable qualitative information (increases in landless laborers, decreased real wages for unskilled rural workers, easier access to new technology by larger farmers, etc.) indicate the standard of living of a significant portion of the population in rural areas has deteriorated in recent years. This project is directed toward reversing that decline by providing immediate temporary employment and improving the production base in the poorest areas.

The provinces initially included in this project are listed in the following table. Also shown are total population, rural population, rural labor force, and agricultural labor force.

Table 2

Population and Labor Force Data From the 1971 Census

<u>Province</u>	<u>Population (thousands)</u>		<u>Rural Labor Force (thousands)</u>	
	Total	% Rural	Total	% Agricultural
North Sumatra	6,623)			
West Sumatra	2,793)	82%	4,420	81%
South Sumatra	3,444)			
Lampung	2,777)			
West Java	21,633	87%	5,627	63%
Central Java	21,877	89%	7,523	63%
East Java	25,527	86%	8,118	75%
Yogyakarta	2,490	84%	906	63%
East Nusa Tenggara	2,295)			
West Nusa Tenggara	2,205)	89%	2,180	80%
Bali	2,120)			
South Sulawesi	5,189	84%	1,220	72%
Total Above	98,973	86%	28,194	75%
All Indonesia	119,232	82%	34,009	72%

The effectiveness or success of the project in achieving its objectives will to great extent depend upon the types of sub-projects carried out. Accordingly, the capacity of the project to realize these ends turns in the first instance on selection of sub-projects directed to accomplishing these objectives and to activities which can in fact be implemented with locally available skills and materials. See Section III B.2 above for discussion of the specific criteria for sub-project selection.

The expected economic benefits from completed sub-projects as well as the measure of opportunity for immediate employment were principal factors considered in arriving at project mix, which in turn provided a cost estimate. Accordingly, although the sub-projects to be carried out during the term of the project have obviously themselves not been selected, the overall project figures reflect a judgment with respect to the expected composition of the project once under way.

In terms of results the project has been designed to support sub-projects initially in 100 of the 2,275 kecamatan in the provinces above, with gradual expansion to 300 kecamatan. The total project budget will finance approximately 45 million man-days of labor and benefit more than 500,000 rural families. These totals are derived in the first instance from the experience of Food-for-Work. The immediately preceding two years (GOI FY 1972/73 and 1973/74) of Food-for-Work activities were reviewed in terms of total sub-projects carried out, number of kabupaten in which Food-for-Work was engaged, man-days of labor involved and total cost of the program per year. For those two years the figures indicate 132 sub-projects carried out in the last year and 153 the preceding year; and 62 kabupaten involved the second year with 54 for the prior year. Total man-days of labor for each of the two years were 10 million for 1973/74 and 15 million for 1972/73. Total project costs for the same years were \$4.1 and \$4.9 million equivalent. (Note: The reduction in the program for GOI FY 1973/74 reflects a decline in PL 480 assistance.) See Annex I for Food-for-Work statistics.

Accordingly, drawing upon the experience of Food-for-Work the estimate of \$2.6 million for the first year for this project was arrived at on the basis of one or two projects of the illustrative type described at Annex VII for each kecamatan. Records for Food-for-Work were kept by kabupaten, but the 62 involved in the most recent year are estimated to have included sub-projects in somewhere close to 100 kecamatan. This was therefore considered a reasonable starting base for this project, and the \$2.6 million or Rp. 1.1 billion amounts to Rp. 10 million for each kecamatan (as well as an additional Rp. 100 million for overall project administrative expenses).

Expansion of the project each year from 100 to 150, 200 and 300 kecamatan is based upon a judgment derived from the experience of the past five years as to the administrative capacity of DMP and local government effectively to implement the new project, and upon expectation of the number and the type of sub-projects involved and total man-days of labor available for each sub-project during the period between planting and harvest. The growth is gradual and reflects for each year the experience of the preceding year.

For the participating provinces, the average rural labor force in each kecamatan is about 11,500. Although no reliable statistics exist on unemployment or underemployment in Indonesia, it is generally estimated that peak seasonal unemployment in the poorer rural areas of Indonesia ranges between 25 and 35 percent in rural areas. This would indicate in the typical kecamatan selected under this project that during the peak months of unemployment something on the order of 3,500 people in the labor force are without useful work.

As discussed above, the average budget of Rp. 10 million per kecamatan in this project is the amount estimated to be required to reduce significantly the local unemployment problem. With approximately 75 percent of the average kecamatan allocation being spent on labor and an average wage rate of Rp. 125 per man-day, this allocation will provide 60,000 man-days or approximately 2,500 man-months of paid employment. This could amount to as much as 25 percent of the unemployed labor force during the three-month peak unemployment season.

The kabupaten works program also creates short-term employment. Although this program exists in every kabupaten, as discussed above, its employment generating impact is not equally felt in all kecamatan. However, for illustrative purposes it can be estimated that, for a Rp. 300 allocation per capita and with 25 percent of the total for labor, up to approximately 1,000 man-months of employment will be created in the average kecamatan under the kabupaten works program.

From the above it can be seen that this project will have a major impact upon underemployment and hence on the economic well being of a significant number of people in the poorest kecamatan in Indonesia. It is also clear that this project will have a greater direct beneficial impact in this regard in the poorest kecamatan than any of the other major GOI programs currently being implemented. It is not possible in advance of project implementation, however, to assess quantitatively the long term production and employment expansion impact of individual sub-projects.

Quantitative and qualitative benefit assessment will be one of the elements of the ongoing project evaluation process. In general, qualitative evaluation of previous similar small scale, labor-intensive, infrastructure projects such as the village subsidy program shows a significant beneficial economic impact. The requirement that sub-projects be selected, implemented, operated and maintained by the last people who will benefit from them is an essential element in ensuring that this continues to be the case.

VI. LOAN ADMINISTRATION

A. Timetable for Administration

Loan Authorization	May 1974
Execute Loan Agreement	June 1974
Initial CPs met	September 1974
Technical advisors contracted	September 1974
First reimbursement payment from the loan	September 1975
Reimbursement payments from the loan made on a quarterly basis or less frequently as appropriate for each of the following years: 1976 and 1977	Annually
Final disbursement	September 1978

**B. Terminal Dates for Conditions Precedent, Disbursement
Authorizations and Disbursements**

1. Conditions precedent to initial disbursement will be met within three months of signing the loan agreement.

2. The terminal date for requests for new disbursing authorizations will be 30 March 1978 corresponding to the end of the third and final GOI fiscal year included under this loan; this is estimated to be approximately forty-six months after the date of signing the loan agreement.

3. The terminal date for disbursement is 30 September 1978 or six months after the terminal date for request for new disbursing authorizations. This should permit sufficient time for final disbursements and accounting, and is expected to be approximately fifty-two months after the date of signing the loan agreement.

C. Conditions Precedent to Initial Disbursement

1. Opinion of the Indonesian Minister of Justice or other legal counsel satisfactory to AID that the loan agreement has been duly authorized or ratified by and executed on behalf of the Borrower and is a valid and legally binding obligation in accordance with its terms.

2. Names of the persons who will act as representatives of the Borrower together with evidence of their authority and specimen signature of each.

3. Detailed criteria for selection of sub-projects including evaluation or indication of value to be accorded economic and other relevant factors such as labor-intensity.

4. Contracting of at least one and if possible two expatriate technical advisors, said contracts to be in accordance with AID requirements.

5. Assurance of the establishment of (a) a budgetary allocation for the project for the first fiscal year in which loan funds will be required and (b) an approved payment authorization in the amount required for the first three months of project operations.

D. Conditions Precedent to Each Additional Disbursement

1. Assurance of the establishment of (a) a budgetary allocation for the project for each succeeding fiscal year in which loan funds will be required reflecting an increase over the preceding year budget at a rate agreed upon by AID and (b) an approved payment authorization in the amount required for the first three months of project operations for that fiscal year.

2. Certification by the Borrower of the successful completion including the undertaking by the kecamatan to provide for maintenance, of each sub-project for which loan funds will be applied as reimbursements for sub-project costs.

3. Determination by AID that the overall project is being carried out satisfactorily in accordance with agreed upon standards and criteria.

E. Borrower Covenants

1. Make available to the executing agency on a timely basis any Indonesian currency necessary for implementation and completion of the project and any foreign exchange or Indonesian currency necessary to complete the project if the loan proceeds are not sufficient.

2. Assist the executing agency to carry out the project or cause the project to be carried out with due diligence and efficiency and in conformity with sound technical, financial, administrative and management practices, and any plans, schedules and other arrangements together with all modifications therein approved by AID.

3. Carry out during the term of the project at times to be agreed upon during the course of each year a joint review with AID of a random stratified sample amounting to approximately ten percent of sub-projects being carried out during said year.

4. Ensure that an effective program of maintenance and repair, including necessary funding therefor, is provided for all completed sub-projects in order to assist in achievement of the purposes of the project.

VII. INDONESIA'S ECONOMIC PERFORMANCE AND DEBT SERVICE PROJECTIONS

A. General Economic Developments

The growth rate of Indonesia's population between 1961 and 1971 was close to 2.1% per annum. The current rate of growth is thought to be about 2.6%. Although estimates of GDP are not very reliable because the quality of data in Indonesia is exceptionally poor, the prevailing opinion is that GDP growth in 1973 was about 7%, which implies per capita GDP growth around 4.5%.

Probably the most significant economic development in 1973 was the increase in the f.o.b. price of oil from \$2.93/barrel at the beginning of the year to \$10.80/barrel at the end. This, coupled with production increases should lead to a gross value of crude oil production in 1974/75 of about \$6 billion (vs. \$2 billion 1973).

After several years of impressive gains in rice production in the early years of the First Five-Year Plan, Indonesia experienced a setback in 1972-73. Rice production declined 3%, in contrast to a planned increase of 5%. This was the first year in the current Five-Year Plan in which rice production failed to meet the target figure. The shortfall was due in part to bad weather. Support prices for rice, which fell relative to other farm prices over a three-year period, are also believed to have been too low to make yield-increasing investments attractive for farmers.

Compounding the production shortfall, the government switched to a new system of domestic procurement of rice just before the principal harvest in April 1973. Village-level cooperative units were formed throughout the country as procurement intermediaries. Because they were not properly prepared for the role, they were not effective and domestic procurement of rice fell far below the target. Counterproductive government procurement measures were adopted which accelerated the price increases. The government eventually imported large quantities of rice at high prices. Imports of rice in the 1973/74 fiscal year are estimated at 1.7 million tons valued at \$500 million, compared with 1.0 million tons valued at \$166 million during the previous year. Imports of wheat were estimated to be an additional \$100 million.

Aside from rice, corn production in 1972 was down 12%, cassava down 6%. Rubber, palm oil, sugar and copra registered modest increases. Fish production rose slightly (by 1%) and timber production rose sharply (by 28%).

The effects of four years of rehabilitation of production facilities and physical infrastructure have been reflected in the rapid growth of industrial production. The IBRD estimates overall industrial growth to have exceeded 15% per year in the period 1968-1971. Industrial growth slackened to 9% in 1972. Since the industrial sector is so small to begin with (9% of GDP in 1972), the impact of industrial growth on the overall economy is not very great. Up until now, industrial growth has been concentrated in import-substitution activities. The most impressive gains in 1972 were in textiles (up 16%), cement (up 23%), fertilizer (up 17%), cycle and car tires (up 65%), and paper (up 31%). In the same period, Indonesia began producing sheet glass, steel cable, and a variety of other products which previously had been entirely imported. The potential of manufacturing for export was recognized by the government and it began to promote the establishment of plants to assemble micro-circuits and other electronic components.

The current rate of investment for the Indonesian economy is estimated by the IBRD at 20-25% of GNP. Both foreign and domestic investment are growing rapidly. Until recently total investment financing came from a lower proportion of domestic savings and a higher proportion of foreign financing (government aid as well as private investment) than was appropriate for self-sustaining growth. With the recent increase in export earnings a much higher proportion of investment will be financed from domestic savings.

During the past year, the government also adopted a number of important measures designed to promote investment. These included the rationalization of the structure of import duties, provision of long-term credit to small entrepreneurs, the establishment of the first of several industrial estates, and the reorganization of the Foreign and Domestic Investment Boards into a single entity.

B. Fiscal and Monetary Policy

The government continues to follow a conservative fiscal policy based on the principle of a balanced budget. Non-oil revenues increased 26% in 1972/73, an estimated 45% in 1973/74, and are conservatively projected by the GOI to increase 26% in 1974/75. Oil revenues increased 67% in 1972/73, 74% in 1973/74, and may quadruple in 1974/75. Expenditures continue to lag behind planned levels, particularly those related to foreign assistance projects, reflecting the limited capacity of the bureaucracy to manage rapidly growing programs.

Interest rates were reduced during 1973, partly because the banking system was unable to make loans rapidly enough to keep pace with the flow of deposits at the higher rates and partly because of a desire to reduce the inflow of foreign short-term deposits. One undesirable consequence of the lowered interest rates has been a reduction in the level of domestic time deposits. The money supply increased 55% and 48% during the 1972-73 and 1973-74 fiscal years respectively. Combined with rice shortages, higher import prices and higher demand associated with population and income growth, the result has been the most serious bout of inflation experienced by the New Order in five years. From September 1972 to September 1973, the Cost-of-Living Index for Jakarta increased 42%. The weighting and narrow geographic scope of this index tend to overstate the size of price increases for the nation as a whole. Nevertheless, the effective rate of inflation during the 1973/74 fiscal year is expected to be on the order of 45% nationwide. One of the most serious problems now confronting the GOI is the control of inflation.

C. Balance of Payments

The foreign trade sector has been the most buoyant economic sector during the past year. In fiscal year 1972-73, export earnings grew 41% (to \$1.9 billion), led by oil earnings which grew 64% (to \$965 million). Other leading exports were timber (up 61%), coffee (up 54%), tobacco (up 63%), tin ore (up 21%). Higher prices were the principal factor in these rapid increases. Higher prices also contributed to the sharply increased value of imports---up 39% during the same year. Foodstuffs grew more rapidly than any other category of imports (72% in calendar year 1972). Other rapidly growing imports were chemical products, machinery and equipment, and metal products. Growing exports together with large inflows of private capital and foreign assistance resulted in an overall balance-of-payments surplus of \$425 million in 1972-73.

In the 1973/74 fiscal year, the payments balance on goods and services is expected to be unfavorable in the amount of \$812 million (\$1,492 without oil). Compared with the previous year, higher net oil earnings were more than offset by higher imports---especially food imports. Debt service payments of \$134 million are an additional negative element. Partially offsetting the negative elements, private capital flows are expected to increase 13%---to \$531 million---and foreign assistance flows are expected to jump by 30% to \$631 million. The overall balance-of-payments surplus for the current year comes out to \$229 million. It is estimated that Indonesian net reserves will reach about one billion dollars by the end of March 1974---equivalent to three months of imports.

For 1974/75, USAID projections for the balance of payments reflect the sharp increases in oil prices and import prices that have occurred since the IMF/IBRD estimates were prepared in November 1973. As shown in Annex VIII, the Goods and Services balance is projected to change to a surplus of \$253 million and net foreign exchange reserves probably increasing by as much as \$1.4 billion.

In the face of Indonesia's impressive balance-of-payments performance, the government's request at the December 1973 IGGI meeting for \$850 million in foreign assistance for the 1974/75 fiscal year appears somewhat high. The rationale behind a request of this magnitude includes the following elements: (a) Indonesia's rapid accumulation of reserves is attributable to unforeseen developments whose long-term ramifications have not yet been analyzed; (b) Indonesia remains one of the poorest countries in the world and the donor nations continue to express a lively interest in providing assistance to Indonesia; and (c) the IGGI donors made general commitments of \$875 million against last year's request so that this year's request can be interpreted as a reversal of the trend toward larger amounts of aid.

While the IBRD endorsed the Indonesian request, the Bank pointed out that the circumstances will require the Indonesians to reassess their foreign assistance strategy.

D. Debt Service Capacity^{1/}

1. Foreign Indebtedness

Bilateral agreements for the rescheduling of the pre-July 1966 debts in accordance with the Paris Minute have been signed with all the participating countries. Agreements with non-participating creditor countries have been concluded with Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania and the U.S.S.R.

According to available data on Indonesia's pre-July 1966 debts, evaluated at exchange rates in effect on June 30, 1973, the total principal together with rescheduled contractual interest and moratorium interest accrued prior to January 1, 1970, amounted to \$2,162.6 million; of this total, \$750.8 million was owed to the participating creditor countries, \$1,393.4 million was owed to the CMEA countries, mainland China and Yugoslavia, and \$18.4 million was owed to other creditor countries. Total interest payments, excluding those already rescheduled and moratorium interest accrued before January 1, 1970, amounted to \$289.0 million. With the application of the Bisque clause, annual repayments of

^{1/} Based on IMF Report SM/73/266, Recent Economic Developments, 11/28/73.

principal on pre-July 1966 debts would amount to about \$40.1 million during 1973-75; such payments rise to a maximum of \$99.8 million during 1992-99. In addition to the annual interest payment of about \$19 million during the years 1985-99, deferred interest will be paid, increasing from about \$2.7 million in 1973 to about \$15.6 million in 1992 and declining thereafter to about \$11.3 million in 1999.

Revised data on Indonesia's non-guaranteed debts outstanding as of December 31, 1972, excluding commitments against which delivery of goods and services was subsequently cancelled, indicate that, of the \$82.7 million outstanding on June 30, 1966, \$69.9 million had been settled through the DICS scheme by August 31, 1973, leaving an amount of \$14.7 million outstanding on that date.

Total government loans contracted from July 1, 1966 through December 31, 1972 amount to \$3,204.6 million. Service payments on these loans are estimated at about \$69.9 million in 1973 and are expected to increase to about \$166.1 million in 1982. Available data on other foreign debts of the public sector (primarily foreign debts of Pertamina), indicate service payments due in 1973 of \$116.0 million. Service payments on these debts are expected to increase to \$215.9 million in 1975 and then decline to about \$37.3 million in 1982.

2. Debt Service Requirements

As a result of the rescheduling of Indonesia's pre-1966 external debt, the ratio of debt service requirements to export earnings (oil exports being net of oil sector service payments) in 1972 was low--- about 8 percent. As a result of the sharp increase in export earnings the debt service ratio fell to about 6 percent in 1973 and is projected at about the same level for 1974. Although total debt payments will rise appreciably throughout the 1970's as grace periods expire on aid received after 1966 and as medium-term obligations fall due, the debt burden should remain manageable during the decade given export prospects. Taking into account service payments on rescheduled loans, total service payments on public sector external debts will amount to \$228.4 million in 1973, \$358.4 million in 1975 and \$280.7 million by 1982.

With the overall rescheduling of old debts already agreed upon and the potential for Indonesia's export expansion, the repayment prospects for the proposed loan appear reasonable. Our assessment of Indonesia's repayment prospects is shared by other IGGI donors.

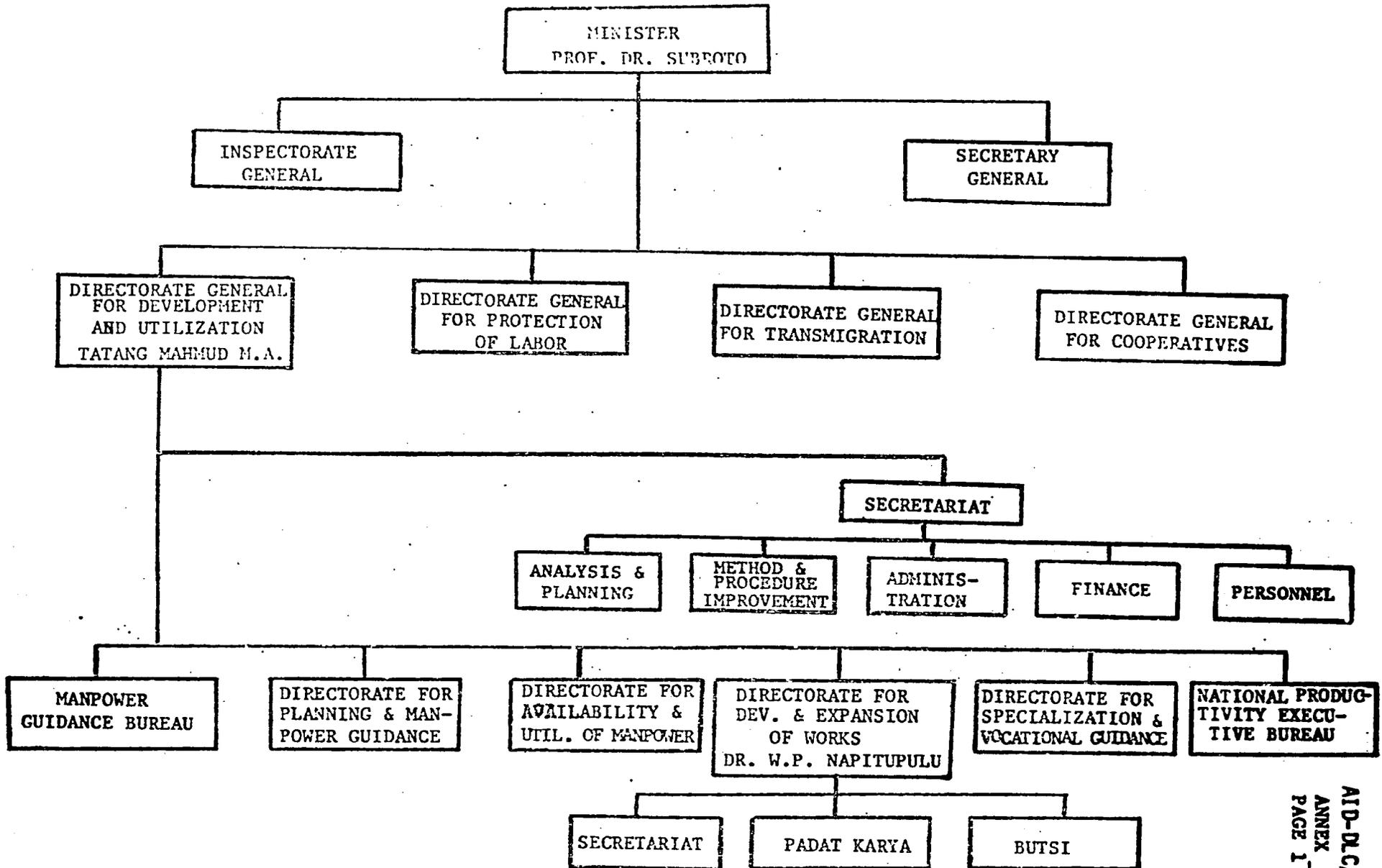
FOOD-FOR-WORK STATISTICS
PL 480, TITLE II - 1969 THRU 1974

ANNEX I
Page 1 of 1

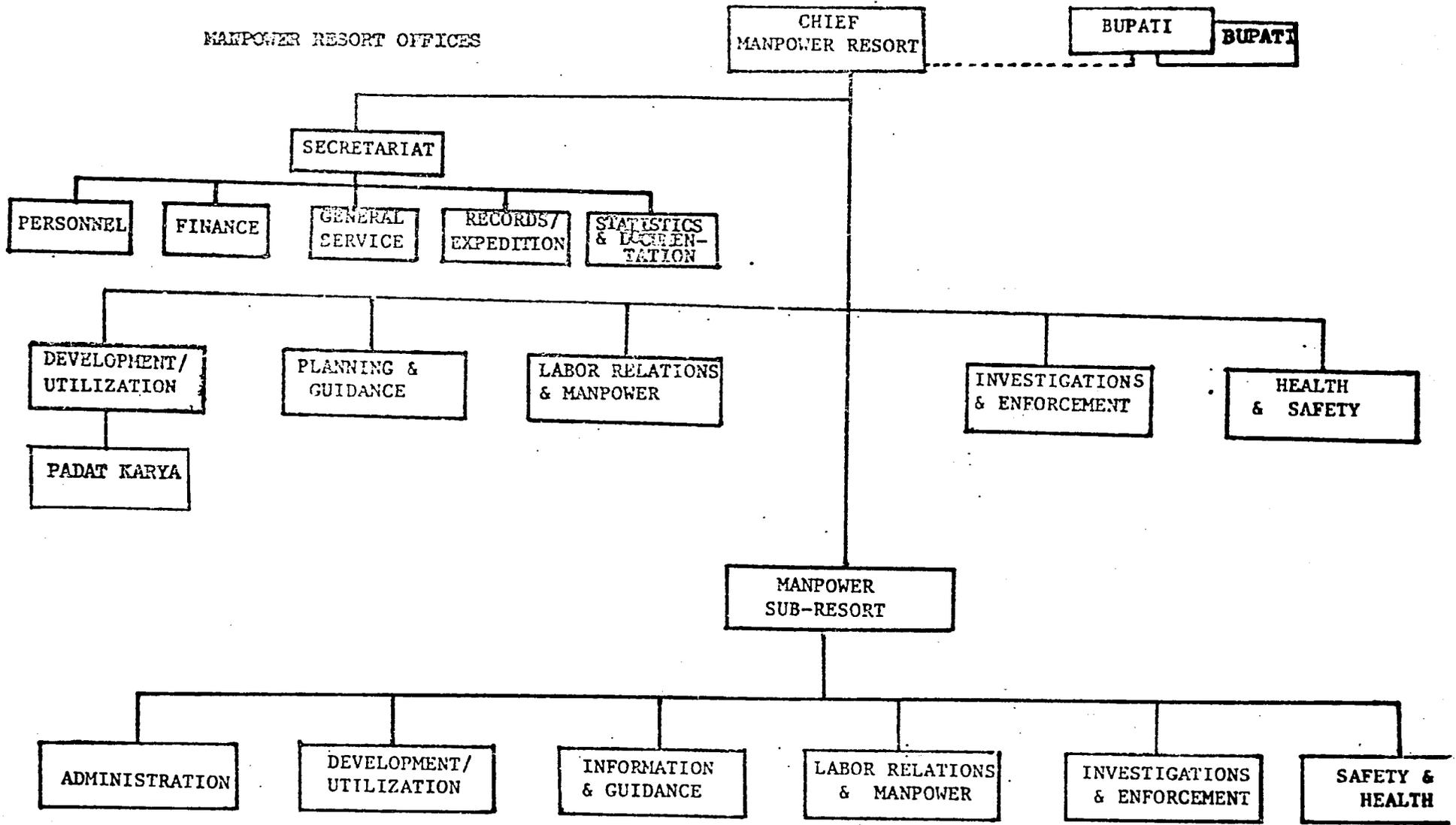
No.	GOI FY	PL480 Title II Bulgur (MT)	CCG Value (\$)	G O I		Number of Sub-Projects				Length		Area	
				Contribution (\$)	Mandays	Number of Workers	Irri- gation/ Drainage	Road	Re- forest- ation	Can. & (KM)	Road (KM)	Irrigated/ Safeguarded (Ha)	Reforested (Ha)
1.	1969-70	15,000	1,605,000	324,156	7,500,000	75,000	31	4	36	600	166	149,437	-
2.	1970-71	15,000	1,680,000	389,674	7,500,000	65,000	31	14	5	1,040	2,250	192,434	1,400
3.	1971-72	30,000	3,075,000	671,462	15,000,000	305,412	103	45	9	1,584	621	1,132,218	2,073
4.	1972-73	30,000	2,970,000	1,918,465	15,000,000	160,000	115	26	12	1,358	700	943,000	7,027
5.	1973-74	20,000	2,320,000	1,798,561	10,000,000	72,961	103	17	12	1,321	573	496,003	2,303
Total:		110,000	11,650,000	5,102,318	55,000,000	678,373	383	106	74	5,903	4,310	2,913,092	12,803

SOURCE: Indonesian Department of Manpower,
Transmigration and Cooperatives
and USAID
Jakarta, March 1974

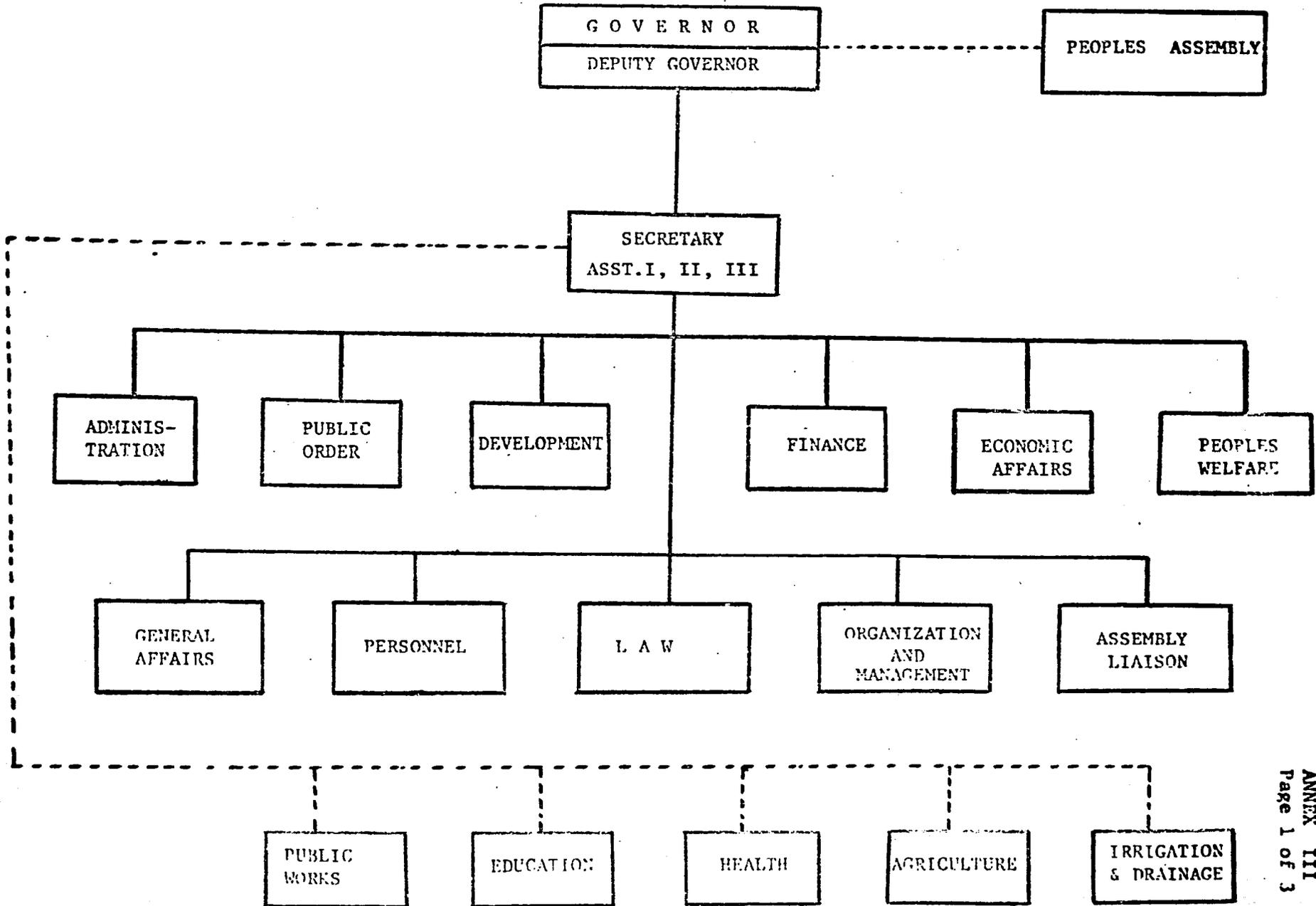
DEPARTMENT OF
MANPOWER, TRANSMIGRATION AND COOPERATIVES



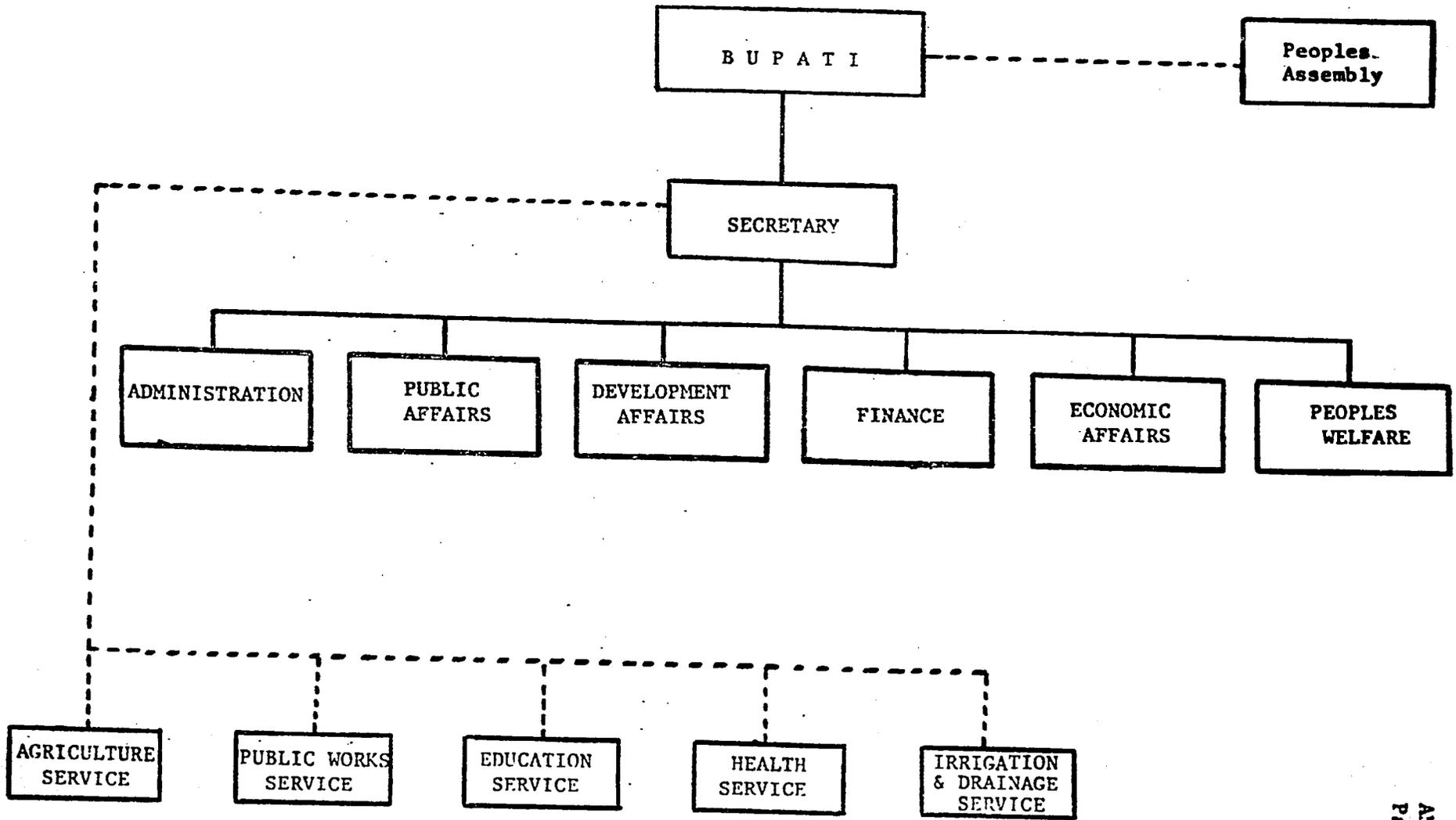
MANPOWER RESORT OFFICES



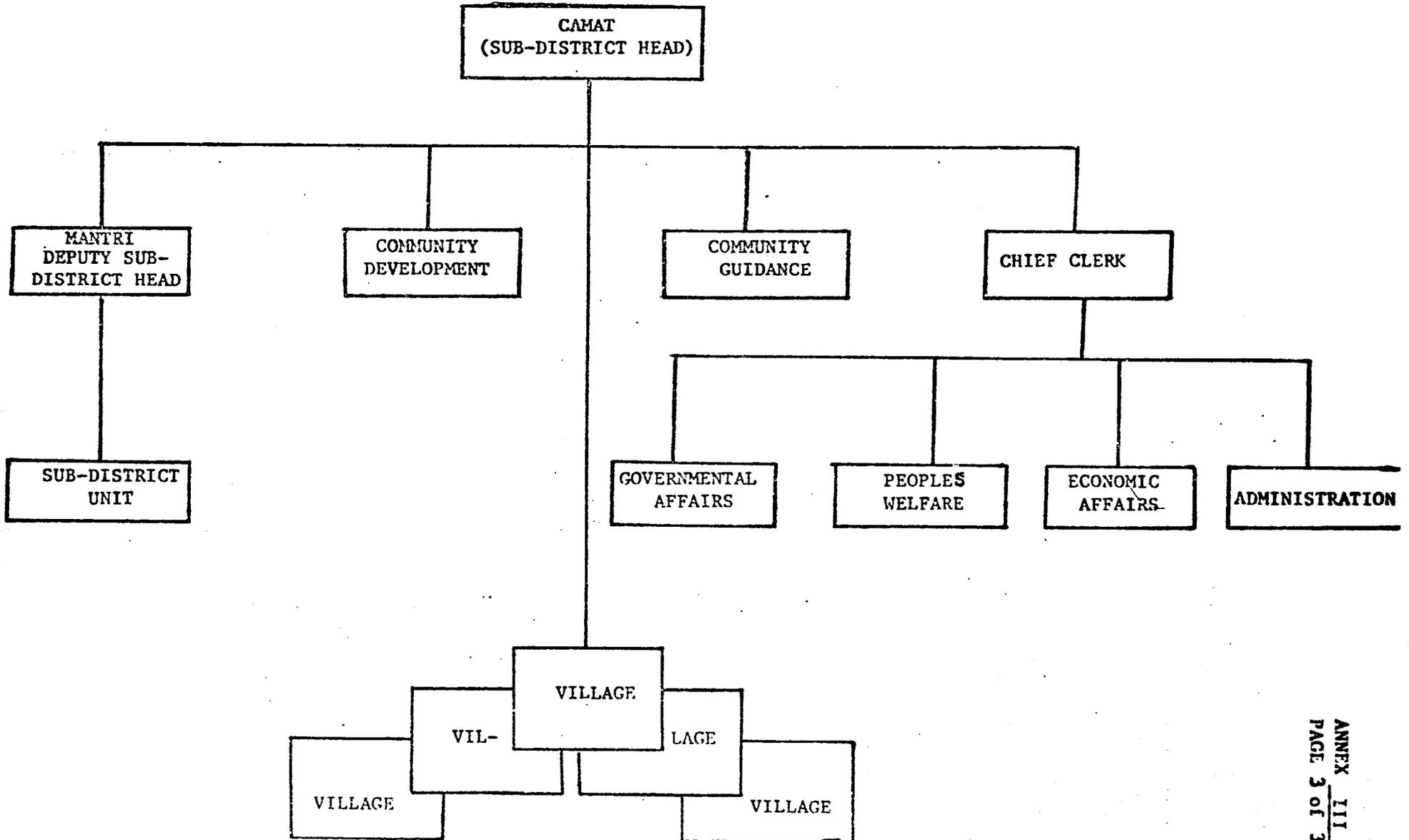
PROVINCIAL ORGANIZATION CHART



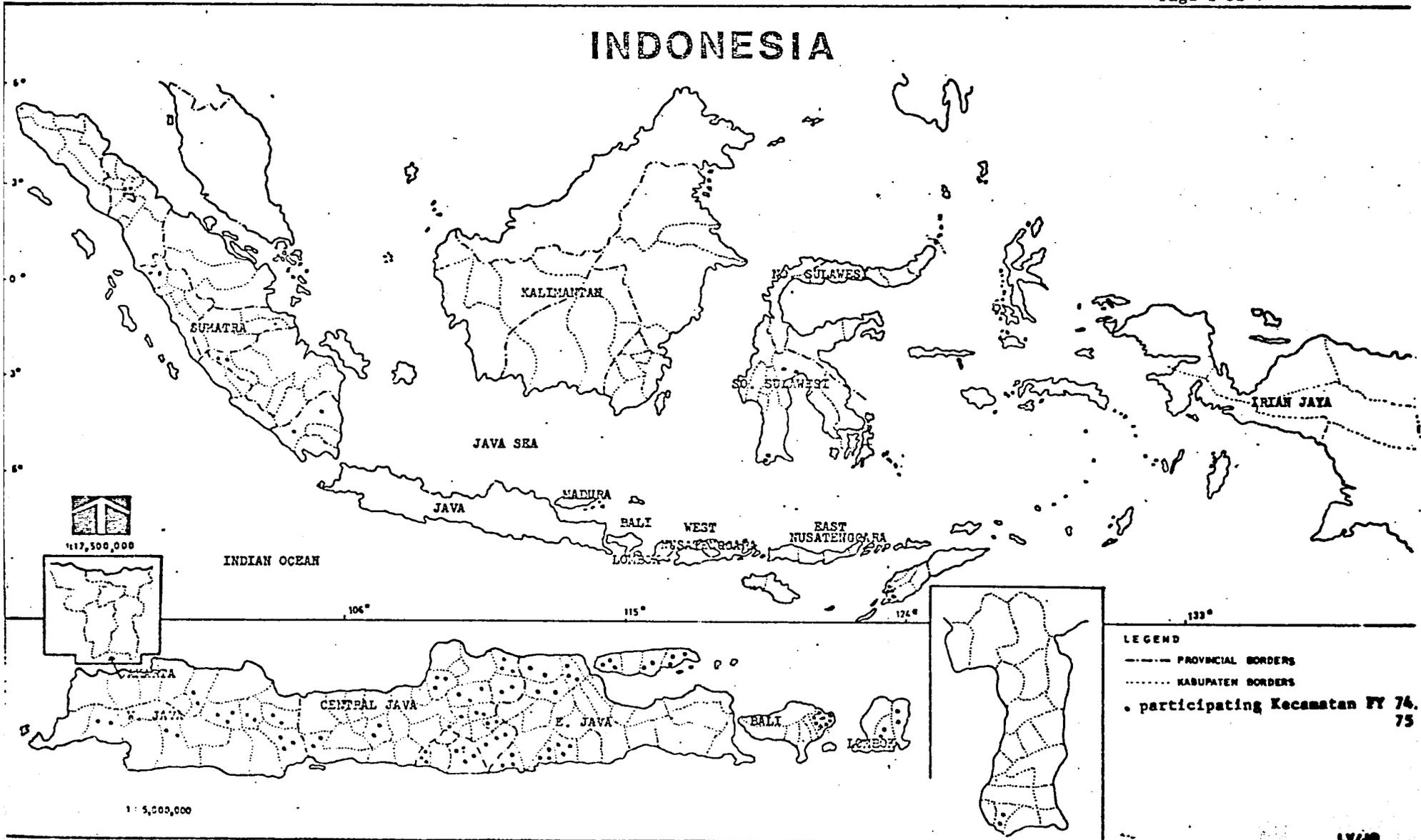
KABUPATEN ORGANIZATION CHART



KECAMATAN ORGANIZATION CHART



INDONESIA



LEGEND
- - - - - PROVINCIAL BORDERS
..... KABUPATEN BORDERS
• participating Kecamatan FY 74.
75

FY 1974-75 PARTICIPATION

<u>Province</u>	<u>Kabupaten</u>	<u>Kecamatan</u>
I. NORTH SUMATRA	1. SIMALUNGUN	1. Pane Tengah 2. Raya
II. WEST SUMATRA	2. PASAMAN	3. Rao Mapat Tunggul 4. Bonjol
III. SOUTH SUMATRA	3. OGAN KOMERING HULU	5. Belitang 6. Buay Madang
IV. LAMPUNG	4. LAMPUNG UTARA	7. Sumber Jaya 8. Bukit Kemuning
V. WEST JAVA	5. Sumedang	9. Cadasngampar 10. Tomo 11. Darmaraja
	6. CIAMIS	12. Cigugur 13. Langkaplancar 14. Cijulang
	7. PURWAKARTA	15. Plered 16. Campaka
	8. MAJALENGKA	17. Bantarujeg 18. Sukahaji
	9. KUNINGAN	19. Cidahu 20. Ciawi Gebang
	10. CIANJUR	21. Cikalong Kulon 22. Mande
	11. LEBAK	23. Cimarga 24. Pangarangan
VI. CENTRAL JAVA	12. REMBANG	25. Sulang 26. Sumber 27. Sluke
	13. GROBOGAN	28. Geyer 29. Toroh 30. Grobogan

SOURCE: Indonesian Department
of Manpower, Transmigration
and Cooperatives
Jakarta, March 1974

<u>Province</u>	<u>Kabupaten</u>	<u>Kecamatan</u>
VI. CENTRAL JAVA	14. SRAGEN	31. Jenar
		32. Sumber Lawang
	15. BANJARNEGARA	33. Pejawaran
		34. Wonoyoso
	16. BLORA	35. Jiken
		36. Sambong
	17. DEMAK	37. Karanganyar
		38. Mijen
		39. Gajah
	18. BOYOLALI	40. Wonosegoro
41. Kemusu		
19. WONOGIRI	42. Batuwarno	
	43. Giritontro	
	44. Manyaran	
20. CILACAP	45. Kawunganten	
	46. Kroya	
21. KARANGANYAR	47. Gondangrejo	
	48. Jumapolo	
VII. YOGYAKARTA SPECIAL DISTRICT	22. KULON PROGO	49. Sentolo
		50. Kokap
		51. Nanggulan
		52. Lendah
		53. Semanu
23. GUNUNG KIDUL		54. Tepus
		55. Rongkop
		56. Nglipar
		57. Pucang Laban
VIII. EAST JAVA	24. TULUNG AGUNG	58. Gampurdarat
		59. Tanggunggunung
		60. Geger
25. BANGKALAN		61. Galis
		62. Kokop
		63. Mado
26. LAMONGAN		64. Laren
		65. Palloempah

<u>Province</u>	<u>Kabupaten</u>	<u>Kecamatan</u>
VIII. EAST JAVA	27. BOJONEGORO	66. Ngambon
		67. Kalitidu
	28. TRENGGALEK	68. Dongko
		69. Pule
		70. Pogalan
	29. TUBAN	71. Montong
		72. Merakkurak
	30. SUMENEP	73. Batuputih
		74. Rubaru
		75. Batang-batang
	31. PACITAN	76. Tulakan
		77. Sudimoro
78. Pringkuku		
32. PAMEKASAN	79. Batumarmar	
	80. Tlanakan	
IX. B A L I	33. KARANGASEM	81. Kubu
		82. Abang
		83. Bebandem
		84. Karangasem
		85. Manggis
	34. BANGLI	86. Kintamani
		87. Susut
		88. Tembuku
X. WEST NUSA TENGGARA	35. LOMBOK TENGAH	89. Janapria
		90. Praya Timur
	36. LOMBOK TIMUR	91. Sakra
XI. EAST NUSA TENGGARA	37. KUPANG	92. Kruak
		93. Kupang Barat
		94. Kupang Timur
		95. Kupang Tengah
		96. Sabu Barat
XII. SOUTH SULAWESI	38. JENEPONTO	97. Binamu
		98. Batang
	39. LUWU	99. Bone-Bone
		100. Masamba

IMPACT OF PROJECT ON ENVIRONMENT

ANNEX 7, Page 1 of 2

Environmental Analysis:

The Rural Development project will provide financing jointly with the Government of Indonesia (GOI) for rehabilitation and construction of basic rural facilities in those sub-districts (kecamatan) determined to have the greatest need.

Implementation of the project will be by the Department of Manpower, Transmigration and Cooperatives (DMP) of the GOI. Selection of kecamatan will be by the DMP on the basis of need for increased per capita agricultural production and the accompanying basic need for increased rural income. Initial selection of sub-projects will be at the kecamatan level, with review at the district (kabupaten) level, approval at the provincial level, with final authorization by the DMP.

Sub-projects are expected to be short-term (three to six months duration), labor intensive, and responsive to the needs expressed by the people at the village level of government. Sub-projects are expected to range in size from US\$ 5,000 (12,450 man-days work equivalent) to US\$ 25,000 (52,350 man-days work equivalent). Numbers of sub-projects are expected to increase from approximately 175 in 1974-75 to approximately 500 in 1977-78. AID participation in the sub-projects, on a reimbursable basis, would be approximately 35 percent and GOI participation approximately 65 percent.

Typical sub-projects would include terracing and reforestation for erosion control; cleaning and rehabilitation of irrigation canals for improved water delivery, control and drainage; rehabilitation and improvement of rural and village roads; construction of small bridges; etc.

As may be seen from the above project summary, sub-projects would be small in size, widely scattered and of a type generally associated with maintenance and conservation of resources. It would be extremely impractical for each sub-project site to be visited by someone knowledgeable enough accurately to predict environmental implications.

As discussed in Section III.B. of the Capital Assistance Paper, selection and approval of sub-projects involves review by each concerned technical department at the district or kabupaten level of government. This includes review not only by the Department of Public Works office concerned with engineering standards and design, but also by the

Department of Health representative, the Department of Agriculture representative, etc. Each of these offices is expected to examine each sub-project in terms of implications for their particular field of responsibility.

Through this selection and approval procedure, and from feedback obtained from AID and DAP yearly random sample monitoring (approximately 10 percent of sub-projects as discussed in Section III.C. of the CAP), adequate protection for maximizing environmental benefits and minimizing adverse effects is assured.

INDONESIA - RURAL DEVELOPMENT

CERTIFICATION PURSUANT TO SECTION 611(e) OF
THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Richard M. Cashin, the principal officer of the Agency for International Development in Indonesia, having taken into account among other things:

the previous experience of the Government of Indonesia in association with AID in implementing the Indonesian Food for Work Program; and

the commitment of the Government of Indonesia to carry out this project effectively as evidenced by the scale of effort included for the second Five-Year Plan (1974-79),

do hereby certify that in my judgment Indonesia has the financial and human resources capability to implement, maintain and utilize effectively subject project for rural development. This judgment is based on the following:

1. The Government of Indonesia will agree to the obligations to be included in the authorization for subject capital assistance project; and

2. Adequate planning for project implementation and sufficient financial support for timely and effective execution will be provided if the Government of Indonesia complies with the program set forth in the Capital Assistance Paper.

Richard M. Cashin

Richard M. Cashin
Director, USAID Indonesia

26 March, 1974
Date

ILLUSTRATIVE SUB-PROJECTS

(A) Province: Central Java
Kecamatan: Masih Perawan
Population: 43,650; Rural Labor Force: 17,000
Unemployment: 4,215 peak seasonal unemployment
Prevailing Wage Rate (unskilled labor): Rp. 125/day
Budgetary Allocation: Rp. 11.2 million
Short term employment created: 68,396 man days or 2,700 man months

Projects: (a) Terracing of Bukit Bukan Main and planting with fruit trees to prevent erosion and provide additional income for the village of Miskin Sekali. - Rp. 7,193,680
(b) Construction of 3.2 km x 3.5 m loose surface road between village of Cari Kesempatan and main market road to Nanti Kaya. - Rp. 3,995,500.

Work Required:

(a) Construction of 21,340 meters of stone wall 1 meter wide and .5 meters high (10 terraces) totalling 10,670 m³ of stone work. Digging of 14,228 holes and planting of seedlings.
(b) Collection, transport, and crushing of 2,800 m³ of stone obtained from riverbed, placing of stone on roadbed, cutting and filling.

<u>Budget (a):</u>	<u>Rupiahs</u>
1. Collection of stone (28,460 mandays x Rp.125)	3,557,500
2. Construction of wall (16,000 mandays x Rp.125)	2,000,000
3. Digging of holes and planting of seedlings (2,100 x Rp.125)	262,500
4. Purchase of seedlings (14,228 x Rp.60)	973,680
5. Contingency	400,000
	<u>Rp. 7,193,680</u>

<u>Budget (b):</u>	
1. Collection of stone (3,736 mandays x Rp.125)	467,000
2. Cutting and filling (6,900 x Rp.125)	862,500
3. Transportation of stones	840,000
4. Placement of stones (11,200 x Rp.125)	1,400,000
5. Construction of 4 culverts @ Rp. 61,500	246,000
6. Contingency	180,000
	<u>Rp. 3,995,500</u>

(B) Province: W. Sumatra
 Kecamatan: Bonjol
 Population: 41,500 Rural Labor Force: 14,000
 Unemployment: 4,000 peak seasonal unemployment
 Prevailing wage rate (unskilled labor): Rp. 160/day
 Budgetary Allocation: Rp. 8.30 million
 Short-term employment created: 47,150 man days or 1,900 man months
 Project: Rehabilitation of 4.5 km of the Kali Ngomong
 Kosong canal to maximize capacity and thereby
 avoid flooding of padi fields (130 ha).

Present Dimensions: Width - 6 meters
 Depth - 2 meters
 Length - 4.5 km

Proposed Dimensions: Width - 7 meters
 Depth - 3.5 meters
 Length - 4.5 km

Works Required:

1. Dredging of canal (56,250 m³)
2. "Re-embankation" and planting of banks with grass sod to prevent erosion.
3. Replacement of three sluice gates.

Budget:	<u>Rupiah</u>
1. Dredging - 45,000 mandays @ Rp. 160	7,200,000
tools (baskets for dirt carrying)	63,000
2. Embanking & planting - 2,150 mandays	
@ Rp. 160	344,000
3. Replacement of broken sluice gates (3)	
(a) materials	174,000
(b) skilled labor	36,000
4. Project design, administration, etc.	185,000
5. Contingency	300,000
Total Costs	<u>Rp. 8,302,000</u>

Balance of Payments, 1971/72 through 1974/75
(in Millions of U.S. Dollars)

	1971/72 Actual	1972/73 Actual	1973/74 Estimate	1974/75 Projections
A. Goods and Services	<u>-412</u>	<u>-457</u>	<u>-812</u>	<u>+253</u>
Oil (net)	204	399	680	3,044
Non-oil	-616	-856	-1,492	-2,791
Exports	(784)	(974)	(1,711)	(1,827)
Imports	(-1,110)	(-1,438)	(-2,600)	(-3,768)
Services	(-290)	(-392)	(-603)	(-850)
B. Miscellaneous capital	<u>190</u>	<u>480</u>	<u>531</u>	<u>773</u>
Direct investment	186	254	337	533
Other	4	226	194	240
C. Debt service payments	<u>-107</u>	<u>-106</u>	<u>-134</u>	<u>-145</u>
Pre-July 1966 debts	-70	-57	-78	-78
Post-July 1966 debts	-37	-49	-56	-67
D. Unidentified capital movements, net errors and omissions	2	21	13	...
E. Official transfers and capital	<u>397</u>	<u>487</u>	<u>631</u>	<u>565</u>
Program loans & grants	283	342	386	200
Non-Food	(184)	(194)	(284)	(100)
Food	(99)	(148)	(102)	(100)
Project loans & grants	114	145	245	365
F. Total A through E	70	425	229	1,446
G. Allocation of SDRs	30
H. Monetary movements (increase in assets -)	-100	-425	-229	-1,446

Source: USAID projections and IMF Report SM/73/266, Indonesia - Recent Developments, November 28, 1973, page 63 (Table X).

**Payments Due on Public Sector External Debts
Contracted as of June 30, 1973^{1/} ^{2/}**

(in Millions of U.S. Dollars)

	Old Debts ^{4/}	New Debts				Total
		Government		Other Public Sector ^{3/}		
		Principal ^{5/}	Interest	Principal	Interest	
1973	42.5	22.6	47.3	80.3	35.7	228.4
1974	43.3	27.7	57.5	129.8	44.8	303.1
1975	44.1	37.2	61.2	152.2	63.7	358.4
1976	66.0	38.9	61.5	137.9	46.1	350.4
1977	66.0	49.1	61.9	114.4	38.6	330.0
1978	77.3	64.5	61.2	62.0	31.2	296.2
1979	77.3	76.2	59.5	38.3	25.6	276.9
1980	77.3	92.6	57.5	27.8	21.6	276.8
1981	77.3	99.3	56.6	18.2	20.0	271.4
1982	77.3	110.7	55.4	18.2	19.1	280.7
1983 and after	<u>1,893.1</u>	<u>2,552.5</u>	<u>692.5</u>	<u>181.0</u>	<u>65.5</u>	<u>5,384.6</u>
Total	2,541.5	3,171.3	1,272.1	960.1	411.9	8,356.9

Source: IMF Report SM/73/266, Indonesia - Recent Developments, November 28, 1973 page 72 (Table XVIII).

- ^{1/} Excluding obligations of less than 181 days and liabilities of the banking system.
^{2/} Data based on market exchange rates on June 30, 1973.
^{3/} This includes available data on loans to state enterprises, local government and government agencies based on loan agreements signed through October 12, 1973.
^{4/} Comprise debts contracted prior to July 1, 1966. The full use of the option to defer part of the repayment of principal has been assumed in this presentation.
^{5/} Excluding \$33.3 million paid during 1968 through 1972.

INDONESIA - RUPAL DEVELOPMENT

COUNTRY TEAM RECOMMENDATION

Subject loan will be of significant economic and social benefit to Indonesia, is consonant with overall United States objectives in Indonesia and constitutes an important element in the United States assistance program for this country. The Country Team accordingly recommends approval.

Richard M. Cashin

Richard M. Cashin
Director, USAID Indonesia

Erlend H. Heginbotham

Erlend H. Heginbotham
Counselor for Economic Affairs

March 26, 1974

Date

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided From: Food and Nutrition
(Indonesia: Rural Works)

Pursuant to the authority vested in me as Assistant Administrator, Agency for International Development ("AID") by the Foreign Assistance Act of 1961, as amended (the "Act"), and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter I, Section 103 and Chapter 2, Title I, to the Government of the Republic of Indonesia (Borrower) of not to exceed Six Million Eight Hundred Thousand Dollars (\$6,800,000) to be made available to assist in financing the foreign exchange and local currency costs of a rural development project in Indonesia, this loan to be subject to the following terms and conditions:

1. Terms of Repayment and Interest Rate

This loan shall be repaid by the Government of the Republic of Indonesia within forty (40) years after the date of the first disbursement thereunder, including a grace period of not to exceed ten (10) years from the date of first disbursement. The interest on the outstanding balance of the loan, including any due and unpaid interest thereon, shall accrue from the date of the first disbursement at the rate of two percent (2%) per annum during the grace period and at the rate of three percent (3%) per annum throughout the remaining life of the loan.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of the interest in United States dollars.

3. Other Terms and Conditions

a. Unless AID otherwise agrees in writing:

(1) Equipment, materials and services financed under the loan shall have their source and origin in Indonesia and countries included in AID Geographic Code 941;

(2) The GOI shall agree, either in the form of appropriate conditions precedent or covenants, or both, that it will provide on a timely basis its portion of project financing at such levels and under such arrangements and timing as AID may agree;

b. The loan shall be subject to such other terms and conditions as AID may deem advisable.

Assistant Administrator

Date

STATUTORY CHECKLIST

I. FULFILLMENT OF STATUTORY OBJECTIVES

A. Needs Which the Loan is Addressing

1. FAA Section 103. Discuss the extent to which the loan will alleviate starvation, hunger and malnutrition, and will provide basic services to poor people enhancing their capacity for self-help. Through construction and rehabilitation of rural agricultural facilities by labor-intensive methods, the project will not only improve base for increasing agricultural production, but raise people's incomes through employment opportunity. All these will act to alleviate hardship indicated and enhance local capacity for self-help.
2. FAA Section 104. Discuss the extent to which the loan will increase the opportunities and motivation for family planning; will reduce the rate of population growth; will prevent and combat disease; and will help provide health services for the great majority of the population. Not applicable.
3. FAA Section 105. Discuss the extent to which the loan will reduce illiteracy, extend basic education, and increase manpower training in skills related to development. Not applicable.
4. FAA Section 106. Discuss the extent to which the loan will help solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development. Not applicable.

5. FAA Section 107. Discuss the extent to which the loan will support the general economy of the recipient country; or will support development programs conducted by private or international organizations.

Not applicable.

B. Use of Loan Funds

1. FAA Section 110. What assurances have been made or will be made that the recipient country will provide at least 25% of the costs of the entire program, project or activity with respect to which such assistance is to be furnished under Sections 103-107 of the FAA?

The GOI will give its assurance by signing a loan agreement with such a provision therein. For this loan the GOI will be contributing the equivalent of \$13.2 million toward a total of \$20.0 million which constitutes more than 25 percent.

2. FAA Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.

The project to be financed by the loan is directly aimed at improving the lot of the rural poor.

3. FAA Section 112. Will any part of the loan be used to conduct any police training or related program (other than assistance rendered under Section 515(c) of the Omnibus Crime Control and Safe Streets Act of 1968 or with respect to any authority of the Drug Enforcement Administration or the FBI) in a foreign country?

No.

4. FAA Section 113. Describe the extent to which the programs, projects or activities to be financed under the loan give particular attention to the integration of women into the national economy of the recipient country.

Women will also be able to work on the sub-projects carried out under the project to be financed by the loan.

5. FAA Section 114. Will any part of the loan be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

II. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§ 201(b)(5), 201(b)(7), 201(b)(8), 203. Discuss the extent to which the country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(b) Creating a favorable climate for foreign and domestic private enterprise and investment.

(c) Increasing the people's role in the development process.

Indonesia is giving priority attention to projects which aim at increasing food production, particularly rice. There are currently 100-110 donor-supported technical and capital assistance projects in support of food production. The majority of the above projects are directly concerned with increasing food production, and improved food storage, distribution and marketing.

The GOI enacted a comprehensive law with built-in incentives for encouraging foreign capital investment and has concluded an Investment Guaranty Agreement with the US. Under the foreign investment law up to five-year tax credits may be obtained for new investment in plant and facilities, subject to negotiation.

Although the Government owns a majority of the large enterprises in the country, it is actively encouraging private domestic investment. Officials of State Enterprises are receiving more freedom in management and some State Enterprises are being converted to semi-private corporations. National elections were carried out in July 1971 and Parliament has a part in the budgetary process inasmuch as the annual budget must be authorized by Parliament and expenditures reported in "Annual Report of Budgetary Accounts".

(d) Allocating expenditures to development rather than to unnecessary military purposes or to intervention in other free countries' affairs.

With the ending of confrontation with Malaysia in 1966, the Soeharto Administration reversed the foreign intervention policy of the Sukarno regime. Military expenditures have been sharply reduced as the Government has concentrated the nation's domestic resources - and foreign aid receipts - on achieving economic stability and starting an ambitious development program.

(e) Willing to contribute funds to the project or program.

The Government will contribute up to \$13.2 million (equivalent) in local currency to meet the major part of the local expenditure requirement.

(f) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Major economic reforms have been instituted with IMF/IBRD assistance including incentives to growth of individual initiative and private enterprise. Effective December 9, 1970 the GOI established one uniform exchange rate for all types of foreign exchange. On August 9, 1971, to reduce the trade gap, the Rupiah was devalued by about 10% to Rp.415/US \$1. Further devaluations in December 1971 and early 1973 were pegged to devaluations of the dollar; the Rupiah has remained stable since then. The rate of inflation was reduced from 636.8 percent per annum in CY 1966 to about 10% in CY 1971. Inflation was about 26% in 1972, largely due to rice price increases; and continued at a level of about 36% during 1973 although due principally to general price increases not just rice alone. The rate for 1974 is likely to rise further but the Government is considering appropriate steps to deal with the problem. Tax revenue in real terms has increased each year at the rate of 10 to 40 percent since 1967. In current prices, routine revenues increased 35

(g) Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

percent in FY 72/73 and should exceed this in 1973/74. Approximately 13.9 percent of the development budget is devoted to the social field which includes education, health, family planning, housing, manpower, social welfare, drinking water supply, culture and religion. The cooperating Government has encouraged self-help projects such as Food for Work and other irrigation and road building projects carried out through its Department of Manpower. A substantial low cost housing program will be implemented in the Second Five Year Plan which begins in April 1974.

B. Relations with the United States

1. FAA 88 620(c). If assistance is to a government, is the Government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's or a predecessor's unconditional guarantee?

We are not aware of any cases that make Indonesia ineligible under this Section.

2. FAA 8 620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?

Not applicable.

3. FAA § 620(e)(1). If assistance is to a government, has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

4. FAA § 620(i). Has the country permitted, or failed to take adequate measures to prevent the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

5. FAA § 620(l). Has the government instituted an investment guaranty program under FAA § 234 (a)(1) for the specific risks of inconvertibility and expropriation or confiscation?

The majority of business and property owned by U.S. citizens which was nationalized during the Sukarno regime (principally in 1964 and early 1965) has been returned to U.S. owners or mutually acceptable settlement negotiated. The Government of Indonesia in a Presidential Decree dated December 14, 1966 indicated its willingness to return the remaining nationalized assets.

The country has not so permitted nor has it failed to take adequate measures.

Yes.

6. FAA § 620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? If, as a result of a seizure, the USG has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

No. Remainder of question therefore not applicable.

7. FAA § 620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

No; however, repayment of one FAA loan has been rescheduled by bilateral agreement dated 3/16/71 in accordance with terms of the Paris Agreed Minutes of April 24, 1970.

8. FAA § 620(e). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

No. Remainder of question therefore not applicable.

C. Relations with Other Nations and the U.N.

1. FAA § 620(e). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection, or subversion directed against the U.S. or countries receiving U.S. assistance?

We have no information as to any such representational activity.

2. FAA § 620(a), 620(n). Has the country sold, furnished or permitted ships or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, or other assistance?

We have no information of any such action by Indonesia.

3. FAA § 620(u): App. § 107.

What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages?

Indonesia is not delinquent with respect to U.N. obligations. The loan agreement limits the use of loan proceeds to procurement of goods and services from Indonesia plus A.I.D. Geographic Code 941 (Selected Free World) sources.

D. Military Situation.

1. FAA § 620(1). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

No.

2. FAA § 620(2). (1) What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment, and (c) has the country spent money for sophisticated weapons systems purchased since the statutory limitations became effective? (2) Is the country diverting U.S. development assistance or PL-480 sales to military expenditures? (3) Is the country directing its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant information).

The Department of Defense portion of the State Budget has ranged from a high of 33% in CY 1967 to a low of 22% in the FY 1973/74 budget. (b) We have no knowledge of any significant expenditures of foreign exchange for the military. Less than 10% of the military budget is allocated for foreign exchange purchases. Moreover, the Department of Defense budget includes substantial amounts for construction of roads, bridges and other civil work projects. (c) No, the Government is placing primary emphasis on economic development and not diverting its own resources for unnecessary military expenditures. The answers to 2 and 3 are no.

III. CONDITIONS OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA §§ 201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for

Although Indonesia's debt burden was heavy in the past, there has been very rapid growth in real Government revenues and favorable

repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

economic performance. With the high current level of foreign assistance, it is recognized that future debt payments will be large, but agreements providing for consolidation and rescheduling of Indonesia's pre-1966 debts have been made between Indonesia and its creditors, including the U.S., and Indonesia's export earnings have increased rapidly. This increase will accelerate with the recent raises in price of petroleum, a major Indonesian export. The various donors agree Indonesia has a debt burden for which the prospects of repayment appear reasonable. Country terms of a 40-year loan, 10-year grace period, 2% interest during the grace period, 3% thereafter, pertain. The rate of interest is not higher than the country's applicable legal rate of interest.

Financing

1. FAA § 201(b)(1). To what extent can financing on reasonable terms be obtained from other freeworld sources, including private sources within the U.S.?

Loan assistance to Indonesia is provided within the framework of the Inter-Governmental Group on Indonesia (IGGI), advised by the IBRD and the IMF. This loan has been selected by AID as part of the U.S. Government contribution to the IGGI consortium and as such is supported by the IBRD resident mission. The ExIm Bank has expressed no interest in financing this loan.

Economic and Technical Soundness

1. FAA § 201(b)(2), 201(c). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?

Yes. See Sections III and VIII of Capital Assistance Paper.

2. FAA § 611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?

The necessary planning and reasonably firm cost estimates for the project have been completed (see Sections III and IV Capital Assistance Paper).

3. FAA § 611(b); App. § 101. If the loan or grant is for a water or related land-resource construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?

Not applicable. This is not a water or related land-resource project as such. U.S. construction standards will probably not be applicable in view of the labor-intensive nature of the work.

4. FAA § 611(e). If this is a Capital Assistance Project with U.S. financing in excess of \$1 million, has the principal AID officer in the country certified as to the country's capability effectively to maintain and utilize the project?

Yes, the Mission Director has so certified. See Annex VI.

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAA § 207.211(a). Describe this loan's relation to:

(a) Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

The project does not relate directly to institutions. It does, however, focus on assistance to the rural populace and improving their standards of life, thereby increasing the chance for their participation in development.

(b) Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.

This project will assist agricultural development through improvement in basic rural facilities and infrastructure permitting greater productivity and increase of incomes.

(c) Meeting increasing need for trained manpower.

The project includes use and necessary training of local rural people to the extent necessary to participate in projects.

(d) Developing programs to meet public health needs.

Improvement in basic rural infrastructure, facilities and incomes should result in raising the standards of living, including health, of rural people through greater means of access to health services.

(e) Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development and modernization of existing laws.

By raising incomes among the population and thereby the ability of the rural people to play a greater role in the activities of the country, this project will contribute appreciably to economic, political, and social development.

2. FAA § 201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.

The improvement of basic rural facilities and infrastructure and raising of incomes resulting from this project is essential to expanding and broadening production.

3. FAA § 201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?

Increased agricultural productivity as a result of improved infrastructure and rural income distribution is a basic economic benefit that will assist the economy to grow.

4. FAA § 201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.

5. FAA § 201(b)(3). In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?

6. FAA § 281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes?

7. FAA § 601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

Increased employment, higher and greater distribution of rural incomes and improved local facilities and infrastructure are essential to increased agricultural development for Indonesia.

By increased rural incomes, greater income distribution and higher agricultural production through higher raised productivity from improvement of local facilities and infrastructure and more rural employment.

The project is designed to meet an income need of the people, but the effects will be to improve agricultural production and the mobility of people. It will directly assist the goal of income distribution. The project is essentially labor-intensive and will include

training in basic skills and involvement of rural people in the program - both relevant factors in the context of effective participation in the political process.

(a) and (b) by improving general agricultural productivity and of opening up land for resettlement and development the project will promote private farming. Some of the new production may be for export.

(c) The increasing of rural employment and incomes can only result in the improvement of the climate for cooperatives, credit unions and savings and loan associations. (d) Not applicable. (e) The technical efficiency of agriculture will increase with the improvement of local facilities and infrastructure.

(f) To the extent that increased and greater distribution of rural incomes and employment can contribute to strengthening free labor unions,

this project will do so.

8. FAA § 202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.

The procurement of commodities under the loan will be directly from private enterprise. The loan will finance sub-projects for agricultural infrastructure benefitting individuals directly and the economy indirectly.

9. FAA § 611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

None.

Regional Goals

1. FAA § 619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?

Not applicable.

2. FAA § 209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?

The project is directed at a problem and opportunity which is national in scope, not regional. The loan is being furnished in the context of multilateral aid to Indonesia by a number of donor countries (the ICGI). The assistance is being coordinated with the advice of the IBRD.

C. Relation to U.S. Economy

Employment, Balance of Payments,
Private Enterprises.

1. FAA § 201(b)(6); 102, Fifth. What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.

The goods and services financed by this loan will be obtained from Indonesia plus AID Geographic Code 941 (Selected Free World) sources. The project is principally directed to financing of services and related commodities on a local basis. The project will not have a special reference to U.S. areas of labor surplus.

2. FAA §§ 612(b), 636(b). What steps have been taken to assure that, to the maximum extent possible, foreign currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?

To the extent applicable, procurement of services with foreign exchange financed by the loan will originate in the U.S. and will be in U.S. dollars. U.S. owned local currency is not available and the GOI will provide about \$13.2 million in local currency to the project.

3. FAA § 601(d); App. § 108. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?

This is a basic rural agricultural infrastructure project basically developed and administered by public officials not by private firms. To the extent that engineering and professional services are required, apart from local government capability, it will be from Indonesia plus AID Geographic Code 941 sources.

4. FAA § 603(a). Provide information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

U.S. Government excess property will not be used for this project.

5. FAA § 602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

The loan agreement will contain a provision to ensure that opportunity for such participation will be provided and appropriate notices published.

6. FAA § 621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

As explained in Section III C AID will provide limited technical assistance through contract financed by the loan. Such contract assistance will be from private enterprise, will employ specific experience and expertise and will not interfere with domestic programs.

7. FAA § 611(c). If this loan involves a contract for construction that obligates in excess of \$100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?

Individual activities encompassed by the project will almost certainly not exceed \$100,000 equivalent in cost. Contract construction is only expected to be used on a limited necessary basis reflecting approximately 15% or less than the value of a single activity or sub-project.

8. FAA § 501(b). Describe the efforts made in connection with this loan to encourage and facilitate participation of private enterprise in achieving the purposes of the Act.

Private enterprise will provide all the commodities to be provided under this loan.

Procurement

1. FAA § 604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?

Yes, procurement is limited to Indonesia plus AID Geographic Code 941 sources.

2. FAA § 604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?

No.

3. FAA § 604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

No.

4. FAA § 604(f). Will the agency receive the necessary pre-payment certifications from suppliers under a commodity import program agreement as to description and condition of commodities, and on the basis of such, determine eligibility and suitability for financing?

Not applicable. This is a project loan and not a commodity import program assistance loan.

D. Other Requirements

1. FAA § 201(b). Is the country among those countries in which development loan funds may be used to make loans in this fiscal year?

Yes.

2. App. § 105. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

The loan agreement will cover this requirement.

3. FAA § 620(c). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed \$100 million, what preparation has been made to obtain the express approval of the Congress?

Not applicable.

4. FAA § 620(b), 620(f). Has the President determined that the country is not dominated or controlled by the International Communist movement? If the Country is a Communist country (including, but not limited to, the countries

Yes, the required determination has been made. Remainder of question is therefore not applicable.

listed in FAA § 620(f) and the loan is intended for economic assistance, have the findings required by FAA § 620(f) been made and reported to the Congress?

5. FAA § 620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?

The loan agreement will contain a provision covering this requirement.

6. App. § 109. Will any funds be used to finance procurement of iron and steel products for use in Viet-Nam other than as contemplated by § 109?

No.

7. FAA § 636(i). Will any part of this loan be used in financing non-U.S. manufactured automobiles? If so, has the required waiver been obtained?

No. The remainder of the question is therefore not applicable.

8. FAA § 620(a)(1) and (2), 620(d). Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?

No.

9. FAA § 620(c). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?

No. No assistance has been used for such purposes in the past.

10. FAA § 201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprises?

The loan is being implemented by the GOI and this is appropriate for a basic rural development project. To the extent that local private enterprise participation is helpful

this will be secured by the COI through established regulations for the procurement of such services.

11. Ann. § 103. Will any funds under the loan be used to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?

No.

12. IMA § 901.b. Does the loan agreement provide, for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S.-flag vessels. Does the loan agreement also provide for compliance with U.S. shipping requirements, that at least 50% of the gross freight revenues of goods shipped under this loan must be earned by privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S.-vessels?

Yes to both questions. The loan agreement will cover those requirements.

13. IMA § 421. Has the President determined that the recipient country has failed to take adequate steps to prevent narcotic drugs produced or procured in, or transported through, such country from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the United States unlawfully?

No.

14. App. § 110. Is the loan being used to transfer funds to world lending institutions under FAA §§ 209(d) and 251(h)? No.
15. App. § 601. Are any of these funds being used for publicity or propaganda within the United States? No.
16. FAA § 612(d) and Section 40 of PL 93-189 (FAA of 1973). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release in compliance with Section 40 (FAA of 1973)? Indonesia is not an excess currency country for the U.S. Government.
17. FAA § 604(d). Will provision be made for placing marine insurance in the U.S. if the recipient country discriminates against any marine insurance company authorized to do business in the U.S.? Yes. An appropriate provision will be included in the loan agreement.
18. Section 29 of PL 93-189 (FAA of 1973). Is there a military base located in the recipient country which base was constructed or is being maintained or operated with funds furnished by the U.S., and in which U.S. personnel carry our military operations? If so, has a determination been made that the government of such recipient country has, consistent with security, authorized access, on a regular basis to bona fide news media correspondents of the U.S. to such military base? No. Remainder of question therefore not applicable.
19. Sections 30 and 31 of PL 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? No.

20. Section 37 of PL 93 - 189 (FAA of 1973); App. § 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? No.

21. FAA Section 640(c). Will a grant be made to the recipient country to pay all or part of such shipping differential as is determined by the Secretary of Commerce to exist between U.S. and foreign flag vessel charter or freight rates? No.

22. App. § 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? No.

23. App. § 113. Will any of the loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in the U.S. Treasury? No.

24. App. § 114. Have the House and Senate Committees on Appropriations been notified five days in advance of the availability of funds for the purposes of this project? Yes.

25. App. § 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? No.