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

159

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

INDONESIA - PROVINCIAL AREA DEVELOPMENT I

AID-DLC/P-2242

UNCLASSIFIED

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

UNCLASSIFIED

AID-DLC/P-2242

September 2, 1977

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Indonesia - Provincial Area Development I

Attached for your review is the recommendation for authorization of a loan to Indonesia (the "Cooperating Country") of not to exceed Six Million United States Dollars (\$6,000,000) to help in financing certain foreign exchange and local currency costs of goods and services required for the project.

This loan is scheduled for consideration by the Development Loan Staff Committee on Friday, September 9, 1977, at 2:30 p.m., in Room 3886 New State. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review and Evaluation

Attachments:

Summary and Recommendations
Project Analysis
Annexes A - H

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PROVINCIAL AREA DEVELOPMENT PROGRAM I

- INDONESIA -

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PROVINCIAL AREA DEVELOPMENT PROGRAM I

- INDONESIA -

ABBREVIATIONS/ACRONYMS USED:

1. RAPPEDA : Regional Development Planning Board
2. BAPPENAS : The National Development Planning Agency
3. BIMAS : Government of Indonesia rice production program
4. Cipta Karya : The City and Regional Planning Directorate General
5. CRIA : Central Research Institute for Agriculture
6. DGGARA : Directorate General of General Administration and Regional Autonomy
7. FAR : Fixed Amount Reimbursement
8. GOI : Government of Indonesia
9. IFY : Indonesian Fiscal Year (April 1 through March 30)
10. IPEDA : Indonesian Land Tax
11. PDP : Provincial Area Development Program
12. Repelita I : The First Five Year Development Plan (April 1, 1969 - March 30, 1974)
13. Repelita II : The Second Five Year Development Plan (April 1, 1974 - March 30, 1979)
14. UDKP : The Area Development Working Unit (sometimes referred to as the Model Kecamatan Program)

LOCAL GOVERNMENT ORGANIZATION:

- Province - headed by Governor
- Kabupaten (District) - headed by Bupati (District Chief)
- Kecamatan (Subdistrict) - headed by Camat (Subdistrict Chief)
- Desa (Village) - headed by Lurah (Village Chief)
- Mukim - Territorial division between village and kecamatan in Aceh
- Residency - Level of government between province and kabupaten in Java

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET		1. TRANSACTION CODE <div style="border: 1px solid black; display: inline-block; padding: 2px;">A</div> A - ADD C - CHANGE D - DELETE		PP 2. DOCUMENT CODE 3
3. COUNTRY/ENTITY Indonesia		4. DOCUMENT REVISION NUMBER <div style="border: 1px solid black; width: 20px; height: 15px; margin-left: 100px;"></div>		
5. PROJECT NUMBER (7 digits) <div style="border: 1px solid black; display: inline-block; padding: 2px;">497-0264</div>		6. BUREAU/OFFICE A. SYMBOL Asia B. CODE <div style="border: 1px solid black; display: inline-block; padding: 2px;">04</div>		7. PROJECT TITLE (Maximum 60 characters) <div style="border: 1px solid black; display: inline-block; padding: 2px;">Provincial Area Dev. Program I</div>
8. ESTIMATED FY OF PROJECT COMPLETION FY <div style="border: 1px solid black; display: inline-block; padding: 2px;">81</div>		9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <div style="border: 1px solid black; display: inline-block; padding: 2px;">77</div> B. QUARTER <div style="border: 1px solid black; display: inline-block; padding: 2px;">4</div> C. FINAL FY <div style="border: 1px solid black; display: inline-block; padding: 2px;">81</div> (Enter 1, 2, 3, or 4)		

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FY	C. L/C	D. TOTAL	E. FY	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	929	5671	6600	1,938	6,062	8,000
(GRANT)	450	150	600	1,459	541	2,000
(LOAN)	479	5521	6000	479	5,521	6,000
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY	-	-	-	-	4,300	4,300
OTHER DONOR(S)						
TOTALS	929	5671	6600	1,938	10,362	12,300

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH CODE		E. 1ST FY <u>77</u>		H. 2ND FY <u>78</u>		K. 3RD FY <u>79</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1)									
(2) FN	B200	033	033	600	6,000	400	-	1000	-
(3)									
(4)									
TOTALS				600	6,000	400	-	1000	-

A. APPROPRIATION	N. 6TH FY <u>80</u>		O. 5TH FY <u>81</u>		LIFE OF PROJECT		12. IN-DEPTH EVAL. SCHEDULED <div style="border: 1px solid black; display: inline-block; padding: 2px;">MM YY 01 79</div>
	Q. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1)							
(2) FN	-	-	-	-	2000	6000	
(3)							
(4)							
TOTALS					2000	6000	

13. DATA CHANGE INDICATOR: WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PPP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

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 1 NO
2 YES

14. ORIGINATING OFFICE CLEARANCE SIGNATURE		15. DATE DOCUMENT RECEIVED IN AID 'W' OR FOR AID 'W' DOCUMENTS. DATE OF DISTRIBUTION MM DD YY <div style="border: 1px solid black; display: inline-block; padding: 2px;">08 12 77</div>
TITLE S. J. Littlefield Acting Director, USAID/Indonesia	DATE SIGNED MM DD YY <div style="border: 1px solid black; display: inline-block; padding: 2px;">08 12 77</div>	

PART I - SUMMARY AND RECOMMENDATIONS

A. Face Sheet - See page 1

B. Recommendations

It is recommended that a loan be authorized for \$6,000,000 with the following proposed terms:

1. Maturity: forty years including a ten-year grace period.
2. Interest: two percent per annum during the grace period and three percent per annum thereafter.
3. Currency: interest and principal repayable in U.S. dollars.

It is also recommended that a grant be authorized for \$2,000,000 over the life of the Program. At least \$ 600 thousand in grant funds will need to be authorized and obligated in FY 1977 to permit timely initiation of several important Program actions, including the contracting of advisory services. It is estimated that \$ 400 thousand of additional grant funds will be required in FY 78 and \$ 1 million in FY 1979. If sufficient grant funds are available to the Agency in FY 1977, the full \$ 2 million grant component could be obligated this fiscal year, thereby permitting life of project funding for the technical services contracts.

C. Description of the Program

1. Introduction and Purpose

Provincial and lower level governments in Indonesia face a number of problems in their social and economic rural development that suggest a need for improving their capability for (planning, project identification, implementation, management and evaluation.) This improved local level capability is needed so as to address important but different (depending on the province and its socio-economic-demographic-geographic-administrative conditions) problems in more innovative and effective ways. Also needed are more effective administrative arrangements and central/provincial/kabupaten and lower-level government linkages for (facilitating review/approval, resource allocation, execution, and monitoring) of development projects and activities which are aimed at improving incomes of the rural poor.

The Provincial Area Development Program (PIP) is expected to assist and improve integrated area/rural development planning and staff management capability of provincial planning boards (Rappeda), kabupaten, and other agencies operating in the provinces in (i) iden-

tifying problems in existing organizations, infrastructure, programs and activities; (ii) planning, executing, managing and monitoring measures/activities/projects to overcome the identified problems; and (iii) evaluating the results with a view towards making improvements. It is also expected to provide examples of successful integrated rural/area developmental processes and activities that can be followed elsewhere in the province and throughout Indonesia. This should result in overall improved local government capabilities; improved central government understanding of, and support to, local government; and increased income for the rural poor as directly and immediately as possible.

2. The Provincial Programs

The PDP is a local government program which seeks to upgrade a limited number of key rural development programs/activities/functions which are felt to have the potential of increasing employment opportunities and incomes of the rural poor, directly and immediately. It recognizes that the rural poor within each participating province will have differing needs and therefore require differing local government interventions, both in terms of actual programs, as well as local government implementing mechanisms. As the central government is intimately tied to local level administration, capacities of key offices will be upgraded. The Program is viewed as experimental and process-oriented, in that it attempts an introspective and evolutionary approach to improved local government. As such, it will target on select districts within participating provinces. Central Java and Aceh have been chosen for commencement of the PDP. (See Map at Annex B.1). If successful, the Program will be extended to other provinces in future years through PDP II and III.

[Central Java is one of Indonesia's most densely populated provinces, giving rise to serious underemployment among landless laborers] and a scarcity of opportunities to generate new sources of income that can be retained in the region by its rural and poor population. Within the selected Kabupatens of Demak, Jepara, Kudus, Pati and Rembang there are additional problems resulting from serious flooding in the rainy season, severe droughts in the dry season, and generally low productivity of land in a number of locations. Consequently, the Central Java Program will focus attention on the problems of the landless and near landless as well as those with more moderate-sized holdings but situated on lands plagued with frequent natural disasters or low productivity. More specifically, it seeks to do this by improving the capability of the province and its associated local levels of government to plan and manage: (i) specially-designed agricultural activities which address the problems of land scarcity and unproductiveness of particular areas to allow for broader-based participation by the rural poor; (ii) the promotion of additional employment opportunities through rural industry expansion; (iii) rural credit schemes which are targetted on the rural poor; and (iv) improved mechanisms for

attached
or
referred

the identification and implementation of kecamatan-level development activities impacting on the poor.

Aceh is one of Indonesia's least populated provinces with relatively abundant agricultural resources and land availability yet agriculture in Aceh is characterized by low productivity. For the most part, farmers continue to use traditional agricultural practices and they remain poor. Within the selected Kabupatens of Aceh Besar and Aceh Barat, most of the rural populace are farmers who cultivate rice with very low yields per hectare and who do not exploit secondary food crops and other agricultural opportunities. Infrastructure, institutions and programs required to deliver necessary services to these farmers to improve their earning capacities remain scattered and are not fully effective. Consequently, the Aceh Program will focus on these small farmers who have been left out of much development to date. It seeks to do this by improving provincial technical and planning agencies; upgrading agricultural support services and infrastructure facilities; introducing modern agricultural techniques, inputs and technologies; diversifying agriculturally-productive activities; and promoting rural handicraft and processing industries.

PDP I will help to finance relatively small-scale, quick impact activities identified and developed within the above provincial frameworks with the help of the technical assistance and training. The level of technical expertise required is estimated at two full-time advisors in each province, with occasional additional support from short-term experts in specialized fields. In addition, one full-time technical advisor will be needed at the central government level, with occasional support from short-term specialists. The advisory assistance will extend over a four year period. Training assistance will also be provided for the life of the Program, both to train local and central level officials in the U.S. and third world countries.

3. The Institutional Framework

In December of 1976, the long-standing policy of the Ministry of Home Affairs eschewing direct involvement with foreign donors was relaxed and broadened with the issuance of a decree which established an organizational framework for execution of the PDP. This established a national Steering Committee at the Directorate-General level and a national Technical Committee at the Directorate level: the former being responsible for overall policy guidance and direction and the latter being charged with operational and technical concerns. The central government project management office is the Directorate of Regional Development in the Ministry of Home Affairs. This direct managerial role is viewed as highly significant as most local government administration and operations are controlled by the Ministry of Home Affairs.

The governors and their provincial planning boards will have primary responsibility for overall planning and administration of the PDP in their provinces while the district chiefs and their staff will have the responsibility for implementation and administration of the PDP in their districts. Individual technical agencies operating at the provincial, district and more local levels of government will be assigned responsibility for managing the implementation of individual subprojects/activities to the extent their functional programs are included in the PDP.

4. The Implementation Plan

The Program will function within the context of the government budget cycle for planning, preparation of annual budgets and implementation. It is anticipated that four full years of programming, implementation, monitoring and evaluation will prove sufficient for making the substantive improvements sought. Therefore, the Central Java and Aceh Programs will be most concerned with Indonesian fiscal years (IFYs) 1978/79 (April 1978 through March 1979), 1979/80, 1980/81, and 1981/82 although preliminary activities will take place during IFY 1977/78.

Implementation will follow along the lines of the major, nationally financed rural development/local government programs with: annual instructions/guidelines being sent to the provinces; annual programs being developed at these local levels; national Steering/Technical Committees and USAID reviews following submission of these provincial programs; and actual execution being a responsibility of the appropriate technical agency in the field.

D. Summary Findings

The Provincial Area Development Program has attracted the interest and support from a host of foreign donors and local institutions concerned with rural development/local government in Indonesia. Aside from these valuable inputs, over forty man-months of consultant expertise familiar local conditions in Aceh and Central Java as well as technically competent in the fields of agriculture, agricultural economics, rural industry, civil engineering, rural sociology and public administration have participated in PDP-I development. Numerous reports and analyses have resulted, much of which has been summarized and incorporated in this Project Paper.

USAID concludes that the Provincial Area Development Program I is technically, economically, socially and institutionally sound. It has also been determined that Indonesia has the capacity to effectively maintain and utilize the Program (see Mission Director's certification at Annex E). Furthermore, the PDP meets all applicable statutory criteria. (See Statutory Checklist at Annex D.)

E. Project Issues

USAID believes that AID/Washington concerns as expressed in the AID/W PRP approval message (Annex A) are thoroughly addressed throughout this Project Paper. In brief: (i) An assessment of the institutional capabilities of the central government, provincial planning boards and other local agencies is found in Part IV A and Annexes B.9 and B.10; (ii) a description of subproject approval criteria and procedures is found in Part IV B; (iii) a social soundness analysis is found in Part III C and Annexes B.9 and B.10; (iv) an examination of local development finance is found Parts II A and III B; (v) disbursement procedures are described in Parts III C and IV B; (vi) AID monitoring procedures are discussed in Part IV B; and (vii) a discussion of Section 103 applicability is presented in Part III B.

The one outstanding issue concerns additional USAID staffing requirements to properly administer PDP-I and plan PDP-II. This is discussed in Part IV A (2) of this Project Paper.

PART II - PROGRAM BACKGROUND AND DETAILED DESCRIPTION

A. Setting and Background

1. Local Government Organization

Local government organization in rural Indonesia is essentially divided into four levels: The province (headed by a governor), the kabupaten (or district, headed by the bupati), the kecamatan (or subdistrict, headed by the camat), and the desa (or village, headed by the lurah).

The provincial governor serves two functions: he represents the central government in the region and accordingly falls within the Ministry of Home Affairs' hierarchy; at the same time, he heads the first level "autonomous" region and consequently is responsible to the region's elected assembly. This duality is also found with the bupati at the kabupaten level of government which is the second level "autonomous" region: The bupati is both a representative of the governor (and central government's Ministry of Home Affairs) as well as being the chief executive of the kabupaten responsible to the district's elected assembly.

The camat, as subdistrict chief, functions as the bupati's representative, but has no "autonomous" functions comparable to the governor and bupati. The village is the lowest "autonomous" level of government with the lurah having responsibilities as the central government representative and the village chief.

The province in Indonesia (of which there are 27), is the prime source of sub-national policy, direction and guidance for development. Annex B-2 presents an organizational chart of the typical province. The Governor is assisted by staff within the Provincial Secretariat, the Regional Development Planning Board (Bappeda), and the Provincial Inspectorate. The Secretariat is responsible for governance and is divided into sections for administration, economics and social affairs, and general affairs. Within this Secretariat, there is also a Development Bureau (also known as the Operations Room) which controls the implementation of development projects and a revenue service. The Inspectorate performs an auditing function.

The Bappeda, created by Presidential Decree in March of 1974, has the following responsibilities: (i) Provincialization of the national five-year plans; (ii) preparation of province sectoral planning; (iii) preparation of annual programs for both provincial and central ministry development activities; (iv) coordination of technical agencies and kabupatens; (v) joint responsibilities for provincial budget receipts and expenditures; (vi) supervision of development projects; and

(vii) carrying out research. The Bappeda is the sole staff body in the province which has the function of assisting the governor with regional planning and evaluation.

The kabupaten in Indonesia (of which there are 243) is regarded by many observers, as the highest level of local, rural development organization in Indonesia. Annex B-3 presents an organizational chart of the typical district. The focal point for kabupaten operations is the office of the bupati which is supported by a secretariat and a large number of its own administrative, financial and technical offices. The mechanism used by most bupati for planning and resolution of management problems is usually a committee of senior staff personnel, composed of the deputy to the bupati, and chiefs of the subdirectorates for development, finance, general government and public works, and supported by the heads of various technical services. Some districts in Indonesia even have their own area planning and management boards, similar to the Bappeda, although this is not yet standardized nationwide. (Of the seven kabupaten participating in PDP I, only the Kabupatens of Kudus and Demak in Central Java have such units).

The kecamatan in Indonesia (of which there are some 3,550) is regarded as the lowest reach of direct internal government (excluding the village which in rural areas is more nebulous and indeterminate in its size, extent and relationship with the center). Annex B-4 presents an organizational chart of the typical subdistrict. More often than not, the government at this 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 are added agents of a number of technical services, such as agriculture, livestock, irrigation, health/family planning, religion, community education, cooperatives, land-use (agraria), information, and community development.

Technical agencies, emanating from Jakarta, have field offices in all provinces and generally in all kabupatens. At the kecamatan level of government, there is generally a more limited range of technical agents, such as noted above. Some of these technical offices have responsibilities solely to implement "national" projects/activities and consequently look towards their Jakarta-based ministries for guidance and financing. Others are charged with executing local-level functions and consequently receive financing and direction from local government. The governors, bupati and Camat are charged with the responsibility of coordinating the activities of both the autonomous regional offices and the central government ministry representatives. The relationships between the autonomous technical regional offices; the central technical ministry representatives; the local leadership in the form of the governors, bupati and Camat; and the Jakarta-based technical ministries, can be complex and vary by agency

and region involved.

See Annex B-5 for a generalized organizational chart of the above relationships.

Regional patterns in the local government administrative structures may exist in Indonesia as can be witnessed in PDP I provinces. In Central Java, there are residencies, which are layers of government between the province and kabupaten, and are headed by residents who have the status of deputy governors. Furthermore, between the kabupaten and kecamatan are found kawedanaan offices with each headed by a wedana or deputy bupati. These two additional layers are found throughout Java and although not considered important administrative units, serve the purpose of better coordination, given the large numbers of districts and subdistricts found on Java and the large populations involved.

In the Special Province of Aceh,* government structure differs somewhat below the kecamatan. The basic governmental unit is still the village, although its average size is much smaller than those in Central Java (370 versus 3,000 people). However, above the village and below the kecamatan stands the territorial division of the mukim, which is headed by the kepala (head) mukim and includes nine villages on the average. (It is interesting to note that this geographical division has its origins in Islamic law which requires the presence of forty men of age for the Friday community prayer).

2. Local Development Finance and Administration

Local development is normally classified in three ways: (i) Those activities which are carried out by the local representatives of central government technical ministries and financed by the central government budget (e.g. national road improvement), large-scale irrigation and flood control systems, substantial port improvements and electric power generation); (ii) those projects which are completely planned, financed and implemented with local resources; and (iii) those programs which are planned and executed by local

* Aceh has the status of "Special Province" in Indonesia. This gives the region some autonomy over its educational curriculum, religious and local affairs.

government, but which are financed through grants and subsidies from the central government.

Revenues available to the province and kabupaten take the form of taxes on such things as fuels, automobiles, motorbikes, forestry concessions, radios, and movie theatres. The one substantive local level tax is the land tax (Ipeda) which is an effort to revive land taxation as a means of promoting local development. The land tax revenues are utilized by the district level of government for development activities, except for a certain percentage which is forwarded to the provincial government. Assessment of this tax, however, is a central government function although local officials do assist with its collection.

Repelita II (the Second Five-Year Development Plan, April 1974 - March 1979) has seen the establishment of a number of revenue-sharing programs financed by the central government for local development. These grants, known as "Inpres" (Instruksi Presiden - Presidential Instructions) or "Bantuan" (Assistance), fall into the following classifications: (i) The Provincial Inpres Program which provides funds for the provincial government's development budget and is divided into those which are earmarked for such things as roads, bridges, irrigation and water works and those which are to be spent at the discretion of the provincial government; (ii) the Kabupaten Inpres Program, which is targeted on the district and aims to improve economic infrastructure; (iii) the Village Inpres Program, which is focussed on the village in order to encourage local participation in small-scale development activities; (iv) the Elementary School Inpres Program, which is given to the kabupaten to construct, rehabilitate, and equip elementary schools; (v) the Health Inpres Program, which covers the new construction and rehabilitation of community health centers, subsidized medicine and other medical services; and (vi) the Inpres activities most recently created for market construction and reforestation projects.

Generally speaking, (i) the largest source of funds for local development is national budget support for "national projects"; (ii) the ability of the provincial and kabupaten governments to generate their own revenues is limited due basically to their restricted taxing powers granted by the central government (but also due to its administration of local taxes); and (iii) the national grants for local development have grown substantially in recent years and represent the basic long-range strategy for regional development, whereby the national government provides funds and guidelines for development while local government is responsible for planning and implementation.

Conditions within Central Java and Aceh bear out the above propositions. In the former province, for example, the central government has contributed 85% of Central Java's development expenditures since Repelita I (beginning in April 1969) and national grants to the five PDP kabupaten have tripled in just a four-year period. In the Special Province of Aceh, central government grants have averaged 84% of total provincial revenues since Repelita I, and central government supported Inpres programs have tripled in size since IFY 1974/75.

3. Trends and Problems with Local Development Administration

With the New Order and prior to the First Five-Year Development Plan in 1969, the Government of Indonesia's administrative structure described earlier was primarily concerned with executing routine administrative activities; the nation's goals at that time being national integration, stability and security. With the commencement of Repelita I, however, the government administration was given the additional task of "promoting and directing society towards development". The economic development objectives of this First Five-Year Development Plan were spectacularly achieved. This helped stimulate the re-examination of many developmental issues including the degree of local autonomy to be permitted in the development of the nation.

The success of Repelita I coupled with the demand for greater participation in development by Indonesia's provinces resulted in an opening of development to the provinces and lower levels of government for a much stronger direct involvement in national development. This (along with increased attention to the promotion of development with social justice) is perhaps the most significant change of emphasis discernible between Repelita I and Repelita II. The most visible signs of this conscious national shift to local development are the very substantial increases in local development budgets allocated by the central government and Presidential Decree No. 15 dated March 18, 1974 establishing provincial development planning boards (Bappeda) at this increasingly important level of government. In short, provinces and lower-levels (particularly kabupaten) are now called upon to bear a major and increasing responsibility for the development of the nation.

This shift is still in process and is far from complete; it has not occurred totally smoothly and evenly, nor without problems. First, the insufficient quantities of skilled and capable manpower, well-recognized in Indonesia, is more acute at lower levels of government which leads to a reluctance to further decentralize the development process. Second, the substantial increases for local government development budgets under the national revenue sharing schemes have not always been met with fully capable organizations, clear lines of authority, or well-established procedures for program

execution. Third, there is inevitable resistance by national line ministries to increased local government authority. And last, there is the recognition that lower-level participation in development has not necessarily been synonymous with the broad-based receipt of development benefits by the majority of the rural poor.

Consequently, there has been, in recent years, a determined search for means of enhancing local government institutional capabilities to carry out rural development activities effectively in order to reach the majority of rural poor. The Provincial Area Development Program (PDP) represents a continuation and concentration of this process. (USAID is currently assisting or planning to assist other projects which target on other aspects of local government operations. These are described and compared with the PDP in Annex B-6).

4. Evolution of the PDP

In March of 1976, USAID was asked for direct assistance to improve the capabilities of the Aceh provincial government. USAID quickly sent several rural development technicians to assess the situation. By June, 1976 a PRP for an assistance program to help improve the capabilities in rural development of the Provinces of Aceh and Central Java (which had also requested direct USAID assistance) for FY 1977 and a PID for three additional provinces for FY 1978 had been submitted to AID/Washington. At that time the GOI recognized that in an expanding provincial assistance program the Ministry of Home Affairs should have managerial responsibility for the PDP to be administered properly.

In December 1976, through the efforts of Bappenas and key individuals within the Ministry of Home Affairs itself, the long-standing policy of the Ministry eschewing direct involvement with foreign donors was relaxed and broadened by the issuance of Decree No. 309 (See Annex B-7). This decree established national-level Steering and Technical Committees and allowed this Ministry to counterpart directly with foreign donors to assist local-level rural development efforts. This greatly broadened the range of possibilities for foreign assistance. Now, other donors are becoming increasingly interested in working on rural development through the Ministry of Home Affairs.

The PDP appears to have been assigned a special role. It is perceived by Bappenas and the Ministry of Home Affairs as being a quick response vehicle for improving lower level capabilities in rural development. There is also a growing recognition that the benefits of development in the rural areas of Indonesia have not spread quickly or widely enough. Therefore, the PDP is viewed by the GOI as an

experimental program to search for workable means of reaching and assisting the majority of the rural poor. All indications are that the central government intends to provide the leadership and necessary authority required to make it successful.

The PDP has also attracted interest and support from a host of foreign donors and local institutions concerned with rural development in Indonesia who also perceive the PDP as a vehicle for substantive improvements in rural development management in rural areas. These have included individuals from the Ford Foundation, an advisor to the State Minister for Development, as well as various members of the local academic community. Together with advice and assistance contributed by these individuals over forty (40) additional man months of effort from expert consultants familiar with local conditions in Aceh and Central Java, as well as technically competent in their respective fields, have gone into the design of the PDP.

It is with this background, therefore, that USAID has been requested to work closely and directly with the Ministry of Home Affairs and Bappenas in a search for workable means of improving the well-being of the rural poor in Indonesia. Flexibility in approach and sensitivity to local situations and attitudes are challenges faced in helping to strengthen the local development operations to improve the well-being of the increasing numbers of Indonesia's rural poor.

B. Detailed Description of the Overall Program

The PDP is a local government program which seeks to upgrade a limited number of key rural development programs/activities/functions which are felt to have the potential of increasing incomes of the rural poor, directly and immediately. It recognizes that the rural poor within each participating province will have differing needs and therefore require differing local government intervention points, both in terms of actual programs, as well as implementation arrangements. The capacity of key central government agencies to work effectively with local government will also be upgraded. PDP is viewed as experimental and process-oriented, in that it attempts an introspective and evolutionary approach to improved local project management. PDP will begin on a pilot basis within the Provinces of Aceh and Central Java. ((It is felt that these two are most appropriate for the pilot program because each represents a geographic region typical of the Indonesian dichotomy (Central Java representing the overcrowded central islands with a more developed infrastructure, and Aceh representing the underpopulated outer islands rich in natural, unexploited resources with a very underdeveloped physical infrastructure)) If the precepts and modalities used in PDP I prove successful, they will be applied to an expanded program including three additional provinces annually.

The three inter-related purposes of the Provincial Area Development Program are: (i) to improve the capabilities of local government within participating provinces to undertake rural development activities which impact on the productive capacity of the rural poor; (ii) to improve the capabilities of key central agencies to support local government rural development activities which impact on the income of the rural poor; and (iii) to increase the incomes of the rural poor within the project area. By the end of the Program, it is anticipated that there will be an expansion of the planning and implementation systems to the rest of the participating provinces and realistic and workable guidelines and directives for local government rural development programs which will have been developed as a result of the experience of the PDP. (The expansion of the Program to other provinces initially would test the applicability of these guidelines to differing situations). By the end of PDP, there will also be an increase in the incomes of the rural poor within the project areas. Achievement of these end-of-project conditions will contribute to the Program goal of improving the well-being of the rural poor.

Key assumptions for achieving the PDP's purpose are that: (i) Appropriate and valid local government intervention points have been identified; (ii) national level support for the PDP continues; and (iii) a flexible program design has been established which permits the GOI with AID's assistance to respond to local initiatives. For a fuller discussion of these assumptions, see the technical analysis (Part 3A), the socio-economic analysis (Part 3C), the administrative analysis (Part 4A), and the implementation plan (Part 4B). A key assumption for achieving the Program goal is that increased income is perceived by the people as improving their well-being.

Inputs for each participating province include outside assistance in the form of technical advisors (both from abroad and in-country), training both overseas and within Indonesia, select commodities and equipment (including appropriate rural development technology), and partial small-scale financing of subprojects of a pilot nature. Inputs at the central government level will include technical assistance and training. GOI contributions will be for administration, operations and financing of pilot activities. Combinations of these inputs will result in the achievement of the PDP outputs within a limited geographical area (composed of a number of contiguous kabupaten). These outputs will be process-oriented and will be composed of identified, planned, implemented, monitored and evaluated key local government, rural development interventions which target on increasing the incomes of the rural poor, as directly and immediately as possible.

The important assumptions for achieving the inputs are that: (i) The Government of Indonesia, at national and local levels, and AID make budget provisions and provide inputs on a timely basis; and (ii) adequate consultant capability is available for technical assistance during implementation. Important assumptions for achieving outputs are that: (i) the Ministry of Home Affairs and Bappenas continue their support for the PDP; (ii) participating local government institutions, with technical and other assistance continue to exert the creativity, initiative and dedication required to achieve the specified outputs; and (iii) there are no unusual natural calamities in the project areas over the life of the project. Financial and implementation plans and arrangements are discussed in Parts 3B, 4A and 4B. Assumptions regarding outputs are discussed in the technical analysis (Part 3A) and the socio-economic analysis (Part 3C).

Annex C presents the Logical Framework Matrix for the overall PDP.

4. Approach to the Design of Individual Provincial Programs

Regarding the design of individual Provincial Area Development Programs, it is believed that: (i) Although the objectives of the PDP are the same nationwide and although individual provinces may have some common needs, the approaches, resources, operational requirements and mix of programs and **projects** required to reach the rural poor will differ as do their socio-economic conditions; (ii) it is generally more effective to concentrate on a few priority problems than to disperse one's efforts in all directions; (iii) there is more likelihood of visible impact and more effective administration by maintaining a geographical focus within targeted provinces; (iv) outputs must be process-oriented to allow local government the chance of exerting the creativity and initiative required for it to critically examine its ability to assist its poorer rural dwellers; and (v) there is the need to remain flexible during implementation to allow for modifications should close monitoring and evaluation indicate the need for redirection to more effectively assist the target group of the rural poor.

Given these premises, the basic approach to the design of individual Programs, has been to: (i) identify the socio-economic-administrative conditions within participating provinces; (ii) select a typical geographical region composed of a limited number of contiguous kabupaten within the province; (iii) study in more depth the socio-economic-administrative conditions within the pilot area, concentrating on the constraints on raising the incomes of the rural poor; (iv) review systematically all local government programs/activities/functions which are, or could be targetted, on assisting the rural poor improve their economic situation; (v) identify a limited number of interrelated intervention points where outside assistance could result in significant

local government project management improvements and in the referenced Program goal being achieved; (vi) describe and analyze these local programs/activities/functions in sufficient detail to determine the types and magnitude of assistance which would result in the sought after program improvements; and (vii) design a broad and necessarily preliminary implementation plan for each of the provincial "thrusts" identified for improvement. If this methodology proves successful in PDPI, it will be applied (or modified) based on experience in subsequent PDP Programs.

Annex B-8 presents a graphical presentation of a typical provincial Program.

The following sections summarize the Central Java and Aceh Provincial Area Development Programs. More complete descriptions (and analyses) are found in Annexes B-9 and B-10.

D. The Central Java PDP

1. Background Socio-Economic Conditions Within the Province of Central Java.

[The Province of Central Java is located in the center of the island of Java. Topographically, it is composed of lowlands in the northern coastal areas and mountainous and again lowland areas in the south, with an upland plateau through its center. It is most notable for its central geographic position in Indonesia, its Javanese cultural heritage, and its role as a political barometer for the nation. Compared with other regions in Indonesia, the level and extent of physical infrastructure is quite good, although still low by international standards. Looking at Central Java from an economic perspective, agriculture is the most important sector of the economy (accounting for 47% of its gross regional domestic product) with rice and secondary food crops being the most important crops.

[Central Java faces substantial problems of poverty and underdevelopment. With a land area of 34,503 square kilometers and a population approaching 24 million, it is one of the most densely populated, non-urban regions in the world.] Its largely rural populace depends heavily on agriculture for its subsistence yet with very small average land holdings and large numbers of rural households without any access to land at all, it faces severe strains.

2. Background Socio-Economic Conditions Within the PDP Kabupaten.

The target Kabupatens of Demak, Kudus, Jepara, Pati and Rembang are situated on the north coast of Java, just east of Central Java's provincial capital of Semarang. (See map at Annex B-11). Of its 470,000 hectares of land area, a major portion consists of flood plains within the Jratunseluna River Basin. However, there are a diversity of other agricultural/ecological zones of cultivation varying from lowland mountain ranges to dry land areas and coastal zones. The problems of a sufficient and controllable water supply are particularly acute within the target area with devastating annual floods followed by periods of drought.

With a combined population of some 3.1 million, between 90-95% live in rural areas, with population densities averaging out to 700 people per square kilometer. Agriculture is the dominant activity which provides 80% of all employment with wet-rice paddy and secondary food crops the major modes. Some 35-40% of the rural households own no agricultural lands while the remaining families hold approximately 1.0 hectares in combinations of rice paddy, dry lands and home gardens. The rural poor in the area, then, are the landless, near landless and those with more moderate size holdings but situated on unproductive lands. They work long hours to survive in a continuum of activities including petty trading, agricultural labor, fishing on public water ways, handicrafts and outside employment in small industry and government-sponsored rural public works programs.

3. The Central Java PDP

The Central Java PDP acknowledges the severe socio-economic conditions within the Province and five targetted kabupaten and attempts to deal with the pressing problems of the rural poor through improving the capabilities of local government to plan, manage, and evaluate the following interrelated "thrusts": (i) specially-designed agricultural activities which address the problems of land scarcity and unproductiveness of particular areas; (ii) the promotion of employment opportunities through rural industry expansion; (iii) rural credit programs targetted on the poor; and (iv) systems for subdistrict-level generation of ideas and implementation of activities which attack the problems of extreme poverty. The rural credit programs will be utilized as components of the agricultural and industry components as well as other needs of the rural poor (e.g. petty trading). The kecamatan-level rural development program will also support the agricultural and rural industry programs as well as allow for the continual generation of new ideas and approaches to the development problems under attack. The approach is experimental and evolutionary. Evaluation and information systems

therefore remain important components. (A more detailed description may be found in Annex B-9 .)

a. Agricultural Activities.

Despite the general land scarcity, there appear to be several broad categories of agriculturally-related interventions which can reach the PDP target group. Among them are: (i) the utilization of public lands and water ways (e.g. the stocking of fish in irrigation canals and large areas which flood for six months or more annually and smaller livestock projects which allow for the use of feed from public lands); (ii) intensified use of back-yard gardens; (iii) adaptations to overcome the effects of the periodic natural disasters plaguing the area (e.g. pump irrigation and improved agricultural cropping patterns); and (iv) the promotion of non-rice secondary food crop production. Technical assistance, training, commodities and subproject financing of these pilot efforts will be provided under the Central Java PDP to improve the capabilities of the Bappeda and appropriate technical agencies to identify, plan, design, implement and evaluate this poverty-oriented approach to agriculture.

b. Expansion of Employment-Generating Industry

Long-term solutions to the poverty in Central Java require an expansion of off-farm employment opportunities, principally through the expansion of rural industry. In the target kabupatens there are a wide variety of existing rural enterprises including blacksmiths, roof tile makers, bamboo product makers, brown-sugar processors and salt makers which provide alternatives to on-the-farm employment and income. However, the shortage of capital for small industry and technical assistance for the small-scale rural entrepreneur restrict the expansion of such employment generating enterprises. The PDP seeks, then, to develop the capacities of the provincial industries service and a local rural credit program to attack and remove these impediments to the creation of new jobs. Technical assistance, training and credit (see below) will be provided for these purposes.

c. Rural Credit

The appropriateness and need for the expansion of credit as means for increasing incomes of the rural poor in the Central Java PDP kabupatens (by allowing the expansion of activities in which the rural poor participate, such as small-scale trading, processing, raising livestock, etc.) has been established. Most government sponsored credit programs, however, require significant amounts of collateral which effectively leaves out participation by the poor

in Central Java. There are, however, two local-government sponsored credit programs which because of their flexibility, simplified operations and absence of collateral requirements, appear to be vehicles for channeling credit to the rural poor. These are the Kecamatan Credit and the Assistance-To-Poor-Family Programs. These programs, however, suffer from administrative and other problems, including the lack of trained personnel. The PDP will seek to redirect, or better target, these credit schemes into productive loans for the rural poor, while improving the management of the programs. Technical assistance, training and seed capital will be supplied to achieve these ends. As stated above, it will link into the first two thrusts.

d. System for Generating and Implementing Other Activities.

The entire Central Java PDP proposed thus far has been the result of a concerted effort by Bappeda officials to elicit ideas and creative thinking by lower levels of government with attention focussed on the poor majority. The process of considering programs which might reach the poor has begun; hopefully it will never be complete. The kecamatan is the ideal level of local government for this continued process of generating new thoughts as it is the point where a detailed knowledge of local conditions and needs meet up with the technical administrative apparatus. The GOI has already recognized the critical importance of this layer of government as indicated by the recent creation of the UDKP (Unit Daerah Kerja Pembangunan - The Area Development Working Unit) program. However, the UDKP system appears to be a largely theoretical planning exercise at present in the absence of any means for implementation. The PDP will capitalize on the efforts to push planning down to the subdistrict level and assist in the improvement of the implementation capabilities of the UDKP through a pilot kecamatan development program which will also be utilized as a means for generating new ideas for reaching the rural poor. Technical assistance, training and financing of pilot efforts will be provided.

4. Institution-Building Features of the Central Java PDP

Some of the Central Java local institutions that should be strengthened and improved through the technical assistance, training, commodities, and experience gained from the guided subproject design/implementation activities and expanded credit programs include: the provincial Bappeda, the agricultural service agencies, the industries service agency, the Kecamatan Credit and Assistance-to-Poor-Families Program organizations and the UDKP (Area Development Working Unit at the kecamatan level of government). Long-term technical assistance will take the form of a rural development planner/programmer to work with the Bappeda for a three-year period, a rural industries

expert to work with the industries service agency for a period of two years, and a three year relationship between the provincial agricultural services and the Central Research Institute for Agriculture (an Indonesian agricultural research organization). Some 106 work-months of additional technical advisory services will be provided for short-term advisory assistance as inputs to other specialized endeavors. 84 months of training, both abroad and in-country, is also contemplated. Subprojects which might be undertaken are touched on above and discussed in more detail in Annex B-9.

E. The Aceh PDP

1. Background Socio-Economic Conditions Within the Province of Aceh

The Province of Aceh is located on the northern tip of Sumatra, opposite the Malay Peninsula. With a land area of 55,300 square kilometers, a population of just over 2 million and a density of only 36 persons per square kilometer, it is one of the least crowded provinces in Indonesia. Despite relatively abundant agricultural resources, favorable land and water availability, agriculture in Aceh is far less productive than it could be. The agriculture share is 63 percent of the Gross Regional Domestic Product (GRDP) (\$340 million in 1975) and food crop production accounts for three-fifths of that. Over 80 percent of the province's population is employed in agriculture. Despite the importance of agriculture to Aceh's economy, only 4 percent of the total land area is devoted to food production, an amount which could be greatly expanded with improved support and infrastructure. A little over 220,000 hectares is devoted to rice production, but due mainly to limited dry season water availability, only 6 percent of this is double cropped. Most farmers have access to sufficient land either through ownership or sharecropping, although holdings tend to be less than one hectare and are often fragmented. Rice production and processing is generally carried out using traditional methods and equipment, and yields are only 2-3 tons per hectare. Infrastructure is a major impediment to development, with roads, bridges, and irrigation systems in generally poor or neglected condition.

2. Background Socio-Economic Conditions Within the Target Kabupaten

The two kabupaten selected for PDP participation are Aceh Besar and Aceh Barat (See Map at Annex B.12). Within these two districts, there are enough similarities and differences to test for feasibility of replication elsewhere. Most of the population in both districts is engaged in rice production using traditional varieties and techniques. Along with these similarities there are important differences in population density, small-holder estate crops, average rainfall, infrastructure facilities, and access to markets. While Aceh Besar is geographically concentrated with all but two subdistricts in the Krueng Aceh Valley, Aceh Barat stretches along a coastal area including nine main river valleys. The District of Aceh Besar surrounds the provincial capital of Banda Aceh. Although the average population density of 56 persons per square kilometer in Aceh Besar is low by national standards, it is

more than double that of Aceh Barat. Despite relatively good infrastructure facilities and access to markets in Banda Aceh, Aceh Besar has traditionally been a deficit rice producing area. On the other hand, Aceh Barat, with generally poor infrastructure, is a rice exporting district. With some infrastructural improvements and removal of marketing constraints, it has a great potential for expanding its' export of agricultural commodities. Small-holder estate production of rubber, coconuts, and cloves are important income earners in Aceh Barat.

3. The Aceh PDP

The objective of the PDP in Aceh is to augment incomes of the rural poor by increasing agricultural production and expanding employment opportunities. To do this, the Program will seek to improve the capabilities of existing agriculture service institutions in the planning, implementation, evaluation, and support of rural development programs. Through technical assistance, training, and experience in subproject implementation, provincial agencies will better be able to upgrade agricultural support services and infrastructure facilities, introduce modern techniques and inputs, support diversification of productive activities, and promote development of rural handicraft and processing industries. The focus will be on enhancing the institutional capability and processes required to support expansion and modernization of agricultural production in Aceh.

This approach recognizes the current limitations on local government capabilities and at the same time offers the best prospect for attaining the program objectives of raising the incomes of the rural poor. Although subproject activities in Aceh are production oriented, continuing attention will be given to the impact on the quality of life in rural areas, and each subproject will be evaluated within the context of its' effect on Acehese society and values. The impact of the project on tenure patterns, income distribution, and land ownership will also be studied. Since women in Aceh play an important role in agricultural production, and rural industries, they will receive special attention in terms of project effects. The Aceh Program has three main thrusts:

- (a) Agriculture planning and evaluation;
- (b) agriculture support and production;
- (c) rural handicraft and processing industry.

a. Agricultural Planning and Evaluation

Agricultural production and income cannot be increased without integrated and coordinated government planning and support. Agricultural

development in Aceh has not been approached in a systematic planned fashion whereby goals and programs are established in order of priority and limited resources allocated accordingly. To accomplish this the Bappeda must assume a new and more active role in agriculture development and the major objective of this thrust will be to enhance the Bappeda's ability to perform this role through technical assistance and training in agriculture project planning and administration, agriculture economics, and agriculture statistical gathering and analysis. The planning process will be designed in a way to ensure inclusion of farmers' ideas in the overall agriculture planning process.

b. Agriculture Production and Support

The natural focus of this thrust will be on rice production, introduction and testing of modern production technology, improved pre- and post-harvest processing techniques, and development of integrated production support packages. Particular attention will be paid to develop the infrastructure and support necessary to expand rice double cropping and to the integration of secondary crop production in rice areas which can produce only one crop. Vegetables, fruits, and small-holder estate crops, along with animal production, will also receive attention, but with lesser emphasis. Improvements made on infrastructure, such as roads, irrigation systems, and port facilities, will be at the minimum level required to ensure that farmers are able to transport and market their increased production.

c. Rural Handicraft and Processing Industry

Small industries in Aceh are a significant source of incomes for rural families. In view of this, the Program will provide some limited technical assistance to a few of these, including initially salt-making, metal-working, and brick-making. In some cases the introduction of inexpensive tools and equipment and use of new techniques, materials, and designs would make a significant contribution in terms of quality, productivity, and profitability. Some economic and marketing studies will be supported to determine the potential for employment and income generation through the adding of value to various other agriculture products including, for example, feed, essential oils, sugar, peanuts, and cashews.

4. Institution-Building Features of the Aceh PDP

Some of the Aceh local institutions that should be strengthened and improved through the technical assistance, training, commodities and experience gained from the guided subproject design/implementation activities include: the provincial Bappeda, the agricultural service agencies, the cooperatives' service agency, the provincial industries service agency, the BIMAS administration, and the public works/agriculture offices responsible for irrigation systems operations and maintenance. Long-term technical assistance will take the form of an agricultural planner/production specialist to work with the Bappeda for a three-year period, and a rice production specialist to work with the agriculture service agency for a two year period. Some 119 work-months of short-term consultancies will be provided for short-term advisory assistance as inputs to other specialized endeavors. One hundred and sixty-two months of training, both abroad and in-country, is also contemplated. Subprojects which might be undertaken are touched on above and discussed in more detail in Annex B.10.

F. National-Level Support

The Directorate of Regional Development within the Ministry of Home Affairs will provide central government managerial support for the PDP. Given the importance of this function, the experimental nature of the Program, and the new administrative functions placed by the PDP on this Directorate, outside expertise will be required. This will include one technical advisor for a three year period, fourteen months of short-term consultancies, and forty-eight months of short-term training in the third countries and the United States. A more detailed description of this aspect of the PDP is found in Part IV A of this Project Paper.

PART III. PROJECT ANALYSIS

A. Technical Analysis

1. The Overall Program

The administration of rural development in Indonesia is relatively centralized in terms of autonomy, although there has been an effort in recent years to "deconcentrate" some of the power, in terms of local level development under national level auspices and guidance. This is the institutional environment in which the PDP must operate. Therefore, central-local government linkages in the program are extremely important, particularly given the experimental rural development approach proposed.

National level support for the overall program to date has been firm. A Ministry of Home Affairs' decree was issued opening up the necessary managerial structures. Representatives of the national Committees have provided guidance and direction and, in fact, insisted that the PDP work to develop means of increasing the incomes of the rural poor as directly and immediately as possible. The IFY 1977/78 budget prepared to assist with PDP-I planning includes adequate funds for the national government as well as participating provinces to support these efforts. The Government also plans to allow an increase in administrative staffs for PDP implementation. Another indication that the Program has a high priority is that it is found in the annual listing of development activities requiring foreign assistance (i.e. the "blue book"). In short, the necessary national support for the PDP exists and there is every reason to believe it will continue.

The approach taken with the PDP is an experimental, evolutionary one. As new ideas are found to work through the Program on a pilot, small-scale nature, there have been numerous examples in the recent past to support the belief that they will be adapted on a larger, nationwide scale (e.g. the creation of a nationwide agricultural cooperative system based on a successful experiment in Central Java). Thus if successful models are developed, there is good reason to expect their replicability.

The need for an evolutionary approach to local level rural development efforts can also be argued from the recognition that it is extremely difficult to reach the poor in any society, and much more so in a rural, underdeveloped context with seemingly insurmountable economic, social, and cultural problems. Precise, universal formulae for raising incomes

of the rural poor in Indonesia do not exist. It is the purpose of the PDP to work with various local governments, under an umbrella of national attention and concern, to search for some of these.

The role of information systems and the evaluation of pilot efforts from economic, social and administrative viewpoints, thus becomes critical. This will allow for redirection for false starts, modification of programs if required and fine tuning of relatively successful activities. Even errors, if properly identified as such and analyzed, which lead to improved operations, can be considered successful. Clearly this is a learning process.

The above approach to the PDP argues strongly for experimentation and the necessity of being able to revise plans during implementation. The Government of Indonesia and USAID recognize this and implementation arrangements are designed accordingly (see Part 4B below).

The need for an open approach, however, cannot be taken to the extreme: Provinces are too vast in geographical size; local government institutions too numerous; meanings of rural development too all-encompassing; and possible programs too large. The PDP acknowledges this and has attempted to put parameters on the Program. These include a geographical focus within participating provinces; a target on increasing rural income directly and immediately; and a selection of a limited number of activities and functions within a limited number of local government institutions. To attempt more within a four-year project would be impossible.

The above overall approach and design are deemed valid and appropriate given the political and administrative environment in Indonesia. Annexes B.9 and B.10 present detailed technical descriptions and analyses and cost estimates of the tailor-made programs for Central Java and Aceh.

2. Environmental Analysis

This Program is mainly one of institution building at the provincial and sub-provincial levels through the provision of technical assistance and training. A variety of small subprojects associated with institution building will be funded also. These subprojects may vary from ones providing animal and poultry breeding stock to stocking of small fish ponds to repairing small irrigation systems and farm to market roads. Some funds will be used for local credit programs. The amount of funds that may go into subprojects involving physical construction activities is

relatively small, mainly for repairs and rehabilitation rather than new construction, estimated at less than \$3,000,000 spread over seven kabupaten in two provinces and over a period of four years. Neither the individual subprojects nor the cumulative effect of all subprojects (due to geographic dispersion) could be considered as being a major action which will have a significant effect on the human environment. Therefore, a Negative Determination is recommended that an Environmental Assessment will not be required. (See Jakarta 9468 dated July 15, 1977 for more extensive discussion.)

However, it is recognized that appropriate concern for the environmental impact of an activity should be incorporated into subproject design and implementation, as a part of overall analysis to determine the real benefits and real costs of an activity. Therefore, the technical assistance and training aspects of the PDP will give attention to improving the Indonesian awareness of environmental concerns in project design.

B. Financial Analysis

1. Budget Analysis: The following table presents a summary of the estimated costs of PDP I, broken down by major components. The total cost of the four-year Program is \$12,300,000 of which \$1,938,000 represents a foreign exchange element. It is recommended that AID contribute \$8,000,000 for 65% of PDP I costs. Included in the AID contribution would be all foreign exchange costs plus \$6,062,000 of local currency costs. \$2,000,000 of the AID contribution will be a grant for technical assistance and training (to be obligated at the rate of \$600,000 in FY 1977, \$400,000 in FY 1978 and \$1,000,000 in FY 1979. The remaining \$6,000,000 will be a loan for various costs including execution of activities and evaluation. Details regarding the cost estimates are found in Tables 1, 4 and 7 of Annex B.13.

These cost estimates reflect the Central Java and Aceh Programs which are described in detail in Annexes B.9 and B.10, and which are partly illustrative of the types of activities to be undertaken and are not meant to be exhaustive nor meant to exclude possible other initiatives which offer the best opportunities for addressing rural poverty. Consequently, the budget figures are illustrative between line items and are not considered immutable.

A grant/loan mix for PDP I was approved in the PRP. Grant financing is necessary in order to build into the Program a greater degree of flexibility and ability to respond quickly to local needs than would be possible if all funding assistance were in loans. A loan/grant mix more clearly demonstrates to the GOI AID's commitment to and involvement with the Program. Furthermore, grant-financing of technical assistance removes some of the onus of the GOI having to utilize "loan" funds to pay the high costs (salary, support and amenities) of the experts. In summary, grant funds are used for institution-building more easily; while loan funds are more acceptable as investment funds.

Tables 2 and 5 of Annex B.13 present financial disbursement tables which display the costs of each Central Java and Aceh PDP component by GOI fiscal year along with the AID and

Illustrative Summary of PDP I Costs

(in thousands of dollars)

I N P U T	A I D		G O I		T O T A L
	FX	LC	Central Government	Local Government (mostly in kind contributions)	
<u>1. National level support</u>					
1. Technical Assistance (Grant)	203	67			270
2. Training (Grant)	54	18			72
<u>2. Central Java PDP</u>					
1. Technical Assistance (Grant)	533	212		107	852
2. Training (Grant)	63	21		12	96
3. Commodities (Loan)	100	50		21	171
4. Subproject Activity Financing (Loan)		2850	1400	610	4860
<u>3. Aceh PDP</u>					
1. Technical Assistance (Grant)	384	223		200	807
2. Training (Grant)	222			40	262
3. Commodities (Loan)	239	120		60	419
4. Subproject Activity Financing (Loan)	140	2501	1400	450	4491
<u>4. Totals</u>	1938	6062	2800	1500	12300

GOI contributions. By U.S. fiscal year, total AID disbursements are estimated to be: FY 1978 - \$1,779,000; FY 1979 - \$2,389,000; FY 1980 - \$2,238,000; and FY 1981 - \$1,594,000. Grant disbursements over the same period have been projected at \$805,000; \$736,000; \$385,000 and \$74,000, respectively. (See Tables 3, 6 and 7 of Annex B.13)

In the PRP approval message, a question was raised regarding the validity of Section 103 - the food and nutrition account of the FAA legislation for PDP I. It is believed that the design of the overall program as well as the individual programs for Central Java and Aceh clearly falls within the nature of food/nutrition, and rural development in particular, and that Section 103 is the appropriate account. This is reflected on the face sheet.

2. Financial Viability Analysis: The PDP is a small-scale, pilot rural development program sponsored by the Ministry of Home Affairs in Jakarta. There is no question concerning the ability of this Ministry (and the central government in general!) to support the proposed limited Program in each Province. One need only look at the annual expenditures of the central government for local development through the INPRES programs: Some \$753 million is now being allocated for these activities. Clearly, the central government has the financial viability to support PDP.

This examination of the financial viability of PDP I, then, focuses on the ability of the Provinces of Central Java and Aceh, as pilot PDP provinces, given their existing and projected financial resources, to implement the components of their Programs, sustain them beyond USAID assistance, and further expand them to other areas under their jurisdiction.

The preceding table presented the local government requirements for execution of PDP I. The Program has been designed such that these are basically in-kind contributions for such items as land, office space, and counterpart support with very minor financial requirements. The main source of GOI financing will come from the Ministry of Home Affairs in Jakarta. This is consistent with the overall long-term

strategy for promoting rural development which has been amplified in the background section of this paper. The national government provides funds and guidelines for development while local government is responsible for planning and implementation.

Tables 2 and 5 of Annex B.13 present a breakdown of estimated recurrent, non-developmental costs necessary to operate and maintain the physical, non-revenue generating activities executed under PDP I once the Programs in Central Java and Aceh end. The some \$300,000 to be budgetted for by these local governments for these purposes beginning in Indonesian FY 1982/83 represents only .1% and 1% of the financial resources annually available to Central Java and Aceh (and their participating kabupaten). Thus the recurring operational costs should not present much of a problem and are thereby reasonably well assured. Furthermore, to the extent possible, the generation of revenues for self-sustenance will be built into subprojects. Regardless, (i) annual program plans as well as plans for all specific activities proposed for financing under the Program will be required to pay attention to the needs for operation and maintenance, and (ii) there will be a special borrower covenant in the Project Agreement requiring an effective operations and maintenance program for PDP I. It should be noted that the former requirement is standard for all INPRES programs. (In fact, the Ministry of Home Affairs has issued directives requiring that a percentage of IPEDA land tax revenue receipts be utilized for O & M of INPRES financed projects). Thus, AID's counterpart (the DGGARA) at the national level is well aware of the difficulties inherent in local government maintenance and adequate attention will be focused on the matter.

Given the small-scale, relatively low-cost nature of the activities being proposed for PDP I implementation, it is felt that Central Java and Aceh will have the financial means to expand into the rest of their Provinces on a limited basis. It will not be possible for them, however, to expand their coverage as intensely and comprehensively as being contemplated for the PDP kabupaten. (This is one measure of AID's additionality). However, as noted in the

technical analysis of the overall Program, it is difficult to separate local from national government finance in Indonesia. Therefore, when successful models for rural development are developed and proven under the PDP, it is reasonable to believe that the central government will step in and provide the additional financial means for its expansion not only for the rest of the two PDP Provinces, but for the nation in its entirety.

3. Proposed Methods of Financing: The costs of PDP I have been divided into three financing categories: (i) traditional direct procurement; (ii) fixed amount reimbursement (FAR), including advances; and (iii) local currency direct disbursements.

It is proposed that traditional direct procurement be limited to AID Geographic Code 941 countries plus Indonesia. The major items to be procured in this category are foreign technical advisory services (estimated at \$1,120,000), overseas training (estimated at \$339,000), and commodities (estimated at \$339,000). Selection of the AID financing category for materials and equipment items were generally based on (1) a preference for direct procurement whenever this would not adversely affect the implementation of the Program and (2) where the item is manufactured.

Fixed amount reimbursement financing has been utilized in the past for the rupiah implementation of USAID's rural development portfolio. There are limits, however, to the use of this disbursement system under the PDP. Since the \$4 million to be targeted at each participating PDP province represents an addition to the usual fund allocation to permit these provinces to undertake rural development focused on the poor, on an experimental basis, fixed amount reimbursement would require the Ministry of Home Affairs over the PDP's life to allocate resources it simply may not have. There are also some contemplated local currency activities for which FAR is not appropriate, such as the rural credit scheme for Central Java.

The alternatives would be to set up a system of fund advances while still employing FAR and to directly disburse

local currency. It would appear that both might be valuable for various aspects of the Program. Consequently, USAID will approach local currency financing for the PDP with the option of employing FAR; a system of advances using FAR; and direct disbursement of local currency.

Every year, annual programs will be drawn up by the participating Provinces which will include detailed plans, specifications and cost estimates for all subprojects and activities. These will be reviewed and approved by the national Steering and Technical Committees as well as USAID, prior to implementation. At that time, an agreement will be reached on the predetermined amount of local currency costs to be contributed by AID as well as the most appropriate methods of local currency financing.

4. GOI Budgetary Procedures and GOI Contribution:

One of the major characteristics of the PDP is its local government institution-building nature; therefore, it will necessarily have to work within the GOI budget cycle. In January of each year, the Bappeda in Central Java and Aceh will prepare a PDP budget submission for approval by the national Steering and Technical Committees, and naturally Bappenas and the Ministry of Finance, to adequately cover financial requirements anticipated for the upcoming Indonesian fiscal year (beginning three months later in April). The Ministry of Home Affairs will be given the necessary budgets for Government contributions to local currency needs to then be channeled to the appropriate local government. GOI financial disbursement procedures are covered in Part IV of this PP.

C. Socio-Economic Analysis of the PDP

1. The Social Viability of PDP: In considering the possible impact on the PDP on reaching lower income rural households, an important factor will be the overall institutional framework in which it is evolving. Just as important will be the processes and procedures followed in launching the Program and in working out the framework, itself.

First, the very fact that a program is being launched with national backing and active provincial participation which focuses its efforts on lower income groups, is in itself a significant step forwards towards meeting the goals of social justice. Government development programs in the late 1960's and early 1970's focussed primarily on rehabilitating rural infrastructure (roads, bridges, irrigation works) and on raising overall agricultural productivity. Similar efforts went to upgrading the capacity and efficiency of the bureaucracy to implement a development program in the rural sector. The government made substantial initial progress in achieving its objective. But as in many countries, the poor did not benefit to the extent hoped for.

Second, an overall different atmosphere is sensed in the regions today, as compared with several years ago. This in part may derive from a certain amount of disappointment with the result of past development efforts, and a passing of the euphoric chat early success had generated. Indonesians from a wide variety of occupations and levels (including even the bureaucracy) appear to be taking a more critical look at the effectiveness of the development program and its execution. Much of this initiative has come from top levels of the government. Likewise, there are a substantial number of critical reports in newspapers which refer to the negative impact upon the rural population of certain governmental and commercial modes of operating. Such an atmosphere is supportive of attempts to chart new directions in attacking the problem of rural poverty. It also encourages the transfer of successful and innovative approaches from pilot areas to surrounding and different regions - facilitating possible institutional spread effects with a positive impact. (For instance, following fairly successful experimental projects in rural nutrition in several areas of West Java, the national agricultural university involved (located in West Java) has been asked to expand its program to two pilot kabupatens in Central Java - starting in IFY 1977/78.)

Third, a very important consideration relating to the potential successful implementation of the PDP is the fact

that it has central government backing at the highest levels. From the standpoint of provincial officials the fact that the Directorate General of General Administration and Regional Autonomy is one of the prime movers behind the Program will have considerable influence on their willingness to support its objectives. Bureaucrats at provincial, kabupaten (and even kecamatan) levels are sensitive to new priorities and potential new criteria for measuring success in their jobs. If they view that the central government is strongly supporting the PDP (which many appear to do), then there will probably be a better chance that they will be more effective in implementing the Program.

This awareness of high level administrative support may have been a contributing factor to the positive response received by the Bappeda teams on their visits to the kabupatens and kecamatans. It is significant, for instance, that the head of Central Java's Bappeda made a deliberate point of turning up at the opening sessions of all of the initial visits to each of the kabupatens. Not only did he specifically identify himself with the Program, but he made the point that since elections were past (the national elections were held in May, 1977), it was now time to get down to the serious business of addressing the problems of rural poverty. He also repeated frequently that the PDP was a major GOI program. He was making the point that the central government was interested (and seriously committed) to targetting projects and greater attention to lower income groups.

It should also be remembered that the PDP represents the first time the Ministry of Home Affairs will have entered into an agreement with a foreign agency (bilateral or multilateral). This greater openness is also reflected in a number of initiatives being taken by this Ministry to cooperate directly with such domestic institutions as the Faculty of Economics of the University of Indonesia - an institution whose faculty sometimes have been in the forefront of legitimate criticism of governmental development strategies. It should also be emphasized that the PDP be recognized for what it is - a program conceived

and managed by the Indonesian government, in response to its perception of a basic need to help all the Indonesian people.

From a standpoint of central backing and GOI goals, it is clear that there is essential, high level support for the PDP. It also appears that the government is already thinking about extending the PDP approach to other prov'nces - hoping to do so in cooperation with AID as well as other bilateral and multilateral agencies. (The World Bank, for instance, is also getting involved with a rural development program in the Special District of Yogyakarta).

The preceding discussion also has implications for the motivational element of successful program implementation. There appear to be a number of incentives to reach the poor stemming from the national level support and interest in the Program as a pilot effort, that should apply to provincial and lower level governmental administrators. These include new criteria for evaluation that don't focus merely on how many miles of roads are built or electric power lines laid, but how many small loans are channeled to small traders and over what geographical area. Again, one must be cautious not to overrate the importance of the PDP since administrators have many responsibilities and demands upon their time - but since it does represent a partial departure from the ordinary, central level backing is an important criterion bearing upon its possible impact.

With regards to the motivational aspect, there has been a substantial evolution in the thinking of the Bappeda teams with regards to clarifying the complicated determinants of rural poverty, including institutional/structural constraints. The more open discussions that developed over time facilitated a more probing inquiry into the concrete problems facing lower income households. Part of the change in the attitudes of the Bappeda teams undoubtedly came as a result of their perception of top level support and backing for the Program. Part also came from the reception given the teams within the kabupatens, and the openness and willingness of kabupaten/kecamatan officials to look at issues of rural poverty, and to examine the extent to which existing government programs reach lower income groups. Several technical service officials

commented that this represented some of the first times they had specifically focussed on issues of concern under the PDP. The Bappeda team members themselves also commented on their own surprise at the openness and willingness of officials to be frank at these discussions. As one said, it was a "misi murni" (a "holy" or "pure" mission), and maybe that fact helped to explain the responsive chord struck.

A very critical element with potential long term implications for the PDP, is the procedures of processes followed in getting it off the ground. These have involved a very heavy participation by kabupaten and kecamatan officials, both in discussions and in offering suggestions for possible subprojects. Not only were kabupaten and technical agency officials responsible for collecting ideas on possible projects and thrusts that would be of benefit to target groups, but camats were asked to prepare suggestions for each of their sub-districts. It is not that often that officials at this level are asked to participate actively, at early stages, in decision making processes. The processes followed over the last months even if nothing else were to happen, have already had some success in achieving results. This comes from the ground-level participation elicited and the "consciousness-raising" that has gone on. There are still a number of PDP procedures to be worked out and presumably this process will go on for a long time. But what is important is that a serious dialogue seems to be underway, looking for practical solutions, and drawing on the expertise of officials at different levels, and particularly the Bappeda.

In conclusion, an important factor in the replicability of the PDP, in its possible spread effects, and in the incentives encouraging bureaucratic support of Program objectives, will be the overall administrative framework and environment in which it is being launched. A favorable environment is an important ingredient that can help contribute to PDP's potential for achieving its objectives - having a beneficial impact on the income earning capacity of the rural poor. As this analysis has shown, there are good indications that the overall institutional/administrative framework in which the Program is being launched has the potential for a positive impact on the attainment of PDP objectives.

2. The Beneficiaries: The primary direct beneficiaries of the Provincial Area Development Program will be the poorer rural inhabitants of participating Provinces whose net incomes will be increased. This poor majority has largely not been reached by past and present programs, conceptualized and implemented at the national level, and designed without the specificity required to address the problems of the bottom half of the population. There is increasing evidence that at least 50% of the people in the rural areas have not benefitted from the modernization of the agricultural sector which has taken place over the past ten years. Enhancement of the provincial and lower-level rural development planning capabilities concomitant with the broader knowledge of regional socio-economic-political conditions will allow this kind of specific project design and implementation necessary to benefit the very hardest to reach segment of the population. The sharper focus of project design possible at decentralized levels will simplify analysis of the role of women and assure that they benefit equally through program implementation. Women will be particularly benefitted by sub-projects which bear on activities providing supplemental family income where women have been found to play a major role.

Aside from the rural poor, local and national government officials will benefit from training (both on-the-job by the technical advisors and the more formal academic short and long term programs which will be arranged by PDP) in project planning, design and implementation. Other direct beneficiaries will include leading farmers selected for training, and employees and owners of small scale rural industries which receive technical assistance.

The rural poor within the Central Java setting have already been defined as those rural households which are landless, near landless (0.5 hectares of land or less) and those with more moderate-sized holdings but situated on lands which are less productive due either to frequent natural disasters or infertility of soils. Some two-million rural dwellers, representing two-thirds of the PDP target area fall within this definition. All institution-building features of the Central Java PDP as well as subproject activities to be implemented are targetted on these groups. For example, the entire agricultural development

program seeks means to achieve agricultural production increases while impacting positively and directly on the target group. Thus agriculturally-related pursuits such as fishing of public waterways, raising smaller animals while using feed from public lands, the stocking of flooded areas with fish and the more intensive use of forest-lands, have been selected for experimentation and upgrading precisely because of the access that the rural poor would have to such activities. Improving local government abilities to intensify the productivity of house gardens was also specifically chosen for this purpose as even the "landless" have a home and garden plot, even if just rented. The promotion of employment-generating rural industry was also identified for its potential impact on the rural poor, given that their farms are such that they must seek outside employment just to subsist. Rural credit is also an appropriate vehicle for directly reaching the poor, coupled with the agricultural and rural industry interventions, thus enabling them to enter into more productive and remunerative pursuits. As women are integral parts of rural households, they will also benefit from the PDP focus. On Java women play an especially important economic role in securing cash income - particularly for poorer households. As one scholar on rural Java has put it "The household, as the basic unit of production and consumption is in practice under the unequivocal authority of women".

The primary beneficiaries of the Aceh Program are the 80+ percent of its population who live and work in rural areas. Per capita income is estimated at less than \$50 in rural areas. Unemployment is over 11 percent, and under-employment is much higher. The average Acehnese lives outside a town, raises rice on three-fourths of a hectare, and either owns his land or works as a sharecropper. Acehnese are generally reluctant to work as farm wage laborers, and traditionally those who cannot make a living farming leave their villages to seek work elsewhere. Since very little riceland is double cropped or planted to secondary crops, farmers have a great deal of time free and many farmers seek seasonal employment off the farm. Women in rural areas participate in almost every aspect of rice production. Some of them also sell vegetables, fruit, flowers, nuts, sweets and flour. Many are engaged in home industries, such as salt-making, mat weaving, and bag making.

The Program is designed to raise the income of farmers through increased production in the wet season, expansion of dry season cultivation and support to small rural industries. As access to land for cultivation is open to all (unlike Central Java) benefits are expected to be spread broadly. The role of women in Aceh is such that they should benefit directly from these approaches. Aceh is 98 percent Muslim, which of course, implies rather stringent behavioral limitations on conduct and activities of females. Nevertheless, the Program will seek to achieve whatever balance possible between men and women in the direct training and assistance provided under the program.

3. Economic Viability of PDP: The primary objective of PDP is to create the institutional capacity within provincial governments to plan, implement and evaluate, effective and efficient development activities. Because of the institutional development nature of this Program, it does not lend itself to traditional analytical techniques. Therefore, an alternative approach has been selected to demonstrate the economic soundness of this project. It will be illustrated that there is a need for a decentralization of authority, that provincial and non-central government officials have control over a significant and growing pool of resources and that the development of the institutional capacity to manage these resources is important. Then, the process that will result in the efficient allocation of resources within the selected sub-projects will be explained.

One reason that the realization of economic potential in rural areas has proven slow has been the lack of sound project economic feasibility analysis. Examination of the economic soundness of an undertaking often cannot be done at the national level in a country as diverse socially, economically, and culturally as Indonesia. The missing ingredient is the capacity at provincial and lower levels of government to undertake the economic and social analysis required to plan, administer, and evaluate discrete projects which are economically sound. The pattern heretofore has been to move ahead with projects irrespective of their economic viability or local interests, and this has been a key factor in the frequent failure of rural and agriculture development projects in

Indonesia. A main objective of the planning and evaluation elements of PDP will be to provide the capability at the provincial level to do the kind of sound economic analysis that is essential for successful project development and at the same time to develop the data base and statistical techniques that are required to carry on broad based decentralized development planning activities.

The portion of the national development budget that is designated for allocation by provincial and lower level administrative bodies has increased in each of the past 8 years and over this period it has increased by 6 times. One indicator of the increasing responsibilities of provincial and local level governments is the allocation of funds to INPRES Programs. Between IFY 1974/75, the beginning of Repelita II, and IFY 77/78 funds allocated to INPRES have increased from near zero to \$753.2 million, or an average of \$28 million per province, consisting of:

INPRES Propinsi	\$180,723,000 or \$6,693,000/Province
INPRES Kabupaten	\$158,167,710 or \$ 243,000/Kabupaten
INPRES Desa	\$ 55,841,000 or \$ 833/Village

In addition, special INPRES programs administered by local governments (for health, education, environment and marketing) total \$358,425,600 - - an average of \$13,275,022/Province.

The total provincial budgets, under the control of the Bappedas indicate the economic responsibility of these provincial planning authorities; in IFY 1977/78 the Aceh provincial budget is \$32.3 million, and the Central Java Provincial budget is estimated at over \$300 million. These budget figures are a positive indicator of a large and increasing responsibility for development and routine expenditures by provincial and local government officials, and the GOI's commitment to continue the process of sub-national development. Unless provincial staffs are prepared to deal with the swelling budgets effectively, and efficiently the full potential for rural development will not be realized.

Training and development of the institutional capacity for sound socio-economic analysis at the Province level (Bappeda) will be a key factor in the choice and mix of sub-project activities. In the development of the Project Paper, key economic sectors have been identified for future attention, and emphasis in sub-project activities. Implementing and evaluating these sub-projects will be an integral part of the planning, "economic learning" process for the participating local officials and farmers. As the Program moves into its later stages, where additional sub-projects must be identified, planned and implemented, the opportunity will be provided to develop and expand the socio-economic tools provided in the Program through training and technical assistance. In line with this approach, the sub-projects to be carried out over the life of the Program have not been specifically identified, although budget figures reflecting educated judgements of expected areas of emphasis have been developed based on preliminary evaluation of the respective provincial economies. It is important to understand, however, that the nature and mix of the sub-projects may and indeed probably will deviate from the identified activities as the Program advances and local officials gain greater experience and expertise in project implementation.

The sub-projects form the focal point of development activity in the PDP but because of the role they play in the learning process, the details must remain unspecified at this stage in the process. However, the social and economic soundness of the individual sub-projects will be assured by the process that will be used to develop the sub-projects. Local officials will work closely with the Program's advisors and trainers to use the economic/planning techniques they are being taught to develop economically sound and realistic projects. This process of learning by example, and the extension of these sound analytical techniques to the planning and implementation of new projects under the guidance of the advisors will assure the economic soundness of the sub-projects.

PART IV - IMPLEMENTATION ARRANGEMENTS

A. Analysis of the GOI's and AID's Administrative Arrangements

1. The Government of Indonesia

The Provincial Area Development Program will be under overall direction and guidance of the national-level Steering and Technical Committees. AID's counterpart at the national level will be the Directorate-General for General Administration and Regional Autonomy (DGGARA) of the Ministry of Home Affairs. Bappenas and the Directorate General of Housing, Building, Planning and Urban Development (Cipta Karya) within the Ministry of Public Works and Electric Power will also provide national-level support for the Program. In the provinces, the Bappeda will be the primary counterpart responsible for guiding, directing and coordinating the technical service agencies and participating kabupaten (and kecamatan).

a. The National Steering and Technical Committees

Established by decree in December of 1976, (see Annex B.7) to oversee all foreign-donor assistance to the local levels of government in Indonesia, these Committees provide an institutional framework for PDP execution. The Steering Committee is chaired by the Director-General of General Administration and Regional Autonomy of the Ministry of Home Affairs with the Deputy Chairman of Bappenas for Regional and Area Development as vice chairman and (i) the Director-General of Cipta Karya, (ii) the Director-General for Rural/Community Development (within Home Affairs), (iii) the Head of the Education and Training Division of the Ministry of Home Affairs, and (iv) the Director of Regional Development of the Ministry of Home Affairs, as members. The eleven-member Technical Committee is positioned at the Directorate level with the Director of Regional Development as chairman, with other representatives from the Ministry of Home Affairs, Bappenas, Cipta Karya and the Ministry of Agriculture. The higher-level body is responsible to the Ministry of Home Affairs and is charged with formulating policy and guidance, monitoring and evaluating foreign donor assistance to local government units; while the lower-level body is charged with day-to-day operations and technical concerns. These Committees are also requested to provide suggestions and recommendations to the Minister of Home Affairs for making use of the results of such foreign assistance to the Government for much wider application.

Through July, 1977, USAID has had only seven months experience with these Committees. However, certain observations can be made regarding their institutional strengths and weaknesses as they pertain to the PDP. On the positive side the DGGARA chairing the

Committees lends much authority and power to the PDP, particularly in its relationships with the participating governors and Rappedas (both of which report to the DGGARA directly). Secondly, representatives of these Committees have given full support and direction to the PDP, which they view, for reasons expanded on earlier, as a vehicle for assisting the Government in improving its existing local government/rural development portfolio and apparatus. And finally, by having high-level Rappenas and Ministry of Home Affairs membership, there are reasonable expectations that lessons learned through the implementation of the PDP will be incorporated into national government programs, policies, procedures and administrative arrangements. The main drawback to this institutional arrangement, however, is that it is composed of high-level officials, who, although extremely competent, have heavy responsibilities aside from serving on these Committees, and thus their full attention and access is not always assured. This is not unusual, however, in the Indonesian context and exists in numerous other projects and programs. This weakness is recognized, on the other hand by the GOI, and the creation of a full-time administrative cell in the Ministry of Home Affairs for PDP backstopping (see below), diminishes greatly the difficulties it would otherwise present.

b. The Directorate General for General Administration and Regional Autonomy (DGGARA)

The Ministry of Home Affairs is responsible for all civil administration in Indonesia and is divided into four Directorates General. (See Organization Charts at Annex B.14).

This Directorate General is the key link between this central ministry and local government as all governors, bupati, camats and village chiefs report to the DGGARA. Technical and administrative policies and guidance regarding local government organization, operations and overall functioning are responsibilities of this Directorate General. Matters such as the degree of government decentralization and regional autonomy are also within the scope of its concern. Two examples of recent initiatives of this Directorate General are the creation of the Rappedas in 1974 and the establishment of the INPRES (local revenue sharing) programs described earlier.

The Directorate of Regional Development within the DGGARA has been designated as the operating level manager for the PDP. This Directorate is responsible for undertaking research and preparing technical guidelines for the implementation of local level development (e.g. the INPRES Programs and the functioning of the Rappeda);

monitoring the progress being made in regional development; processing, analyzing and evaluating the degree of success being achieved with regional development; planning special programs for especially backward/underdeveloped and border areas; and, most recently, administering foreign donor assistance to local levels of government.

The Directorate of Regional Development has five subdirectorates. (See organization chart at Annex B. 15). The PDP will be housed within the Subdirectorate for Border/Minus Area Development and International Cooperation. Three full-time professionals are being recruited to adequately cover the PDP and other foreign donor activities as they arise.

The Directorate of Regional Development's role in the execution of the PDP will be substantial in that it will provide all national level backstop and support. Aside from transmitting guidance from the national Steering and Technical Committees to the field as well as analyzing and feeding information from the province to the Committees, it will have administrative responsibilities including the management of host-country technical assistance contracts, arranging for overseas training, the procurement of equipment from abroad, and other logistic/administrative arrangements. Although it has been operating relatively well in the past some technical assistance will be required given its new administrative functions as well as the experimental nature of the PDP. Therefore, aside from the technical assistance and training that will be provided to the Provinces of Central Java and Aceh, one full-time technical advisor will be grant financed for three years to support the central government sponsors of PDP. In addition, there will also be the need for short-term expertise (estimated at 14 worker months) in specialized fields from time to time throughout the life of the Program. Training funds will also be reserved for short and longer-term overseas training (estimated to be 2 years in the U.S. and 2 years in other developing countries). Some \$ 342,000 is being reserved for these purposes.

c. Rappenas and Cipta Karya

Rappenas, through its Deputy Chairman for Regional and Area Development, has had a decisive policy guidance role to play in the design of the PDP. It was the concern of Rappenas especially which has given the PDP its direct focus on the problems of the rural poor and increasing their incomes as directly and immediately as possible. Although not an implementing agency, Rappenas is expected to continue its active

support for the Program through its memberships on the national Steering and Technical Committees as well as its deep concern for spreading the benefits of development more broadly into the rural areas. An organization chart for Bappenas is found in Annex B 16.

Within the central government, regional planning responsibilities are divided between the Directorate of City and Regional Planning (Tata Kota dan Daerah) of Cipta Karya and the Directorate General for General Administration and Regional Autonomy of the Ministry of Home Affairs. Prior to the issuance of Ministry of Home Affairs Decree No. 309 of 1976, foreign donor projects assisting local-level planning (e.g. AID's Area Development Project Planning Grant No. 0238) were sponsored by this Directorate within Cipta Karya. However, given the provision of management responsibility of the Ministry of Home Affairs, the role of Cipta Karya appears now to be taking more of an interprovincial planning focus. Thus, AID's Northern Sumatra Regional Planning Project is managed by Cipta Karya, while the PDP is being run through Home Affairs. Although Cipta Karya will not be directly involved in the execution of the PDP, its membership on the national Committees will provide valuable input into the shaping of PDP.

d. The Bappeda

The PDP involves a complex mix of institutions at the provincial, kabupaten, kecamatan and village levels of government, but since the focus for coordination and control will be at the provincial level, a particularly important role is required for the Bappeda in participating provinces.

A brief description of the Bappeda as an organization was presented in Part II of this Project Paper. This is augmented by Annexes B.17 and B.18 which present a formal organization chart of the Bappeda as well as a translated version of the Presidential Decree of 1974 which formally established this regional planning entity. According to this decree, Bappedas are to assist the governors in determining policy for planning and implementing provincial development projects. The planning functions of Bappeda are clearly stated: to coordinate planning among provincial agencies, national agencies within the provinces, and kabupaten level agencies within the province (Article 3c). Equally clear is the evaluation function of the Bappedas: to supervise the implementation of regional development both in terms of evaluation of and adjustments in programs and projects (article 3e).

Formal authority is only as effective as the informal relationships underlying it. Given that Bappedas serve as staff functions of the provincial governors, the personal relationship between a Bappeda chairman and his provincial governor is a key factor. This relationship varies by province. (For example, in Aceh the Governor relies on the Bappeda heavily while in Central Java this relationship is probably less close).

Another factor which influences the abilities of the Bappedas to perform their roles is the depth of staffing and capabilities of such staff. This again will vary by province. Some provinces, such as Central Java, have a full complement of full-time professional employees while others, such as Aceh, have several faculty members from the regional university (Syiah Kuala University) who have to divide their time and energies between two institutions. Overall, the Bappedas reflect the general scarcity of highly trained manpower in Indonesia and will usually have only a small number of top professionals with the others being less skilled in project planning and implementation. This generality is borne out in the Provinces of Central Java and Aceh.

Regarding the administrative environment in which Bappedas operate in the provinces, at the provincial level of government there is always underlying if not overt competition between offices. Provincial technical service agencies often view the Bappedas as overlapping or perhaps even usurping some of their own planning authorities and responsibilities. There is often an institutional rivalry with the Bureau of Development/Operations Room of the Provincial Secretariat, and the Bappeda; the former being responsible for controlling the implementation of local development projects.

The central government is keenly aware of the institutional weaknesses and the administrative conditions under which the Bappeda operate; in fact, one of the more important objectives of the PDP is to build up the institutional capability of those regional planning boards to allow for a greater degree of leadership in rural development by subnational entities. The Bappedas have specifically been designated as the official Project management agencies by the central government for the PDP to allow this to happen. Therefore, (i) technical assistance and training will be provided to improve the competence of the Bappeda staff; (ii) subproject funds will be channeled through their offices to give them more authority when dealing with the provincial technical service agencies; (iii) the central government has given special permission for the Bappeda to hire/recruit additional staff for PDP implementation; and (iv) the national Steering and Technical Committees have placed their full authority and support behind the Bappeda and have allowed them maximum flexibility for PDP implementation.

e. The Provincial PDP Coordinating Committee

Although the Rappeda will play an active role in overall planning and evaluation, the implementation of program thrusts and associated subprojects in the field will be the responsibility of the relevant technical agencies and levels of government. In order to assure a greater degree of PDP coordination in the field, a Provincial PDP Coordinating Committee is to be established in each participating province which will be responsible to the governor. The Provincial PDP Coordinating Committee will be headed by the Rappeda chairman and will involve those service agency heads who will be most involved with the implementation of the Program. Rappeda staff members who are charged with specific planning, monitoring, and evaluating duties related to the PDP will also serve as members. Representatives of other bodies which have less direct implementation functions will also be invited to participate in the work of the Provincial Coordinating Committee from time to time as required.

These Committees will carry out their coordinating functions on behalf of the governor. Under their direction, the bupati within the participating kabupaten will be responsible for the coordination of subprojects and thrusts in their jurisdiction. A member of the bupati's staff, possibly the head of the Sub-directorate for Development will act as liaison to the Provincial Coordinating Committee. The bupati will also be responsible for coordinating and directing the camats and village level officials in the target areas.

This administrative arrangement (which interestingly enough was proposed by both Central Java and Aceh independently) is viewed as a mechanism to draw closer cooperation and coordination among the key provincial institutions involved with the PDP and thereby avoid some of the problems described earlier. Actually, the formation of committees composed of key agencies involved in programs and projects at local levels of government is a normal administrative arrangement in Indonesia. The Inpres programs also operate in this manner in the provinces and kabupaten.

f. Technical Service Agencies

Since the PDP seeks also to improve implementation capabilities, it will deal closely with those local government technical service implementing agencies whose responsibilities impact directly on the rural poor. The technical strengths and weaknesses of these offices in Central Java and Aceh are described in great detail in Annexes B.9 and B.10. Appropriate amounts of

technical assistance, training, additional staffing, commodities and subproject financing are provided for their institutional betterment.

2. A.I.D.

Given: (i) the experimental rural development nature of the Program; (ii) the decentralized operations in the Provinces of Central Java and Aceh; (iii) the large numbers of small-scale, non-standardized activities contemplated for annual implementation; and (iv) the need to begin planning for PDP II (which will focus on three additional provinces) immediately for FY 1978 authorization, it is recognized that there will be a heavier than normal project management workload placed on the Mission in undertaking the PDP. Therefore, one additional direct-hire assistant general development officer to work with the PDP project officer in Jakarta will be required. If this staffing requirement cannot be met, there is concern that implementation of PDP I will not get adequate attention; and certainly planning of PDP II would be delayed.

B. Program Implementation Plan

1. Plan of Operation

The GOI has decided that the plan of operation for the PDP will closely follow, at least initially, the procedures developed for the national Inpres programs, which themselves represent one of the most important administrative innovations in the recent history of Indonesian development. There is much merit to such an approach for PDP implementation as Inpres is a well-established operation which is capable of administering considerable amounts of money for the construction of small-scale rural infrastructure in dispersed locations (e.g. in IFY 1977/78, some \$753 million is being channeled to local government under the various Inpres classifications). This is also an appropriate mechanism as the PDP provinces and kabupaten are already familiar with the procedures of Inpres and this will make implementation of PDP that much easier. It is recognized, however, that INPRES to date is essentially rural infrastructure oriented and thus the full applicability of its procedures to PDP execution may not be completely valid. Thus over time, it is anticipated that there may be changes in the procedures noted below. In fact, this introspective, evolutionary approach is considered a part of the PDP's learning process.

a. Issuance of Instructions to the Provinces

Upon program authorization, the Ministry of Home Affairs will issue a series of instructions to the Provinces of Central Java

and Aceh which will detail the standard operating procedures for planning, implementing and monitoring the overall Program and particularly the first annual cycle.

These PDP directives will lay down the broad objectives of the Program, the target areas of focus, the thrusts for the individual provinces, the nature of the subprojects within the individual thrusts, and other important information already agreed to and found in this Project Paper. It will then call on the provinces (through the Bappeda) to prepare detailed annual plans for implementation to commence in IFY 1978/79 (beginning in April of 1978) which will include comprehensive information on the nature, location, specification, cost estimates, benefit estimates, implementation schedules, divisions of responsibilities and other relevant information of all activities planned for the first year of operation. Reporting requirements will also be specified at that time as well as the payment procedures for AID funds and the local banking institution which will be authorized to handle PDP funds.

These instructions will be issued by October of 1977, assuming project approval and authorization of AID funds. USAID will review and concur with these instructions prior to their issuance to see that they conform with sound program management and are consistent with AID rules and regulations. This will be a condition precedent to initial disbursements under the PDP.

The instructions to the provinces will include criteria for the selection of subprojects for implementation. (These criteria will specify that subprojects must be: (i) targetted on increasing the net incomes of the rural poor as directly and immediately as possible; (ii) relatively small-scale, of a pilot nature, and capable of execution within a reasonable time frame; (iii) technically, economically, financially, socially, environmentally and administratively sound; (iv) capable of replication; (v) focussed spatially to maximize the likelihood of beneficial linkages between subprojects under auspices of PDP as well as other governmental efforts undertaken (e.g. an INPRES road), to the extent possible; and (vi) within the framework, or major objectives, of the individual provincial programs. It is not envisioned that financial limitations will be placed on the size of subprojects or that additional criteria will be placed on the inclusion of higher-cost activities. It is to be remembered, however, that all subprojects are to begin on a very small scale and only expanded in scope and size when proven, through evaluation, to be sound in all respects.

National guidelines will be issued, thereafter, on an annual basis, following the format described above. One key addition, however, will be for a provincial evaluation of the preceding

year's experience, lessons which have been learned, corrective actions which will be taken, etc. This is to encourage the local government to continue its assessment of its operations and force corrective actions where required. This is consistent with the experimental, evolutionary approach of the PDP.

h. Preparation of Provincial Plans

Upon receipt of the PDP instructions from the central government, the Provincial Coordinating Committee will meet to outline its strategy for preparing the annual plan (and evaluation). The Bappeda will play a major role in this, exercising its authority both as the regional planning body and chairman of the Committee. Approximately three months will be scheduled for the preparation of detailed plans, designs, cost estimates, implementation and monthly disbursement schedules, division of responsibilities for activity execution, designation of responsible individuals and all other information required.

The Bappeda will put the entire package together in summary form, along with the technical approvals of provincial service agency heads, and present it to the governor for his review and concurrence. It will then be passed on to both the DGGARA and USAID in Jakarta.

c. National Steering/Technical Committee Meeting

By January of each year, the chairmen of the Bappedas will attend a national Steering/Technical Committee meeting in Jakarta. They will present their evaluation of the prior year's performance, problems incurred, achievements made, policy matters requiring national level attention, and the like. They will then move into their institution-building proposals for the upcoming year, relating them to the preceding year's experience.

These Committees and USAID will then discuss and comment on the proposals, offer constructive suggestions, discuss policy concerns (e.g. does the program reach the poor), and end with a joint agreement on the proposed annual program. This approval will be based on whether the participating provinces are following the overall guidelines and procedures laid down for the PDP and whether there is an actual institution-building, learning process taking place, consistent with the experimental evolutionary, rural development approach of the Program. The discussion and approval will not be technical (i.e. the technical validity of a poultry project in any village); the assumption is made that the local implementing agencies, with the PDP technical assistance and training provisions at the local level, have the capability to make such technical judgments. The focus

will remain on the overall institution-building features of the PDP, not individual subprojects. This is in keeping with the expressed desire of Steering/Technical Committee members to delegate responsibilities to the lowest appropriate levels.

d. Release and Transfer of Funds

Approval of the annual program plans will become the basis for disbursing GOI and AID funds during the upcoming fiscal year (which begins in April). On the GOI side, the summary monthly disbursement schedule of expenditures by province will serve as the basis for the Ministry of Finance's release order (SKO). This document, with the monthly schedule attached, will be conveyed by the Ministry of Home Affairs to all participating provinces in early April. Simultaneously the central Bank of Indonesia will convey the SKO and schedule to the specified local provincial (and district) banks, along with instructions to pay out funds up to the amount shown against: (a) actual requirements as certified by the designated project officer and the treasurer of the activity for those projects which will be implemented under force account (as a poultry project); or (b) contractor bills which have been certified by the designated project officer and treasurer for those activities requiring private contractor assistance. (Regarding the latter, it is noted that payments to contractors are made in five installments for work actually completed: the first payment of 25% of the contracted amount is made after 30% of the work has been done, etc. When the last payment is made, 5% is withheld and paid after the maintenance period is over).

On the AID side, too, the annual program plans will form the basis for disbursements during the year, utilizing traditional direct procurement or payment procedures for foreign exchange costs and fixed amount reimbursement (including advances) and direct disbursement mechanisms for local currency costs where appropriate. For local currency items, an agreement will be reached with the government, after the January national Steering and Technical Committee meeting, regarding the predetermined amount of local currency costs to be contributed by AID and the Government as well as the most appropriate disbursement procedures.

e. Implementation of Annual Program Plans

Implementation of the Provincial Area Development Program will be the responsibility of the participating provinces. Within the provinces, the Provincial Coordinating Committees and the Rappedas will have overall coordinative functions while the executing agents will be the technical service agencies and the kabupaten and kecamatan, depending on the activity.

It is envisioned that most of the activities undertaken will be performed by the local governments either under force account or with the use of private local contractors, whichever is more appropriate. This is consistent with the local government institution-building, learn-by-doing, pilot project focus of PDP.

f. Monitoring

Aside from the annual national Technical and Steering Committee reviews, there will be more periodic supervision of the Program which will be performed by the Directorate of Regional Development, the Bappeda and USAID.

This monitoring will look into the physical progress taking place, the number of people trained, field related problems, etc. At least once annually, representatives of the Directorate of Regional Development will visit the participating provinces, confer with the Provincial Coordinating Committees and the Bappedas and make on the spot inspections of a number of activities. The USAID PDP staff will attempt to accompany the Ministry of Home Affairs' representative on this review.

Within the provinces themselves, the Bappeda, through its monitoring and control functions, will make periodic inspections of all activities executed under the PDP. A final inspection will also be made upon completion of subprojects. The USAID PDP staff will also attempt to accompany the Bappeda officials on this visit.

A PDP implementation plan network is displayed as Annex B.19.

An example of how subprojects might pass through this procedural system might be useful. When a Bappeda receives its annual instructions from the national Steering and Technical Committees, it will call the Provincial PDP Coordinating Committee into session at which time past performance of the PDP will be reviewed, national guidelines discussed and agreement reached on the overall strategy for the upcoming year. At that time, particularly successful endeavors might be highlighted for expansion and less successful pilot efforts either redirected or dropped altogether. The most responsible technical agencies and levels of government for each of these activities would then be called upon to develop their portion of next year's program over a period of three months. The Bappeda would work with these technical representatives to develop these subprojects and ensure their social/economic/administrative viability. Naturally the technical advisors in the provinces will be intimately involved in the process. At the national Steering Committee meeting in Jakarta

the overall provincial program as well as individual subprojects will be presented and reviewed. When approved, the province will have an additional three months (January through April) to further refine the upcoming subprojects as well as modify them, if requested to do so by national officials. Implementation will begin with the release of funds at the beginning of the new fiscal year. During execution, there will be periodic inspections by the Rappeda, the Directorate of Regional Development and USAID.

2. Contract Administration for Technical Assistance

A single host-country contract for all technical advisory services for the PDP Provinces will be negotiated, executed and administered through the DGGARA. This contract will be grant-financed to cover all foreign exchange costs and local currency costs for housing, utilities and other in-country personal expenses of the consultants on a reimburseable basis. (The GOI will provide office space, local transport and per diem.)

There will also be a separate grant-funded full-time technical advisor to the central government sponsor of the Program. This individual will probably also need short-term expert assistance in specialized fields from time to time throughout the life of the Program. This individual should not be an employee of, nor have any organizational or financial interest in the firm selected to provide the contractual technical advisory services to the participating provinces. This advisor, by reason of his position and location, will undoubtedly be involved in planning and developing future PDP programs, as well as providing advice to the central government which could affect the advisory assistance being provided to the local government. Completely separate and distinct sources of advisory assistance at the two levels would avoid conflicts of interest as well as undue influence on the advisory assistance provided at the lower level. However, occasional additional short-term expert/specialized advisory assistance deemed necessary at the central level could be made available from either separate individual sources or from the firm providing services at the local levels.

The technical advisors at the central and local levels will be responsible for assisting the government with arranging training programs overseas and the procurement of commodities from abroad.

3. Plan for Evaluation

Given the open and evolutionary nature of the PDP as well as the recognized difficulty in reaching the rural poor, evaluation becomes

one of its more significant aspects. The purpose of the evaluation program, then, will be to: (i) monitor progress toward attainment of the Program's goals; (ii) assess the socio-economic impact of the developmental efforts on the target groups; (iii) identify problem areas and constraints which inhibit progress; and (iv) feed relevant information back into the decision-making process of continued planning, organization and implementation of PDP, nationally and locally. The PDP evaluation will emphasize the assessment of the impact of the inputs rather than monitoring the execution of those inputs (which was covered in the monitoring plans).

Evaluation rests with the provinces and their Bappedas. The provincial planning bodies will establish reporting systems to gather and analyze relevant data on individual program thrusts as well as subprojects within those thrusts. They will also include evaluation as an integral component of their programs. To carry out the more intensive aspects of such evaluation (including complete studies of villages, as well as interviewing leaders, project personnel and samples of recipient households) a local university (or universities) in each of the provinces will work with the Bappeda. For example, Syiah Kuala University will be involved with the evaluation of the Aceh PDP while it is envisioned that both Diponegoro University in Semarang and Satya Wacana University's Social Science Research Institute in Salatiga will work with the Central Java Bappeda on their program. Such relationships should not only be useful for the actual evaluation, but should also provide a valuable training function for the provincial government.

As noted earlier, the national instructions to the field giving PDP guidance will emphasize the need for evaluation as a basis for drawing up annual implementation plans. Therefore, upon authorization of the PDP and upon receipt of the PDP instructions from the Ministry of Home Affairs, the Bappeda will prepare its first annual plan for evaluation, to be followed in subsequent years by similar plans. Baseline studies will most likely begin in January of 1978, prior to commencement of PDP activities. The full-time technical advisors assigned to Bappedas will provide expertise and advisory assistance in the entire process of evaluation.

C. Loan/Grant Administration

1. Loan/Grant Implementation Plan

- | | |
|---|--------------------|
| 1. PDP I authorized by AID/W. | September 15, 1977 |
| 2. Project Agreement negotiated and signed (grant funds). | September 25, 1977 |

- | | |
|---|-------------------|
| 3. Loan Agreement negotiated and signed. | December 15, 1977 |
| 4. Conditions precedent to initial loan disbursement met. | March 15, 1978 |
| 5. Host-country contract executed for TA for PDP Provinces. | September 1978 |
| 6. Project Assistance Completion Date (PACD). | March 30, 1982 |

2. The Loan/Grant Agreement

Attachment G presents a draft of the PDP I project description as it is proposed for the loan/grant agreements. In addition to the usual conditions, the loan agreement will include:

a. Conditions Precedent to Initial Disbursements

Detailed instructions and guidelines from the Ministry of Home Affairs to the provinces which will provide standard operating procedures for planning, implementing and monitoring the overall Program.

b. Conditions Precedent to Commencement of Annual subactivity Programs

Prior to the commencement of the annual program in each PDP Province, the Borrower and A.I.D. shall review and approve in writing, the annual objectives, approach, plans, listing of activities, cost estimates, implementation schedules, operations, plans and other relevant information including disbursement procedures for each of the subactivities, so as to permit a judgment on the feasibility of the annual program as well as individual activities.

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APPROVED BY A/AA/ASIA:DDCOHEN
A/AA/ASIA:DCOHE
ASIA/PD:ARLOVE
ASIA/TR:GROHLFS (DRAFT)
ASIA/DP:KMEENAN (DRAFT)
PPG/DPRE:PMATHESON (DRAFT)
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TAGS:

SUBJECT:PROVINCIAL DEVELOPMENT PROGRAM (PDP)

REFS: (A) STATE 67211 (B) JAKARTA 2031 (C) STATE 191089

1. APAC REVIEWED FRP SUPPLEMENT PROVIDED REF B AND APPROVES USAID PREPARATION OF PP FOR SUBJECT PROJECT. THIS APPROVAL BASED UPON (1) SIGNIFICANT ACHIEVEMENT OF EFFECTIVE COLLABORATIVE RELATIONSHIP WITH MINISTRY OF HOME AFFAIRS AND (2) GENERALLY EXCELLENT FRAMEWORK FOR PROJECT PLANNING DESCRIBED REF B. APAC IDENTIFIED FOLLOWING ISSUES TO BE ADDRESSED IN PP, IN ADDITION TO CONCERNS DESCRIBED REF C.

2. PLANNING DETAIL IN FRP: FRP SUPPLEMENT UNDERSTANDS COULD NOT ADDRESS ALL OF AID/W CONCERNS IDENTIFIED REF C AND IT IS STILL NOT CERTAIN THAT ACCEPTABLE PLANNING GUIDELINES AND OPERATIONAL PROCEDURES CAN BE WORKED OUT WITH GOI. ACCORDINGLY, THERE IS SOMEWHAT GREATER RISK THAT INITIAL PP SUBMISSION MIGHT NOT BE ACCEPTABLE TO AID/W THAN IS CUSTOMARY FOR PROJECTS WHICH ARE MORE FULLY DEFINED AT FRP STAGE. IN ADDITION, IT IS JUST THEREFORE THAT USAID AID/W CONVEYING IMPRESSION TO GOI THAT FRP APPROVAL VIRTUALLY ASSURES SUBSEQUENT APPROVAL OF FY 77 FUNDING. ALSO IMPORTANT THAT

USAID CONTINUE PRACTICE OF SHARING OF MEMCONS AND INTERNAL MISSION REPORTS ON PROJECT TO KEEP AID/W INFORMED ON ELABORATION OF PROJECT DESIGN.

3. SECTION 611 (A) (1) OF FAA: AGREE WITH USAID THAT SECTION 611 (A) (1) REQUIREMENT FOR ADEQUATE PLANNING AND RELIABLE COST ESTIMATES CAN BE SATISFIED PER PARA 4, REF B. SINCE A FUNDAMENTAL PREMISE OF 611 (A) (1) IS THAT PRE-PLANNING ASSURES RAPID IMPLEMENTATION AFTER PROJECT APPROVAL AND AVOIDS EXTENDED PIPELINE PROBLEMS, REQUEST USAID/GOI IDENTIFY, APPRAISE, AND PLAN SUB-PROJECTS IN PP TO MAXIMUM EXTENT POSSIBLE AND COMPATIBLE WITH OVERRIDING PURPOSE OF INSTITUTIONAL DEVELOPMENT. NO ARBITRARY PERCENTAGE OF QTE FIRM UNOTE SUB-PROJECTS IS HEREBY SUGGESTED.

4. INSTITUTIONAL DEVELOPMENT: PER PARA 3, PROJECT JUSTIFICATION WILL DEPEND ON EXCEPTIONALLY THOROUGH ANALYSIS OF

ADMINISTRATIVE CAPABILITIES AND PLAN FOR INSTITUTIONAL DEVELOPMENT. ADMINISTRATIVE ANALYSIS SHOULD ADDRESS CENTRAL GOVERNMENT ORGANIZATION FOR PLANNING AND SUPERVISING OVERALL PROGRAM PROVINCIAL PLANNING BOARDS, AND LOCAL AGENCIES RESPONSIBLE FOR SUB-SECTOR IMPLEMENTATION. INSTITUTIONAL DEVELOPMENT PLAN SHOULD ATTEMPT TO SET OBJECTIVE STANDARDS FOR IMPROVEMENT OF ADMINISTRATIVE PERFORMANCE AND SHOW HOW TECHNICAL ASSISTANCE, TRAINING PROGRAMS, AND PRACTICAL EXPERIENCE ON SUB-PROJECT IMPLEMENTATION WILL BE INTEGRATED TO ACHIEVE DESIRED RESULTS. PUBLIC ADMINISTRATION/LOCAL GOVERNMENT CONSULTANT WAS SUGGESTED REF A TO ASSIST WITH THIS PLANNING.

5. SUB-PROJECT APPROVAL: PP SHOULD MAKE EXPLICIT THE CRITERIA AND PROCEDURES FOR USAID APPROVAL OF SUB-PROJECTS AND MEANS OF APPLYING REASONABLE TESTS FOR FEASIBILITY ON TECHNICAL/ECONOMIC/FINANCIAL/SOCIAL/ENVIRONMENTAL/AND ADMINISTRATIVE GROUNDS. AGREE WITH PARA 4, REF B THAT SUB-PROJECT CEILING OF DOLS 100,000 UNNECESSARILY CONFINING AND NO LONGER REQUIRE CEILING. HOWEVER, REQUEST USAID DEFINE IN PP ADDITIONAL CRITERIA THAT WOULD APPLY TO LARGER SUB-PROJECTS I.E., THOSE COSTING IN EXCESS OF DOLS 500,000. THESE CRITERIA SHOULD ESTABLISH PRINCIPLE THAT LARGER SUB-PROJECTS WILL BE FINANCED ONLY TO EXTENT THEY HAVE HIGH POTENTIAL FOR REPLICATION AND OFFER EXCEPTIONAL OPPORTUNITY FOR UPGRADING CAPABILITIES OF PLANNING/IMPLEMENTING AGENCIES.

6. SOCIAL SOUNDNESS ANALYSIS: PP SHOULD PROVIDE SOCIAL ANALYSIS WITH SPECIAL EMPHASIS ON BENEFICIARY LINKAGES, SUPPORTIVE AND INHIBITING CULTURAL PATTERNS, AND MEANS OF ENSURING BENEFICIARY PARTICIPATION IN SUB-PROJECT SELECTION,

DESIGN, IMPLEMENTATION, AND EVALUATION. PP SHOULD ALSO ADDRESS THE FOLLOWING ISSUES: BASELINE DATA REQUIREMENTS FOR SOUND PROVINCIAL PLANNING; ALTERNATIVE LOW-COST METHODS FOR ONGOING COLLECTION AND ANALYSIS OF DATA REQUIRED FOR PLANNING; TRAINING PLAN TO UPGRADE PROVINCIAL CAPABILITIES IN DATA COLLECTION ANALYSIS AND UTILIZATION. PER PARA 5 ABOVE, RECOMMEND THAT USAID REQUIRE EVIDENCE OF SOCIAL SOUNDNESS AND SATISFACTORY APPRAISAL OF ROLE OF WOMEN BEFORE APPROVING INDIVIDUAL SUB-PROJECTS. RURAL SOCIOLOGIST AND ECONOMIC ANTHROPOLOGIST WERE SUGGESTED REF A TO ASSIST THESE ACTIVITIES.

7. LOCAL DEVELOPMENT FINANCE: PP SHOULD EXAMINE SOURCES OF DEVELOPMENT FINANCE AVAILABLE TO PARTICIPATING PROVINCES AND MEANS OF EXPANDING FINANCIAL RESOURCE BASE TO SUSTAIN ACTIVITIES INITIATED UNDER SUBJECT PROJECT AND PPLICATE THEM ELSEWHERE IN PROVINCE AND IN OTHER PROVINCES. PP SHOULD OUTLINE LONG-TERM GOI STRATEGY FOR FINANCING PROVINCIAL DEVELOPMENT AND PROBABLE AID ROLE IN ASSISTING THIS STRATEGY.

8. DISBURSMENT PROCEDURES: WHAT MECHANISM WILL BE CREATED TO FINANCE SUB-PROJECTS AND HOW WILL THIS MECHANISM HELP TO ESTABLISH LONG-TERM FINANCIAL RESOURCE BASE FOR PROVINCIAL DEVELOPMENT MENTIONED IN PARA 7 ABOVE? PP SHOULD DESCRIBE LOAN DISBURSMENT PROCEDURES, INCLUDING APPLICABILITY OF FAR METHODS, TO EXTENT FEASIBLE. FAR IS PREFERRED BECAUSE IT RESULTS IN AID DISBURSEMENTS ONLY WHEN SUB-PROJECTS HAVE BEEN COMPLETED SATISFACTORILY AND ARE OPERABLE. TO WHAT EXTENT CAN PARTICIPATING PROVINCES/GOI PROVIDE ADEQUATE SUB-PROJECT FINANCE WITHOUT REQUIREMENT FOR ADVANCE FUNDING BY AID?

9. AID MONITORING: WHAT PROCEDURES WILL AID USE TO MONITOR OVERALL PROJECT PROGRESS AND SATISFACTORY IMPLEMENTATION OF NUMEROUS SMALL SUB-PROJECTS? DOES USAID HAVE ADEQUATE STAFF TO MONITOR PROJECT EFFECTIVELY? IS PROJECT MONITORING, INCLUDING SITE INSPECTIONS BY U.S. STAFF, LIKELY TO EXACERBATE GOI SENSITIVITIES CONCERNING INFLUENCE BY

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FOREIGNERS IN RURAL AREAS?

10. WE SEE THIS PROJECT AS YOU DO AS FALLING WITHIN SECTION 103 - FOOD AND NUTRITION ACCOUNT AND IN PARTICULAR WITHIN THE RURAL DEVELOPMENT PART OF IT AS ILLUSTRATED IN SECTION 103(C). QUESTION ARISES, HOWEVER, OF WHAT ARE OUTER LIMITS OF THIS ACCOUNT, WHICH CLEARLY COULD OVERLAP WITH, E.G., A SECTION 104 HEALTH PROJECT FOR RURAL AREAS OR A SECTION 105 RURAL EDUCATION PROJECT.

TEST IS ESSENTIAL NATURE OF PROJECT AS A WHOLE, RECOGNIZING THAT PROJECT REACHES BENEFICIARIES THROUGH SUB-PROJECTS AND THAT DECENTRALIZED AND RELATIVELY FLEXIBLE DECISION-MAKING WITH RESPECT TO SUB-PROJECTS IS IMPORTANT ASPECT OF PROJECT. ACCORDINGLY, IF BULK OF SUB-PROJECTS CLEARLY HAVE FOOD-NUTRITION-RURAL DEVELOPMENT CHARACTER (AS ALL IN ILLUSTRATIVE LIST IN ORIGINAL PRP SUBMISSION DO) BELIEVE TEST IS MET.

ALSO, HOWEVER, USAID WILL NEED TO MAKE JUDGMENT ON WHETHER ANY LARGER SUB-PROJECTS CONSIDERED SHOULD MORE SUITABLY BE PROGRAMMED FROM OTHER SOURCES OF FUNDING, EITHER AS SEPARATE PROJECT OR BY AMENDMENT OF AUTHORIZATION (TO SUBSTITUTE DIFFERENT SOURCE OF FUNDS.) DIFFICULT TO GIVE HARD CRITERIA FOR THIS JUDGMENT DECISION BUT A FACTOR IN THIS JUDGMENT WILL BE EXTENT TO WHICH SUCH A SUB-PROJECT INTEGRATES WITH THE OVERALL PROJECT THRUST OF FOOD-NUTRITION-RURAL DEVELOPMENT.

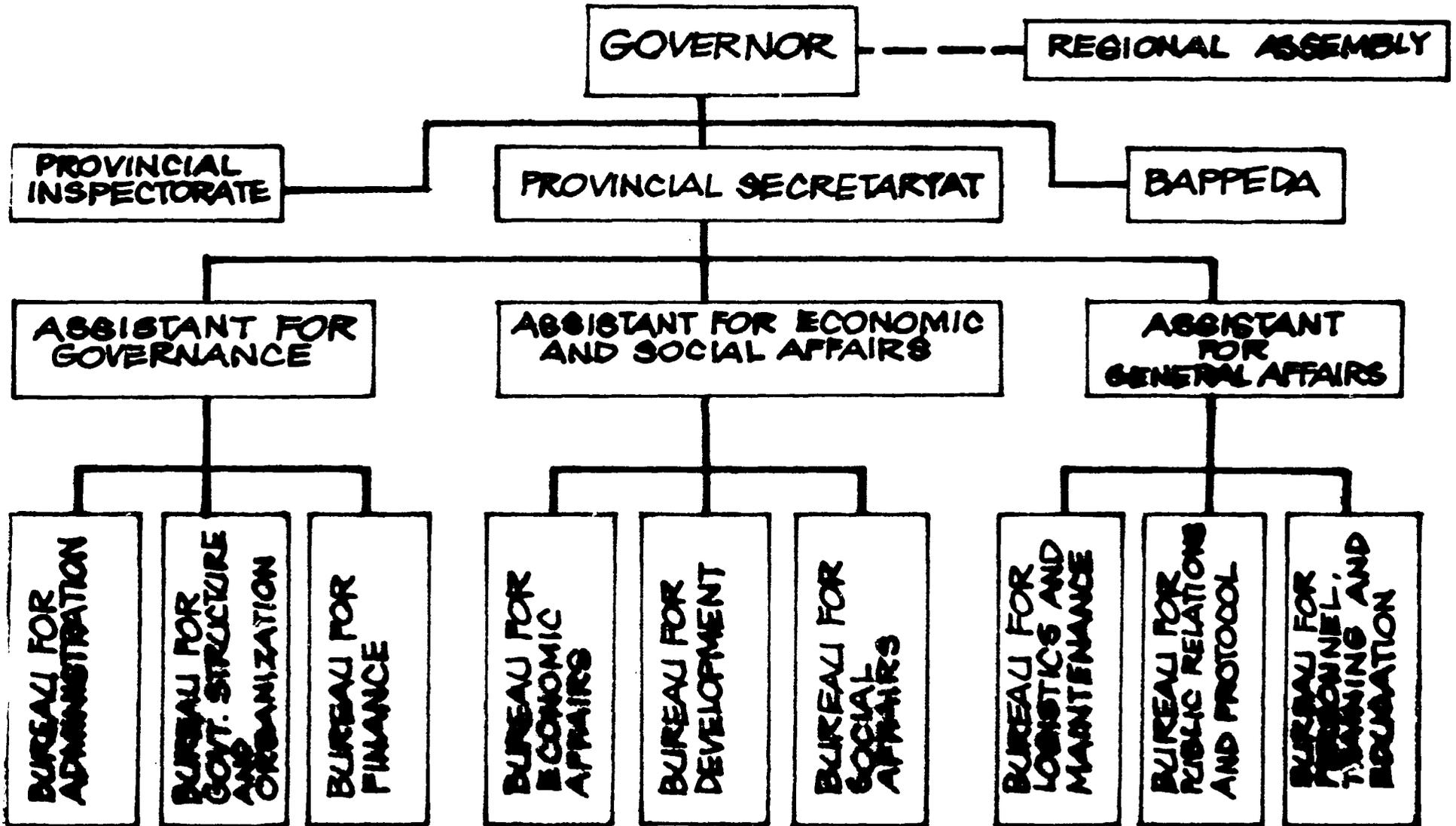
11. PP SUBMISSION: PP SHOULD BE SUBMITTED NLT AUGUST 15, 1977, TO ALLOW SUFFICIENT TIME FOR REVIEW PROCESS AND ADVICE OF PROGRAM CHANGE TO CONGRESS.
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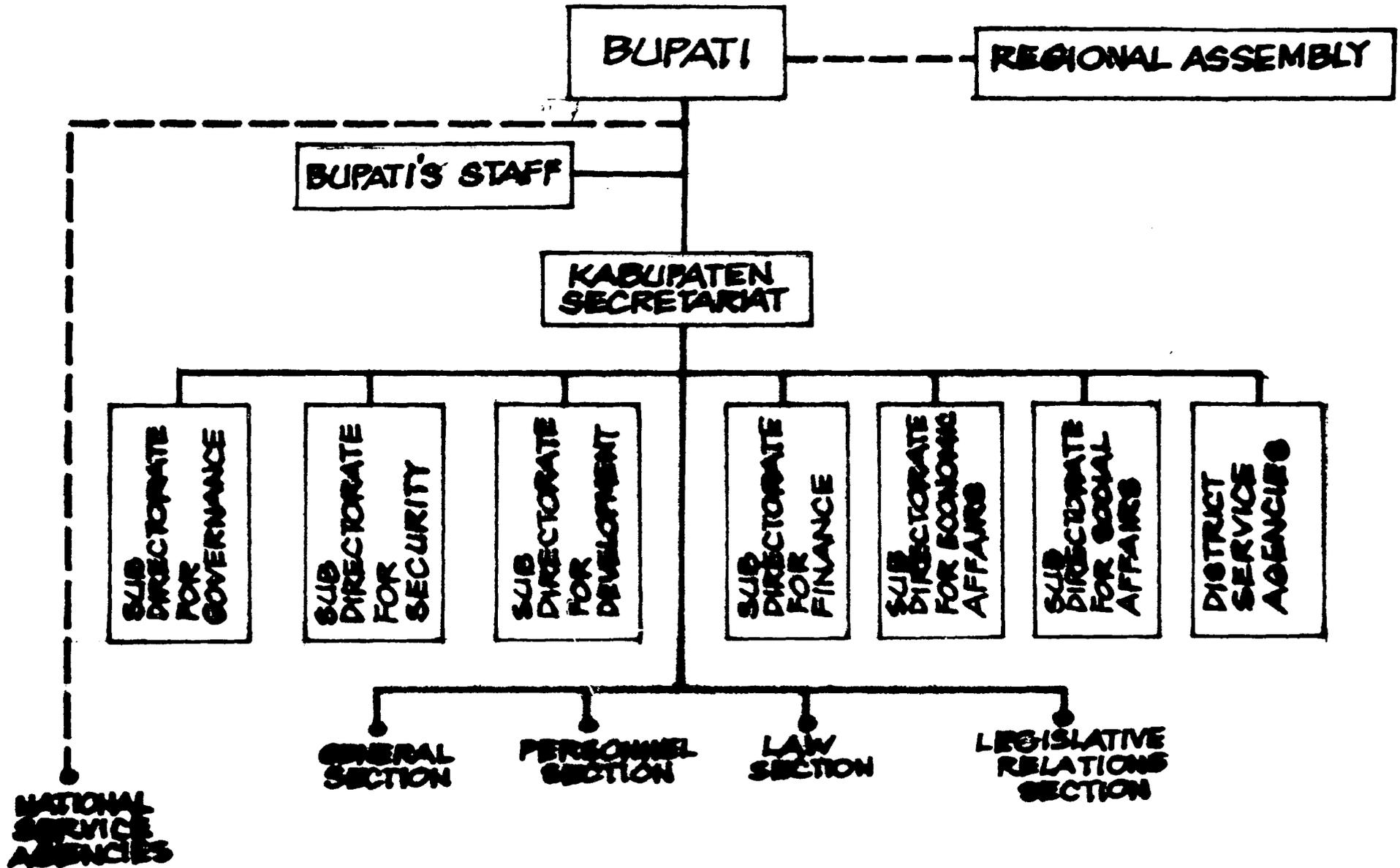
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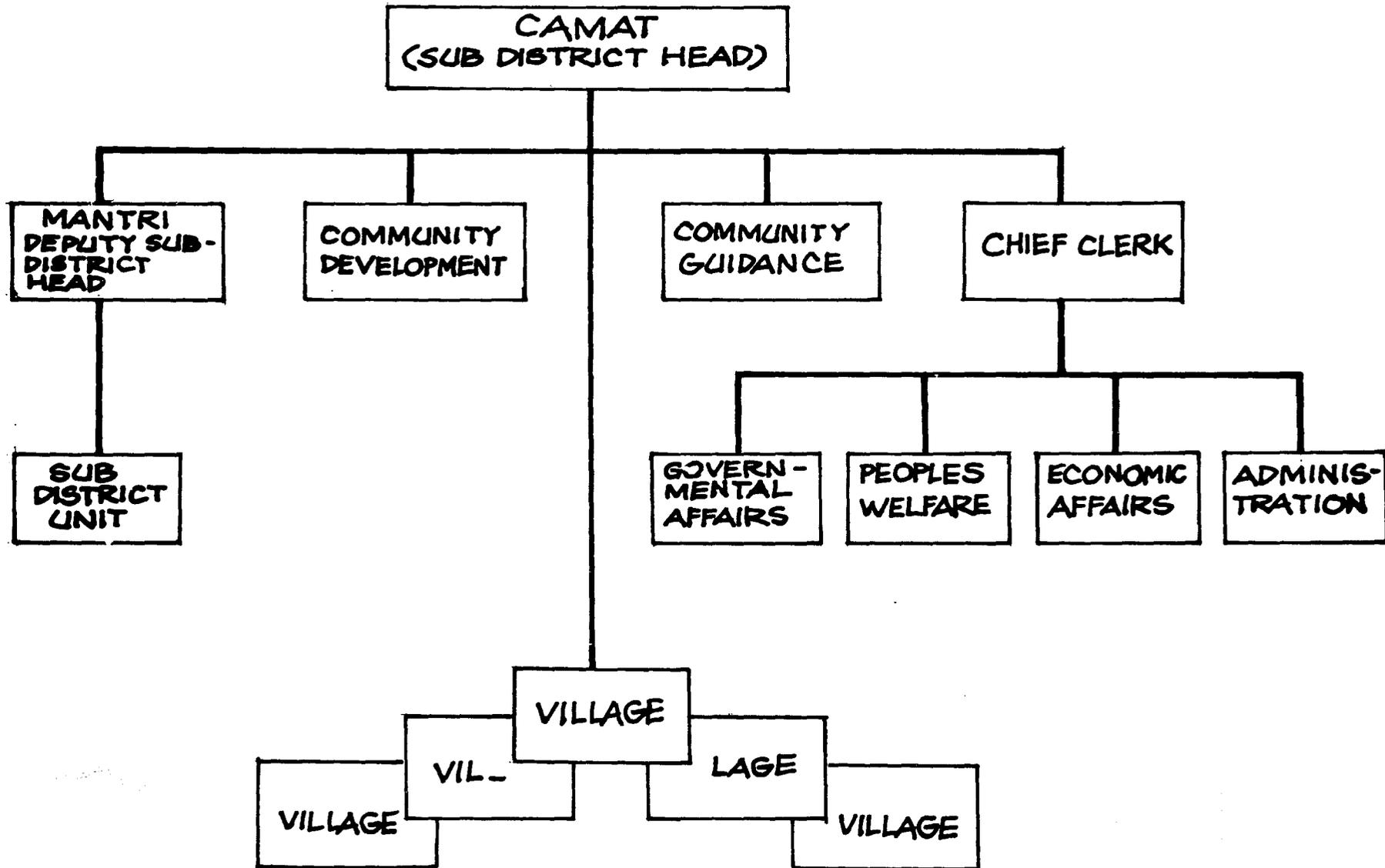
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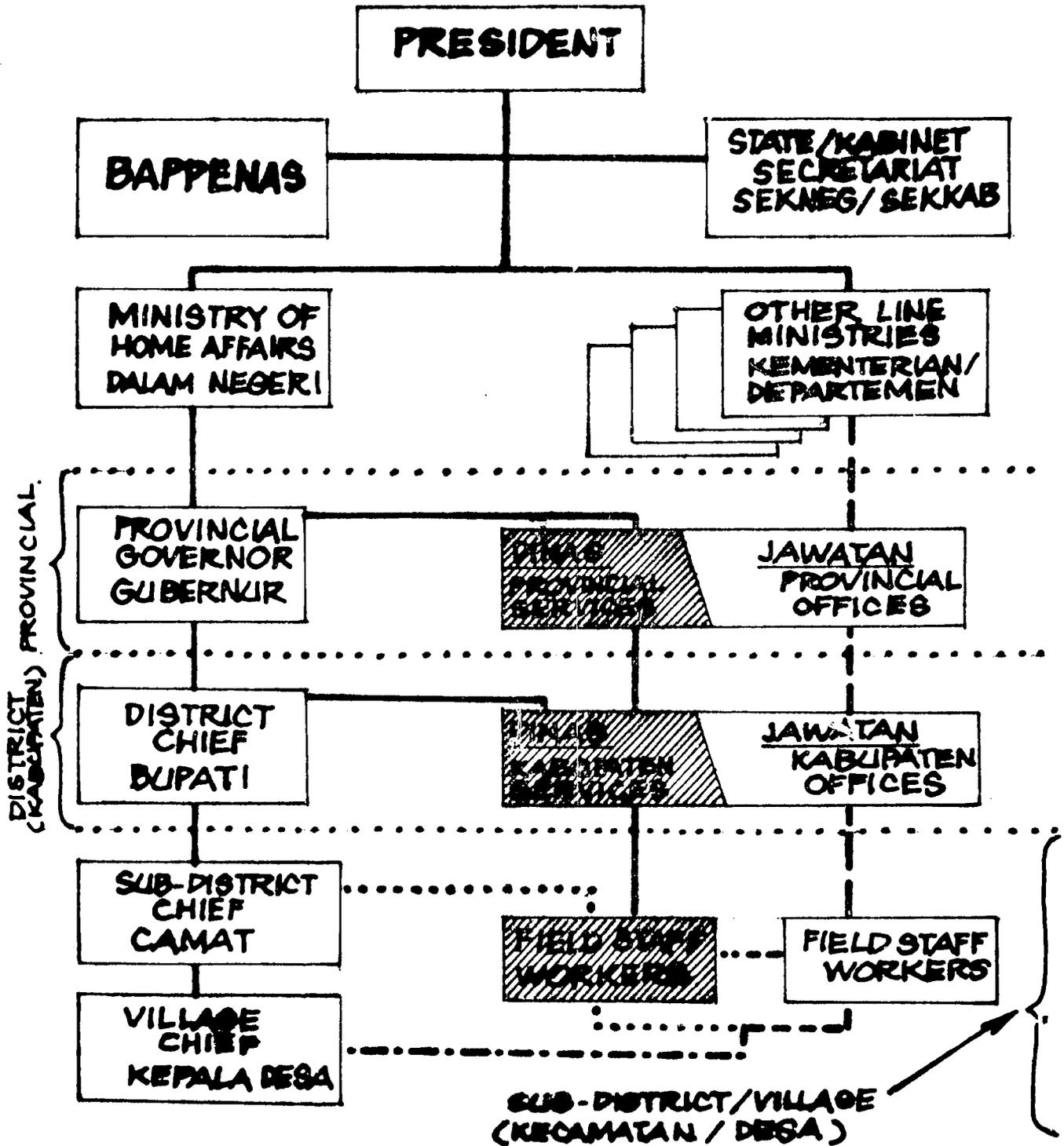
ORGANIZATION OF THE KABUPATEN



KECAMATAN ORGANIZATION CHART



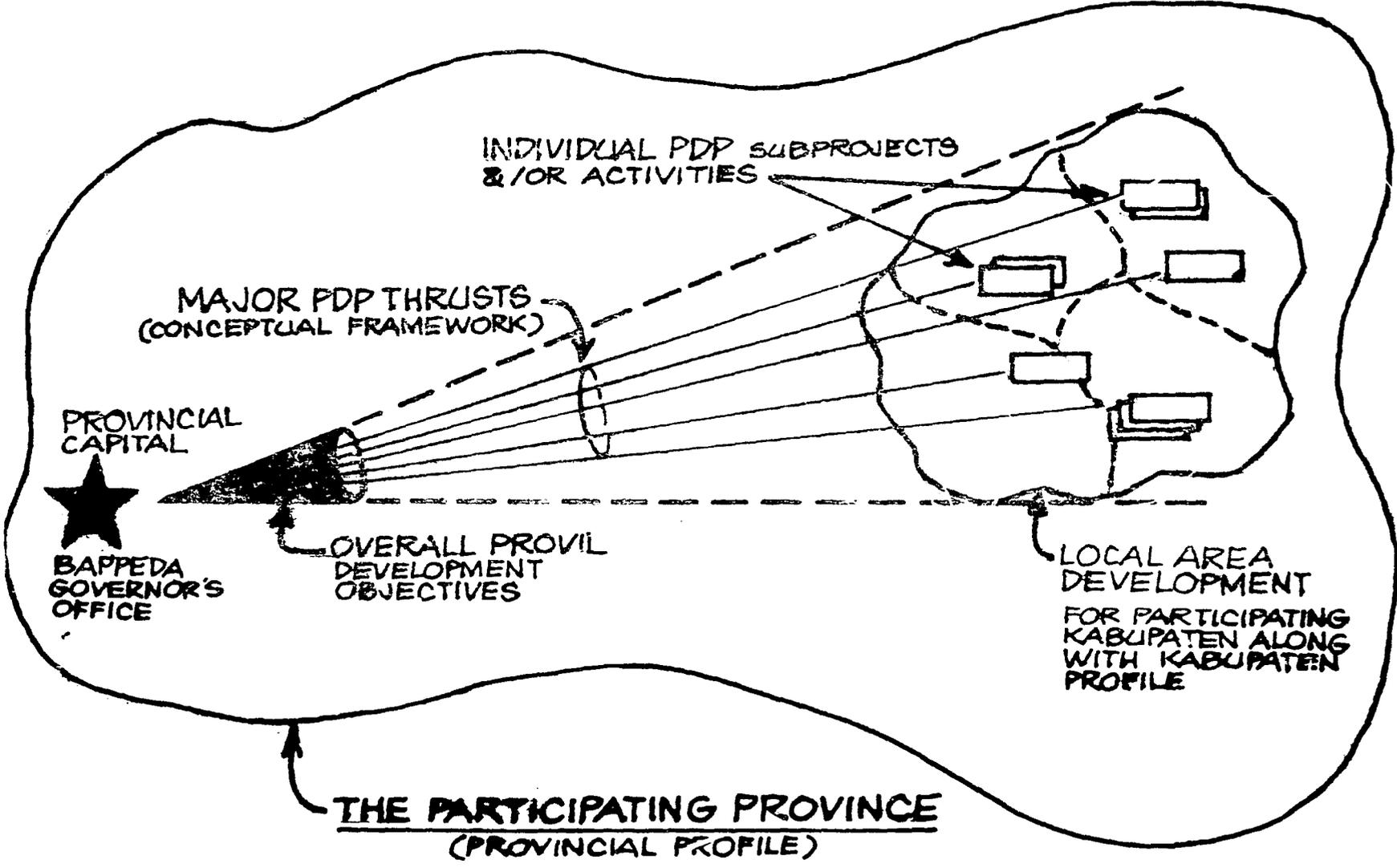
GOI ADMINISTRATIVE STRUCTURE



USAID/INDONESIA
RURAL DEVELOPMENT PROJECT INTER-RELATIONSHIPS

	AREA DEVELOPMENT PROJECT PLANNING #238	PROVINCIAL AREA DEVELOPMENT PROGRAM (PDP)	NORRALLI SUMATRA REGIONAL PLANNING #0246 (NSRP)	KABUPATEN PROVINCIAL PLANNING & MANAGEMENT TRAINING #0237 (KPP&M)
SUMMARY DESCRIPTION	3-year \$0.5 million grant to improve project development capability of 8 geographically dispersed BAPPEDAs through: (1) Short-term (2-4 months) secondment training in Asian countries for 18 BAPPEDA officials, and (2) short-term (6-8 months) BAPPEDA technical assistance to help develop early-return agricultural projects for implementation with provincial resources.	4-year \$4.0 million per province grant/loan to help improve capabilities of central and local government agencies to undertake focused rural development activities aimed at directly raising income of rural poor. Will assist local governments to: (1) identify needs and constraints in existing organizations, programs and activities; (2) plan measures to overcome deficiencies; (3) execute and manage responsive demonstration/pilot projects and activities; and (4) evaluate results.	3-year \$1.56 million grant to help establish comprehensive planning programs in Major Development Region "A" (4 contiguous northern provinces of Sumatra). Technical assistance will help improve capabilities of the 4 BAPPEDAs through OCT and participation in actual regional provincial planning/programming. Project will develop long-range regional plan outline, regional planning systems, and upgrade existing regional data facility.	1 1/2-year \$0.47 million grant to help develop overall Ministry of Home Affairs master plan for training provincial and kabupaten staffs in comprehensive development administration. Will also cover Ministry of Home Affairs local government training and management staff (Badan Diklat). Also provide limited support for training programs for trainer development.
OPERATIONAL THEMIS	Short-term, intensified project design/development only (i.e. prior project identification and subsequent implementation is not part of project), focused on BAPPEDA.	Full spectrum of long-term project/activity identification, prioritizing planning, implementation, O&M and evaluation, focused on local government level implementation/service agencies and BAPPEDA.	Full spectrum of intermediate and long term project/program development/planning up to but not including implementation, focused on BAPPEDA.	Development administration training program focused on provincial (including BAPPEDA) & kabupaten personnel of Home Affairs.
SCOPE OF PROJECT OUTPUTS	Single activity within single sector (agricultural or agriculturally related).	Multiple activities in several targeted sectors, but limited to those beneficially impacting directly on rural incomes.	Multiple activities in multiple sectors, without limitation within the region.	Limited to Home Affairs nationwide training program as set forth in Master Plan.
INVOLVED PERSONNEL	Limited number of BAPPEDA and implementing/service agency personnel, and small number of concerned local officials, all for relatively short period of time.	Several BAPPEDA staff, many provincial, kabupaten, and kecamatan implementing/service agency personnel and officials over relatively long implementation period.	Most BAPPEDA and provincial implementing/service agency staff and province level officials, over relatively long period. intermittent in some cases.	Home Affairs personnel of Education and Training Body (Badan Diklat) and national training facilities; selected provincial (including BAPPEDA) and kabupaten development administration personnel; intermittently over relatively short master plan development period.
GEOGRAPHICAL JURISDICTIONAL COVERAGE	Limited area - generally within single kecamatan (sub-district of province)	Activity area limited to two or more contiguous kabupaten (districts within province), but with subprojects possible at all levels of local government.	Activity area comprises relatively large region of four contiguous provinces, i.e. many kabupaten.	Ultimately country-wide application to provinces and kabupaten, when training program is implemented.
COORDINATING & COORDINATION	Public Works (DG of Cipta Karya) is USAID counterpart. Coordination and policy guidance by National Steering Committee chaired by Public Works (Cipta Karya) with BAPPENAS, Home Affairs and Agriculture as members.	Home Affairs (DG of General Government Affairs and Regional Autonomy) is USAID counterpart. Coordination and policy guidance by National Steering Committee chaired by Home Affairs, with BAPPENAS and Public Works as members.	Public Works (DG of Cipta Karya) is USAID counterpart. Coordination and policy guidance by National Steering Committee chaired by Public Works (Cipta Karya), with BAPPENAS and Home Affairs as members. (different committee than in BAPPEDA project).	Ministry of Home Affairs Education and Training Body (Badan Diklat) is USAID counterpart. Coordination and policy guidance by Director of Badan Diklat.

A TYPICAL PROVINCIAL AREA DEVELOPMENT PROGRAM



THE CENTRAL JAVA PROVINCIAL AREA DEVELOPMENT PROGRAM

1. Background Socio-Economic Conditions within the Province of Central Java

The Province of Central Java is located in the center of the island of Java. Topographically, it basically is composed of lowlands in the northern coastal areas and mountainous and again lowland areas in the south, with an upland plateau through its center. It is most notable for its central geographic position in Indonesia and its Javanese cultural heritage.

Compared with other regions in Indonesia, the level and extent of physical infrastructure in Central Java is quite good. This includes: a well-developed road system which has a ratio of 0.332 kilometers of national, provincial and district roads per square kilometer and wide coverage; large areas having irrigation (34% of rice land is technically irrigated, 14% semi-technically irrigated, and 20% village irrigated); over 1,000 kilometers of functioning railroads; and main harbors in Semarang, Tegal and Cilacap. In terms of the distribution of the better infrastructure (and associated with this, higher economic levels), there is a "development belt" which runs from Tegal and Pekalongan, through Semarang (the Provincial Capitol), to Salatiga and Surakarta to the east; Yogyakarta, via Magelang and Klaten, also is on this "belt". Aside from Semarang which is the primary growth pole of the Province within these areas are the major commercial and manufacturing growth centers of the Province: Tegal, Pekalongan, Salatiga, Surakarta, Magelang and Klaten. More isolated growth centers have been acknowledged to be Cilacap - Banyumas and Kudus.

Land use within Central Java is broken down as follows: 1,047,000 ha (30.3%) - wet rice land; 783,000 ha (22.7%) - dry land; 581,000 ha (16.8%) - house yards; 112,000 ha (3.3%) - estates; 656,000 ha (19.0%) - forests; 25,000 ha (.7%) - coastal fishponds; and 246,000 (7.1%) - miscellaneous use (as urban areas, etc.).

Looking at Central Java from an economic perspective, agriculture is the most important sector of the economy (accounting for 47% of the Province's gross domestic product) with rice and palawija (non-rice food crops, as soybeans, peanuts, corn, and sorghum) being the most important crops. Live stock is another important agricultural activity with Central Java acting as the reservoir of livestock for Jakarta as well as West Java. Commerce, finance, industry and mining are the next most important sources of provincial gross domestic product (38%). In terms of employment, approximately 58% of the labor force is involved in agriculture, 13.2% in mining and industry and 14.1% in commerce.

Despite its lush tropical setting, physical beauty and natural endowments (including a fairly extensive expanse of fertile volcanic soils), Central Java faces substantial problems of poverty and underdevelopment. With a land area of 34,503 square kilometers and a population approaching 24 million, it is one of the most densely populated, non-urban regions in the world (approximately 679 persons per square kilometer). 82.6% of its population lives in rural villages, eking out its economic livelihood at near subsistence levels. Its rural populace depends heavily on agriculture for its subsistence, with rice cultivation a central focus of many village activities. Yet the average rural family owns only between 0.25 to 0.33 hectares of agricultural land, which is extremely small. Furthermore, 40-50% of the rural populace own less than 0.1 hectares or else no land at all. The typical village economy, thus, is one in which a majority of the households are poor and remain dependent in part (or wholly) on employment opportunities not strictly derived from their own land. Average rural per capita income in Central Java is estimated at only \$57 per annum, one of the lowest in Indonesia.

Trends in employment in the rural areas of Central Java have not been favorable. Aside from the obvious problems caused by increasing populations on very scarce lands, there have been various technological and institutional factors contributing to the actual decline in absolute terms of employment opportunities, particularly related to the harvesting of rice which traditionally has been a significant source of rural income. Three examples of such developments follow. First, the new rice varieties which are short and don't lend themselves to harvesting by the ani-ani method (razor-type blade which cuts a few stalks at a time) has led to the increased use of sickles. Secondly, the traditional harvesting system under which participation in harvests was open to all those wishing a share in kind, has been breaking down and is being replaced by a system in which a wealthier individual (larger farmer or trader) assumes responsibility for the harvest and sale of the rice crop. Finally, the increasing use of rice mills requires less labor input than traditional means whereby farm workers pounded rice as the method of processing. Other examples exist. It is sufficient to summarize that modernization of agriculture in Central Java (particularly rice) has tended to benefit the relatively well-off and left the relatively less well-off, poorer.

2. Background Socio-Economic Conditions Within the PDP Kabupaten

The Kabupaten of Demak, Kudus, Jepara, Pati and Rembang are situated on the northcoast of Java, just east of Central Java's provincial capitol of Semarang. Of its 470,000 hectares of land area, a major portion consists of flood plains within the Jratunseluna River Basin. However, there is also a diversity of other agricultural/ecological zones of cultivation varying from lowland mountain ranges (Mt. Muria in Kabupaten Jepara and portions of Pati and Rembang) to dryland areas (primarily in Rembang) and coastal zones (the entire northern coast).

With a combined population of some 3.1 million, between 90-95% of the populace live in rural areas within over 1200 villages. Population densities average out to 700 people per square kilometer with Kudus being the most dense (1,143 per square kilometer) and Rembang being the least densely populated (392 per square kilometer). Agriculture is the dominant activity and provides approximately 80% of all employment; followed by 6-7% on industry. Per capita income approximates \$50/year for the target kabupaten with one kecamatan having a high of \$80 and the low being \$25.

Agriculture is also the predominant land use with wet-rice paddy its major mode. Of the total land area, 192,000 hectares (or 41%) is composed of rice paddy lands. An additional 85,000 hectares (or 18%) is composed of home garden lands. Cultivation of solely dry land crops totals 106,000 hectares (or 22% of total land). Brackish water fish ponds, which are found along the coasts, total 14,200 hectares and constitute 3% of total land area. Aside from these small holder activities (which incidentally account for 85% of all available land), there are forest reserves of 51,500 hectares and estates of 5,000 hectares; 11% and 1% of total land area, respectively. Roads and urban housing account for the remaining 16,000 hectares (3%).

The problems of a sufficient and controllable water supply are particularly acute within the target area. The problems with water manifest themselves in many ways. For one, a full 40% of rice paddy land is not irrigated in any manner, which is high when compared with the entire Province. Compounding this scarcity of irrigated fields, are large stretches of the irrigated rice paddy lands which are subject to annual flooding and inundation which includes over 60,000 hectares within the kabupaten of Demak, Kudus and Jepara. Furthermore, two-thirds of this flooded area suffers from poor drainage, resulting in the stagnation of water in some locations for up to 6-7 months. (Coupled with these floods is the transmission of tremendous volumes of silt along rivers flowing into the areas.) In addition to the conditions of too much water in the rainy season is the problem of drought during the dry season. (Demak, for example, has had up to 20,000 hectares of rice destroyed by dry season droughts).

Land holdings are extremely small. The following table gives an overview of the average amounts of land available per rural household according to land-use classification; the percentages of land owning and landless households; and the average landholdings per landowner - broken down by each of the five kabupaten. From this table, it can be seen that some 35-40% of the rural households own no agricultural lands, while the remaining families hold approximately 1.0 hectares in combinations of rice paddy, dry lands and home gardens.

Table I. An Overview of Landholdings in the PDP Kabupaten

<u>Category</u>	<u>Demak</u>	<u>Kudus</u>	<u>Jepara</u>	<u>Pati</u>	<u>Rembang</u>	<u>Total</u>
1. No. rural households	125,000	80,000	120,000	180,000	80,000	585,000
2. Avg. rice paddy ha per rural household	.40	.25	.20	.30	.40	
3. Avg. dry land ha per rural household	.12	.10	.15	.15	.40	
4. Avg. garden land ha per rural household	.12	.10	.20	.15	.10	
5. Avg. total ha per rural household (2+3+4=5)	.65	.45	.55	.60	.90	
6. % households owning agricultural land	60%	45%	65%	70%	75%	60-65%
7. % households landless	40%	55%	35%	30%	25%	35-40%
8. Avg. ha held per landowner family	1.1	1.0	.84	.9	1.2	1.0

Some micro-level field research made in the target areas adds to the picture. In an intensive survey in Kabupaten Demak, for example, it has been found that 57% of the rural labor force is classified as farm laborers and only 37% fall into the owner-cultivator category. In secondary data collected from 11 of the 14 subdistricts in Demak, it is further noted that of those farmers owning rice or dry land, 80% owned less than 1 hectare. And in a sample of 4 villages also in Demak, the average landholding with farms of less than 0.5 ha averaged 0.3 ha. Probably the most complete listing of landholdings differentiated by size is found for Kabupaten Jepara where 43% of all rice-land owners hold less than .25 ha while 46% of dry-land owners possess less than .25 ha.

Cropping patterns vary considerably within the region but consist of several basic patterns. In the well watered areas (which as has been

shown represents only a small portion of the total rice fields), rice can be cultivated two times a year (with possibly a short-term cash crop in addition). In most rice fields, however, the rice crop (cultivated during the rainy season) is followed with a dry-land food crop, or cash crop, or both. In other locales dominated by dry lands, a combination of food crops (such as maize and cassava) may be intercropped with peanuts, sweet potatoes, etc., or followed in succession.

Rice, obviously, is the most important crop from the standpoint of employment generation, economic significance and the percentage of cultivating households. However in stressing the importance of rice, secondary food crops (maize, cassava, peanuts, soybeans, sweet potatoes, green peas and sorghum) should not be overlooked as an almost equal amount of hectareage is devoted to it. Such crops as rice and maize are primarily used for home consumption; cassava is also consumed at home, although primarily sold in local markets; and peanuts, soybeans and peas are essentially cash crops.

In addition to food crops, farmers also cultivate cash crops such as tobacco, sugar, cotton, kapok, cloves, coconuts and cashew nuts. While these crops (often called small-holder estate crops) may be planted on an extensive basis on the rice and dry fields, in general they are found in small amounts in the home gardens, as a supplement to basic food subsistence needs. (It should not be forgotten that gardens represent 20% of the total land devoted to small-holder cultivation, and is the one kind of land most universally owned: For many of the poorer households, home gardens constitute their primary (if not sole) land resource, and their most dependable production asset.)

A wide variety of fruits are planted in small amounts in the home gardens immediately surrounding homes of rural inhabitants. In some locations, there are systematic efforts to cultivate improved varieties of such fruits as mangoes, oranges, and rambutans. In Jepara, 93% of all peasant households plant fruit. It is interesting to note that fruits are primarily cash crops for sale: only 3-5% are consumed at home, while 95% are sold for shipment out of the area.

In addition to the cultivation of agricultural crops, most rural households are involved in one way or another in the raising of livestock. As one would expect, however, the degree of participation depends on the size animal. It is evident that large livestock (horses, cows and buffalo) are somewhat thinly distributed throughout the rural landscape (although Kabupaten Rembang is an exception with an average of one cow per household). Goats and sheep constitute an intermediate form of livestock although ownership patterns indicate that only some 10% of rural households own such animals. Duck breeding also appears to be a significant rural endeavor. Chickens are the most universal form of animal husbandry with both landed and landless owning 4 to 5.

Since four of the five PDP kabupaten border the sea, fishing plays a role on the economy of the target area. Five percent of the villages in these kabupaten are classified as fishing villages with their economic livelihood centering around marine activities and brackish water fish ponds (tambak). In general, more employment is generated from the marine fishing than the brackish water fish ponds. These villages are considered to have some of the most deep-rooted problems of poverty and the problem appears to be getting worse. The deteriorating conditions are the result of off-shore trawler operations and motorization of fishing vessels (which has helped the better off but contributed to increased unemployment by the poor). And finally, although tambak ponds play a significant role in the economies of this coastal zone, there are indications that ownership patterns are skewed to the relatively more well-off.

Before leaving the area of fisheries, it should be noted that in addition to tambak and ocean fishing, there are substantial percentages of rural inhabitants who fish from public waterways (as irrigation canals, pools, rivers and flooded rice fields). Moreover, this is more prevalent among the poorer strata of village society. The catch from such public waterways varied (in 1975) from 20 tons in Rembang and 10 tons in Jepara to 343 tons in flood-prone Demak. This catch has an important food and income supplementary function, particularly among the rural poor.

In addition to income earning opportunities derived from agriculture, animal husbandry and fisheries, employment is also generated by small industries in the PDP region, as well as by larger industrial enterprises. The nature of the small industries sector is described later. Regarding the larger operations, Kudus is its center where 30% of the district's population is engaged in these enterprises, such as sugar and cigarette factories, the latter being very labor-intensive.

One of the most important insights emerging from recent micro level studies in rural Java is that there is differential access to specific forms of employment, and that a household's control over certain critical resources (as land and capital) is a primary determinant of the kinds of options that are available. In particular, rural families with limited resources of land and capital are increasingly forced into activities with very low returns per hour (during slack periods of demand for labor) in order to meet subsistence needs. Such activities include mat weaving, collecting sap from coconut trees to make sugar, raising small livestock, collecting snails and plants in canals and rice fields, home garden cultivation, fishing in public waterways, preparation of food for sales, small trading operations (often with a capitalization of \$1), etc. These activities are usually abandoned during such periods as transplanting and harvesting, when the demand for labor in concentrated periods of time and the returns per hour are relatively high.

While the amount of land controlled is a primary determinant of income opportunities, the availability of credit is also a critical constraint. Credit allows the poor to expand their income-earning options; e.g., step up their very small trading operations, improve their handicraft products, increase their food preparation business, purchase additional livestock and so forth. Where the poor have access to capital borrowed from money lenders, the high percentage which must be returned to the owner of the capital, keeps net returns per hour of work low.

3. Detailed Description of the Central Java Provincial Area Development Program

The Central Java PDP acknowledges the severe socio-economic conditions within the Province and five targeted kabupaten and attempts to deal with the pressing problems of the rural poor through improving the capabilities of local government to plan, manage, and evaluate the following inter-related "thrusts": (i) specially-designed agricultural activities which address the problems of land scarcity and low productivity of particular areas; (ii) the promotion of employment-opportunities through rural industry expansion; (iii) rural credit programs targeted on the poor; and (iv) systems for subdistrict-level generation of ideas and implementation of activities which attack the problems of extreme poverty. The rural credit programs will be utilized as components of the agricultural and rural industry components, as well as other needs of the poor (e.g. petty trading). The kecamatan-level rural development program will also support the agricultural and rural industry programs as well as allow for the continual generation of new ideas and approaches to the development problems under attack. The approach is experimental and evolutionary. Evaluation and information systems therefore remain important components.

a. Agricultural Activities Which Promote Broad-Based Participation By the Rural Poor

As noted earlier, agro-socio-economic conditions within Central Java as well as the Kabupaten of Demak, Kudus, Jepara, Pati and Rembang are such that the introduction of modern agricultural technology (particularly rice) has not resulted in a broad-based distribution of benefits to the rural population; in fact, the opposite has occurred. This is not to say that there is no room for agriculturally-based growth which benefits the poor majority, only that such programs need to be carefully designed and executed. What is required is a poverty-oriented agricultural development program for the area.

Institutionally, there are several reasons why such an approach to agriculture has not taken place thus far. For one, agricultural programs have tended to be based on national priorities which have emphasized production increases with local government given little

leeway to adjust to local conditions. Another partial explanation is that agricultural activities have been carried out sectorally by technical service agencies solely and without an area-wide perspective. A third reason is simply that there has been little encouragement to date to analyze the distributive impact of government programs and redesign appropriate modifications for broader-based participation. And finally, local government has had little flexibility in its operations to undertake many of the adjustments they might have been able to identify.

The PDP with its built-in flexibility, national feedback mechanisms, emphasis on multi-sectoral planning and management, and introspective study of constraints on the rural poor, removes many of these institutional barriers.

Based on extensive field visits to the five kabupaten by a variety of technical consultants and interviews with government officials from the provincial down through the village level, there appear to be several broad categories of agriculturally-related local government interventions which can reach the PDP target population. Among them are: (i) utilization of public lands and waterways; (ii) intensified use of back-yard gardens; (iii) adaptations to the periodic natural disasters plaguing the area; and (iv) the promotion of a palawija production program. The objective of this thrust, then, is to build up the capabilities of the Province to design, execute and maintain such activities.

1. Utilization of Public Lands/Waterways

One possibility here would be the settlement of poorer families on slopes designated for reforestation. Instead of planting these areas with exportable wood-crops, fruit tree cultivation with intercropping would be promoted. Care would have to be exercised given the lands' relatively vulnerable, ecologically fragile state. It is recognized that such subprojects are limited, given the scarce lands available (e.g. in the Kabupaten of Pati, only 200 hectares are estimated to be appropriate for such a program). Still, assuming plots of one hectare per family, over 1,000 people could benefit in Pati alone. Similar resettlement programs might also be possible in swampy regions, if agricultural possibilities for such lands could be developed.

Utilization of public waterways is a second example. Included here could be: (i) The public-expense stocking of irrigation canals with fish (as the fishing of such channels has been observed to be an activity confined to the rural poor since returns are not high enough to justify this as an endeavor of the better-off); and (ii) the stocking of the large areas which

are annually flooded for six months or more (since during these times, these bodies of water become public with access permissible by all). Both of these suggestions would require some upgrading of fresh water stock breeding stations found in Kudus and Rembang.

Livestock, particularly for smaller animals, appears to have large potential. For example, since feed for animals can be cut from public lands such as the sides of roads and canals; ducks can be placed into irrigation canals or onto idle paddy land to find their own protein foods; and chickens in the villages are allowed to roam free to find their own nourishment, such livestock activities are possible for the landless and near landless provided other facilities, such as protection from disease, are available. Given these characteristics, possibilities exist to: (i) upgrade the quality of village chicken stock; (ii) provide ducks on a loan basis to the relatively less well-off (this could have a tremendous impact on the extremely poor coastal fisherman, many of whom have been put out of work through the motorization of fishing vessels); and (iii) lend goats and sheep (coupled with a feeding plan) again to the poorer rural dwellers with a scheduled payback in-kind.

Government forest lands in the five kabupaten cover some 51,500 hectares (11% of total land area) and is administered by a state-run company (P.T. Perhutani). This land is utilized mainly for planting of long-lived forest species (as teak), the bulk of which is exported. Employment per hectare on these lands is extremely low and the land contributes little to the local economy. The problem is to some extent recognized by this state company as it has gone into the planting of mulberry in Pati for silk production (which is labor intensive) as well as firewood species and grasses for cattle in other kabupaten (outside of the PDP geographical focus). Some additional immediate gains are possible for the greater use of the margins of the forest lands for purposes already recognized as valid (firewood, cattle feed, etc.). Species should also be tested which might not only serve conservation purposes but also contribute more to the local economy.

2. Intensified Use of Backyard Gardens

85 000 hectares of land (18% of total land area) within the Kabupaten of Demak, Kudus, Jepara, Rembang and Pati are utilized as house yards. Since even the poorest own or rent some land surrounding their house, it would appear that assisting them to use this land more effectively and intensively would be a worthy

effort. Despite the fact that such plots are already in some use and poorer families would have the tendency to plant such areas with crops with fairly certain (although low) returns (e.g. cassava), there may be possibilities of introducing new varieties of vegetables and fruits (particularly in those regions closest to urban markets). Such gardens could also provide a great source of nutrition for poorer rural families.

Another possible use of these yards concerns those areas which are marginally flooded each year. The construction and stocking of small ponds on these lands would put otherwise unproductive space to use. (This is covered more fully below and only mentioned here for completeness regarding use of home yards.)

3. Adaptations to Natural Disasters

As noted in the description of the five PDP kabupaten, the environment in large parts have deteriorated. Irrigation systems which formerly were able to deliver water are no longer able to do so. Areas are drier in the dry season and large areas now flood which did not do so previously.

The problem of flooding, which is the most significant of the natural disasters in the area, will be controlled in the long run through technically-sophisticated, capital-intensive physical infrastructure projects (Note that AID is currently financing the final design of one of these; the Jragung Dam which will be situated in Kabupaten Demak) as well as effective conservation of mountainous slopes which lie to the south and outside of our PDP focus. Such solutions, however, are national government responsibilities given their size and scope.

The shorter-term amelioration of the poverty resulting from these natural disasters, however, is a local government function and subject to small-scale activities at both the margins of the flood areas and the adaptation of agricultural cropping patterns to the present water regime.

The most extensive adaptation that has been made thus far in the area has followed the introduction by the Agriculture Service in Kabupaten Demak of a variety of sorghum which can be raised successfully on the residual moisture in the soil following the end of the flooding season and is presently being raised on some 10,000 hectares of land. The introduction of sorghum appears to be the last non-rice grain or legume crop placed in the area for the last three years. Evidently there is a break in the system of linkages from the Central Research Institute for Agriculture

(CRIA) in Bogor to the field. CRIA has already indicated its eagerness to try to overcome this problem by conducting variety, fertilizer, cropping pattern and other relevant field experiments in the project area as well as simultaneously building up the capacity of the local agriculture services to conduct such tests in the future. This activity will also hook into the research required for a palawija promotion program (described below) and the more profitable and intensified utilization of house yards (described above).

A second adaptation of cropping patterns to the flooding problem involves the use of small pumps placed along the rivers flowing through the area to irrigate enough to move the pre-flooding planting dates forward so that the harvest is taken before the floods. Small pump irrigation to finish up the rice crop planted before the floods turn this crop from a relatively hazardous venture into a reasonably dependable one. Opportunities for such pump schemes will depend on the level of water in the rivers and may consequently have some limitations. Problems of organization, coupled with the need to further explore the agricultural possibilities, argue for a pilot project approach.

A third adaptation to flooding has been partially explored earlier: (a) The stocking of extensive shallow areas of water which remain over waddy land for months after the floods recede; and (b) the digging of fish ponds and embanking them to retain sufficient water as the floods recede to raise one or two crops of fish. This latter activity has been done on a trial basis and appears to be highly productive. A program to enlarge the area for this purpose would involve both an increase in the capacity for production of fish fingerlings, both public and private, and an extension program to show the farmers how to dig the ponds and construct the embankments in the most effective size and shapes and to put in the correct simple control structures.

A final possible adaptation to flooding would be the introduction of floating rice varieties in appropriate locations. Although such varieties exist, they have not been introduced into the five kabupaten, another indication of the breakdown in the linkage between research and field demonstrations. Through proper training of government rice extension specialists and the subsequent undertaking of adaptive trials in the project area, it is felt that those farmers who presently suffer from destroyed rice crops, could be benefitted substantially.

4. Palawija (Secondary Food-Crops) Production Program

Strictly in terms of agricultural production opportunities within the PDP kabupaten, the greatest potential lies with increasing non-rice food crop production. As noted earlier while discussing cropping adaptations to the flooded areas, there has not been a systematic introduction of palawija cropping patterns (multiple and inter-cropping among them) and varieties. This applies to all locations within the five kabupaten and not just the marginally-flooded locations.

However, given the experience with the BIMAS rice production program (discussed earlier) regarding the distribution of benefits derived from the introduction of modern rice production technology, caution is exercised here. What is required, therefore, is the design of a program which promotes the increase in palawija yields in which the small farmer can benefit. This requires a pilot program effort, carefully evaluated. As noted earlier, CRIA has expressed an interest in assisting with this endeavor.

5. Proposed Assistance

All of the above agricultural activities, in fact, are felt to be sufficiently innovative and untried to warrant an experimental approach. This argues for the selection of small field testing sites within Kudus, Jepara, Rembang, Pati and Denak for one-to-two years of trials (evaluating technical, social, economic and administrative implications) and its gradual expansion to more area-wide coverage within the last two years of the Program.

Provincial and kabupaten level technical agency representatives (including the Agriculture, Animal Husbandry, Fisheries, Estate Crops and Forestry Service Agencies), the Bappeda, and the Bupati will play major roles. Administrative arrangements will vary by type of endeavor contemplated. Some, such as the introduction of improved palawija varieties and practices, will be solely an Agricultural Service operation. Others will require a more coordinated approach and therefore suggest a strong role by the bupati (e.g. utilization of public lands and waterways). Still others might require a revolving source of flexible funds and therefore warrant a more sophisticated organizational arrangement, such as a Perusahaan Daerah (District Enterprise.) Given the variety of endeavors to be attempted, however, the Bappeda will have the role of overall coordinator, planner, monitor and evaluator.

A plan of operation for this entire effort will be drawn up upon program authorization with assistance provided by CRIA

coupled with the academic institution selected to service the socio-economic evaluation needs of the Province. A two-year experimental, institution-building program will then be prepared under the direction of the Bappeda, which would specify locations of testing sites, the agro-socio-economic models to be tested, responsibilities for implementation, detailed costs and plans of action. The actual program will begin in IFY 1978/79. It is too early to provide details for later year actions except to add that it will attempt to expand successful experiments on a wider, programmatic coverage throughout the five kabupaten.

The above program will require technical assistance, training, commodities, financing for pilot activities and demonstrations, and agricultural credit.

Technical assistance will take three basic forms. One will be the provision of a rural development planner/programmer to work with the Bappeda over a three year period to assist with the planning, testing, evaluation, programming and monitoring of the proposed agricultural development program. The individual taking this position should have a strong background in rural development administration, organization and operations. The second form of technical assistance will be for short-term advice on various aspects of agriculture such as horticulture, fresh water fisheries, forest resource management, poultry, livestock breeding, livestock feeding, agri-business and food crop production to the appropriate Agriculture Service. An estimated 30 work months of such expertise, emanating from the U.S. would be required. The third aspect will be for the involvement of CRIA in applied secondary crop research and training in the project area.

Training is a second necessary ingredient. This training will essentially be for officials of the Agricultural Services (Food Crops, Livestock, Forestry, Estate Crops and Fisheries) and of short-term duration at such institutes as IRRI in the Philippines, and the International Crops Research Institute for Semi-Arid Tropics (ICRISAT) at Hyderabad, India. Short-term training at CRIA may also be provided. Approximately twelve agriculture extension specialists will be given this opportunity for periods of time averaging six months.

Pilot and demonstration projects will include settlement on reforestation-designated areas; public stocking of irrigation canals; public stocking of flooded areas; poultry, ducks, goats and sheep production programs; government forest-land utilization; intensified use of home gardens; adaptive trials on flooded areas; small pump irrigation programs; construction of fish ponds on marginally-flooded areas; introduction of floating rice varieties; and secondary food crop production. Inputs will include

agricultural inputs (as seed, fertilizer, small animals, fingerlings), extension services, small-scale construction financing and commodities. Credit, although also a requirement, will be covered below.

b. Expansion of Employment-Generating Rural Industry

The target area has an unusually large number of small industries (defined by the Central Bureau of Statistics as employing 20 workers or less) including blacksmiths; metal workers of several kinds including brass; roof tile makers; floor tile makers; brick makers; bamboo product makers producing bird cages, various types of mats, baskets, etc.; ceramic producers (vases, pots); small foundries; lime producers; wood carvers; brown sugar producers; peanut processors; salt makers; clothes makers; rattan product makers; kapok processors; and traditional cooking oil processors. It is estimated that 6-7% of the rural labor force earns their basic livelihood from rural industrial endeavors within the five kabupaten. Over 100 clothes-making firms employ about 2000 workers in the Kabupaten of Kudus alone. Smaller numbers operate in other kabupaten. In Jepara, over 7000 people work in woodcarving. Bamboo product manufacturers are estimated at more than 3,000; tile and brick makers employ a minimum of 2,000; and in Pati, over 2,000 are employed in metal working.

This small industry is characterized mostly by manual operations, hand tools, hand operated machines, some power machinery where electricity or direct motor power is available, serving principally local markets (although exporting is not unknown), a low-to-medium state of technology, marginal working conditions and product quality. There is some evidence of record keeping and planned shop layouts. There is also evidence of a need for higher product quality and better design and management practices; this includes marketing.

Problems encountered with these rural enterprises fall into two categories: Technical assistance and credit.

Many examples of the need for technical assistance were uncovered during field investigations: (i) A high quality brass product maker knew his goods tarnished after 3 months but didn't know about the process widely used which could end the problem; (ii) a progressive peanut processor wanted to find uses for the peanut shells but had no access to information on how to utilize the wastes; (iii) the handicraft industry would like to expand its market and has attempted to do so by introducing new products with little success and there is no professional marketing assistance available; (iv) a blacksmith would like to know how to make new and different tools to sell; and (v) a tile maker desired training in the proper mix and use of clay and sand.

Problems of credit are just as severe a constraint. As an example, it has been found that the clothesmaking industry has difficulties in obtaining the capital required to buy new or additional sewing machines although their costs run from only \$75-\$240. Aside from local money lenders which charge extremely high rates (5% or more per month), the small entrepreneur has little place to turn.

The Industries Service is responsible for providing technical assistance to rural enterprise in Central Java. It is charged with direct extension services by introducing various skills to those that will utilize them, particularly the weaker industries. Attempts are also made to assist small industries with the problems of credit, technology and marketing. Indirect extension is also offered through classroom seminars and the like. There are many problems with this technical agency, however, which constrain its capabilities to carry out its responsibilities, the most significant being its very small extension staff (1-2 per kabupaten, and none any lower) and its lack of expertise in appropriate rural enterprises.

The requirements of capital for small industry are well understood by the government, as witnessed by the Kredit Investasi Kecil (Small Industry Credit Program, or KIK) and the Kredit Modal Kerja Permanen (Working Capital Program, or KMKP) programs. The former provides loans for capital equipment and the latter makes loans for working capital. Both are channeled from the Bank of Indonesia to subordinate banks (including Bank Rakyat Indonesia, Bank Negara Indonesia, etc.). Although established to assist small industry (as well as trade, agriculture, transport and communications), and charging very reasonable terms (e.g. 12% per annum for KIK loans for machinery and equipment with 5 years repayment period, and 15% per annum for KMKP loans for working capital with a three year payback period), the requirement of 100% collateral as well as other conventional development banking regulations, make the KIK and KMKP programs inaccessible to all but the most established firms (which could have secured loans through more conventional banking channels). The only other alternative for credit is the BKK program but the problem there is that oftentimes the upper loan limit on the general fund of Rp 15,000 is restricting (see rural credit thrust).

The Bank of Indonesia is aware of the restrictive elements in its KIK and KMKP loan programs and is attempting a resolution through a World Bank - assisted program to reform the loan terms and processing procedures of KIK and KMKP. One of the pilot sites will be in Central Java. However, even if the more restrictive elements of the KIK and KMKP programs were largely eliminated, the larger of the small-business operators would be the anticipated primary beneficiaries.

Smaller entrepreneurs (e.g. small mat weavers) would still be left out as the distances involved in reaching subordinate banking branch offices and the inevitable remaining formal and bureaucratic banking procedures will form impenetrable barriers.

The aim of this "thrust", then, will be to improve BKK as a source of rural credit for smaller-scale entrepreneurs as well as improve the capabilities of the Industries Service to provide technical assistance to rural entrepreneurs, both those who will receive BKK as well as those who will receive KIK/KMKP financial assistance. Improvement of these two local government intervention points should contribute significantly to expanding employment opportunities for the rural poor through rural industry expansion.

PDP assistance will be in the form of technical assistance to work with the Industries Service over a two-year period to improve its servicing of rural entrepreneurs along the lines outlined above. The individual occupying this position should have a strong industrial engineering/business administration background in light industry. Aside from this generalized requirement, it is anticipated that particular industry specialists will be needed over the life of the Program in such fields as clothesmaking, handicraft merchandizing and cashew nut processing; amounting to 10 work months from U.S. sources and 30 work months from within Indonesia itself. Training opportunities overseas, on a short-term basis, for Industries Service (as well as Bappeda) staff will also be valuable. Credit assistance through the Kecamatan Credit Program for rural industry is discussed below.

c. Rural Credit

The appropriateness and need for expansion of credit as a means for increasing incomes of the rural poor in the Central Java PDP kabupaten (by allowing the expansion of activities in which the rural poor participate, such as small-scale trading, processing, raising livestock, etc.) has been discussed earlier. There are several central government programs and institutions operating in Central Java which supply capital to small producers - the most notable being the BIMAS rice production credit package which is administered through BRI (Bank Rakyat Indonesia). However, this BRI and other government-sponsored credit programs involve loaning funds at interest rates which are so low that they normally do not cover administrative costs which in turn necessitates that collateral be provided in order to minimize losses. This need for collateral which usually manifests itself in the need for title to land, excludes a large percentage of the rural poor in the PDP target areas.

There are in Central Java, however, a few programs which either reach the rural poor directly or could do so, if redirected. These are (i) the Badan Kredit Kecamatan, BKK (Kecamatan Credit Board); (ii) the Assistensi Keluarga Miskin, AKM (The Assistance to Poor Families); and (iii) the Candak Kulak Programs. The Kecamatan Credit Board is particularly interesting as it originated within Central Java (and remains a provincial source of rural credit), and has many unique features for serving the rural populace. The Assistance to Poor Families Program deserves attention as it is targeted directly and solely on poorer rural families. These first two programs will be included in the Provincial Area Development Program for support and improvement. (The third loan program, Candak Kulak, will be excluded at least initially from PDP assistance as it is a national program, administered through the Directorate General of Cooperatives, and in operation on a very limited scale for less than one year. Should it prove a successful operation, flexible in its rules and regulations to adapt to local conditions, and one in which the rural poor participate, it will be considered for betterment at that time.)

1. The Kecamatan Credit Program (BKK)

This program was planned conceptually in 1969 and went into operation two years later through provincial government initiative and aimed to make credit available for productive purposes to the rural poor. It has gone through a period of great expansion and evolution and is considered by several rural development experts in Indonesia as one of the more successful attempts at channeling credit to the rural populace. Although in operation for over six years, it remains a flexible instrument, capable of being adapted to tackle particular development problems, as they are identified.

As its name implies, the BKK is a kecamatan government administered rural credit program which is capitalized, supervised and guided through the Provincial Development Bank. It has grown from 92 participating kecamatan (as of February 1972) to all 486 kecamatan in Central Java. Its flexible nature can be seen with its policy on collateral requirements; which leaves the decision up to the districts and subdistricts. In any case, kabupaten and kecamatan even if they desire such guarantees of repayment, interpret the term loosely and have normally accepted such universally-held items as bicycles, radios, household goods (as cooking utensils, wall decorations). In many instances, such "collateral" is not even required and loans are approved on the basis of the village chief's recommendation.

There are two general classifications of BKK loans; one is a general fund found at present in every kecamatan in Central Java

and the other is a special fund for various directed, specific purposes (e.g. livestock and fisheries) located in those kecamatan in Central Java appropriate for the specific, productive purpose. Below is a table indicating the degree of participation of the PDP kecamatan in the overall Kecamatan Credit Program:

Participation in BKK (number of subdistricts)

<u>Kabupaten</u>	<u>Loan Classification</u>							
	General	Milk fish	Fish market	Live-stock	Pala-wija crops	Elec-tricity	In-dustry	Women's social program
Demak	14	5	4	9	-	-	-	1
Pati	20	9	5	3	6	-	1	-
Kudus	9	-	-	2	-	-	-	-
Jebara	9	3	9	2	-	-	1	-
Rembang	14	3	10	-	2	-	-	-

The general fund, which is the older one, has four credit alternatives for its clientele with weekly, monthly, Javanese monthly and seasonal loan terms. The rates of interest vary from 2.0 to 3.57 percent per month. Each subdistrict received an initial capitalization from the Provincial Development Bank of Rp 1 million. Upper limits on these loans are now at Rp 15,000, although they average out at Rp 9,000. The success of the general fund has varied by kecamatan, but it has done well overall. It was intended to provide a variety of credit alternatives to the rural populace for productive purposes (as small farmers who could not meet the BIMAS credit requirements; small businesses; and small handicraft operations which could not be serviced by existing government loan operations). However, because the shorter "weekly" loans are preferred by the BKK agents and Camat, most of the people who benefit from the loans appear to be small traders.

The special funds are capitalized from various sources and have different loan terms and conditions, which are set by the particular source of funds. These special programs are initiated at the request of the kabupaten service agency chief, through the Bupati to the Governor and then on to the Provincial Development Bank. For example, the promotion of milkfish in brackish water fish ponds and loans to fish buyers at selected fish markets were initiated at the request of the kabupaten fisheries service agency. Although these programs are coordinated by the fisheries service agency, the actual loans are administered by the BKK administrative apparatus.

There are a minimum of 2 BKK agents in each kecamatan with responsibilities divided so that one person controls the money and the other controls the bookkeeping. The strong box containing the funds has two padlocks and each agent is given only one of the keys; therefore requiring both officials to be present to open the box. (In areas where there has been trouble, the Camat personally controls one of the keys.) Those persons originally chosen to become BKK agents were local school drop-outs who were trained in the basics of loan administration by the Provincial Development Bank.

The Provincial Development Bank and the kabupaten share supervisory responsibility. The Bank has personnel at the residency level who monitor the financial reports of the individual BKK and pass them on to headquarters of the Bank in Semarang. Each kabupaten also has one of its personnel assigned to supervise the BKK within the district. Both Bank and district personnel make visits to the individual BKK on a periodic basis. However, if difficulties occur within a particular area, it is normally the district officials who investigate and take corrective actions.

The BKK general credit scheme differs somewhat in the five kabupaten in terms of daily operations (another indication of its flexibility). In some subdistricts, for example, there are numerous bureaucratic steps required for obtaining loans. These include: (i) Applicant obtains a statement certifying residence in his village from the village office; (ii) presentation of this statement to the BKK office and procurement of a loan application form; (iii) obtaining a signature from the village chief for this application; (iv) presentation of the signed form to the BKK office; (v) form passed to camat for approval (could take a week or two and may involve a visit to the applicants home; and (vi) loan, if approved, is granted. In sharp contrast, other subdistricts have developed systems whereby the BKK agents travel a scheduled route to make it easier for people to borrow and some unnecessary steps (such as the first one) are eliminated. In those subdistricts where the former cumbersome procedures are followed, it is safe to assume that only those villages closest to the subdistrict office take advantage of the BKK.

The BKK Program has shown considerable financial growth since its inception. As of February 1972 with 96 kecamatan participating in the general fund only, loans outstanding amounted to \$170,000, with 21,200 borrowers, having average loans of \$8; the default rate being 13.7%. Five years later with all 486 kecamatan participating in the general fund and 162 units also utilizing one or more of the specialized funds noted above, loans outstanding amounted to \$3,190,000, with 273,400 borrowers having

average loans of \$11.70; the default rate being almost 26%. Of some \$1,836,000 initially borrowed from the Provincial Development Bank to individual kecamatans for their BKK programs, \$679,000 has been repayed.

Within the five PDP Kabupaten, \$327,000 was initially loaned by the Provincial Development Bank to participating kecamatan, all 66 of whom received the Rp 1,000,000 (\$2400) for the general fund and some of whom received varying amounts for the specialized activities. As of May 1977, some \$526,000 were out as loans with 55,000 borrowers; the default rate being 31%. For the year loans averaged \$23. Repayment to the Provincial Development Bank of the general fund to date amounts to \$91,240 while repayment for the specialized programs amounts to \$24,300.

The financial success of the BKK Program within the PDP area focus varies by kabupaten as well as kecamatan. Taking Kabupaten Jepara as an example, it had \$140,000 in outstanding loans, as of May 1977, (out of an initial Provincial Development Bank capitalization of \$69,400) with 13,353 borrowers having average sized loans of \$10.50 and a default rate of 27%. Two kecamatan which have exhibited a great deal of financial acumen appear to be Kecamatan Mlonggo in Kabupaten Jepara and Kecamatan Jani in Kabupaten Kudus. The former had 1061 borrowers utilizing \$38,000 in loans, as of May 1977 with a default rate of only 12%. The latter subdistrict was lending out \$22,000 to 1,280 borrowers (also as of May 1977), with a default rate of just 7%.

The PDP would seek two types of related improvements in the Kecamatan Credit Program: (i) to focus its target population more on the rural poor; and (ii) to improve the efficiency and effectiveness of its administrative apparatus.

Regarding the former objective, it is not known precisely the degree of participation of the rural poor in the BKK, although there are various indicators which seem to suggest that the poor do indeed reap many of the benefits of the program (i.e. the size of loans are too small to be attractive to better off groups, several BKK officials at the subdistrict level believe that up to 50-60% of their clients are the landless, the simplified procedures for loan application and the absence or simple collateral requirements are conducive to their participation). The PDP would propose to set up a special loan category which would limit credit only to the rural poor, and promote only those productive endeavors in which the poor participate (as small scale rural industry, the cultivation of certain palawija crops and the raising of small livestock animals (e.g. chickens, ducks)).

Some of the problems with the administrative structure have already been discussed or alluded to (e.g. the sometimes burdensome bureaucratic procedures and the non standardized operations). Others include a reporting system which does not provide the type of information necessary for program analysis; BKK officials who have little security nor incentive for improving productivity; limited staff to permit program expansion; and the need for more supervisory staff at the district and residency level to provide more adequate financial control. The PDP would seek to remove these administrative/institutional constraints as its second purpose for involvement with the BKK.

The PDP will provide funds then, to provide additional capital for the special credit schemes as well as for hiring additional staff to allow for the expanded and redirected program. Technical assistance for this effort will come from both the rural development planner/programmer at the Central Java Bappeda and the industrial engineer/business administrator slated for the Industries Service. Consistent with the approach to the overall program, year one operations will be limited to an experimental program in 3-4 kecamatan of each of the five PDP kabupaten to test various alternatives for reaching the target population and improving the institutional apparatus. Based on the results of this first year (which will be evaluated fully), a phased expansion is anticipated for future years.

In summary, the BKK credit program appears to be a suitable vehicle for channeling small amounts of capital to the rural poor in Central Java for productive purposes. Its orientation, flexible administration, and procedures are such that it can be redirected and improved to reach to objectives of the Central Java PDP.

It is anticipated that a four year program would allow for the eventual tripling of loans outstanding of this credit program in the kecamatan within Demak, Kudus, Jepara, Rembang and Pati. Additional administrative costs resulting from this increase in capital would be paid through the normal loan operations.

2. The Assistance to Poor Families Program (AKM).

This rural credit program is administered by the local Social Welfare Service. Funds are allocated down through the kabupaten to the kecamatan where a social welfare case worker is charged with increasing the productivity of poor families (determined through village surveys) so that they can become self sufficient. This is accomplished through the provision of a loan, with a ceiling of Rp 15,000 with repayment over a period of three years

and no collateral is required. AKM recipients are channeled into such activities as animal husbandry, handicrafts and some home industry (as food processing).

The AKM has been viewed within the Province of Central Java as a most successful program in that it definitely reaches the poorer rural dwellers. The default rate is also extremely low; only 4-5%. One example of the value placed on the AKM is that several kabupaten governments have allocated some of their very scarce financial resources to expand the program within their areas. Including provincial and district resources, some 1,300 families have benefitted from the AKM within the five PDP kabupaten since its inception in 1973.

One of the major problems with the AKM, however, is that its administration is such that it makes expansion difficult. Although each kecamatan social welfare agent is theoretically capable of serving 40 families, other departmental duties are such that the maximum that agent can handle is ten. Involvement with these families is intense. The case worker is supposed to make visits to each AKM recipient once a month as well as prepare detailed reports for each visit. Another difficulty is getting sufficient input by the relevant technical agent at the kecamatan level (as animal husbandry official). A third bottleneck is the reporting system which is cumbersome and yet adds little to making appropriate decisions regarding the program.

The PDP for Central Java seeks to assist the AKM through the provision of technical and capital assistance to improve its operations in some of the areas noted above. The approach taken will be consistent with that of the BKK, i.e. a limited focus in year one to test out hypotheses with the target of the eventual quadrupling of capitalization of the AKM within the PDP target kabupaten. Again, the technical assistance will be coupled with the first two thrusts.

d. System for Generating and Implementing Other Activities

The entire PDP proposed thus far has been the result of a concerted effort by Bappeda officials to elicit ideas and creative thinking by lower levels of government and people with attention focussed on the poor majority in the rural areas. The process of considering programs which might reach the target groups has begun, but hopefully it will never be complete. In a sense the success of the PDP in Central Java can best be measured in terms of whether the imagination of local government can be focussed on the problems of the poor and removing their constraints.

The kecamatan is the ideal level of local government for this continual process of generating new thoughts as it is the point at which a detailed knowledge of local conditions and needs meet up with the technical administrative apparatus (which goes down only as far as this level). The typical subdistrict in Central Java covers an area of 70 square kilometers, with a population of nearly 50,000 people. There are some 17 villages in the typical kecamatan, but in actual fact it may vary from 10 to 20. The national government services which may have agents at this level have been described in the background section of the PP. The typical office, headed by the camat, has also been described earlier. Administratively, the kecamatan is not autonomous which relieves it from much of the administrative burden which to a degree slows down the developmental energies of the higher levels of government.

The planning and coordination capabilities at the subdistrict level of government have not been developed thus far to any great extent. The camats, although in the position of overall planner and coordinator, lack much of the authority (and financing which contributes to that authority) held by the bupati as chief executive of the kabupaten. Technical agency representatives at this level of government, therefore, go about their business more on the direction and guidance of their district-level counterparts than on the command of the camat. This results in the execution of sectoral programs without the invaluable input of local knowledge and conditions.

The Government of Indonesia has already indicated its recognition of the critical importance, and some of the problems, of the kecamatan by instituting the UDKP (Unit Daerah Kerja Pembangunan - The Area Development Working Unit) program. This system which was created within the last three years, operates as follows: (i) the district selects a subdistrict to become a UDKP area; (ii) all appropriate technical agencies within the kabupaten then focus on the kecamatan and prepare a recommended action program; (iii) a planning workshop is then held at the kecamatan with all kecamatan staff, village chiefs and notable community leaders present; and (iv) the camat, who is chairman of the discussion, as well as the other community leaders, combine the sectoral programs with their felt needs and draft a comprehensive area development plan.

A recognized shortcoming of the UDKP system is that it appears to be a largely theoretical exercise at present in the absence of any means for implementation of recommendations arrived at through the UDKP process. There is no structural mechanism evident to assure coordinated implementation. Once the plan is approved, it is up to the service/agency personnel to undertake the recommendations with little authority held by the camat.

There has been one UDKP kecamatan in each of the five PDP kabupaten which have already gone through this planning exercise. These were Kecamatan Guntur in Demak, Kecamatan Jati in Kudus, Kecamatan Bangsri in Jepara, Kecamatan Tambakrono in Pati and Kecamatan Sale in Rembang. There are five additional subdistricts which are now engrossed in this exercise for the second round. As an example of the types of activities proposed through the UDKP process, Guntur came up with programs in livestock, AKM, BKK, processing of edible oil from peanuts, planting sorghum, extracting oil from sunflowers, planting coconuts, utilization of straw, planting on unused public lands and the introduction of skills for students of Islamic schools. As another example, Kecamatan Gajah also in Demak is in the process of recommending handicraft, carpentry, woven bamboo (for walls and fences), control of palawija crop pests, livestock, fisheries, frogs and eels, and sorghum activities. A typical UDKP plan might cost out at \$12,000, although there is no limit set.

The PDP will capitalize on the efforts of the Government of Indonesia to push planning down to the subdistrict level and assist in improvement of the implementation capabilities of the UDKP through a kecamatan development program which will also be utilized as a means for generating new ideas for reaching the rural poor. A system will therefore be developed which will allow kecamatan to develop and implement activities which impact on raising the incomes of the rural poor within the project area. It will begin in year one on a pilot basis within 10 kecamatan of each participating kabupaten. If successful, it will be expanded to 20, 35 and 55 kecamatan in the last three years of the Central Java PDP. Again, technical assistance will primarily come from the Bappeda rural development planner/programmer.

e. Evaluation

The need for periodic assessments for an experimental rural development program which aims to reach the rural poor in an area with strained socio-economic conditions such as Central Java is clear. Although the Central Java Bappeda has primary responsibility for this, it is believed that outside assistance from an indigenous institution such as the Social Science Research Institute of Satya Wacana University or University Diponegoro, both in Central Java would be useful.

4. Illustrative Cost Estimate

The following is a budget summary/cost estimate for the Central Java PDP, broken down by thrust and associated input, as well as U.S. and GOI contributions. It is meant to be illustrative of the types of activities to be undertaken and is not meant to be exhaustive nor meant to exclude

possible other initiatives which offer the best opportunities for addressing rural poverty. Consequently the budget figures are illustrative between line items and are not immutable.

4. Subproject implementation for pilot/ demonstration subprojects including settlement on reforestation designated areas; public stocking irrigation canals; public stocking flooded areas; chicken, ducks, goats & sheep production; government forest land utilization; intensified use of home gardens; adaptive trials on flooded areas; small pump irrigation program; construction of fish ponds in marginally-flooded areas; introduction floating-rice varieties; and secondary foodcrop production. Inputs will include agricultural inputs, extension services, small-scale construction financing, etc.

	\$ 700,000	\$ 390,000	\$ 150,000	\$ 1,230,000
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II. Expansion of employment generating rural industry

1. Technical assistance

a. One long-term rural industrial advisor for two years @ \$74,000/annum

b. Short-term U.S. expertise in various light industries totaling 10 months at \$8,000/month

c. Five Indonesian consultants averaging six-months each in various fields as clothesmaking, handicrafts, and cashew nut processing on a per diem and honorarium basis @ \$700/month

a. One long-term rural industrial advisor for two years @ \$74,000/annum	\$ 156,000	\$ -	\$ 22,000	\$ 178,000
b. Short-term U.S. expertise in various light industries totaling 10 months at \$8,000/month	\$ 80,000	-	\$ 12,000	\$ 92,000
c. Five Indonesian consultants averaging six-months each in various fields as clothesmaking, handicrafts, and cashew nut processing on a per diem and honorarium basis @ \$700/month	\$ 6,000	-	\$ 2,000	\$ 8,000

(Subtotals)	(\$ 242,000)	-	(\$ 36,000)	(\$ 278,000)
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2. Training of a short-term nature for four provincial/district industries service personnel in third countries averaging 3 months each @ \$1,000/month.

\$ 12,000 - \$ 2,000 \$ 14,000

III. Rural Credit

a. Kecamatan Credit Program, allowing for tripling the loans outstanding

\$ 1,000,000 \$ 500,000 \$ 214,000 \$ 1,714,000

b. Assistance-to-Poor-Families Program, allowing for quadrupling capitalization

\$ 65,000 \$ 33,000 \$ 14,000 \$ 112,000

IV. Generation/implementation of other rural development activities at the rate of 10, 20, 35 and 55 kecamatan, assuming \$12,000/kecamatan

\$ 955,000 \$ 477,000 \$ 205,000 \$ 1,637,000

V. Overall evaluation

\$ 130,000 \$ 40,000 \$ 27,000 \$ 197,000

TOTALS \$ 3,829,000 \$ 1,400,000 \$ 750,000 \$ 5,979,000

1/ Mostly in-kind contributions

5. A Socio-Economic Analysis of the Proposed Program

A working definition of the rural poor within the PDF kabupaten would include those households which are landless, those with less than 0.5 hectares of land, and those owning a more modest-sized holding but on lands either suffering from periodic flooding and/or drought and/or on infertile soils (as resulting from salt-water intrusion). These three groups represent respectively some 1,100,000, 810,000 and 500,000 rural dwellers, approximating two-thirds (allowing for some overlap) of the rural population within the five kabupaten and are the target groups of beneficiaries.

The thrusts and activities identified thus far vary in the degree to which they can be targetted specifically on the rural poor, as well as their potential impact on these groups. Brief socio-economic analyses follow regarding some of the more significant proposals.

The public fishing of the 60,000 hectares which are under water for significant amounts of time annually is a major activity in surrounding communities. Some 250,000 people have been reported (through various intensive surveys) to engage in this activity with reported incomes ranging from \$25 to \$75 per annum. Participation by the poor has been placed at 50%. Assuming a 15% increase in catches through increased and improved stocking, there will be a substantial increase in the income of these groups.

The small animal husbandry proposals as a group are targetted on the rural poor; that is, the proposals would put goats, sheep and ducks in the hands of the poor through various forms of credit (in-kind, or through the Kecamatan Credit or Assistance-to-Poor-Families Programs). To date although lower-income households have not owned these animals, to the extent their better-off neighbors have, they have benefitted somewhat through the fairly common practice of sharecropping these animals out. As many of these beneficiary households will have little or no land, the availability and access to public lands to collect pasturage and/or fodder is important. Since (i) public areas have already been observed that would allow for an expansion of livestock production; (ii) the proposal is to begin only on a pilot basis; and (iii) traditions in the area have allowed open access to these public lands, there is a reasonable basis for establishing its feasibility. Assuming 20 families per village and 10 sites within the five kabupaten, there should be 1,000 beneficiaries in year one. If successful, it can be replicated elsewhere.

Chickens fall somewhat outside of the above characterization as they are more universally owned with four to five per family in the target kabupaten. As the proposal calls for a chicken up-grading program where the chickens are allowed to roam free and fend for themselves in the village, there will be a more even distribution of benefits among income groups. The poor as well as the better-off will benefit from a higher

number of eggs and larger chickens fetching higher prices in the market. Again this will be experimented on in year one. Assuming 10 villages in the pilot program, some 7000 people might benefit directly and immediately.

Intensification of home garden cultivation has the potential for improvements in the income of poorer rural households--both with regards to level and stability of returns. Moreover, since home garden land is widely distributed among the rural populace in the five kabupaten, it does not rely on indirect employment benefits derived from work on the fields of others, nor does it rely on trickle down effects. At the same time it can be fitted around other household income earning activities which have to be conducted at specified places and times. Village studies in Central Java have shown that 15% of the total income of the rural poor is derived from this land resource. Assuming that yields and net returns can be increased by 50% due to improved cropping patterns and practices, the income of the rural poor could increase by 7-8%. This activity has very wide potential and could eventually reach the entire target group.

The adaptations to natural flooding by means of the introduction of new crops and cropping patterns, pump irrigation, use of home-garden fish ponds, and floating rice varieties will reach one component of the target group: those situated on lands plagued with periodic disasters. There are some 50 to 60,000 hectares which fall into this category within the five kabupaten. Assuming average holdings per landowner of one hectare, there are 50,000 to 60,000 rural households which could benefit from these efforts. The receptivity of this group to new ideas has already been demonstrated with sorghum; in part, it reflects their desperate situation. There are great gains which could therefore be made within these communities.

As stated earlier, it is not possible to give a statistical breakdown or socio-economic profile of current recipients of the BKK loans. Most appear to go to small traders. A majority of loans appear to be re-circulated on a weekly (and Javanese monthly) basis. (This is one way and which some BKK kecamatan have substantially increased their working capital.) The degree to which the poor have participated is also not clear, obviously varying by subdistrict. In some areas, most loans seem to go to the villages within the vicinity of the subdistrict office. Yet it seems fairly certain that the poor have participated much more extensively than in other government programs. In some kecamatan, it was reported that at least one half of the beneficiaries came from the landless or near landless households. Most of the general funds go to women who are the primary participants in petty trading operations. Finally, while the amounts of funds available are substantially larger than the sums required for very small-scale trading operations, they do not appear to have been sufficiently large to encourage participation by larger traders.

The PDP participation in the BKK will focus this credit program more on the rural poor. The benefits to be derived by the poor will be from their ability to expand their existing operations and to take home and retain a larger proportion of their income earned. The latter factor alone will be enough to increase incomes some 20% (difference in interest rates between BKK and the village money lenders). Assuming the eventual expansion of the PDP BKK program as discussed in the narrative, over 80,000 rural households could benefit substantially.

6. The Role of Women

A number of scholars have commented on the fairly extensive "matri-focal patterns of authority" found in rural households on Java and upon the important role of women in securing cash income. As stated by one of these researchers "the household, as the basic unit of production and consumption is in practice under the unequivocal authority of women". Thus as the PDP focuses on rural Java, women will clearly be direct, primary beneficiaries.

Their role becomes even more enhanced (given the PDP target group) since studies have shown that women from poorer households tend to play a greater role in securing household income. There are also a number of PDP thrusts in which women will benefit more than otherwise. These include: (i) the BKK credit program since a large proportion of such loans go to petty trading operations which are controlled essentially by women; and (ii) the intensified use of home gardens where men labor and women dispose of the produce.

7. Listing of Central Java PDP Reports

The following reports and studies have been utilized in the preparation of the Central Java Provincial Area Development Program.

- a. Central Java Provincial Profile, prepared by the Bappeda.
- b. Kabupaten Profiles for Demak, Kudus, Jepara, Rembang, and Pati, prepared by the respective kabupaten governments.
- c. Socio-Economic Analysis of the Provincial Area Development Program by John Duewel.
- d. Review of Subprojects and Agricultural Program Recommendations for the Provincial Area Development Program for Central Java by Maurice Sorenson and Robert Dodd.

- e. Small Industry Program for Central Java Kabupatens of Demak, Kudus, Jepara, Pati and Rembang by George Hambaker.
- f. Engineering Program Proposals and Public Works Review, Provincial Area Development Program for Central Java by Magnus Bennedsen.

THE ACEH PROVINCIAL AREA DEVELOPMENT
PROGRAM1. Socio-Economic Condition Within The Province Of Aceh

The Province of Aceh, located on the tip of Sumatra opposite the Malay peninsula, is the northernmost province in Indonesia. With a land area of 55,300 square kilometers, a population of just over 2 million and a density of only 36 persons per square kilometer, it is one of the least populated provinces in Indonesia. It is a region of relatively abundant agricultural resources and a favorable land availability situation, yet agriculture in Aceh is characterized by low productivity. While the landless epitomize the rural poor in Central Java, a definition of rural poverty in Aceh would be more related to availability of an adequate and regulated water supply and accessibility to markets. Acehnese compose the largest ethno-linguistic group, and reside mainly in the more heavily populated coastal plains areas extending from Langsa in Kabupaten Aceh Timur to Meulaboh in the kabupaten of Aceh Barat.

Rural Employment and Labor Use Patterns

Because of its relatively small population, problems of unemployment and underemployment are quite different in Aceh than in Central Java. Although there is some population pressure in the major rice producing areas of Pidie and Aceh Utara, there are relatively few landless farmers and rural laborers. Rural population is concentrated in riceland areas near rivers and roads. However, there is much uncultivated lands which could be opened up with the introduction of requisite infrastructure. Farmers with insufficient land of their own often cultivate land belonging to other individuals, the government or religious institutions. A sharecropping arrangement for rice production is considered preferable to a wage system with the split to the farmer generally being about 2/3 of the production.

Women in rural areas participate in almost every aspect of rice production. In addition many raise and sell fruit, vegetables, flowers and nuts. Many are also engaged in small home industries such as pottery making, rope weaving, and mat and bag production.

The last census showed 96 percent of the unemployed in Aceh live in rural areas. The rural unemployment rate was 11 percent compared with 6.4 percent in urban areas, which is a reversal of the pattern for Indonesia as a whole. Over half of all unemployed persons are below the age of 30. Among the economically active population in rural areas of Aceh, 83% are engaged in agriculture, 11 percent are working in services

and trade and 3 percent are employed in manufacturing.

Economy and Income

The Gross Regional Domestic Product (GRDP) for Aceh in 1975 was 141 billion Rupiahs (excluding mining). This reflected real growth in GRDP of about 7 percent annually during the past 10 years. The agriculture "share" of GRDP, including agriculture, livestock, forestry and fishing was 63%. This compares with 45 percent for all of Indonesia. Almost three-fifths of Aceh's agricultural product is derived from food crop production. Based on estimated population, rural per capita income in 1975 was about \$135. This was about 20 percent below the national rural per capita income level, excluding oil production.

Land Utilization and Ownership

Only 10 percent of the total land area, concentrated along the coastal regions, is devoted to agriculture. Most of Aceh is made up of forest and jungle (75 percent) with the rest in pasture, lakes, rivers, etc. The amount of land devoted to food production comprises only 4 percent of the total land area, an amount which most sources agree could be greatly expanded with adequate support and infrastructure.

There are no official statistics on land ownership in Aceh. Research has been conducted which provides some basis for making broad generalizations about tenure status in Aceh. A sample of 600 rice farmers in five kabupaten indicated that half were owner-operators, approximately one-fifth were part tenant, part owner-operator, and about one-third were tenants. The average size of all holdings was approximately three-quarters of a hectare with owner-operator plots about one-third larger than tenants plots. Only 28 percent of holdings are below half a hectare in size.

Riceland and Rice Production

Of the 280,000 hectares planted to food crops in 1975, over 220,000 hectares were devoted to rice production of which 93% was lowland rice land with the remainder being upland cultivation. This was about the same amount of land as was in rice production 10 years earlier. However, during the 10 year period there were significant increases in the amount of secondary crop, and vegetable and fruit production.

The most recent survey showed only 6 percent of Aceh's riceland being double-cropped. This is because only 8 percent of riceland has current dry-season irrigation available through water storage and pumping.

Sixty-three percent of Aceh's riceland is serviced by simple irrigation systems which control water during the wet-season, but are of no use during the dry-season, while about thirty percent of the land is completely dependent on rainfall.

Rice production in Aceh is still mainly carried out using traditional techniques and equipment, e.g. tilling by buffalo and wooden plow, drying on mats along roadways, and 2/3 of rice production processed by home pounding or simple mechanical hulling. With 1.7 percent of Indonesia's population, Aceh accounts for 3.5 percent of national rice production. While some of the excess production is shipped to rice deficit areas of Sumatra, Acehnese consumption of rice is more than half again higher on a per capita basis than for the rest of Indonesia. A comprehensive study revealed that losses of rice during harvesting, drying, storage, and marketing average almost 30 percent. There appears to be a potential to make a significant reduction in the losses which now occur in the various post-production processes and to improve the quality of rice which moves to market.

Infrastructure

A major impediment to development in Aceh has been inadequate rural infrastructure. Although improvements have been made since the beginning of Repelita I, roads, bridges, and ports continue to be a major hindrance to development. The main national road from Banda Aceh to the north Sumatra border is under reconstruction, but much of it is still in poor condition, and progress has been slow. Consequently, to travel the 600 kilometers from Banda Aceh to Medan can take up to two days during the rainy season. The main west-coast road and east-west roads are also mostly in a state of disrepair. Almost all of the ports in operation during Dutch times are in very poor condition or highly inefficient, and handle only a fraction of the tonnage which moves on the neglected road system.

2. Target Areas

Two kabupaten in Aceh have been chosen as target areas for the Provincial Area Development Program. Within the districts of Aceh Besar and Aceh Barat, there are enough similarities and differences to test the feasibility of PDP subproject/activity replication elsewhere. In both kabupaten a large proportion of the economically active population is engaged in agriculture. Most farmers produce rice using traditional varieties and techniques. In both districts about two-fifths of the riceland is rainy-season irrigated. Along with these similarities, there are important differences in population density, smallholder estate crops, average rainfall, infrastructure facilities and market access. Whereas Aceh Besar is geographically concentrated with all but two kecamatan in the Krueng Aceh Valley, Aceh Barat is

stretched along a coastal area including nine main river valleys. Also included in Aceh Barat is the island of Simeulue lying 192 kilometers off the coast.

The district of Aceh Besar surrounds the provincial capital of Banda Aceh. Most of the population is in the Krueng Aceh Valley. Average annual rainfall for Aceh Besar is less than half that for Aceh Barat. Agricultural land in Aceh Besar is devoted almost solely to rice production. Despite this, it has traditionally been a deficit rice production area and imports rice from other kabupaten including Aceh Barat. Relatively good infrastructure facilities provide access to the main marketing center of Banda Aceh.

Although the average population density in Aceh Barat is only 22 persons per square kilometer, the coastal areas and river valleys are naturally more densely populated. In Aceh Barat eighty-four percent of the economically active population is engaged in agriculture. In addition to being an important surplus rice production area, smallholder and estate crop production have also been significant sources of income. The most important smallholder crops are rubber, coconuts, and cloves, while estate crops are rubber and palm oil. Inadequate and deteriorating roads, bridges, and ports have been a major obstacle to economic development in the district. Aceh Barat, much more so than Aceh Besar, has a great potential for exporting agricultural commodities if some of the infrastructural and marketing constraints can be overcome.

Because it will take some time to strengthen the institutions and infrastructure supporting agricultural development, the Provincial Area Development Program will initially focus on limited areas within the districts (kabupaten). Emphasis will be placed on river valleys which are close to the major district market centers and port facilities. These valleys also possess supporting infrastructure and institutions which can be built upon for further agricultural development. In Aceh Besar the Krueng Aceh River flowing through a plain covers most of the more densely populated areas in the kabupaten. In Aceh Barat the focus will be on two river valleys which represent a much smaller proportion of the total kabupaten area. These 2 rivers which run parallel at a distance of about 15 to 20 kilometers are both close to the market and port city of Meulaboh. At least initially, to further simplify supervision and evaluation of pilot projects, most subproject activities will be limited to 2 mukim (traditional administrative division between kecamatan and village) in each kabupaten.

3. Project Thrusts

There is general agreement, that with land readily accessible to most small farmers, the best approach to helping the rural poor in Aceh is to focus on raising agricultural income and production.

The nature of constraints to raising the income of the rural poor in Aceh, combined with identified deficiencies in current government programs has led to selection of a 3-pronged integrated approach for the Provincial Development Program in Aceh: (A) Agricultural planning and evaluation, (B) agricultural support and production, and (C) rural handicraft and processing industry.

Agricultural production and income cannot be increased without informed and integrated planning and evaluation. Although there have been some attempts to coordinate activities of the various agricultural service agencies, agricultural development in Aceh has not been approached in a systematic way whereby goals and programs are established in order of priority and available and necessary resources allocated accordingly. It is apparent that if agriculture is to be the leading sector for economic development and increasing income of the rural poor in Aceh, the Bappeda (Regional Development Planning Body) must play an active role in coordinating overall agricultural planning and a major objective of the Aceh portion of PDP-I will be to improve the Bappeda's capability to perform that role through training, technical assistance, and actual participation in subproject planning, development, implementation, coordination, and evaluation.

Effective and efficient irrigation, cooperatives, extension, credit, roads and ports are necessary support for increasing productivity in the agricultural sector and raising income of the rural poor. Since the emphasis of the Provincial Area Development Program's production and support thrust is on relatively quick-yielding subprojects, most contributions to agricultural support will be in the form of making marginal improvements and/or providing better maintenance for existing facilities. As far as possible the Provincial Area Development Program will work within existing institutions and programs, attempting to improve the capabilities of these institutions in the delivery of services to farmers.

With the majority of Aceh's rural population employed in various ways in rice production, it is obvious that any project intended to improve income of poor farmers must address the existing problems of low productivity and pre- and post-harvest losses and the difficulties of including farmers to adopt new technologies. Present yields in Aceh are between two and three tons per hectare. Pre-harvest losses due to pests and disease are significant. Estimated losses of grain during harvesting, threshing, drying, storage, processing and transport average 28 percent.

Milling recovery, rice quality, and storage capability are relatively low in Aceh. A completely integrated pilot package aimed at raising rice production through higher yields, reduction of both pre-harvest and post-harvest losses, and improvement in milled quality will be developed as part of the Provincial Development Program. Emphasis will also be placed on production of secondary crops, vegetables, fruit, estate crops, and livestock.

There are several small industries in the target areas which provide supplementary employment and income for rural households on a permanent and seasonal basis. These activities include mat weaving, silk weaving, clay pot making, fibre rope making, smoked banana processing, brick-making, saltmaking, metalworking, and traditional embroidery. Most of these products supply rather limited local markets, and many are women's activities. Through modest improvements, PDP I assistance will focus on increasing profit from local markets, rather than attempt to expand production for sales in other regions. In some cases the introduction of inexpensive tools and equipment and use of new techniques, materials and designs would make a significant contribution in terms of improved quality and increased productivity. In other cases better management practices and marketing information would be helpful. Marketing studies will be carried out under the PDP to evaluate production, processing and marketing of crops produced in the target kabupaten. This will be undertaken early in PDP implementation so that a production program can be designed and implemented.

A. Agricultural Planning & Evaluation

Agricultural productivity in Aceh is generally low, despite abundant rainfall and availability of fertile land. Personal income is only slightly above that of heavily over-populated land-scarce areas in Central Java. Thus far, government efforts to increase agricultural production have been scattered and only marginally effective. This is due, in part, to inadequate coordination among various agricultural agencies, reflective of the overall lack of a systematic approach to agriculture policy and project planning and evaluation. A shortage of trained manpower and adequate facilities are major obstacles to development of a comprehensive orderly approach to agricultural development in Aceh.

The various agriculture agencies in Aceh more or less establish their own priorities and operate independently of one another in their various project activities. Without development of a coordinated supporting physical and administrative infrastructure, low income farmers have been reluctant to accept the risks associated with adoption of new inputs and technologies. Lacking efficient mechanisms for the delivery of services to farmers, programs meet with failure or disinterest.

Province level agricultural, economic and statistical analysis capability is very limited. The quantity and quality of statistical data available is inadequate for effective agricultural planning and evaluation. There is an urgent need for development of a coordinated system of routine collection, evaluation, and use of accurate data in planning agriculture projects.

The technical assistance and training needed to provide Aceh Province with the agriculture planning and evaluation capabilities necessary for successful development will focus on and be coordinated through the Bappeda. The Bappeda will be the key planning, coordinating, and evaluation agent for the PDP, providing the Bappeda with valuable experience for its anticipated role in overall province development.

Among its responsibilities, the Bappeda

1. Develops strategy for the 5-year development plan.
2. Co-ordinates plans prepared by the Technical Services (Dinas) and other government agencies.
3. Co-ordinates Kabupaten planning, and
4. Controls the preparation and implementation of provincial plans; and assists in evaluation and adjustment of plans.

The listing of functions above illustrates the broad scope and role of the Bappedas. But in fact the Bappeda is not adequately staffed nor equipped to carry out its responsibilities. Its present role in the agriculture sector is basically limited to that of service agency budget reviews, with little or no attempt made to function actively in planning, coordinating or evaluating the multiplicity of projects administered by the various technical agencies. Moving into this area of its assigned responsibilities will in fact represent a significant new departure for the Bappeda which the Chairman of the Bappeda supports.

Advisory support and training will be provided to enable the Bappeda to assume its expanded role. An agricultural planning advisor will be assigned to the Bappeda in Aceh under the PDP for 3 years. A major function of the advisor and Bappeda staff will be to assure coordinated, timely planning and management of all agreed upon projects. They will provide leadership of an Agricultural Planning Committee in Aceh of representatives of the provincial service agencies, the Bappeda, the Governor's office and Syiah Kuala University. They will also be responsible for developing co-ordinated project planning and management including provision of mechanisms to include farmers in the planning process.

Other short term advisors will be provided in such areas as agriculture statistics gathering and analysis, agricultural economics, and land use capability studies. Training and technology transfer will be a major component of their input.

It is anticipated that one local Bappeda employee will receive 2 years training in agricultural economics. He would on return assume a major role in overall agriculture planning at the Bappeda. In addition, it is planned to train 4 individuals for 6 months each in agriculture project planning, and probably 1 person will be selected for a special 1 year study of agriculture statistics and analysis. This training will probably be conducted in the U.S.

A major component of the PDP will be evaluation, both of the PDP itself and of the varied and numerous subproject activities to be tested. Funding will be provided for surveys and studies to assess subproject impact and service agency effectiveness. Outside evaluators will be brought in as necessary, but it is hoped the Syiah Kuala University can make a major contribution in this area. Since the head of the Bappeda is also the Rector of the University, a good climate for cooperation exists.

Utilization of University resources for project surveys and evaluation may be tested in a special survey of land tenure patterns to be done in the target kabupaten at the start of the project. Experiences in other areas of Indonesia and Southeast Asia suggest that the introduction of yield increasing technology often has a differential impact according to the size and distribution of land holdings and the nature of tenurial status. It is possible rural income inequalities may be widened and tenant farmers displaced. These problems are of special concern to the Provincial Development Program in Aceh. Only a very small percentage of land in Aceh is registered with the Land Use Directorate, and although there have been a few surveys, the data available are not adequate to plan and evaluate agricultural development in the target areas. It is planned, therefore, to conduct a study of land ownership and tenure status in these areas before implementation of the Provincial Area Development Program in order to provide base line data.

B. Agricultural Support and Production

Agriculture in Aceh is characterized by inefficient use of relatively good resources. There is land and water available and the soils are productive. Yet yields of all types of crops including rice, fruit, vegetable and small estate crops are below potential. Rice yields, for example, average 2-3 tons per hectare. Only 8 percent of the riceland is double-cropped, although with minimum improvements this could easily be raised to 30-40 percent of all riceland. In many areas where water

supplies are less adequate, secondary crops such as soybeans could be successfully produced. Studies indicate that secondary crop production is only a fraction of what it could be. Vegetable production could be greatly expanded as well.

Rural infrastructure is a particularly severe constraint to expanding agricultural production in Aceh. Existing irrigation systems are in a state of disrepair. In the target kabupaten there are 25 pumped irrigation systems installed. Several of these, relatively new systems, are inoperative due to poor maintenance, lack of trained O & M personnel, or spare parts. Wells may offer a good potential source of supplemental irrigation water. However most existing wells appear to be supplying much less than is possible, based on estimated ground water levels, simply because existing well-construction techniques don't fully exploit ground water potentials.

Transport facilities are another serious problem area. Most farm to market roads are in poor shape, and often impassable during the rainy season. Bridges have deteriorated or are non-existent. Port facilities are antiquated and inefficient. The main Aceh - Medan road is in poor condition for over half of its distance.

Agriculture service extension activities are generally in need of upgrading. Agents are not well trained and are assigned to inordinately large areas. Funding is insufficient for travel or effective demonstrations. Facilities and materials for educational activities are generally lacking or of questionable quality. This situation has been a key factor in the very slow adoption of improved technology in Aceh particularly for rice production.

Government credit programs have been generally unsuccessful in Aceh. Credit has not been sufficient to the need and little supervision is provided. Under the BIMAS program, which provided some credit in kind, inputs such as fertilizer often arrived late or in insufficient quantities. The repayment rate for government loans consequently has been poor, averaging under 50 percent for some years.

Livestock production has increased in recent years with an average of 1-3 per family but is still relatively low, due generally to poor health and nutrition. Internal and external parasites are serious problems, and availability and cost of pharmaceuticals are such that few animals receive preventive health care. Most animals are grass fed, but poor pasture management contributes to a low quality diet for range fed cattle.

In summary the overall agricultural production and support situation in Aceh offers much potential for improvement. Balancing this is the overall favorable resource situation which, with selective and well

managed inputs, offers real promise for expanded production and increased rural incomes.

There are a number of Agriculture Service Agencies with responsibilities in the agriculture production field. The primary action agents for production and support under this project, are the Food Crops Service, the Animal Husbandry Service, and the Estate Crops Service.

The Food Crops Service will have responsibility for implementation of the PDP subproject production activities and construction and administration of two Food Crops Training Centers. Field activities will be administered by the district level offices.

The Estate Crops Service will provide assistance under PDP to small growers of crops such as coconuts, sugarcane, and coffee. The Service already has an extensive program for coconut production underway with more than half of the office field units engaged in this activity.

Assistance to cooperatives will be administered through the Provincial Cooperative Office. This office has been administering a program of small cooperative consolidation into what are called Village Cooperative Units. There are 12 of these units in Aceh Besar, and 16 in Aceh Barat. The Cooperative Service focuses on marketing and distribution, and purchases some rice under the governments price stabilization program.

Each of the agencies discussed above has obvious clear cut areas of responsibility and authority, which are carried out with varying degrees of effectiveness. The Provincial Area Development Program while contributing to individual agency project capabilities will also focus on improving the local agency inter-relationships necessary for the success of integrated project administration activities. A key objective of the program will be to foster development of a planning and implementation environment that encourages dialogue, coordination, and cooperation among action agencies. The administrative situation in Aceh now appears to be favorable toward this kind of initiative, with the Governor and Chairman of the Bappeda both in full support of this goal.

In response to the situation and problems effecting agriculture production in Aceh a number of approaches will be tried and tested under the program. The main objectives of these activities will be testing for economic viability and replication, and providing the various involved agencies with the actual experience of project planning, support and administration. The subproject component listing which follows is not meant to be exhaustive nor does it exclude possible other initiatives; but it does provide an illustrative listing of the nature and kinds of activities that are currently thought to offer the best opportunities for addressing rural poverty in Aceh. The main focus of crop testing

will be on rice, and its integration with secondary crop production.

Rice

A completely integrated rice production project is planned on a pilot basis in two areas, one in Aceh Besar and one in Aceh Barat. Details worked out and methods developed in the pilot areas should then be suitable for replication to an increasingly expanding area of rice production in Aceh and other parts of Indonesia. Four Indonesian rice production specialists will be selected and trained for 6 months each at the International Rice Research Institute, IRRI, Philippines. This in-depth training in rice production is necessary to develop a corps of trained rice production subject-matter specialists to provide in-country training and supervision of the pilot and later expanded rice production projects. Two other local specialists will be trained at IRRI for 6 months each in rice production mechanization and post harvest technology.

A provincial crops production training/extension center will be established and equipped at the site of the present government rice seedling center in Kecamatan Sukamakmur. A senior rice production training specialist will be brought in for a two-year period to assist in the design of all necessary facilities and the establishment and operation of the center for technician training, variety testing, seed multiplication, and crop extension in the area. Two of the rice production subject-matter specialists and one of the specialists trained in mechanization and post-harvest technology at IRRI will be stationed at the center to form the basic teaching staff for rice. This center will serve the entire province in the training of provincial crop production extension agents. During the four-year program training will be provided at the center for extension agents and leading farmers. With support and direction from the province center, variety testing and seed multiplication will be undertaken at the kabupaten center as required. A major responsibility of the center will be to support and direct the pilot and expanded crop production supervised credit and extension project in the area.

Other activities will include preparation of instructional materials, coordination and supply of production inputs for participating farmers, and development of improved harvest and post-harvest handling methods, including demonstration of IRKI threshers and dryers.

Secondary Field and Food Crops

A concentrated effort will be made to expand the hectareage of secondary crops such as corn, sorghum, soybeans, and peanuts, particularly on land presently left idle after being used to grow one crop of rice each year. These crops can be important sources of human food and

livestock feeds domestically and they are in demand worldwide. To encourage the expanded production of secondary crops in Aceh the following is planned:

a. Subject matter specialists will be trained at the start of the program. It is envisioned that 4 persons (experienced PPL agents from the Food Crops services) will receive training in a third country for six months each.

b. Agro-economic studies and adaptive trials will be conducted by the returning trained specialists with the assistance of a specialist from the Director General for Food Crops to determine what crops can be grown at the best relative advantage.

c. With the help of outside specialist assistance, a training program for extension agents and a program of varietal, cultural and economic adaptive trials will be developed. The specialists will provide the leadership for expansion of secondary crops production in the two pilot project areas. Emphasis will be on developing a system whereby farmers who now only grow one crop of rice will be encouraged to follow the rice crop with a secondary crop planting.

d. A supervised credit scheme for secondary crops similar to the one for rice production will be developed with technical assistance and implemented in the two pilot crop production areas and in expansion of these areas. Similar considerations as applied to the rice project will be given to input availability, credit approval system, and supervised production.

Vegetable Crops

Production of vegetable crops can be substantially increased in Aceh, particularly in and around the areas of population concentration. The following are planned as a means to increase production of selected vegetables crops.

a. Three subject-matter specialists will be sent overseas for approximately 6 months training in vegetable production methods.

b. The trained vegetable production specialists with the assistance of an experienced vegetable specialist will develop a training program to be included as part of the secondary crops training for extension agents (and possibly leading farmers). In addition, these two officers will conduct agro-economic studies and surveys and develop a program of adaptive trials and demonstrations. From 5 to 10 vegetable crops will be selected which offer the best economic advantage to growers and a program developed to expand production and improve the quality of these crops in specific areas.

c. In the two pilot production areas, a supervised credit program for vegetable production will be developed and implemented along the same lines as that adopted for rice (and secondary crop) production.

Fruit Crops

To improve the production of high quality fruit, particularly for export, a tropical horticulturalist, will be brought in to review the production and market situation, select approximately 5 fruit crops for emphasis and develop a suitable program.

Small-holder Estate Crops

A comprehensive feasibility study conducted by a number of estate crops experts from Indonesia (and Malaysia) is planned as a first step to improving production and quality of smallholder estate crops in Aceh. There are a large number of estate crops being grown, but before action is taken and investments are made it is necessary to have reliable information on the world market demand for various estate products, the economic advantages in growing one crop over another, and a detailed analysis of the situation in Aceh with respect to the potential for estate crops production. This analysis should include the presently grown crops such as sugarcane, cloves, nutmeg, coffee, rubber, cacao, patchouli, coconuts and others. It should also consider other suitable estate crops for consideration in Aceh. From this study, a detailed plan of action will be developed for the entire estate crops industry in the province which also should have application to Indonesia generally.

Livestock

Technical assistance will be provided to help the provincial animal husbandry service officers to select areas and develop a project to improve production from and use of the native pastures. Such factors as fencing, location of drinking water, rotational grazing, supplemental feeding, provision of mineral and salt supplements and pasture top-dressing will be studied and a program developed and implementation started. A program to expand the area of improved pastures is planned with specialist technical assistance to help identify areas for a pilot project. This program should develop a system for efficient pasture improvement including cultural methods to be used, need for machinery in land preparation, seeding mixtures and varieties, fertilizer requirements, fencing and pasture management practices for different improved species of grasses and legumes.

Improved animal nutrition must receive serious attention if Aceh's livestock industry is to be economically productive. A specialist in animal nutrition will be engaged to review the needs and opportunities

for improving the feeding of all classes of livestock. A study of the present small feed milling capacity and the quality of the feed for poultry and other livestock will be made. A specialist in animal breeding will be brought in to work directly with the appropriate animal husbandry officers at Inderapuri and elsewhere in the province to upgrade the animal breeding program. A review of the present artificial insemination program will be made and recommendations presented for improvement. The problem of small, in-bred cattle will be examined and the present cross-breeding program reviewed. The diagnostic laboratory will be evaluated in terms of its ability to provide adequate service to the provincial livestock industry, and recommendations for up-grading made if necessary.

An immediate start will be made to develop the capability to breed the improved Alabio duck now imported from Kalimantan. Specific assistance in terms of incubators, duck rearing facilities and initial importation of breeding stock will be provided.

Irrigation

A technical irrigation farming specialist will provide guidance and training in the maintenance and use of irrigation facilities. This officer should be assigned to work with provincial technicians of the Food Crops Agency and appropriate officers from Public Works. Particular attention will be given to the two pilot crops production areas to develop a workable system for controlled irrigation, drainage, management, and the recommended cropping practices which will most effectively use available irrigation water. The main purpose will be to develop a system for effective irrigation administration that can be duplicated in other selected areas.

Also, it is planned that a number of wells be drilled in and around the pilot crop production areas to determine the feasibility of using shallow wells to provide supplemental irrigation water. About 20 wells of about 5 to 7 meters deep will be dug and lined with concrete pipe and provided with a manual pump. The wells will be dug and water quality and yield information gathered and analyzed within one year. On the basis of the data collected, the potential for using wells would be established and a program to dig additional wells developed if justified by test results.

In selected locations where pumps are deemed necessary, the Provincial Development Program will assist in the installation of power-driven pumps. A maintenance project of technical assistance and training for maintenance of existing pumps will be implemented immediately.

Agricultural Cooperatives and Credit

Two agricultural cooperatives (KUD's), one in each of the pilot crop production areas, will be given intensive assistance to improve their operations. A cooperative and credit specialist will be provided to assist the cooperatives office staff to organize these cooperatives and to identify and obtain improved training, financing, business management, facilities, membership participation, marketing and other services. The need for and the feasibility of cooperatives providing simple bulk fertilizer blending and custom plowing (particularly for secondary crops production) in the two pilot areas will be determined.

An improved BIMAS supervised credit scheme will be developed in the two pilot crops production areas. Initially this scheme will be for rice production in the pilot areas, but methods for implementing similar schemes for secondary and vegetable crops will be developed. The main emphasis will be on establishing an effective supervised credit system in the two pilot areas with the clear understanding that it will be expanded to other areas as rapidly as possible after it has been demonstrated to function successfully. In addition, the cooperative and credit specialist will provide advisory assistance to the two pilot cooperatives as required in all loan making, servicing and education activities.

Extension

This is, of course, the key element in successful expansion of the tested subproject activities throughout the province.

To begin the long process of developing a qualified and responsive extension service in Aceh, long-term overseas training will be provided to an agriculturalist in extension education who would probably work out of the Bappeda assisting various services with their extension program. This is suggested because of the serious weakness of the existing extension staff in developing, implementing, and evaluating extension programs for women and farmers. This senior-level training is needed to provide the future leadership in extension as this program moves from a pilot to a province-wide approach in the years ahead. In-country training will be provided in food crop extension activities. These training programs will include women, especially for extension activities involving the production of secondary and vegetable crops. Leading farmers will also be trained in the expectation that experience and respect will make them effective agents for change among farmers groups.

Transport

The lack of efficient, low-cost transport services connecting

production with consumption areas represents a major constraint to increased production and income in rural areas. Given the serious nature of this problem in Aceh, clearly there are limits to what can be accomplished under this program. Nevertheless a selective infusion of funds and technical assistance in coordination with other elements of the program should have a significant impact in the short run. Limited assistance for the maintenance and improvement of radial roads connecting farms with markets and ports will be provided, based on JICA USAID/GOI agreement on need for PDP subproject support.

Some ocean shipping offers an option in Aceh for reduction of transport costs. An effort will be made under the program to improve the operating efficiency of existing ports (Meulaboh and Malahayati) in order to reduce turn-around time and lower port costs. Port specialists will be brought in to identify marginal changes, which would likely be financed under other programs, that could contribute to improved operating efficiency.

Sub-Project Replication

Most of the various subproject activities described above will be carried out on a test pilot-project basis nearby the training and extension centers within 2 mukim. To benefit most of the rural poor in Aceh, expansion of successful subproject activities throughout the province will be required. This would definitely include rice and secondary crop production packages, assistance to small estate crop and fruit growers, and small livestock production projects. Since the mix and type of these activities will depend on the results of the pilot subproject experience, this funding (about \$1.75 million) cannot be budgeted for specific activities at this time. This funding flexibility within the project is necessary for replication of tested subprojects and essential to the experimental nature of the project i.e. providing local government with the training and experience necessary for successful project development and implementation.

C. Rural Handicraft and Processing Industry

Small scale rural industries in Aceh are characterized mostly by manual operations, one to five employees, low state of technology, marginal product quality and poor working conditions. Record keeping, planning, and cost analysis are primitive, or non-existent, with many entrepreneurs keeping no written records whatsoever. There are a few small industries that employ up to 20 persons at busy times. Generally these industries utilize higher technology and produce a better quality product.

Examples of small industries generally employing less than five persons are metal working, salt production, and brick making. It is estimated that about 400 people are employed in salt production, and 250-300 are involved in brick making.

This part of the project will be implemented by the Bappeda through the Provincial Industries Service, which is tasked with assisting and promoting small scale business development. It conducts direct extension activities providing technical training, and advice on management, credit, and marketing. Recent training provided covered industries such as wood carving, rattan furniture making, ceramics, brick making, metal work, and charcoal. Some simple demonstration machinery has also been provided to selected businesses. The main constraints to the Province Industries Service are lack of technical competence and insufficient funding to bring in outside technical assistance of the quality and for the time required to have much of an impact. The Service and entrepreneurs often find themselves confronting specific problems requiring technical assistance that cannot be obtained because of expense or inability to locate appropriate sources.

Technical assistance under the project will be limited initially to four industries that provide supplemental employment for the rural poor. The focus will not be so much on increasing production, as it will be on raising quality, improving production techniques, and adopting better practices in order to improve income. Marketing studies will be financed under the project to assess potential for production expansion of these industries, and possible choice of other industries where some technical assistance would be appropriate.

The four industries to be helped immediately are as follows:

Brickmaking - Technical assistance will be provided for brick producers in Aceh Besar. There are approximately 50 of these rural industries employing about 300 people and supplying brick for government and private construction projects. Most of these brick makers are in the kecamatan of Ingin Jaya. It is expected that technical assistance will increase productivity and improve quality through the design and construction of more efficient kilns using low cost fuel and through the introduction of better management practices.

Metalworking - Technical assistance for metal workers composed of introduction of inexpensive tools and simple improved techniques for the production of agricultural implements is planned. The implements currently produced are inferior products which do not compete favorably with the more expensive imported products.

Saltmaking - Most of the saltmakers in Aceh Besar live in the kecamatan of Darussalam. These people are considered among the poorest of the rural population. Saltmaking is an intricate process using techniques and implements often unchanged over hundreds of years. Solar methods used elsewhere in Southeast Asia are not appropriate because of intermittent rains which occur throughout the year. Technical assistance will focus on increasing productivity through introduction of alternative fuel sources and production techniques.

Brown Sugar Production - In order to support the ongoing effort to promote sugar cane production along the banks of the Krueng Aceh River, a small sugar press will be installed at Pagar Aye in the kecamatan of Mesjid Raya. Technical assistance will be provided to determine the most efficient use of fuel and to improve cooking techniques.

4. Illustrative Cost Estimate

The following is a budget summary/cost estimate for the Aceh PDP, broken down by thrust and associated input, as well as the U.S and GOI contributions. It is meant to be illustrative of the types of activities to be undertaken and is not meant to be exhaustive nor meant to exclude possible other initiatives which offer the best opportunities for addressing rural poverty. Consequently the budget figures are illustrative between line items and are not immutable

Illustrative Cost Estimate
Acch PDP

1. <u>Agriculture Planning and Evaluation</u>	AID	GOI		Total
	\$	Central	Local ¹⁾	
1. Technical Assistance				
a. 1 long-term Agriculture Planning & Production Advisor (U.S.) for 3 years @ \$78,000	234,000		60,000	294,000
b. Short-term Specialist Advisors (U.S.) for 9 work months (WM) @ \$8,000	<u>72,000</u>		<u>20,000</u>	<u>92,000</u>
TOTAL	306,000		80,000	386,000

1) Mostly in-kind contribution

	AID	GOI		Total
	\$	Central	Local	
2. Training (U.S.)				
a. 2 years training for 1 person in agriculture economics @ \$13,000 per year	26,000		6,000	32,000
b. 1 year training in agricultural statistics for 1 person @ \$13,000 per year	13,000		3,000	16,000
c. 6 months training in agriculture project planning for 4 persons @ \$2,000 per month	<u>48,000</u>		<u>11,000</u>	<u>59,000</u>
TOTAL	87,000		20,000	107,000
3. 2 in-depth evaluations per year of impact of typical subprojects or activities at \$25,000 x 8				
	200,000		30,000	230,000
4. Land Tenure Study				
a. Design - 3 WM (U.S.) @ \$8,000	24,000		4,800	28,800
b. Survey & Collation 40 WM (LH) at \$250	10,000		2,000	12,000
c. Evaluation & Analysis 2 WM (U.S.) @ \$8,000	<u>16,000</u>		<u>3,200</u>	<u>19,200</u>
TOTAL	50,000		10,000	60,000
5. Commodities/vehicles				
a. Four 4 wheeldrive vehicles @ \$12,000	48,000		8,000	56,000
b. Office equipment - typewriters, calculators, reproduction equipment, etc.	<u>12,000</u>		<u>2,000</u>	<u>14,000</u>
TOTAL	60,000		10,000	70,000

	AID	GOI		Total
	\$	Central	Local	
	\$	\$	\$	\$
11. <u>Agriculture Production & Support</u>				
1. Technical Assistance				
a. 1 LT Rice Production Specialist (TCN) for 2 years @ \$29,500	59,000		20,000	79,000
b. Short-term Specialist Advisor (TCN + LN) for 48 WM @ \$4,000 per month	<u>192,000</u>		<u>60,000</u>	<u>252,000</u>
TOTAL	251,000		80,000	331,000
2. Training (Third Country)				
a. 1 years training in extension @ \$9,000 per year	9,000		1,400	10,400
b. 1 years training in home economics @ \$9,000 per year	9,000		1,400	10,400
c. 6 months training for rice production specialists @ \$1,500 per month	36,000		5,300	41,300
d. 6 months training for 2 rice mechanization & harvest specialists @ \$1,500 per month	18,000		2,600	20,600
e. 6 months training for 4 secondary crop specialists @ \$1,500 per month	36,000		5,300	41,300
f. 6 months training for 3 vegetable production specialists @ \$1,500 per month	<u>27,000</u>		<u>4,000</u>	<u>31,000</u>
TOTAL	135,000		20,000	155,000

	AID	GOI		Total
	\$	Central	Local	
3. Commodities/Vehicles				
(*)a. 2 Irrigation systems for Training Centers @ \$15,000	30,000		4,700	34,700
(**)b. Staff Housing & Equipment	35,000		5,500	40,500
(*)c. Office Equipment	19,000		2,300	15,300
(**)d. Laboratory & Field Equipment	128,000		20,000	148,000
e. Four 4 Wheeldrive vehicles @ \$12,000	48,000		7,500	55,500
TOTAL	254,000		40,000	294,000
(*)4. Infrastructure				
a. Well Drilling (20)	105,000	47,000	20,000	172,000
b. Irrigation including rehabilitation & extension of existing systems	300,000	135,000	60,000	495,000
c. Road Construction and Improvement	260,000	118,000	50,000	428,000
TOTAL	665,000	300,000	130,000	1,095,000
5. Costs, associated with replication & expansion of successful pilot subproject activities in rice & secondary crop production packages, livestock production, well drilling etc., such as establishment of demonstration plots, seed, fertilizer, and pesticide funding, transportation etc.				
	1,725,000	400,000	180,000	2,306,000
6. Establishment/Operation Training & Extension Centers				
	-	700,000	100,000	800,000

	<u>AID</u>	<u>GOI</u>		<u>Total</u>
	<u>\$</u>	<u>Central</u>	<u>Local</u>	<u>\$</u>
		<u>\$</u>	<u>\$</u>	
III. <u>Rural Handicraft & Processing</u>				
1. Technical Assistance (LN) 33 WM of Specialist Assistance @ \$1,500 per month	<u>50,000</u>		<u>40,000</u>	<u>90,000</u>
TOTAL	50,000		40,000	90,000
2. Commodities/Vehicles				
a. 1-4 Wheeldrive Vehicle @ \$12,000	12,000		2,700	14,700
(***)b. Miscellaneous equipment Including sugar press @ \$10,000	<u>33,000</u>		<u>7,300</u>	<u>40,300</u>
TOTAL	45,000		10,000	55,000
GRAND TOTAL	<u>\$2,829,000</u>	<u>\$1,400,000</u>	<u>\$750,000</u>	<u>\$5,979,000</u>

(*) See report by H. Bennedsen
Consulting Civil Engineer, August 1977 for details

(**) See Aceh Province Program Proposal
by Dodd/Sorenson, July 1977 for details

(***) See Small Industry Report for Aceh Barat
and Aceh Besar by Hawbaker, June 1977 for details.

5. Social Analysis

The Provincial Area Development Program in Aceh represents an attempt to strengthen provincial government capabilities in the planning, implementation and evaluation of income-generating projects aimed at the rural poor. In the absence of statistical information and scholarly studies on income distribution, land ownership and tenure patterns, it is difficult to provide careful documentation on the rural poor in Aceh. Nevertheless, some general statements are possible. First, over eighty percent of the economically active population in the two target Kabupaten is involved in agriculture. Second, almost all of these people produce rice. Third, almost all Acehnese farmers have access to land either through land ownership or sharecropping arrangements, but holdings are small and fragmented. About two-thirds of the farmers are owner operators and about one-third are tenant farmers. Whatever the tenurial status, Acehnese farmers perceive of themselves as members of a free-holding independent peasantry, a perception which is strengthened by their intense Islamic religious conviction that all believers are equal before God. This conviction is not without relevance to everyday village life. Acehnese are generally reluctant to work as agricultural wage laborers; those who cannot farm land which is owned or sharecropped generally leave their villages to seek work elsewhere. An attempt by the local aristocracy to concentrate land during the colonial period, and thereby deny Acehnese farmers their position as independent freeholders, led to the bloody demise of the aristocracy in 1946.

This is not to say that agricultural resources are evenly distributed. There is undoubtedly concentration of holdings in some parts of the target areas. A good deal of variation exists in access to water and markets. And household income in rural areas varies considerably according to supplementary income from secondary food crops, rural handicraft industry and small-scale trading activities.

The basic assumption, however, is that farmers' access to land differentiates Aceh from Central Java, where landlessness is a chronic problem, such that subprojects aimed at increasing agricultural productivity will have a widespread beneficial impact. But whether this assumption remains valid over time will be of major concern to Bappeda staff members who will plan and evaluate the Provincial Development Program in Aceh. Surveys of land ownership and tenure status will be conducted in these areas before implementation of agricultural production programs in order to provide base line data. Special attention will be paid to traditional sharecropping patterns in monitoring the changing relations between landowners and tenants as value is added to land through increased productivity. Based on these surveys, Bappeda will evaluate the ways in which subprojects affect different groups and reformulate plans to meet the needs of the rural poor.

In summary, due to the fact that almost all farmers presently have access to land, it can be assumed that given current rice policies improved yields will lead to increased income for the rural poor. The subprojects designed to increase secondary food crop and smallholder estate crop production should have a favorable impact in diversifying production, augmenting income and improving nutrition. Because women have traditionally played an important role in agricultural production as well as household activities, the Provincial Development Program will assign important training and extension responsibilities to them. Ownership of livestock is relatively evenly distributed in Aceh where animals represent a source of income and saving for rice farmers. The impact of livestock subprojects should therefore be widespread. Rural industry subprojects will provide important supplementary employment and income for rural households on a permanent and seasonal basis.

The bureaucratic environment in Aceh is relatively favorable for the implementation of the Provincial Area Development Program. Provincial officials represent a "new class" of technocrats. There is a clear cultural division between the "new class" and the villagers. The technocrats tend to assume the backwardness, whereas in reality the past performance of government agencies in carrying out agricultural programs would be justification enough for apathy among farmers. The Governor of Aceh and the Chairman of Bappeda are aware of these problems. They believe that the PDP will go a long way in sensitizing provincial technocratic planners and officials to the needs and values of villagers. The present focus at various levels of government institutions is upward rather than downward. There may not be a great deal that the Program can do in the short run to rearrange and reorient institutional linkages as such, but it is clear that activities of the program to date have been a consciousness-raising experience for members of Bappeda. To the degree that this experience can be sustained, there will be a greater awareness of the social implications of subprojects. It is hoped that Bappeda will establish and maintain downward linkages.

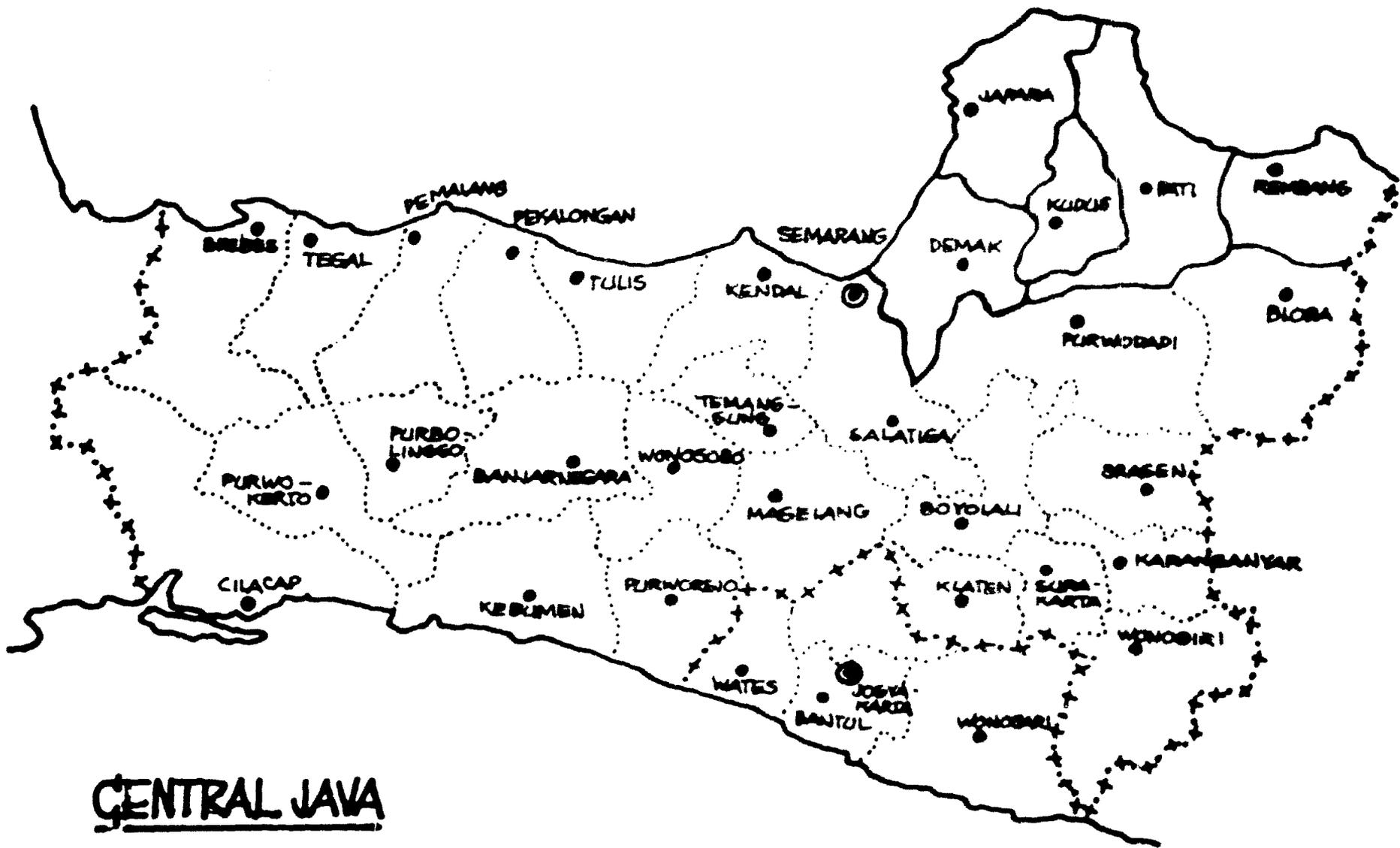
Village level institutions are not amenable to change at this time. There is now an attempt by the government to replace traditional village decision-making bodies by councils representing different functional groups. Thus, far, these government sponsored councils have not met with success and it is not clear what role, if any, they will play in the Provincial Area Development Program. More promising will be the participation of Islamic religious leaders, the ulama, who are seen as the true representatives of villagers. There is a long standing conflict between formal village leaders, dependent on higher officials outside the village, and the religious leader, who base their claim to authority on charismatic appeals to the unity of the community of the faithful. The success of subprojects in a given locality will depend in large measure on the active support and participation of the religious leaders. There are clear political

obstacle to cooperation between government officials and religious leaders. The recent election may have made this cooperation more difficult. Nevertheless, there are enough examples of these groups working together for optimism if religious leaders are genuinely convinced that government officials are sincere in their desire to improve the well-being of the rural poor. The burden rests on the government to demonstrate this sincerity in making a political commitment to increased participation of religious leaders. Since the current Governor of Aceh is strongly committed to the PDP, it is hoped that this participation will be encouraged.

6. Listing of Aceh PDP Reports

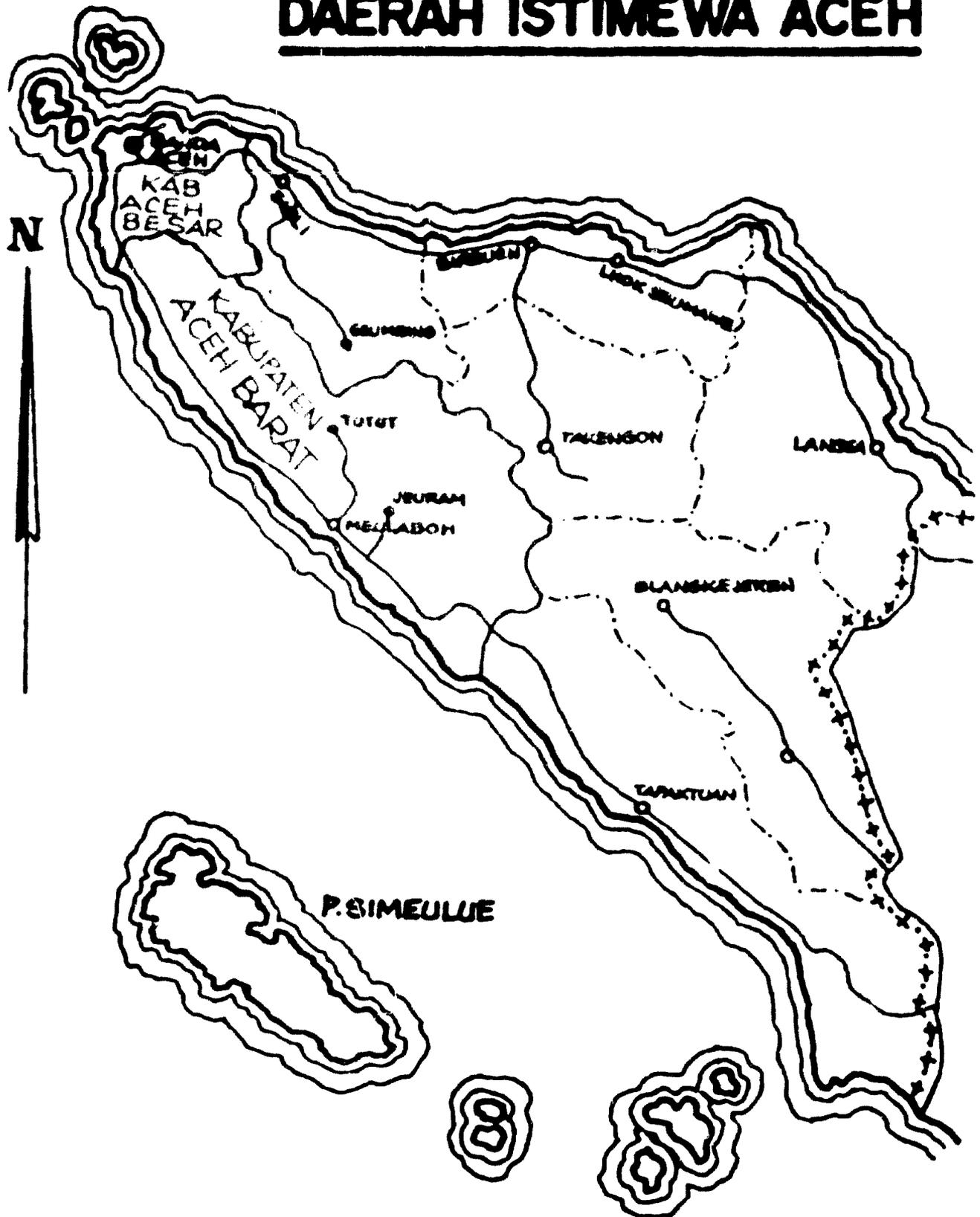
The following reports and studies have been utilized in the preparation of the Aceh Provincial Area Development Program.

- a. Aceh Provincial Profile, prepared by the Bappeda.
- b. Kabupaten Profiles for Aceh Besar and Aceh Barat, prepared by the Bappeda.
- c. The Aceh PDP Conceptual Framework, prepared by the Bappeda.
- d. Review of the Agriculture Sector for the Provincial Area Development Program in Aceh Province, prepared by Robert Dodd.
- e. Review of the Agricultural Sector for the Provincial Area Development Program for Aceh Province by Maurice Sorenson.
- f. Agricultural Program Proposals for the Provincial Area Development Program for Aceh Province by M. Sorenson and R. Dodd.
- g. Engineering Program Proposals and Public Works Review for the Provincial Area Development Program for Aceh Province by Magnus Bennedsen.
- h. Small Industry Project for Aceh Besar and Aceh Barat by George Hawbaker.



CENTRAL JAVA

DAERAH ISTIMEWA ACEH



Financial Analysis of the Central Java and Aceh Programs

These tables are derived from the detailed descriptions and cost estimates for the Central Java and Aceh Programs as found in Annexes B. 9 and B. 10. Tables 1-3 present, respectively; a summary of the estimated costs associated with the Central Java PDP, broken down by major components; a financial disbursement schedule which displays the costs of each PDP thrust by GOI fiscal year along with the AID and GOI contributions; and AID disbursements by U.S. fiscal year. Tables 4-6 present the same information for Aceh. Table 7 summarizes Tables 3 and 6 and adds on the national-level support in order to show full AID disbursements, broken down into loan and grant elements. These financial tables reflect the thrusts described in the narrative Annexes B.9 and B. 10 and are partly illustrative of the types of activities to be undertaken and are not meant to be exhaustive nor meant to exclude possible other initiatives which offer the best opportunities for addressing rural poverty. Consequently the budget figures are illustrative between line items and are not immutable.

Table 1

ANNEX B.13

CENTRAL JAVA PROVINCIAL AREA DEVELOPMENT PROGRAM ILLUSTRATIVE COSTS

(in thousands of dollars)

T H R U S T	A I D		G O V		TOTAL	NOTES
	FX	LC	Central Government	Local Government ^{2/}		
1. Agricultural activities which promote broadbased participation						
a. Technical assistance (Grant)	356	147	-	71	574	^{1/} technical assistance in thrusts 1 and 2.
b. Training (Grant)	54	18	-	10	82	
c. Commodities (Loan)	100	50	-	21	171	
d. Subproject implementation (Loan)		700	350	150	1200	
2. Expansion of employment-generating rural industry						^{2/} mostly in-kind contribution
a. Technical assistance (Grant)	177	65	-	36	278	
b. Training (Grant)	9	3	-	2	14	
3. Rural Credit ^{1/}						
a. Kecamatan Credit Program (Loan)		1000	500	214	1714	
b. Assistance-to-Poor-Families Program (Loan)		65	33	14	112	
4. Generation/implementation of other rural development activities ^{1/} (Loan)		955	477	205	1637	
5. Overall evaluation ^{1/} (Loan)		130	40	27	197	
TOTALS	696	3133	1400	750	5979	

Table 2

ANNEX B.13

CENTRAL JAVA PROVINCIAL AREA DEVELOPMENT PROGRAM
Illustrative Financial Disbursement Schedule
 (thousands of U.S. dollars)

T H R U S T	IFY 77/78		IFY 78/79		IFY 79/80		IFY 80/81		IFY 81/82		IFY 82/83	TOTALS
	AID	GOI	GOI recurrent cost (non additive)									
1. Agricultural activities which promote broad-based participation.												
a. Technical Assistance	40	6	150	21	150	21	125	18	38	5		574
b. Training	10	1	40	6	20	2	2	1	-	-		82
c. Commodities	-	-	50	7	50	7	50	7	-	-		171
d. Subproject Implementation	-	-	100	75	200	150	250	200	150	75	(120)	1200
2. Expansion of Employment Generating Rural Industry.												
a. Technical Assistance			100	15	100	15	42	6				278
b. Training			6	1	6	1						14
3. Rural Credit												
a. Kecomstan Credit Program			100	71	450	320	450	323				1714
b. Assistance to Poor Program			6	5	25	18	34	24				112
4. Generation/Implementation of Other Rural Development Activities			74	63	148	126	280	220	473	273	(164)	1637
5. Overall Evaluation	13	7	26	13	26	13	22	16	33	16	(33)	187
TOTALS	63	14	652	277	1175	673	1248	813	693	368	(303)	5976

Table 3

ANNEX B.13

CENTRAL JAVA PROVINCIAL AREA DEVELOPMENT PROGRAMIllustrative All Financial Disbursement Schedule
(thousands of U.S. dollars)

THRUST	FY 78	FY 79	FY 80	FY 81	TOTALS
1. Agricultural Activities which Promote Broad-Based Participation					
a. Technical Assistance (Grant)	190	150	125	38	503
b. Training (Grant)	50	20	2	-	72
c. Commodities (Loan)	50	50	50	-	150
d. Subproject Implementation (Loan)	100	200	250	150	700
2. Expansion of Employment-Generating Rural Industry					
a. Technical Assistance (Grant)	100	100	42	-	242
b. Training (Grant)	6	6	-	-	12
3. Rural Credit					
a. Kecamatan Credit Program (Loan)	100	450	450	-	1000
b. Assistance to-Poor-Families Program (Loan)	6	25	34	-	65
4. Generation/Implementation of Other Rural Development Activities (Loan)	74	148	260	473	955
5. Overall Evaluation	39	26	33	32	130
Grand Totals	715	1175	1246	693	3829
(Grant Subtotal)	(346)	(276)	(169)	(38)	(829)
(Loan Subtotal)	(369)	(899)	(1077)	(655)	(3000)

Table 4

ANNEX B.13

ACEH PROVINCIAL AREA DEVELOPMENT PROGRAM ILLUSTRATIVE COSTS

(in thousands of dollars)

T H R U S T	AID		GNI		TOTAL	NOTES
	FX	LC	Central Government	Local Government ^{1/}		
1. Agricultural Planning & Evaluation						
a. Technical Assistance (Grant)	229	77		80	386	
b. Training (Grant)	87			20	107	
c. Evaluation (Loan)	35	165		30	230	
d. Land Tenure Study (Loan)		50		10	60	
e. Commodities/Vehicles (Loan)	40	20		10	70	^{1/} mostly in-kind contribution
2. Agricultural Production & Support						
a. Technical Assistance (Grant)	155	96		80	331	
b. Training (Grant)	135			20	155	
c. Commodities/Vehicles (Loan)	154	100		40	294	
d. Infrastructure (Loan)	105	560	300	130	1,095	
e. Project Replication (Loan)		1,726	400	180	2,306	
f. Extension/Training Centers (Loan) Establishment/Operation			700	100	800	
3. Rural Handicraft & Processing						
a. Technical Assistance/MTC Studies (Grant)		50		40	90	
b. Commodities/Vehicles (Loan)	45			10	55	
TOTAL	985	2,844	1,400	750	5,979	

Table 5

ANNEX 3.13

ACEH PROVINCIAL AREA DEVELOPMENT PROGRAM
Illustrative Financial Disbursement Schedule
 (thousands of U.S. dollars)

T H R U S T	IFY 77/78		IFY 78/79		IFY 79/80		IFY 80/81		IFY 81/82		IFY 82/83	TOTALS
	AID	GOI	AID	GOI	AID	GOI	AID	GOI	AID	GOI	GOI recurrent costs (non additive)	
1. Agricultural Planning and Evaluation.												
a. Technical Assistance		7	86	19	112	18	72	18	36	18		386
b. Training			50	14	37	6						107
c. Evaluation			50	7	50	8	50	7	50	8	(20)	230
d. Land Tenure Study			50	10								60
e. Commodities/Vehicles			60	10								70
2. Agriculture Production and Support.												
a. Technical Assistance			151	50	100	30						331
b. Training			92	15	43	5						155
c. Commodities/Vehicles			200	30	54	10						294
d. Infrastructure			200	100	250	100	150	100	65	130	(100)	1095
e. Subproject Replication					400	130	576	160	750	290	(100)	2306
f. Extension/Training Centers Establishment/Operation				300		300		100		100	(100)	860
3. Rural Handicraft & Processing												
a. Technical Assistance MKTG Studies			20	10	20	10	10	10		10	(10)	90
b. Commodities/Vehicles			45	7	1	1	1	1	1	1		55
GRAND TOTAL	7		1004	572	1066	618	858	396	901	557	(330)	5979

Table 6

ANNEX B.13

ACEH PROVINCIAL AREA DEVELOPMENT PROGRAM
Illustrative AID Financial Disbursement Schedule
 (thousands of U.S. dollars)

T H R U S T	FY 78	FY 79	FY 80	FY 81	TOTALS
1. Agriculture Planning & Evaluation					
a. Technical Assistance (Grant)	86	112	72	36	306
b. Training (Grant)	50	37			87
c. Evaluation (Loan)	50	50	50	50	200
d. Land Tenure Study (Loan)	50				50
e. Commodities/Vehicles (Loan)	60				60
2. Agriculture Production & Support					
a. Technical Assistance (Grant)	151	100			251
b. Training (Grant)	92	43			135
c. Commodities/Vehicles (Loan)	200	54			254
d. Infrastructure (Loan)	200	250	150	65	665
e. Project Replication (Loan)		400	576	750	1726
3. Rural Handicraft & Processing					
a. Technical Assistance (Grant) MRTC Studies	20	20	10		50
b. Commodities/Vehicles (Loan)	45				45
GRAND TOTAL	1004	1066	858	901	3829
(GRANT SUBTOTAL)	(399)	(312)	(82)	(36)	(829)
(LOAN SUBTOTAL)	(605)	(754)	(776)	(865)	(3000)

Table 7

ANNEX B. 13

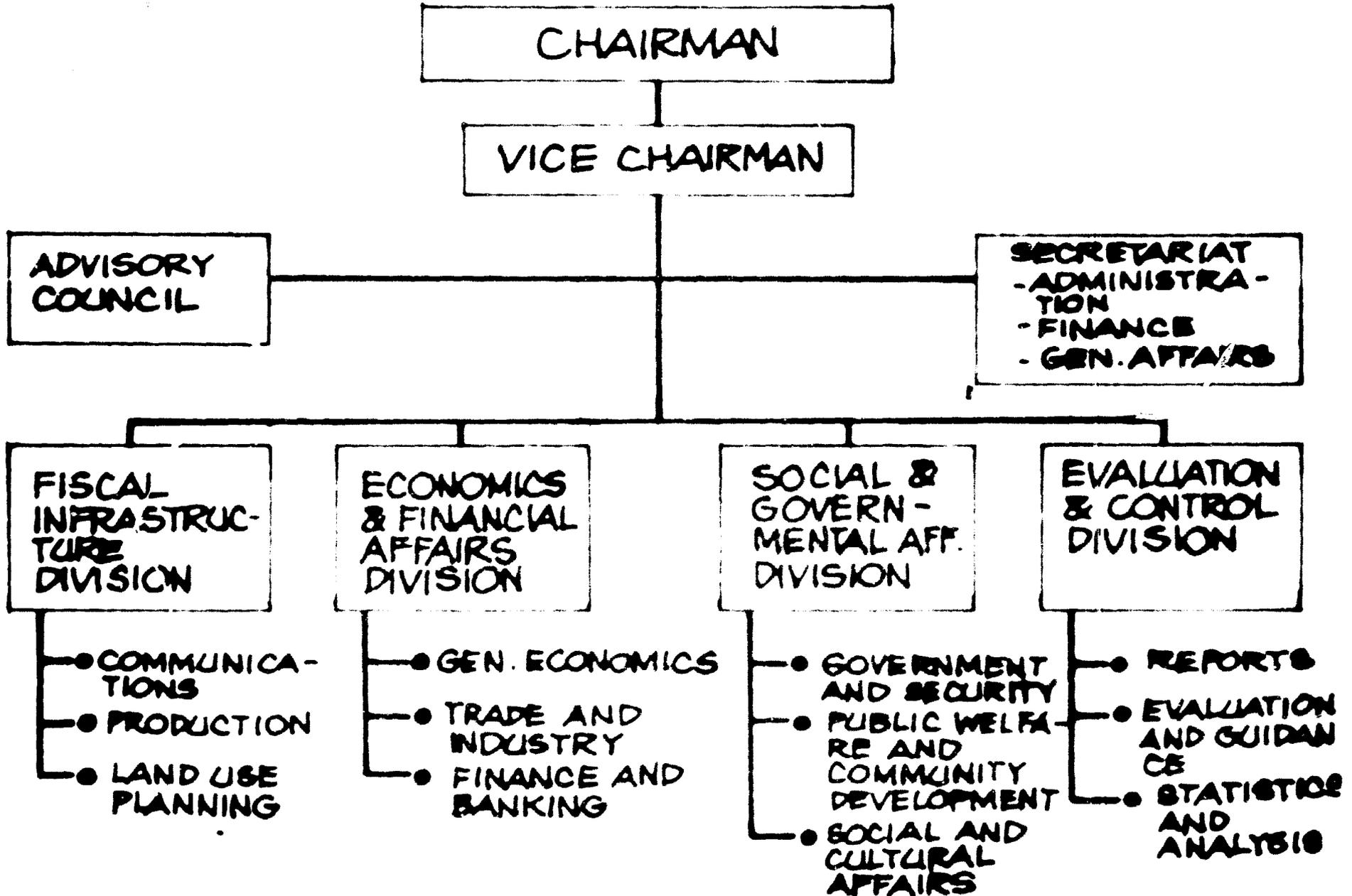
Overall Provincial Area Development Program I
Illustrative AID Financial Disbursement Schedule
 (thousands of U.S. dollars)

C O M P O N E N T	FY 78	FY 79	FY 80	FY 81	TOTALS
<u>1. Central Java PDP</u> (From Table 3 Annex B.13)					
a. Grant (Technical Assistance & Training)	346	276	169	38	829
b. Loan (Commodities, Subproject Implementation)	369	899	1077	655	3000
<u>2. Aceh PDP</u> (From Table 6 Annex B.13)					
a. Grant/Technical Assistance & Training	399	312	82	36	829
b. Loan (Commodities, Subproject Implementation)	655	754	776	865	3000
<u>3. National-Level Support</u>					
a. Long-Term Advisor (Grant)	-*	78	78		156
b. Short-Term Assistance (Grant)	40	40	34		114
c. Training (Grant)	20	30	22		72
GRAND TOTAL	1779	2389	2238	1594	8000
(Grant Subtotal)	(805)	(736)	(385)	(74)	(2000)
(Loan Subtotal)	(974)	(1653)	(1853)	(1520)	(6000)

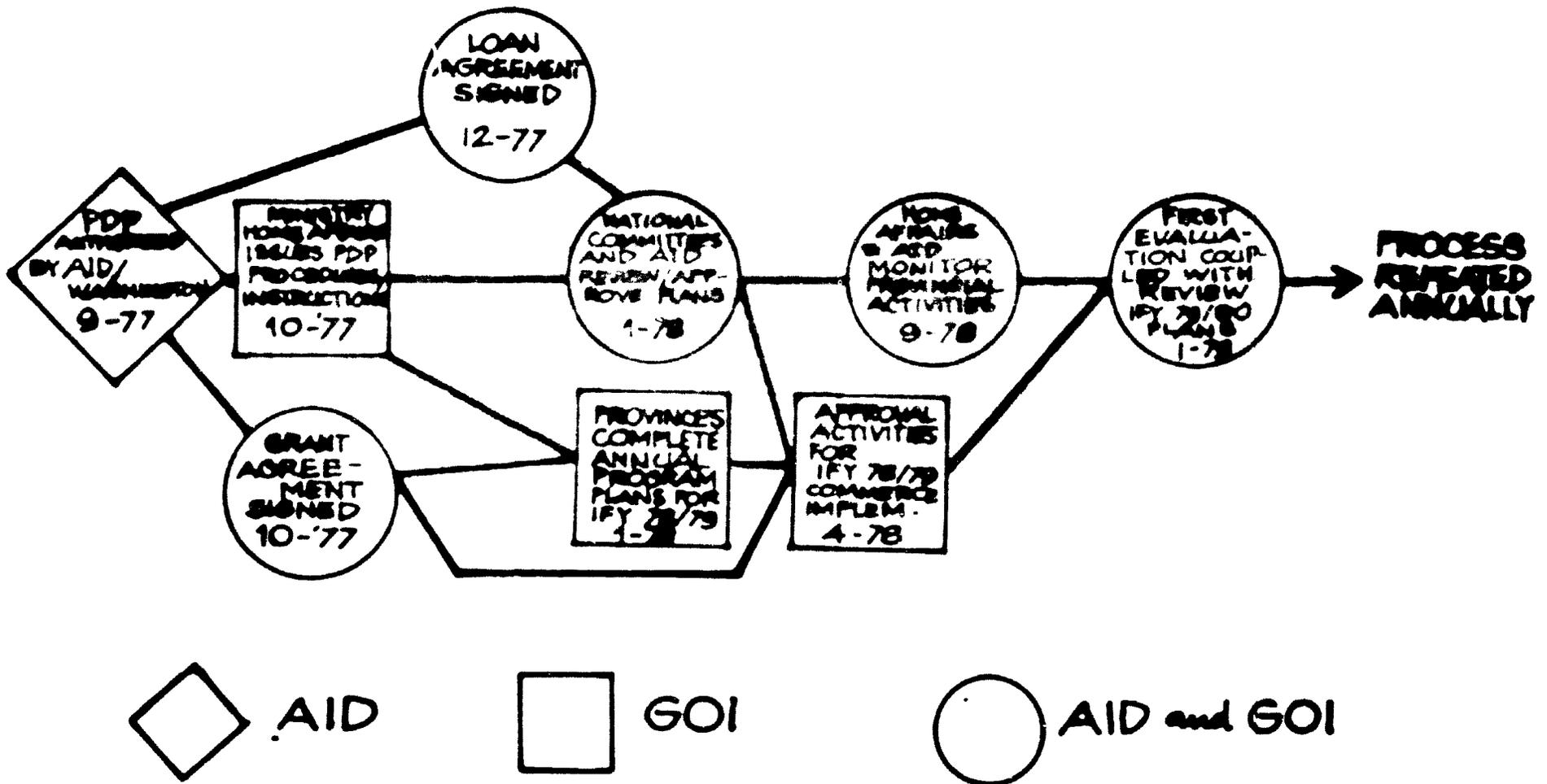
* NOTE: Being financed in FY 78 through PSDP resources.

"THE BAPPEDA"

ANNEX B.17



PDP I IMPLEMENTATION PLAN



Project Title & Number: Provincial Area Development Program (PADP) I

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATOR
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <ol style="list-style-type: none"> To improve the well-being of the rural poor. 	<p>Measure of Goal Achievement:</p> <ol style="list-style-type: none"> Increased per capita consumption.
<p>Project Purpose:</p> <ol style="list-style-type: none"> To improve the capabilities of local government within participating provinces to undertake rural development activities which impact on the productive capacity of the rural poor. To improve the capabilities of the central government to support local government rural development activities which impact on the incomes of the rural poor. To increase incomes of the rural poor within the project area. 	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> Expansion of the planning and implementation systems to the rest of the participating provinces. New central government guidelines and directives for local government rural development programs. An increase in the incomes of the rural poor within the project area.
<p>Outputs:</p> <p>Within a limited geographical area, identified, planned, implemented, monitored and evaluated by local government, rural development interventions which target on increasing the incomes of the rural poor, as directly and immediately as possible.</p>	<p>Magnitude of Outputs:</p> <p>Within the geographical focus, a number of agricultural, small industry and other rural development activities within the key local government interventions which promote broad-based participation by the rural poor.</p>
<p>Inputs:</p> <p>For participating provinces, outside assistance in the form of technical advisors (both from abroad and in country), training both overseas and within Indonesia, select commodities and equipment (including appropriate rural development technology), and small-scale financing of implementation of a pilot nature. ODI contributions for administration, operations, and financing of pilot activities.</p> <p>central government support, technical assistance training.</p>	<p>Implementation Target (Type and Quantity)</p> <p>See budget tables in the Project Paper for a detailed breakdown of inputs by quantity, cost, implementing agency, AID financing category, source of financing and time phasing.</p>

**PRIMARY
FRAMEWORK**

PDP I

ANNEX C

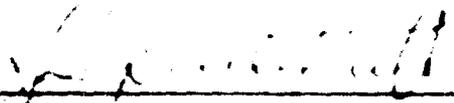
Life of Project:
From FY 77 to FY 81
Total US Funding \$8,000,000
Date Prepared: July 20, 1977

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<ol style="list-style-type: none"> Socio-economic evaluation reports by Bappeda and regional academic institutions. 	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> Increased income is perceived by the people as improving their well-being. Conditions of political stability will continue.
<ol style="list-style-type: none"> Socio-economic evaluation reports by Bappeda and regional academic institutions Provincial government records. Central government records. 	<p>Assumptions for achieving purposes:</p> <ol style="list-style-type: none"> Appropriateness and validity of local government intervention points. National level support for the PDP. Sufficient flexibility in program design to allow response to local initiatives.
<ol style="list-style-type: none"> Implementing agencies records, budgets and reports. Program and subproject plans and documents. On-site inspections and evaluations. 	<p>Assumptions for achieving outputs:</p> <ol style="list-style-type: none"> Ministry of Home Affairs and BAPPENAS support for PDP continues. Participating local government institutions with technical and other assistance continue to exert the creativity, initiative and dedication required to undertake the outputs. No unusual natural calamities.
<p>Budget submissions, financial reports, contracts, contractor records, inspections.</p>	<p>Assumptions for providing inputs:</p> <ol style="list-style-type: none"> The GOI (national and local levels) and AID make budget provisions and provide inputs on a timely basis. Adequate consultant capability available for technical assistance during implementation.

PROVINCIAL AREA DEVELOPMENT PROGRAM I
Certification Pursuant to Section 611(e)
of the
Foreign Assistance Act of 1961, As Amended

I, S. J. Littlefield, the acting principal officer of the Agency for International Development in Indonesia, am acquainted with and have taken into account, among other things, the performance, the development attitude and the budgetary planning of the Government of Indonesia and its implementing agencies in connection with prior AID financed projects in the rural development sector. Based on these factors and observations, I consider that the Government of Indonesia has the capability to adequately use the AID assistance to be provided for the development of this Project.

Accordingly, I do hereby certify that in my judgment the Government of Indonesia, and the Ministry of Home Affairs, have the financial and human resource capability to effectively utilize and maintain the facilities of the Provincial Area Development Program I.



August 12, 1977

Date



ANNEX F

REPUBLIC OF INDONESIA
NATIONAL DEVELOPMENT PLANNING AGENCY
JAKARTA, INDONESIA

No.: 1720/D.1/19/77.

August " , 1977.

Miss Sarah J. Littlefield
Acting Director,
US-AID Mission to Indonesia,
c/o American Embassy,
Jakarta.

Dear Miss Littlefield,

Subject: Provincial Area Development Program (PDP-I)

With reference to our recent discussion concerning the above mentioned project, we hereby request the USAID for a loan of up to six million US dollars (\$6,000,000.-) and a grant of two million US dollars (\$2,000,000.-) to finance the preparation, implementation and development of the Provincial Area Development Program (PDP-I).

The Government places high priority on expeditious implementation of the program. We would therefore appreciate your early approval of this request.

Thank you for your kind cooperation.

Sincerely yours,


Arif
Chairman



- cc. 1. Secretary General,
Ministry of Home Affairs,
2. Secretary Cabinet.

Project Description for Loan Agreement

The Project shall consist of assistance to the Ministry of Home Affairs (MHA) aimed at helping provincial and lower levels of government in Central Java and Aceh improve their capability for planning, project identification, implementation, management and evaluation, that will allow more effective innovation at the local level in response to regionally differing socio-economic-demographic-geographic-administrative conditions. Local level personnel will receive training and technical assistance in rural and agriculture development project planning and evaluation, and in various rural/agricultural development technical specialities related to helping the rural poor increase their production and income. Emphasis will be given to providing successful examples of integrated rural/area development processes that can be followed elsewhere in these provinces and throughout Indonesia. The total Project budget will not be less than the Rupiah equivalent of ten million, eight hundred thousand (\$10,800,000) United States Dollars, of which the Borrower shall provide not less than the Rupiah equivalent of two million, eight hundred thousand United States Dollars (\$2,800,000).

PROJECT AUTHORIZATION AND REQUEST
FOR ALLOTMENT OF FUNDS PART I

1. TRANSACTION CODE

A

A ADD
C CHANGE
D DELETE

PAF

2. DOCUMENT CODE
5

3. COUNTRY ENTITY

INDONESIA

4. DOCUMENT REVISION NUMBER

□

5. PROJECT NUMBER (7 digits)

[497-0264]

6. BUREAU OFFICE

A. SYMBOL

ASIA

B. CODE

[04]

7. PROJECT TITLE (Maximum 40 characters)

[Provincial Area Development Program I]

8. PROJECT
APPROVAL
DECISION

A

ACTION TAKEN

A APPROVED
D DISAPPROVED
DA DEAUTHORIZED

9. EST. PERIOD OF IMPLEMENTATION

YRS [04]

QTRS [1]

10. APPROVED BUDGET AID APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>77</u>		H. 2ND FY <u>78</u>		K. 3RD FY <u>79</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) FN	200	033	033	600	6,000	400	-	1,000	-
(2)									
(3)									
(4)									
TOTALS				600	6,000	400	-	1,000	-

A. APPROPRIATION	N. 4TH FY <u>80</u>		O. 5TH FY <u>81</u>		LIFE OF PROJECT		11. PROJECT FUNDING AUTHORIZED	
	D. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	ENTER APPROPRIATE CODE(S) 1 - LIFE OF PROJECT 2 - INCREMENTAL LIFE OF PROJECT	A. GRANT B. LOAN
(1) FN	-	-	-	-	2,000	6,000		2 1
(2)								
(3)								
(4)								
TOTALS						2,000	6,000	C. PROJECT FUNDING AUTHORIZED THRU FY [79]

12. INITIAL PROJECT FUNDING ALLOTMENT REQUESTED (\$000)

A. APPROPRIATION	B. ALLOTMENT REQUEST NO. _____	
	C. GRANT	D. LOAN
(1) FN	600	6,000
(2)		
(3)		
(4)		
TOTALS		600 6,000

13. FUNDS RESERVED FOR ALLOTMENT

TYPED NAME (C/W/L, N/R, FM/FSD)

SIGNATURE

DATE

14. SOURCE/ORIGIN OF GOODS AND SERVICES

 V 000 X 941 X LOCAL OTHER _____

15. FOR AMENDMENTS, NATURE OF CHANGE PROPOSED

FOR PPC/PIAS USE ONLY	16. AUTHORIZING OFFICE SYMBOL	17. ACTION DATE	18. ACTION REFERENCE (Optional)	ACTION REFERENCE DATE
		MM DD YY		MM DD YY

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

PART II

Name of Country/Entity: Indonesia Name of Project: Provincial Area
Development Program I
Number of Project: 497-0264

Pursuant to Part I, Chapter 1, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and a Grant to Indonesia (the "Cooperating Country") of not to exceed Seven Million United States Dollars (\$7,000,000) the ("Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described below.

The project (hereinafter referred to as the "Project") consists of assistance to the Cooperating Country to enable provincial and lower levels of government in Central Java and Aceh Provinces to improve their capability for the identification, planning, implementation, management and evaluation of rural/area development projects and activities.

Of the Authorized Amount, Six Million Dollars ("Loan") will be loaned, and One Million Dollars granted, to the Cooperating Country to assist in financing certain foreign exchange and local currency costs of goods and services required for the Project.

I approve the total level of A.I.D. appropriated funding planned for this project of not to exceed Eight Million United States Dollars (\$8,000,000), of which \$6,000,000 will be Loan funded and \$2,000,000 Grant funded including the funding authorized above, during the period FY 1977 through FY 79. I approve further increments during that period of Grant funding up to the total of \$2,000,000, subject to the availability of funds in accordance with A.I.D. allotment procedures.

I hereby authorize the initiation of negotiation and execution of a Project Agreement or Agreements by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority subject to the following essential terms and covenants and major conditions; together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services

Except for Ocean Shipping, goods and services financed by A.I.D. under the project shall have their source and origin in the United States (in the case of Grant funds) in countries included in A.I.D. Geographic Code 941 (in the case of Loan funds), or in the Cooperating Country in the case of either Loan or Grant funds, except as A.I.D. may otherwise agree in writing. Ocean Shipping financed under the Project shall be procured in any eligible source country except the Cooperating Country.

NAME	OFFICE SYMBOL	DATE	INITIALS
A. Alexander R. Love	ASIA/PD		
B. Jonathan R. McCabe	ASIA/PD		
C. Gleason D. Rohlfis	ASIA/TR/ARD		
D. Robert Halligan	ASIA/DP		
E. Charles Stephenson	GC/ASIA		
F. James L. Sloan	SER/ENGR		

Signature _____
John H. Sullivan _____
AA/ASIA _____