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INDONESIA - ACTION PLAN

1988-1989

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FY 88-89 ACTION PLAN

USAID/INDONESIA

FY 88-89 ACTION PLAN

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April 1987

I. SUMMARY OF ACTION PLAN

A. Introduction

This section summarizes current economic conditions; describes CDSS goals, aims and changes in objectives that have occurred during the life of the CDSS; suggests that the current CDSS is valid for this Action Plan but that the Plan must be treated tentatively since a new CDSS is in preparation for submission in January, 1988; indicates areas of progress over the CDSS period; hints at possible directions in the new CDSS; outlines main elements of the program during the Action Plan period; and, concludes with a statement of management constraints.

B. The Economy in Transition

Indonesia is at the beginning of what will probably be a very difficult 3-4 year adjustment period. It is in the midst of an economic recession that has substantially worsened with the decline in average oil prices from \$25/BBL in 1985 to \$12/BBL in 1986. Because Indonesian export earnings and budgetary revenues are highly dependent on oil and LNG earnings (70%+ in 1984/5), the drastic decline in oil prices poses significant adjustment burdens on balance of payments, government budgets, growth, incomes and employment. This adjustment burden is expected to be prolonged because of the relatively unfavorable and highly uncertain medium term outlook for oil prices and the relatively long lead time for structural adjustment policy measures to have substantial impact.

The IBRD projects that real GDP growth will average less than 2.5% during the period 1986-90 and that real per capita income will decline by an average 0.7% per year. On the basis of these projections and historical employment-output elasticities, less than 40% of the 10 million new entrants to the labor force during the period 1986-90 will find employment. Real budgetary expenditures, excluding debt service, may fall by 40%, compared to 1985/6 levels, during the period 1987/8-1990/1. Real development expenditures will probably fall by more than 50%. The current account deficit will substantially worsen, rising from \$1.8 billion in 1985/6 to an estimated \$4.8 billion in 1986/7 before falling to a projected \$2.9 billion in 1987/8 and \$1.2 billion in 1988/9. External financing requirements will double to almost \$7 billion by 1986/7, ease slightly to \$6 billion by 1987/8, and probably stabilize between \$4-5 billion 1988/9-1990/1. The growing debt service burden is a major factor

in the continuing need for large amounts of external financing. In sum, over the next 3-4 years the government faces significant increases in external financing requirements, major decreases in real non-debt budgetary expenditures, a decline in average GDP growth to one-third of the level in the 1970s, falling real per capita incomes, and significant increases in employment pressures.

On the positive side, the government has continued to respond in a constructive fashion to its adjustment problems. It has carried out a highly successful devaluation in September 1986 and backed it up with conservative monetary and fiscal policy, including a 1987/8 budget that is probably 25% lower in real terms than in 1985/6. In addition, the government has taken substantive policy measures aimed at the longer-term restructuring problem including the May 6th export and investment promotion policy package and the October 25th and January 15th trade policy reform packages directed at non-tariff barriers. It has frozen civil service wages, made further cuts in petroleum and fertilizer subsidies, and raised public transportation prices. The government has also initiated a review of state owned enterprises for possible consolidation, reorganization, and private divestiture. The government has stated that further trade policy reform measures are under consideration and the Mission anticipates further announcements over the coming year.

The USG has tried to respond to the downturn in generally positive ways. The Mission has publicly set an example for other IGGI members by discussing its own tentative plans for program type assistance and has informally encouraged other donors, particularly the Japanese and the Dutch, to provide rapidly disbursing program assistance. The USG supported (with some reservations) a key \$300 million IBRD program loan that is now being used as a prototype for negotiating program type assistance from other donors, and has offered a \$100 million EXIM loan on concessional terms. Finally, in addition to reviewing the current USAID project portfolio for specific alternatives to reduce the GOI local cost burden and increase the grant components USAID is developing an assistance package that will help move forward policy reforms in selected areas and meet current GOI concerns for rapidly disbursing assistance that provides local cost budgetary support.

On the basis of recent USAID analyses (please see USAID's September 1986 and March 1987 economic assessments), the Mission believes that Indonesia has taken the necessary steps for short-term adjustment and will be able to finance its balance of payments over the next two years probably without drawing down

official reserves much below the \$4.5 billion level. This outcome is critically dependent, however, upon the GOI's ability to negotiate successfully donor assistance now under review in a timely fashion, on Indonesian oil prices averaging \$13.50/BBL in 1987/8 and \$15.00/BBL in 1988/9, and on the absence of prolonged capital flight. While the above conclusion is based on reasonably conservative assumptions, the margins are tight and the timing of financial flows is critical. Furthermore, the uncertainty and potential volatility of future oil prices clearly makes it impossible to guarantee any particular outcome. It is obvious, therefore, that Indonesian economic adjustment during the next 2-3 years remains uncertain. Although Indonesia has taken many longer-term adjustment measures during the last 3-4 years, their impact will not be felt fully for some time. In the interim, donors can help to reduce the uncertainty and the severity of economic contraction by providing rapidly disbursing bridge financing and continuing to support projects most likely to re-establish economic growth.

C. CDSS Goals

The broad goals of the CDSS, produced in 1982, were to sustain growth and increase employment, with particular attention to populations in rural areas. The CDSS recognizes the importance of reducing dependence on oil, increasing domestic resource mobilization, and furthering agricultural growth. In view of USAID's comparative strengths, the role of other donors, and GOI priorities, the CDSS establishes three aims: 1) achieving rice self-sufficiency and encouraging a policy of food crop diversification; 2) expanding opportunities for off-farm employment, primarily through private enterprise development; and 3) reducing infant mortality and fertility rates from approximately 90/1000 to 70/1000, and 33/1000 to 31/1000 by 1989, respectively. To work towards these aims, program objectives were set. Priority was given to human resource development and institution building, experimental activities generally involving science and technology, policy analysis, and, where possible, private sector initiatives.

To achieve rice self-sufficiency and set the stage for diversification, the Mission focussed on the following CDSS objectives: 1) completing infrastructure for food crops research and improving research performance; 2) strengthening capacity for agricultural policy formulation and planning; 3) expanding irrigation and improving irrigation system management; and 4) testing farming

systems and resource conservation measures in upland areas which offer potential for diversified cropping. During the implementation of the CDSS, some of these objectives changed as progress occurred, and as new issues and problems came to light. For example, with progress in rice production, and increasingly restricted public funding, more Mission resources were allocated to secondary crops; because of substantial progress, attention to basic institutional infrastructure for agriculture research gave way to second generation problems--research management, development of higher technical capacities, and improved research quality; the policy agenda tilted from issues related primarily to production to constraints on marketing and finance that affect diversification.

To expand off-farm employment and encourage private enterprise development, the Mission's initial strategy was to let a thousand flowers bloom, i.e. to see what USAID could really contribute to this complex area. In the early years of the CDSS, the Mission focussed on: 1) developing selected basic services essential for small business development -- unsubsidized, accessible rural credit, private management training, and investment promotion; 2) studying policy and institutional constraints to enterprise development; and 3) directly supporting selected business ventures to ascertain whether USAID could make a difference. With successes in some areas, for example rural savings and lending, failure in others, such as the virtually utilized loan guarantees to private banks encouraging lending to smaller enterprises, and with the sharp drop in oil prices which produced substantial interest in reducing restrictions on the private sector, the Mission focus shifted to give increased attention to broader policy issues affecting business and domestic resource mobilization, such as capital markets, administration, and investment policies, and technical assistance for policy analysis in trade and investment.

To address high levels of infant mortality and fertility, the CDSS called for: 1) increasing contraceptive prevalence in rural areas by extending and improving government family planning services; 2) establishing a model to integrate health and family planning services; 3) extending priority health interventions, such as immunization, and 4) providing extensive training in health and FP. Again, reflecting project progress, changing needs, and declining government budgets, Mission priorities were altered. With high levels of contraceptive prevalence achieved in rural areas, attention was redirected to urban areas, where 35 percent of Indonesia's population will probably reside in

the year 2000; because of rising FP service costs and decreasing government budgets, the Mission increasingly focussed on the role of the private sector through cost recovery and social marketing. A similar shift occurred in health resulting in increased attention to health finance and insurance.

In summary, then, the Mission adhered to the original CDSS goals and three broad aims, but program objectives were altered as progress was achieved, the character of problems changed, and government revenues declined.

D. The Continuing Validity of the Current CDSS and the New CDSS

Although there has been a significant change in the macro-economic circumstances confronting Indonesia, the Mission believes that the GOI's overall directions, as well as the sectoral conditions which dictated the goals and content of the current CDSS, have not changed fundamentally. The current economic crisis accentuates the need to address certain problem areas included in the CDSS (i.e. employment/incomes, agricultural diversification, internal resource mobilization, decentralization, greater private sector participation) and calls for urgency in policy reform. (Further support for the relevance of the current CDSS can be found in the Mission's September 1986 submissions). In brief, it is the Mission's view that the program presented in this Action Plan fits within the existing CDSS framework and, as suggested in the following paragraphs, is likely to be in line with the new CDSS.

The Mission has begun work on a new CDSS that will be presented to AID/W in early 1988. Staff are currently reviewing CDSS progress, current economic conditions and sectoral issues, and supporting a number of studies of particular issues for the purpose of providing the analytical basis for a new CDSS. It is expected that the analyses will be completed in late summer, and that a draft will be available by Nov/Dec.

From staff reviews, the following themes seem to be emerging for inclusion in the new CDSS:

- ~~The efficiency~~ of resource use has become a major pre-occupation of the GOI and the donors as the scramble for resources intensifies in response to the economic downturn and reduced budgets.

- Policy changes are underway to expand the role of the private sector to implement/manage activities heretofore exclusively carried out by government. Broader private sector participation in health services, family planning and trade inspection are examples. The underlying rationale for the shift is efficiency.

- Increased emphasis on export oriented production and reduced emphasis on import substitution. Economic and trade policy changes introduced over the past year have given a big boost to this new GOI priority. This trend could have a large impact on USAID's agricultural and private sector development programs over the next several years. It is also related directly to the employment issue, a major theme of the Mission's current CDSS.

- Selected macro-policy issues raised by the economic downturn, relating to trade and investment, capital markets development, industry and agriculture open opportunities to USAID for providing assistance which were not available some years ago.

- Activities that promote administrative decentralization and mobilization of local resources are assuming more importance across sectors. Local institutions are better prepared to manage their affairs today than they were five years ago and given reductions in resource availabilities from the central level they must assume responsibility for finding new sources of finance.

- Integration of PL-480 resources in the program has become even more important as DA resources have declined. The Mission has used Title I to complement DA funded projects (Rural Roads Maintenance and possibly the Policy Support Program), and Title II funds to support private sector and Child Survival activities.

- Now that rice self-sufficiency has been achieved (more or less), agricultural production and research will concentrate on secondary food crops - the area which promises to produce the highest marginal returns. Also, policies for agro-processing, a sector where substantial employment must be generated in the long run, are beginning to receive increased attention (e.g., USAID's discussion of a Policy Support Program).

- Human resource development will continue to be essential, as indicated in a recent in-depth review of the sector. The overall level of manpower skills still ranks the lowest in Asean. A stronger, larger university sector is needed for S&T, skilled manpower, and lower, more competitive management and technical manpower costs.

E. CDSS Progress by Sector--A Few Highlights

1. Increase Food Production/Strengthen Related Resource Management:
USAID's long-term role in agriculture research, including establishing basic infrastructure and training over 350 scientists, contributed to new seed

varieties and farm management techniques that helped produce rice self-sufficiency in 1985/1986 (over 26 million tons), a major CDSS aim.

At the same time, recognizing the importance of foodcrop diversification, USAID encouragement through research, policy discussion and projects, such as Secondary Crops, assisted the GOI to modify research mandates and examine policies constraining secondary crop development. Recent experiments show large gains in corn and selected other secondary crop production, and research has uncovered problems affecting distribution and marketing.

Pilot efforts in natural resource management in uplands farming areas have shown that land productivity can be increased substantially (from \$125 to \$425 per hectare) with increased employment and labor productivity (from 860 to 1774 hours/hectare).

Efforts in small scale irrigation and watershed management, in addition to increasing physical infrastructure, have focused on management and institutional issues, resulting in important policy changes and revised procedures, including a larger role for provincial and district planners, improved coordination among technical agencies and increased participation of recipients, and private ownership of groundwater facilities.

2. Improving Primary Health Care and Family Planning: USAID-GOI efforts in primary health care and child survival appear to have had an impressive effect--the IMR decreased from 90/1000 in 1984 to 80-85 in 1987.

Since 1979 USAID, working with WHO and UNICEF, has assisted the nationwide immunization program. As a consequence, 90% of subdistrict health clinics now have vaccines available and over 3 million children have been vaccinated with BCG and DPT 1, 60% of the GOI's target population.

In addition to USAID's involvement with the immunization program, improvements in primary health care management have been bolstered through support for strengthening the capacity of provincial health authorities to utilize epidemiologic data for planning; initiating and eventually having accepted nationwide an integrated community-based approach to health and family planning; improving the effectiveness of diarrheal disease control through the use of mass media channels to increase demand for ORT; and utilizing PVOs to experiment with alternative approaches to nutrition education, training and local resource mobilization (utilizing Title II and Child Survival resources). Attempts to introduce cost recovery for health activities have not been entirely successful and have shown that USAID must be careful to target these programs to those who can pay.

The Indonesian family planning program has achieved worldwide recognition for its success, reducing CBR from 44/1000 in 1971 to 32/1000 in 1986 and increasing contraceptive prevalence from 4% in 1972 to 61% in 1986. During the CDSS period contraceptive prevalence increased from 43% to 61%, a remarkable increase. The Mission contributed to these achievements through the provision of contraceptives, support for the village family planning program, experimental programs aimed at improving program management and reducing costs, and pilot efforts in urban areas.

Cost effectiveness and increased utilization of the private sector (especially within urban areas) are two themes the Mission is now pursuing. Recent policy decisions to launch a social marketing condom program, agreement to sell pills without prescription if the purchaser has a family planning card, and the decision to increase private sector family planning coverage from 20% to 80% by the year 2000 are major achievements encouraged and supported by USAID.

3. Expanding Off-Farm Employment: A 1985 study by USAID of the Indonesian employment problem confirmed its significance and contributed to further discussions with the GOI, specifically linking employment issues with the need for liberalization of the economy and a stronger role for the private sector. Analysis and discussions will continue through a long-term technical assistance team to be placed at the Planning Ministry to assist with policy development in trade, industry and employment.

Other project activities (using PRE funding, Title II resources and the Mission's OYB) have promoted small enterprise development, brokered investment promotion efforts, improved management training, and strengthened national and provincial financial institutions serving rural areas. For example, two AID-assisted programs have become the backbone of the formal secondary banking system, serving previously neglected rural areas. These programs led to market interest rates, moved away from subsidized and targeted lending programs and allowed rural lending units to mobilize savings. One program is providing services to over 8000 villages in 3 provinces with a cliental whose average loan is \$60. The other program has mobilized savings of \$100 million (a 500% increase since 1984) from 2500 units.

CLUSA has demonstrated the value of private cooperatives in brokering joint ventures between U.S. and Indonesian cooperatives including imports of 7000 dairy cattle (1000 have arrived thus far) and \$20 million of soybeans from the U.S. and exports of \$1 million of vanilla beans.

Although not directed exclusively at small and medium-sized companies, support for analysis of existing policies and practices and consultancies related to domestic resource mobilization in areas such as tax, central bank reform, financial/capital markets activity are having a beneficial impact on enterprise development. Other activities, such as investment brokering and loan guarantees for private banks, have had only marginal success and the Mission may limit future involvement in these areas.

4. Accelerate Development of Human Resources: Under AID auspices, the most comprehensive review ever of the education sector was undertaken in 1986. Findings relating to cost, quality and efficiency of the education system are being discussed and debated with senior GOI officials, and have or may result in policy changes affecting vocational training investment strategy, subsidies to higher education, improvements in the private university system, local financing opportunities, tax incentives to private companies for training, and localizing/simplifying curriculum.

Educational institution building has focused on faculties of agriculture and, more recently, public health. - This includes support to higher agricultural education programs in western Indonesia through faculty training, support to coordinated research between the universities and the agricultural research centers, and the development of inter-university networks in disciplines such as soils, statistics, and research. Similar support to faculties of public health has just begun. AID has recently terminated 28 years of assistance to the Agriculture Institute of Bogor, now considered the nation's premier agricultural institute.

Overseas participant training is supported under most projects as well as through a General Participant Training project. Approximately 300-400 new participants are sent overseas each year and 99.5% return. Through AID assistance the GOI is developing an Overseas Training Office which will eventually have the capability to manage most donor funded participant training. To date the office has developed an Indonesian graduate studies aptitude test, a systematic approach to English language preparation and a comprehensive program for cross-cultural orientation.

Extensive management training of the public sector has taken place during the COSS period, but the results are uncertain. This is an area in great need, but the Mission has not yet found an effective way to deal with it.

5. Decentralization: Decentralization of authority and responsibility to lower levels of government is a major theme of the present CDSS, undertaken primarily by supporting institutional development at the provincial level through several projects. Although the main emphasis has been in health and local government planning and coordination, this will expand in the future as efforts in education, agriculture, roads and irrigation development get underway.

Preliminary results of decentralized planning and implementation in eight USAID-supported provinces indicate that development projects, planned and implemented by local authorities, have an annual return on investment of approximately 69% or over 10 billion rupiah annually. It is interesting to note that despite large overall GOI budget cuts in the last two years provincial and district budgets have not been reduced.

In three provinces, provincial health authorities have learned to utilize epidemiologic data for planning. This is the first time province specific morbidity and mortality data has been used to design provincial public health programs. This approach resulted in pinpointing locations where children were at greatest risk from tetanus (where neonatal tetanus accounted for one-fifth of infant mortality), and a focussed vaccination campaign with high coverage rates.

F. Proposed New Elements of the Program

FY 87: - initiate sectoral analyses for upcoming CDSS preparation.

- design new Policy Support Program, including new policy initiatives in financial markets and agriculture; consider incorporating Title I resources in policy package.
- complete design of Rural Roads Maintenance project.
- launch Phase II of Development Studies project in Ministry of Planning, focusing on research and analysis of policies affecting industry, trade and employment.
- amend Expanded Program of Immunization to expand efficiency/coverage.
- complete amendment of Family Planning II project expanding private sector involvement in family planning.
- amend Western Universities Agricultural Education project to include more opportunities for women participants.

- undertake 2 impact studies; one of participants and the other of 28 years of AID assistance to the Agricultural Institute of Bogor.
- undertake policy discussions on redefining food crops and fisheries research mandates to better reflect local needs, and on barriers to diversified agriculture.

FY 88: - prepare and present new CDSS.

- evaluate success of Policy Support Program, determine whether follow-on is warranted.
- evaluate small enterprise development portion of Private Sector Development project--design follow-on amendment for FY 89 obligation.
- PDP evaluation completed, results on decentralization disseminated, policy discussions initiated.
- design/obligate new Health Sector Financing project.
- amend Education Policy and Planning project to expand decentralization aspect and initiate research in selected areas identified in the Education Sector Assessment.
- design/obligate new Higher Education Development Support project.
- promote policies which shift from a system of government controlled production quotas for secondary crops to market determined production levels.
- restructure the Agricultural Planning project to strengthen and better coordinate policy and program analysis capability.

FY 89: - design/obligate Private Sector Family Planning project.

- design/obligate Local Resources Development project.
- design FY 90 Child Survival project.

G. Management Issues and Constraints

A number of constraints may influence the Mission's ability to continue progress towards CDSS objectives. Internal constraints include staff and funding. The experimental and policy focussed nature of the USAID/Indonesia program requires more numerous staff than may be the norm. Present staff levels are barely sufficient, and during this past year steps were taken either to provide other staff resources or make better use of those already in place, i.e., negotiation of a TSM contract with Colorado state for quick, short-term

T.A., addition of a PSC in evaluation, and development of an FSN enhancement plan. Future plans include consolidation of procurement and contracting functions, creation of a special PD&S type account to fund T.A. who can maintain a professional dialogue with the GOI on critical policy issues, strengthening the ADP information system, and employing 3 IDIs.

The Mission is undertaking several steps to decrease the pipeline including deobligation of excess funds, conversion of loan to grant and initiation of quick disbursing program assistance. However, anticipated mortgage in conjunction with U.S. uncertainties in the budget make future planning difficult -- not only as it pertains to levels of resources, but also to the available sources of funding (i.e., child survival vs. SDA). The type of funding available may dictate the Mission's program rather than Indonesia's development problems.

While there are numerous external constraints, many of these are sector specific and are mentioned later. The main cross-cutting uncertainty is the GOI budget. Although the Mission is conducting individual project reviews and modifications to assume additional local cost financing, and will provide support through the Policy Support Program, overall GOI budget cuts are starting to affect the availability of counterpart staff and sufficient funding for them to undertake their responsibilities.

It is anticipated that further examination of organization and management issues will take place in the course of CDSS preparation and with the arrival of the new Mission Director.

II. PERFORMANCE AND PLANS

The following pages explain the sectoral impact which has been achieved towards the goals and objectives, the upcoming programmatic and management actions, the major policy issues, and the anticipated constraints to further achievement of the sectoral goals.

A. Goal: Increase Food Production and Strengthen Related Resource Management

1. Objective/Sub-objective Impact Achieved

- a. Increase and diversify food crop production.
- 1) Improve food crop research and further strengthen food crop research institutes.
 - Area planted with main non-rice food crops in FY 87 increased by 14% and production of main non-rice food crops increased by over 20% from FY 86 to FY 87.
 - Rice production levels in FY 87 adequate to maintain self-sufficiency objectives.
 - Non-rice cropping intensity increased from one crop/year to two-three crops/year in USAID-financed test plots and demonstration farms.
 - Testing of insect resistant rice varieties accelerated - two new varieties developed. Wide scale pest management training introduced.
 - Completed physical infrastructure at 30 sites for food crop research.
 - Commodity groups established to prepare research agenda for FY 87/88. Information management system for 23 agricultural research institutes being tested.
 - 2) Expand and improve agricultural policy analysis and planning.
 - Interministerial Food Policy Committee re-convened to develop agricultural policy research agenda and coordinate sector-wide food policy research; contract with Food Research Institute signed to support committee with analysis, policy options.
 - Research on the impact of low world rice prices and Indonesia rice marketing policy completed, discussions on alternative marketing strategies held and further analysis on implication of strategic choices underway.
 - Food crop supply/demand forecasts completed and being used by MIA as one basis for review of food crop diversification objectives.
 - 3) Test and design small-scale irrigation systems that will expand acreage for secondary food crop production as well as rice.
 - Rapid rural appraisals completed at 4 locations to evaluate social concerns and to determine soil and water quality/quantity and appropriateness for the introduction of rice and non-rice crops.
 - Well-development program designed to promote use of groundwater as supplemental and primary source of irrigation water for rice and secondary crops.
 - Studies completed in the Citanduy Project show three-fold increase in productivity of upland mode farms using terraced and crop management technology. Discussions underway with senior government officials on how to utilize these results to increase productivity throughout upland areas of Java.
 - Through the Uplands Project, farming systems research has been started which will expand the technology choices available to farmers, particularly in the areas of agro-forestry and water management.
 - 4) Improve production technologies in selected upland areas in Java.
 - The assessment of the Provincial Development Project activities in eight provinces indicates generally positive results in terms of economic benefits for targeted groups and improved sustainability for locally planned activities. Results suggest that provincial capacity for planning and executing projects is now working reasonably well. Annual rates of return are approximately 69%. The assessment will be used to formulate a new activity aimed at local resource mobilization and management.
- b. Improve institutional capacity at local government levels.
- USAID-internal review of decentralization efforts in several sectors--agriculture, health, education, infrastructure development, local government planning and coordination--are clarifying common directions and problems that will serve as basis for formulating decentralization objectives in the new Mission (MIS).

2. Major Programmatic and Management Actions

- Extend and modify the Secondary Food Crops Development project to focus more on marketing policies of non-rice crops and the field testing of crop diversification technologies that will improve farmer income. (FY 87)
- Revise Agricultural Planning Project to focus project activities on coordinated planning and policy analysis in the Ministry of Agriculture. (FY 87)
- Incorporate agricultural policy reforms related to diversification of the agriculture sector and increased rural employment and income in the new Policy Support Program and Title I negotiations. (FY 87)
- Continue policy discussions to redefine food crops and fisheries research mandates to better reflect regional and local needs, rather than pre-occupation on single commodities (FY 87).
- PDP evaluation finalized and results disseminated. Discussions initiated with key central government agencies about program and policy initiatives based on PDP experience. (FY 88-89)
- Rural Roads Maintenance project design and negotiations completed. (FY 87)
- In connection with decentralization of irrigation and roads efforts, a new project dealing with local revenue generation and cost recovery through payment for services will be initiated. (FY 88)

3. Policy Agenda

a. Agricultural Diversification: Expand and diversify the agriculture sector beyond rice and shift from a system of government controlled food production quotas and area targets toward more market determined levels of production appropriate to regional agro-climatic and marketing comparative advantage. Reorganize the extension service to deal with multiple-cropping strategies, especially in the areas of integrated pest control, and soil and water management.

b. Decentralization: The Mission will seek GOI commitment to revising budget procedures from a centralized system toward more direct allocation of funds to provincial level research and extension entities for activities that are jointly planned, monitored, and evaluated. Where appropriate, commitment on generation of local resources for local development will also be sought.

During design of the Rural Roads Maintenance Project, major policy issues

include earmarked funding for maintenance, increased staffing and procedures to establish maintenance plans and budget allocations.

c. Rice Policy: Review changes in government purchase prices for rice that are needed in order to encourage farm level storage and processing.

d. Agro-Processing: Review restrictions that inhibit investments in agricultural processing and agricultural trade, such as, unnecessary formal licensing procedures and other pricing barriers for moving agricultural commodities from areas of production markets, licensing procedures for establishing agro-processing facilities, the pricing structure and import restrictions for commodities which have an impact on the agricultural sector.

4. Constraints (Successes and Opportunities)

a. Policy Resources and Capability: Establishment and staffing of a policy analysis unit within the Secretary General's office is required in order to strengthen MOA planning and analytical capability. Under the current organizational structure, several units in MOA have overlapping responsibilities for planning and analysis. Initial steps are being taken to improve this situation. For example, a computerization policy has been drafted which sets forth recommended changes in organization of data collection and analysis.

b. Food Crop Technologies: Though the GOI is giving increased emphasis to diversifying the agriculture sector, there is growing evidence that rice production levels may be difficult to maintain over the long run. Most of the major area expansion has taken place, current varieties are yielding near their biological potential, insect infestations are becoming more serious, and at the same time, rice supply must expand to match the pace of population growth. The government must deal with the question of how much additional investment is required for rice technologies vs. investments in secondary crop development. There are also issues related to the most appropriate policy instruments--pricing, subsidy levels, and marketing incentives--that will stimulate both rice production, as well as diversification. USAID is supporting special studies and research through several projects in order to provide the analytical base for the GOI to make appropriate policy and program choices.

As diversification occurs, more attention is being given to investment in rainfed areas. USAID support to irrigation and uplands development presents an opportunity to test new farming systems technologies, measure changes in productivity and income, assess the impact of subsidy levels and recommend program and policy actions that would affect development of vast upland and drier regions of the country.

c. Marketing Information and Forecasting: Lack of supply, demand and market intelligence information for non-rice crops puts policy-makers, small entrepreneurs and farmers at a disadvantage in responding to policy or investment opportunities. Diversification of the agriculture sector will be hindered until there is a better understanding of market flows and barriers, demand and price sensitivity and the policy intervention required to stimulate both supply and marketing of non-rice crops.

B. Goal: Improve Coverage & Quality of Health Care and Family Planning

1. Objective/SAR-Objective

a. Improve rates of infant and child survival from IMR 50.3/1000 in 1984 to 70/1000 by end of 1989.

1) Improve and expand epidemiology and other analyses that identify areas where children are at risk, and the nature and determinants of disease.

2) Support increased decentralization of analysis, budget allocation, planning and project implementation to provincial levels.

3) Strengthen health system management.

4) Explore possibilities with government and private sector of extending private sector's role in health care.

5) Test and strengthen selected health delivery programs.

b. Increase voluntary participation in the Family Planning Program.

Impact Achieved

- IMR = 80-85/1000 livebirths in 1986. Intensified efforts by GOI in immunization, diarrheal control and family planning. 6% of the target population have been vaccinated with BCG and DPT 1. Mission initiated/tested/promoted integrated health/family planning approach to public health; program adopted nation-wide; coverage expanded by more than 10% from 83/84 to 86.

- Data collection for National Household Survey of Morbidity and Mortality completed. Data analysis mid-1987. (AID involved in expanding research network for epidemiologic analysis and operations research to better understand underlying determinants of morbidity and mortality based on household survey.)

- Decentralization has become a central theme in Repelita V (Fifth Five-Year Plan) health planning. CHIRPS has provided a laboratory which MHI has used to test different decentralization methodologies. Family Planning program already following decentralized decision-making, budgeting implementation process.

- An MHI Integrated Task Force has been formed comprising representatives from the various Directorates in the MHI and BKKOM involved in Child Survival programs. I.F. developing policy research agenda. Personnel, planning, and information management systems within MHI are being refined and automated.

- Assessments of the health insurance and hospital sectors were conducted to explore opportunities for private sector involvement. Policy and legislative framework being developed for social financing of health care (USAID assisted). An ORT social marketing activity initiated in West Java. Local private manufacturing capabilities for bacterial and viral vaccines have been identified and discussions are being held regarding technology transfer for local production.

- Experimental ORT social marketing program showing potential for significantly increasing ORT demand and utilization. Experiments in utilizing community groups to expand immunization coverage show promise as service delivery innovations to increase immunization rates in target groups. Pilot testing of mass campaign program for tetanus proved cost-effective.

- The CMC was reduced from 33.5/1000 in 1984 to 22/1000 in 1986. Contraceptive prevalence increased from 50% to 63% during the same time; family planning acceptors went from 14.6 million to 15.9 million. Population pyramid shows, for the first time, a smaller base for ages 0-4 than any groups up to age 20. Concomitant marketing program initiated. Initiatives underway to increase family planning service provision by private sector including agreement to sell pills over the counter to family planning card holders without prescription. USAID shifting emphasis from highly successful

2. Major Programmatic and Management Actions

a. Improve Rates of Infant and Child Survival

- Evaluate CHIPPS project for lessons on decentralization. (FY 87)
- Amend Expanded Program of Immunization to increase immunization activities. (FY 87)
- Policy discussion will be initiated through the Integrated Task Force on issues relating to the organization and management of integrated health and family planning service delivery at the village level. (FY 87)
- Develop Social Marketing Strategy to guide new project development. (FY 88)
- Start-up of new \$15 million Health Sector Financing project. (FY 88)
- Evaluate pilot activities in community-based health-family planning. (FY 88)
- Feasibility studies, assessments, and plans to develop Health Maintenance Organizations and other forms of pre-paid managed health care schemes completed. (FY 89)
- Increase policy dialogue with MOH to encourage central level decision makers to grant greater managerial autonomy to provincial, district and subdistrict administrative levels. (FY 89)
- Initiate design of major FY 90 Child Survival Project. (FY 89)

b. Increase Voluntary Participation in the Family Planning Program

- Amend FPDS II, focusing on training, social marketing and voluntary sterilization. (FY 87)
- Policy discussions with BKKBN to determine methods to achieve privatization goals. (FY 87)
- Evaluate research, management, and voluntary sterilization components of FPDS II (FY 88).
- Complete urban and village family planning, modern management and voluntary sterilization components of population program. (FY 89)
- Private Sector Family Planning project initiated. (FY 89)
- Discuss with MOH/BKKBN national level policy and program guidance for the integrated health-family planning service delivery model. (FY 89)

3. Policy Agenda

a. Health Sector Financing: The Mission will seek more efficient allocation of budgetary resources so that preventive and promotive programs, which have the greatest impact on infant and child survival, can receive greater emphasis. The major policy issues are: (1) whether resources can be shifted away from hospitals, fixed facilities and drugs to preventive and public health programs which are difficult to finance privately, and (2) whether the MOH can modify its policies such that the burden for curative care and personal health services can gradually be shifted to the private sector and to social financing schemes.

b. Policies Affecting Programmatic Priorities: The MOH has justifiably assigned priority to Family Planning, Communicable Disease Control (EPI, diarrheal disease control), Nutrition, and Maternal Child Health to maximize impact upon reducing IMR and CMR. However, morbidity and mortality surveys have shown that acute respiratory infections (ARI) are the major causes of disease and death in the infant and childhood years. A major effort will be to establish national policies to incorporate ARI treatment modalities into the integrated health and family planning programs.

c. Other Infectious Diseases: Mission will work with GOI to develop rationale policies for prevention, treatment and control of hepatitis B and AIDS. Hepatitis B is hyperendemic in Indonesia with 15-20% of the population as chronic carriers; spread of this infection jeopardizes immunization efforts. Acquired Immune Deficiency Syndrome (AIDS) appearance and spread is inevitable in high concentration tourist areas among high risk populations; specific policies for surveillance are currently lacking.

d. Family Planning: The Mission will support policy to increase private sector family planning services coverage of acceptors now 20% to 80% by the year 2000. This will require revision of current policies related to: (1) distribution of contraceptives by para medical workers; (2) GOI provision of free contraceptives to private doctor and midwife practices, to private clinics, and to hospitals; (3) establishing commercial sales networks to replace EKKBN logistics support; (4) the development of systems to grant public funds to private agencies to carry out programs for the general public; and (5) the delegation of public functions like medical supervision to private sector agencies.

4. Constraints (Successes and Opportunities)

a. Achieving Further Reductions in Mortality and Fertility: IMR has fallen from 135/1000 in 1971 to 80-85 in 1986, GOI targets for IMR are 45/1000 by 2000. CBR has fallen from 44/1000 in 1971 to 32.1000 in 1986. To achieve GOI fertility targets of CBR of 22/1000 by 2000, a further 31% decline will be required in the next 15 years. With prevalence rates at 61%, intensified efforts will have to be maintained to reach the remaining 39% of hard core non-acceptors.

To effect these reductions, health and family planning services alone will not suffice; improved education and concomitant socio-economic development must also occur. Given Indonesia's present economic difficulties in the near term, it is problematic whether the health and family planning programs can attain such ambitious reductions in the face of unfavorable social and economic conditions.

b. National Priorities/Budgetary Constraints: As government revenues shrink, public sector expenditures on health in particular, and family planning to a lesser extent, are contracting. The central government's health budget declined 10.6% in 1986 and 25% in 1987. The family planning budget remaining relatively constant in 1986, sustained a 6.5% reduction in 1987.

c. Private Sector: While BKREN has been forthcoming in expanding the private sector role, the MCH has been less receptive.

Two milestones have recently occurred in this regard. The MCH has agreed to explore a greater role for the private sector in financing and delivering health care including an expanded role for private pre-paid managed health care schemes and to investigate an expanded role for private hospitals.

Also, the MCH has endorsed social marketing as a strategy to create demand for its services, and has afforded the private sector a role in conducting market surveys and mass media communications secondary to the social marketing initiatives. This breakthrough has allowed the Mission to discuss possibilities for other social marketing programs with the MCH including immunizations, Vitamin A, and iron supplements.

C. Goal: Expand Off-Farm Employment through Small-Medium Scale Private Enterprise Development

1. Objective:

Impact Achieved:

- a. Develop self-sustaining rural financial institutions which increase the availability of credit and mobilize rural savings.
- Two programs assisted by AID, at Bank Rakyat Indonesia and at provincial banks, have become the backbone of the formal secondary bank system, serving heretofore neglected rural areas. In addition, AID espoused policy of market interest rates has been fully adopted by both institutions, making them the leading proponent and example of self-sufficient free market initiative in Indonesian banking and finance.
 - Nationwide savings program initiated through Bank Rakyat Indonesia with total savings mobilized of \$100 million, up over 500% since 1984. Loan portfolio up 25% in last six months, with loan loss ratio constant at 2%, and 95% of the 2500 units reporting a profit.
 - Policy changes which allow two provinces to collect voluntary savings under provincial bank programs, resulting in savings increase of over 20% per annum. Three provincial bank programs providing service to over 8,000 villages in Java and Sumatera, with one of three provincial bank village unit systems now covering all costs except training, one having restructured its legal status to allow profit incentive, and the third in the process of being restructured.
- b. Increase private sector investment in areas with employment potential.
- May 6 and October 25 policy reform packages relaxed restrictions on foreign investors, opened new areas to foreign investment and offered foreign investors treatment closer to that of domestic investors.
 - Increased GNI interest in transferring ownership to the private sector and review of state-owned enterprises to establish potential privatization possibilities.
 - Under PSD project four new production and marketing companies developed which leveraged private sector assistance. Self-sustaining research and training facilities in place and 1000 jobs created.
 - Four joint venture U.S. - Indonesian investment applications (totaling \$30 million) submitted for local investment board approval as a result of USAID-financed investment brokering services.
 - USAID supported simplification of tax procedures resulting in a doubling of tax registrations in the last two years, have lead to more equitable and predictable tax environment for the private sector.
- c. Increase private sector management capacity.
- Sixty applications being processed and thirty Indonesian private sector managers and technicians already sent for U.S. short-term internships under the Management Training Loan Fund, a revolving loan fund for private sector training set up with US-GAI funds.
 - Twenty Indonesian staff from a private Indonesian management institute are receiving advanced business degrees in the U.S., eight local PWDs have received intensive small business training, a new ISM program has been launched, and private consulting services improved. (All from USAID assistance).

2. Major Programmatic and Management Actions

- Redesign Financial Institutions Development Phase I, reduce LOP cost of project by \$4.75 million. (FY 87)
- Design new Policy Reform Support Program, including new policy initiatives in financial markets and agricultural pricing and trade. (FY 87).
- Launch Development Studies, Phase II focusing on research and analysis of policies affecting industry, trade and employment. (FY 87)
- Formulate new office directions, including a broader private sector support role and an increased policy focus. (FY 87-88)
- Follow-up on mission recommendations resulting from review of Urban Strategy. (FY 88).
- Evaluate small-scale investment portion of Private Sector Development; design FY 89 Private Sector Development Amendment. (FY 88)

3. Policy Agenda

a. Investment: To increase the supply of local investment capital and to increase the relative rate of return on local investments, as compared to other forms of saving and investment, the Mission is designing a policy support program aimed at increasing resource mobilization and improving the efficiency of its allocation. To leverage GOI and donor funds for small business development by channeling them through private sector initiatives rather than government institutions, we are continuing demonstration efforts in Central Java small enterprise development.

b. Market Distortion: To eliminate policies which distort domestic, import and export costs of inputs and finished products, both in industrial and agricultural markets, we are providing technical assistance to the State Planning Agency under the Development Studies project.

c. Privatization: To encourage GOI divestiture of state-owned enterprises, we are meeting regularly with GOI representatives in the Ministries of Finance, Agriculture and Industry and with the State Planning Agency, exploring the possible role bilateral assistance can play in overcoming hurdles to privatization. Because of sensitivities in this area it is unclear at this point whether USAID will be requested to provide support.

4. Constraints (Successes and Opportunities)

- a. Free Trade and Increased Competition: Elimination of present policies which distort the market and restrict free and open trade may be hampered by:
- (a) fears of foreign/Chinese competition in domestic markets; and
 - (b) vested interests in monopoly trade and investment licenses.

b. Privatization, Internal Resource Mobilization and Efficient Allocation:

Internal GOI debate on privatization vs. state control, and related employment impact is still underway. Mission must be attuned to political aspect of privatization. Resources from FRE and from the Mission's Private Sector project have provided an opportunity to look at a number of possible reforms in this area ranging from pension and capital markets development to investment, and have given USAID regular access to the GOI on these issues. We have discussed with the GOI possible assistance to encourage privatization. In the meantime, through the Policy Support Program, Development Studies Project and studies under the Private Sector project we are working with the GOI on reforms that will facilitate privatization by encouraging a free and open competitive environment.

D. Goal: Accelerate Development of Human Resources

1. Objective

Impact Achieved

a. Strengthen policy analysis and formulation, and planning to develop better links between education programs and requirements of the economy.

- Education Sector Assessment completed and widely disseminated; Indonesian version prepared. Several policy issues now under debate or adopted relate to assessment findings, i.e., re-examining vo/tech investment strategies and in-service teacher education programs, reducing subsidies to higher education, seeking improvements in the private university system, localizing and simplifying the curriculum, focusing on quality improvements throughout the system, exploring local financing opportunities, providing tax incentives to encourage private companies to engage in training programs.

- Policy research agenda and studies completed to establish MCE-wide project monitoring system and 5 year plan evaluation methodology; Integrated MIS plan developed, involving computer-based policy options/impact operations room for MCE decision makers; computer model of the educational system and labor force projections being developed. Studies in preparation include the quality of basic education, internal and external efficiencies of education, MCE manpower needs and projections. Other than minor support from INDP, only AID assistance is being directed to the policy research unit of the MCE--for AID, the right access at a time of renewed openness for educational reform.

b. Strengthen faculties of agriculture and public health.

- Since 1983 over 60 U.S. graduate degrees in agriculture and related fields have been earned by staff of 11 public universities in western Indonesia. This represents an increase of graduate degrees held by teaching staff of agriculture related faculties of over 10% since 1981. Eighteen intensive graduate level in-country short course attended by almost 500 staff, upgrading 60-70% of ag. faculty staff in teaching/research skills since 1981. Inter-university staff networks have been established in the areas of soil science, instructional improvement, statistics, computer applications, English education and library management; several of these networks have produced texts, guides and manuals for use throughout the university consortium.

- Premier agricultural institute (IPB) strengthened, demonstrating capacity for long-term planning and programming, offering graduate programs in disciplines of developmental relevance (e.g., water resources management, rural communications, community nutrition), and serving the needs of a larger academic and agricultural community.

- Four new schools of public health established, mechanisms to assure relevance of research established.

- 88 public health graduates increased from 30 in 1986 to 140 in 1987.

c. To expand the base of high-level skilled manpower through participial training.

- USAID funded participants increased by 10% from FY 85 to FY 86 (667 in FY 85, 718 in FY 86).

- As of 1 December 1986, (PI-1) has provided support for 148 persons taking short courses, 126 persons taking masters degrees, and precedent established for government supported overseas training of participants from private universities and INDP's.

- Overseas Training Office (OTO) under Planning Ministry functioning; it has developed a national graduate level academic aptitude test, and designed/systematized pre-departure orientation/training in English and cross-cultural skills.

2. Major Programmatic and Management Actions

a. Strengthen Policy Analysis and Formulation

- Formative evaluation conducted of Educational Policy and Planning Project, to result in mid-course corrections and guidance for project amendment. (FY 87)
- Study mounted on feasibility and costs of using private companies to deliver vo/tech training to pre-employment youth. (FY 87)
- Assess Mission project efforts to effect management improvement in the public sector. (FY 87)
- Policy oriented study of Open University to assess in-service teacher education programs. (FY 87-89)
- Policy research studies conducted including quality of basic education, manpower projections, internal and external efficiencies of the system, decentralized financing of education and local component curriculum development. (FY 87-89)
- New projection models and MIS for policy analysis operating in MCE. (FY 88)
- EPP amended to allow additional experimentation with policies and programs at the provincial and district levels. (FY 88)

b. Strengthening Agricultural and Public Health Education Programs

- WUAE project amended to increase numbers of women faculty members receiving degree training. (FY 87)
- Impact study conducted on 26 years of AID assistance to the Agricultural Institute of Bogor. (FY 87)
- Establish three new Faculties of Public Health. (FY 87)
- WUAE evaluated to determine final course corrections needed, measure progress toward institutional development objectives and determine additional future needs for the agriculture faculties. (FY 86)
- Mid-term evaluation of Faculties of Public Health project. (FY 88)

c. Expanding the Base of High-Level Skilled Manpower

- PFC-sponsored Participant Impact Study undertaken. (FY 87)
- Mutually advantageous patterns of cooperation in participant training worked out between AID and other agencies, domestic and foreign. (FY 87)

- New project developed to broaden the base of qualified staff at the public and private institutes of higher learning. (FY 88)
- First external GPT II project evaluation conducted. (FY 88)

3. Policy Agenda

- a. Efficiencies of Education: To promote a more internally and externally efficient educational system at a cost which is manageable to the central government, the Mission will pursue policy issues focused on decentralizing certain aspects of the system, involving the private sector in the attainment of educational objectives, and identifying alternate sources and channels for financing education.
- b. Private Sector Participants: To meet high level manpower needs on a broader basis through overseas training, the Mission will explore ways to expand the pool of prospective candidates to include a wider range of pre-service and in-service private sector employees.

4. Constraints (Successes and Opportunities)

- a. Politics vs. Analyses: Decisions on educational policies and programs have major socio-political impact and are therefore never driven entirely by data-based analyses. This political fact and the organizational ambiguities within the MCE regarding the planning function constrain the potential impact of a policy analysis and planning unit within the MCE. These problems need to be solved before educational planning skills and processes can be successfully strengthened.
- b. National Support for Participant Training: The OTC has proven successful in initial attempts to coordinate participant training programs for a multitude of donors. To continue to expand, mechanisms and funding need to be established to increase both professional and support staff.
- c. Donor Coordination: The Mission has successfully influenced other donor efforts, principally through the work of the Educational Sector Assessment. UNDP, for example, has used this report as the basis for developing an agenda of policy research studies to be conducted in the MCE over the next few years. IBFD has used the results in planning new initiatives in areas of education improvement. The assessment was used by the Mission to initiate an EHR Donors' Forum which is now meeting bi-monthly with a membership of 15 organizations.

E. Goal: Strengthen the Role and Capacities of PVOs

- | <u>Objective</u> | <u>Impact Achieved</u> |
|---|---|
| a. Strengthen the capacities of well-established PVOs to promote the growth of local organizations capable of sustaining successful innovations supportive of local development priorities. | <ul style="list-style-type: none"> - Increased the number of U.S. (Multi Project Support) grants to five, including 2 Indonesian NGOs administering IPS grants for the first time. Increased the number of Inter-Military/Institution building grants from three to five, all through Indonesian NGOs. - Assessed the financial management capabilities of U.S. and Indonesian PVOs/NGOs. - Follow-on work expected to generate timely, high quality financial reports, fewer regulation violations and better overall financial management. - Initial investigations into tapping private sector/corporate funds in Indonesia and the establishment of a central fund gathering (MF) for environmental issues underway. - National NGO Forum established, regional forums expanded. |
| b. Increase support for policy oriented PVOs engaged in experimental action/research programs. | <ul style="list-style-type: none"> - Eight on-going grants in this area. Results include a national GDI campaign against nutritional blindness; demonstrating a possible link between Vitamin A deficiency and high infant mortality; demonstrating financial viability and employment generating capacity of cooperatives; development of a new under-five weight monitoring system, and models to promote financial independence of NGOs. Testing underway to address the high drop-out rate of health cadres in local integrated health family planning program. |
| c. Increase support for PVOs attempting to address the problems of the poor in urban areas and off-Java locations. | <ul style="list-style-type: none"> - Off-Java project funding levels increased from 20% to 52%, urban project funding levels increased from 0 to 6%. |

2. Major Programmatic and Management Action

- Assess and review financial management capabilities of PVO/NGO partners, initiate actions to improve these capabilities. (FY 87-88)
- Assess PVO Co-Fi project strategy including strengths and weaknesses of the MPS grant format. (FY 87)
- Complete the PVO Co-Fi evaluation. (FY 87)
- Explore mechanisms aimed at the promotion of institutional self-reliance models for PVOs. (FY 88)
- Assist with and encourage closer relations with GOI for joint GOI-PVO funded projects rather than continued funding through Co-Fi II. (FY 88)

3. Policy Agenda

a. GOI-NGO Relationships: Encourage cordial relations between the GOI and both U.S. and Indonesian NGOs through policy dialogue and promotion of (1) joint U.S. PVO-GOI projects and (2) increasing professionalism of local NGOs as viable, alternative development institutions. Encourage the "advocacy without becoming an adversary" technique of policy dialogue that has allowed local NGOs to operate.

c. AID-GOI Role: Promote policy-oriented research of PVOs by acting as an intermediary between PVOs and GOI.

4. Constraints (Successes and Opportunities)

- a. Independent Nature of PVOs: PVOs/NGOs tend to be independent and guard their autonomy; suggestions from outside are often viewed negatively. This is an obstacle to coordinating PVO activities as well as promoting a closer coordination of U.S. PVOs with GOI projects.
- b. Self-Sufficiency: The ability to attain self-sufficiency by PVOs is dependent on skills often lacking in PVOs, i.e., financial management, development of cost-effective proposals and fund-raising skills. These must be overcome before PVOs can be "weaned" from AID assistance.

III. SPECIAL CONSIDERATIONS

A. Financial Issues and Financial Tables

Project Portfolio: The current size of the portfolio (27 projects down from 45 in FY 83) will be slowly reduced in the next three years. During FY 87, two projects (Sumatra Agriculture Research and Family Planning I) will be closed and one new project (District Roads Maintenance) and one new program (Policy Support) will be added to the portfolio. In addition, three projects will be amended (Expanded Program in Immunization, Family Planning II, and Western Universities Agricultural Education). In FY 88, the Mission expects to close out three projects (Provincial Area Development I, Citanduy II, and Timor Malaria), initiate two new starts (Health Sector Financing and Higher Education Development Support), amend two on-going projects (Secondary Food Crops and Education Policy and Planning) and restructure Agriculture Planning.

Pipeline: According to Mission projections, the pipeline will significantly decline in the next three years. The Congressional Presentation submitted in November 1986, estimated expenditures of \$71 million (FY 87) and \$85 million (FY 88). However, these estimates were based on a \$25 million LOP for the new Policy Support Program. The Mission now plans \$60 million LOP (\$43 million in FY 87 with a possible \$17 million amendment in FY 88 or 89) for this new, fast disbursing, program with projected expenditures of \$3.5 million in FY 87, \$39.5 million in FY 88, and \$17.0 million in FY 89. As a consequence, FY 88 expenditure projections will increase by \$27.5 million and total portfolio expenditures (total expenditures for Policy Support amounting to \$39.5 million) increase to approximately \$112.9 million. (Actual expenditures depend upon the speed with which the Policy Support Program agreement is negotiated and approved.) Early projections for FY 89 are for total expenditures of \$90 million which includes \$17.0 million from the Policy Support Program. If the above projections are correct, the pipeline will decline to \$246.7 million in FY 87, \$178.8 million in FY 88 and \$133.8 million in FY 89, or less than two times annual levels of disbursement. Attachment C provides information on what the Mission has done to bring about these changes.

Mortgage: At the end of FY 86 the mortgage stood at \$41 million. The Mission expects this level to rise sharply in the next three years, due in great part to our reduced OYB. Based on planned new starts and amendments to on-going projects the mortgage is expected to increase to \$111 million in

FY 87, to \$109 million in FY 88 and \$110 million in FY 89. This level is between 2.5 and 3 times our estimated yearly OYB during the same time period.

Loan/Grant Split: During FY 86 (OYB) the percentage of grant financing to Indonesia increased significantly, moving from 52% in FY 85 to 69% in FY 86. The grant proportion is expected to remain at the 69% level in FY 87 but slowly decline thereafter. The high proportion of grant financing reflects the sharp economic downturn now facing Indonesia and new Indonesian contracting regulations which make loan financed technical assistance extremely difficult and time-consuming to undertake. It should also be noted that the Mission has requested a conversion of loan to grant funds totalling \$34.15 million. The converted grant funds will be used to finance the new Policy Support Program (\$25 million) and to restructure four on-going projects (\$9.15 million) to enable them to procure technical assistance and finance policy related research.

Deobligation: Planned deobligations for FY 87 total \$37,147,000. \$10.997 million of this total is money co-obligated from on-going and terminated projects with excess funds. \$17 million will be deobligated from the Small Scale Irrigation Management project; (however, the Mission plans to add this amount to its mortgage and in effect is only borrowing the funds from the project); and the remaining \$9.15 million will be deobligated from ongoing projects to enable the Mission to shift from loan to grant funding within the same projects for appropriate activities.

Operating Expenses: The Mission will attempt to negotiate a Trust Fund commitment with the GOI for IFY 88/89. Although the Mission successfully negotiated a commitment for IFY 87/88, it cannot be taken as a certainty that the Fund will continue beyond that time, given sharply declining government revenues and austere national budgets. A possible indication of whether continuation is possible should be available in January, 1988. It is recognized that OE funding is tight, but the Mission urges AID/W maintain some OE flexibility to provide support if the Trust Fund is abolished or seriously reduced.

DIAGNOSTIC PROJECTIONS FOR FY87-FY89 (\$000) :24-Mar-87

	FY87	FY87	FY87	FY87	Planned	FY87	FY88	FY89	FY89	Mortgage	
	Grant	Loan	Reob Grant	Reob Loan	Month	Grant	Loan	Grant	Loan	Grant	Loan
ARDN											
Western Univ. Agr. Edu. (0297)					651 July						
Secondary Crops (0304)						2,000	850			500	1,850
FID (0341)	1,727				March						
FVO Co-Fi II (0339)	823				Apr-July	850		700		1,227	
Small Scale Irr. (0347)		117,000							2,000		20,327
Cooperatives FID (0352)											1,481
Dist. Roads Maint. (0353)	3,500	2,000			June	2,000	3,000	4,000	9,250	5,500	19,750
Police. Suppt. Prog. (0357)	18,000		25,000		August	17,000					
Local Resources Dev. (0358)								2,000	2,000	6,000	6,000
Subtotal:	23,850	8,000	25,000		651	21,850	3,850	6,700	12,250	18,227	54,248
POPULATION											
FFDS II (0327)	2,000	2,000			April	2,000					
Private Sector FF (0355)								2,000	2,000	14,000	2,000
Subtotal:	2,000	2,000				2,000	0	2,000	2,000	14,000	2,000
HEALTH											
EPI (0257)	3,000	2,000			June	2,000					
FVO Co-Fi II (0339)	400				Apr-July	300		200		850	
Health Sector Fin. (0354)						3,000	1,000	2,000	4,000	5,000	
Subtotal:	3,400	2,000				5,300	1,000	2,200	4,000	5,850	0
EHA											
Western Univ. Agr. Edu. (0297)					1,771 July						
EPI II (0328)						371	3,000				1,012
FVO Co-Fi II (0339)	750				Apr-July	300		600		350	
Edu. Pol. & Prog. (0344)						2,800	1,000	2,200			1,500
Higher Edu. Dev. Suppt. (0358)						2,000	1,000	2,000	2,000	2,500	2,500
Subtotal:	750	0			1,771	5,471	5,000	4,800	2,000	2,350	2,012
EDA											
Priv. Sect. Dev. (0339)	1,000	1,500			March			2,000		2,000	2,000
FVO Co-Fi II (0339)	100				Apr-July	525		800		2,841	
Development Studies (0340)								4,800		657	
Subtotal:	1,100	1,500				525	0	7,600	0	5,798	2,000
Totals:	31,100	13,900	25,000		2,822	35,150	9,850	13,700	21,250	40,495	66,260
Yearly Totals:	45,000					45,000		45,000		104,000	
Diff:	45,000					45,000		45,000			
PL481 Title I		30,000					10,000		10,000		
PL480 Title II	4,550					4,411		4,411			

* CF amount. Mission seeking increased levels of Title I & Food for Progress to support Policy Support Program.

PLANNED FY87 DEBTS/REGRS & SUMMARY TABLE : 20-Mar-87

PLANNED FY 87 DEBTS/REGRS

Acct. Project	Planned Debt(\$000)		Yr. Debt	For redb to	G/L
	Grant	Loan			
103					
ARBN Suestra Agr. Res. (0263)		600	May	Western Univ. Agr. Edu. (0297)	L
ARBN Small Scale Fisheries (0266)	375		May	Regionally-funded Troopsills Proj.	B
ARBN Grad. Agr. School (0290)		351	May	Western Univ. Agr. Edu. (0297)	L
ARBN FDP I (0264)		3,500	May	Policy Support Program (0357)	B
ARBN FDP II (0276)		2,500	July	Policy Support Program (0357)	B
ARBN Citanduy II (0291)		2,000	July	Policy Support Program (0357)	B
ARBN Small Scale Irrig. (0347)		17,000	June	Policy Support Program (0357)	B
Subtotal ARBN:	375	25,851			
105					
ENR LST II (0308)		1,100	May	Western Univ. Agr. Edu. (0297)	L
ENR F&B II (0275)		96	May	Western Univ. Agr. Edu. (0297)	L
ENR In-Country Mgt. Dev. (0317)		575	May	Western Univ. Agr. Edu. (0297)	L
Subtotal ENR:	0	1,771			
Total all accounts:	375	27,622			
Grand total:	27,997				

PLANNED FY87 LOAN DEBTS FOR GRANT REGRS TO THE SAME PROJECTS

Acct. Project	Planned Debt(\$000)		When Debt	For redb to	G/L
	Grant	Loan			
ARBN FDP II (0276)		2,400	June	FDP II (0276)	B
ARBN Secondary Crops (0304)		3,000	June	Secondary Crops (0304)	B
ARBN Agric. Planning (0342)		1,250	June	Agric. Planning (0342)	B
RE CHIFFS (0325)		2,500	June	CHIFFS (0325)	B

SUMMARY BUDGET TABLE

	(\$ Million)	
	FY 1987	FY 1988
Development Assistance	45.0	45.0
PL450		
Title I	30.0	10.0*
Title II	4.0	4.0
Total	79.0	59.0
Anticipated Reobligations	28.0	

* CF about. Mission seeking increased levels of Title I Food for Progress to support Policy Support Program.

B. Evaluation Plans

A total of 11 project evaluations were scheduled for FY 86 as well as continued work in 5 program areas. Of the projects, 8 are completed, 2 are ongoing and 1 has been postponed to FY 88. Five project evaluations and 8 special studies are presently scheduled for FY 87. See more detailed information in Attachment A.

The evaluation activities completed over the past year and those planned for FY 87 and FY 88 continue to reflect priorities established in the Mission Monitoring and Evaluation Strategy (1985). This strategy outlined the need for a program area orientation in evaluation efforts. As part of our efforts to strengthen selected program areas during FY 86 and FY 87, we have placed special emphasis on establishing performance monitoring systems and on special studies.

In late FY 86 the Mission reviewed progress in the program areas initially selected for experimentation, and modified them accordingly. The selected program areas currently receiving Mission priority are: Upland Agriculture and Conservation (497-0281/0311), Financial Institutions Development (497-0314), Primary Health Care (497-0253/0273/0305/0325), and Enterprise Development (497-0329). Progress and priorities in each are outlined below.

Uplands Agriculture and Conservation M&E activities have moved forward rapidly during the past year. By the end of 1986, the Mission had established a solid empirical database providing evidence of program performance in the Citanduy Basin. This data, now being linked to agro-climatic data, could be instrumental in achieving a reform in GOI uplands conservation policy away from a singular emphasis on bench terracing. Efforts to institutionalize the monitoring technologies developed have proceeded well with the GOI proposing an extension of the Citanduy performance monitoring to other areas. Future special studies will focus on the role of subsidies in rapid dissemination of improved technologies in project areas and possibly non-project upland areas where major technological (especially crop-diversification) changes have occurred without (or with minimal) direct government intervention. This will help clarify the potential role for private initiative in uplands development.

Substantial progress has been made in developing an overall M&E strategy and implementation plan to support a strong, viable rural financial institutions system. A basic system for tracking the development of village level credit units has been completed and data is now becoming available. A recent exploratory study of formal and informal village credit resources revealed the existence of complex credit institutions already serving rural communities. Follow-up studies will assist the Mission in assessing beneficiary impact and assist the MGF in tailoring its program to meet local demand for credit services. During the remainder of FY 87 and FY 88, the Mission will focus on developing an overall research agenda as part of the FID Project and will begin analyses of the local unit performance monitoring data.

In primary health care, progress was made in problem identification, though minimal progress was made in the articulation of an overall M&E strategy. Instead, the Mission is giving attention to building MCH capacity to monitor its own performance and studies are underway or are planned to measure impact of specific primary health care initiatives. Two special studies related to primary health care program were carried out in 1986. The first reviewed the strengths and weaknesses of village health cadres. The GOI's current services delivery strategy increasingly depends on these cadres for implementation. This study highlights cadre limitations and hence will contribute both to improving cadre-based activities and to reassessment of the current service delivery strategy. The second study examined a new approach to child growth monitoring developed by CRS/Indonesia under Child Survival funding. In addition to introducing this important innovation for further testing and development by the Indonesian health community, this study has been instrumental in demonstrating a mechanism through which PVOs can make contributions to the GOI health services program.

The Mission's enterprise development program is an important exploratory effort aimed at learning how to assist enterprises more effectively with strong job creation potential. During FY 86 a combined MIS/performance monitoring system was initiated to assess project impacts in each of the small scale enterprise sub-projects. Future special studies will identify constraints on enterprise development faced in selected industries both within and outside of project areas.

C. PL 480 Programs

1. Title I: Relationship to the CDSS: Since the last Action Plan, the Indonesian economic crisis, brought about by the dramatic decline of petroleum prices has steadily worsened. As a result, the Mission plans to modify the use of some resources, including PL 480, to assist Indonesia during this period of economic downturn. Title I resources may be utilized to supplement the Policy Support Program, which supports initiatives aimed at increasing rural incomes and employment. This is in line with CDSS objectives of increasing off-farm employment and strengthening and diversifying food production.

The Country Food Situation: The Indonesian food production picture through the coming CDSS period is likely to continue to be favorable, nevertheless, after steadily increasing over the past four years, rice production is expected to decrease slightly due to many factors -- heavy reliance on two main high yielding varieties, absence of suitable land for further expansion of irrigation, and resurgence of insect infestations. For example, the recent attack of the brown grasshopper was primarily the result of overuse of pesticides and continuous cropping of rice. Crop diversification could help bring this situation under control.

Corn production, after a dip in 1985, continues to make steady progress upwards while cassava dropped, largely as a result of a decrease in harvested area. Imports of corn are projected to be at very modest levels through IFY 1987-88. Soybean utilization is expected to increase as the domestic feed manufacturing industry expands. Accordingly, imports of soybeans could increase substantially over the next several years. Wheat imports are projected to decrease by 191,000 MTs from US FY 86. This is primarily a function of the inability of Indonesia to import wheat to meet requirements on commercial terms while facing its current budgetary problems.

Statistical data on local production and import requirements for main food crops are as follows:

Local Production: (in 000 MT)^{1/}

<u>Commodity</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Rice (milled)	25,825	26,537	26,585	26,300
Corn	5,359	4,099	5,360	5,500
Cassava (Fresh)	14,174	13,762	13,300	13,700
Soybean	625	743	890	980
Wheat	0	0	0	0

^{1/} Ref: FAS Report No. ID-7007 dated 20 February 1987

Import Requirements: (in 000 MT)

<u>Commodity</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Rice (milled)	387	34	21	155
Corn	59	50	55	30
Cassava (Fresh)	0	0	90	75
Soybean	401	375	325	300
Wheat	1,436	1,317	1,691	1,500

Present Food Policies and Reforms: Title I resources will be coupled with D.A. funding to support policy efforts aimed at: (1) strengthening efforts to expand and diversify the agricultural sector beyond the single focus on rice; and (2) removing restrictions that inhibit investments in agricultural processing and agricultural trade. This link to policy efforts will require increased resources in FY 88 or FY 89 either through Title I or Section 416 Food for Progress, totalling \$35 million.

Use of Proposed Commodities: During FY 87 and 88 respectively, Indonesia is likely to import 1.5 and 1.7 million metric tons of wheat. For FY 87 the GOI has requested \$30 million in US Title I concessional financing which would cover approximately 230,000 MTs of this figure. As in the past, the wheat will be processed into wheat flour for local consumption in Indonesian flour mills. The local price of this flour will continue to be coordinated with other primary foodgrain prices, such as rice and corn, to assure market price stabilization. The Mission will continue to ensure that 80% of local sales proceeds will be earmarked for self-help measures.

Local Currency Use: Crop diversification is a Mission priority now that Indonesia has achieved self-sufficiency in rice and may be approaching the limits of its rice producing capabilities by the end of the next decade. Efforts to provide a policy environment conducive to increased production and crop diversification will be helped through the Title I-supported Policy Support Program as well as partially through a Section 106/108 facility presently being discussed by the GOI and the National Cooperative Business Association Indonesia (NCBA/I). The latter should also affect favorably the formation of private sector ventures in the agricultural production sector.

Although specific self-help measures have not been negotiated for FY 87 Title I, we anticipate establishment of a special account into which Title I sales generations would be deposited for projects which support the GOI's development of an agricultural diversification strategy, facilitate market opportunities for agricultural products, encourage the removal of restrictive procedures and practices in agricultural product processing and marketing; and address critical issues of groundwater and other natural resource management. Should these negotiations not succeed, the Mission will negotiate SHMs which continue to be linked directly to DA-funded project initiatives, but more narrowly focussed.

- Section 106/108: The Mission in collaboration with NCBA/I, is exploring with the GOI, establishment of a Title I Section 108 facility. If this is completed in time we may utilize a portion of the FY 87 Title I allocation, otherwise we will earmark a portion of FY 88 local currency generations.

- Storage and Distribution Facilities: The mills which will process the Title I wheat are located in Jakarta, Surabaya and Ujung Pandang. They continue to have adequate storage and loading facilities to receive wheat imports as well as the wheat flour which is produced. The mills are located in different parts of Indonesia so as to ensure balanced distribution.

- Disincentives to Local Production: Indonesia is not a wheat-producing country. Therefore, Title I wheat imports will not result in a disincentive to domestic production. The trend towards primarily urban consumption of wheat flour will not have a negative effect on the consumption of rice, corn or cassava.

2. Section 416(b) - Food for Progress: As indicated previously an increased level of PL 480 is required in FY 88 in support of agricultural policy reforms linked to the Policy Support Program. Should Title I resources of \$35 million not be available, the Mission will develop a proposal for Section 416(b) assistance under the Food for Progress Program. Our belief that Food for Progress is a viable option for supplementing Title I levels is based on the fact that Indonesia, despite its present economic difficulties, is evincing interest in pursuing agricultural policy reforms in the areas of: (1) pricing; (2) marketing of production; (3) input supply and distribution; and (4) private sector investment.

In exercising the Food for Progress option, the Mission envisions a level of approximately \$10-\$15 million worth of wheat. The Mission will ensure that in adjusting UMR levels, normal commercial sales are not displaced.

Monetization proceeds from Food for Progress would be deposited in the special account in conjunction with funds from the Policy Support Program to be programmed in support of the GOI's development of its agricultural diversification strategy; the goals of which directly complement Section 416(b) objectives.

3. Title II: Relationship to the COSS: The PL 480 Title II Program complements three major objectives of the Mission's strategy: (1) improvement of primary health care; (2) expansion of productive off-farm employment; and (3) the support of policies which will contribute to the fostering of private sector initiatives.

CARE, CRS and the NCBA/I are designing a program to monetize approximately 45,000 MTs of Title II wheat before the end of FY 87 or early FY 88. Through a transfer authorization between the USG and NCBA/I, the wheat which is currently calculated to yield about \$5.5-6.0 million in local currency generations, would be monetized under an agreement between NCBA/I and BULOG. Letters of credit would be established for each agency to be drawn down over the next five to seven years. These funds will be used as follows:

- NCBA/I, with its experience in monetization accumulated since 1983, will act as the focal point for arranging the transaction with BULOG and the Department of Cooperatives. They will establish a foundation to finance the development of agribusiness concerns (cooperative and otherwise), at

commercial lending rates. The NCBA/I's foundation would combine equity capitalization from Indonesian shareholders and leverage financing from the Title II monetization proceeds.

- CARE will use the proceeds to expand cooperative agreements with local financial institutions begun eight years ago to promote self-managed drinking water supply systems for villages.

- CRS will establish a "food bank", allowing it to exchange Title II wheat, delivered at Indonesian ports for BULOG rice stocks at or near its FFW sites. They will utilize the proceeds to cover the costs of program outreach to the outer islands (which is directly related to Mission health/nutrition goals).

In addition, CRS has recently submitted a revised annual estimate of commodity requirements (AER), for FY 67. Pending AID/W approval, this will facilitate CRS' focusing its Title II-supported food and nutrition (FNP), and food for work (FFW), programs to locations off-Java where some of the Indonesia's severest health and nutrition programs lie.

Cooperating Agency Capacity: NCBA/I has been active in Indonesia since 1976, and provides technical assistance through the GOI Department of Cooperatives for promoting networks of cooperative activities in agricultural production, processing, marketing and employment generation. NCBI has offices in Klaten, Central Java and Jakarta. It has adequate staff to carry out and monitor the programs undertaken in conjunction with the Department of Cooperatives. Presently, NCBI-supported activities are being implemented in Central and East Java, South Sulawesi and Bali.

CARE has been active in Indonesia since 1967, and operates under an agreement with the GOI Ministry of Foreign Affairs. CARE in cooperation with the Ministry of Home Affairs, is implementing activities in the fields of rural water supply, and dry land farming, in 8 provinces of Indonesia. In conjunction with the Provincial Governments, CARE has been active in establishing cooperative drinking water user societies. It now proposes to build upon this successful experience and expand the drinking water cooperative program to other provinces over the next five years.

Catholic Relief Services has been active in Indonesia since 1969 under a blanket agreement with the GOI, Ministry of Foreign Affairs. CRS is presently engaged with the Departments of Social Affairs, Health, and Transmigration in

contributing to health, nutrition, community development, and employment generation. CRS works through indigenous social service societies and other local counterparts. Their food and nutrition program, redesigned in 1984, is aimed at an enhanced development focus. CRS, pending AID/W approval of its revised FY 87 AER, is planning to focus its Title II assistance in food for work to locations off-Java.

Complementary Inputs: To accomplish its outreach to the outer islands, CRS will require additional funds. As noted above, these could be obtained via the monetization of Title II wheat, which NCBA/I would import and monetize.

While awaiting AID/W approval on sale of a portion of its commodities, CRS has also entered into exploratory negotiations with BULOG concerning the setting up of a "food bank" arrangement. This would allow CRS to import Title II wheat which could be exchanged for BULOG rice stocks located near FFW project sites. Should this arrangement prove viable, CRS will carry it into the next ODSS period.

Section 206 Monetization: PL 480 legislation has recently been amended to allow for the monetization of Title II commodities under Section 206 to support health programs and projects, including immunization. Aiming towards the beginning of FY 88, the Mission believes that a Section 206 program can be developed which would provide funds for a comprehensive immunization program which, as currently estimated, would require an estimated \$4 million in local currency over the next three to four years.

The Mission views this package of Title I, Section 416 and Title II food aid as a major component of development assistance to Indonesia during a critical period in the country's economic and social development. Overall, we envision the Title I component for FY 88, presently estimated at \$10 million, being supplemented by an additional \$25 million in either Title I or Section 416 Food for Progress component and an additional \$5.5 to \$10.0 million through Title II monetization and the Section 206 facilities.

Requested Amounts: Summary Table (\$'000)

	FY 87	FY 88	FY 89
- Title I	30,000	20,000*	10,000
416(b) Food for Progress	-	15,000**	-
- Title II (food)	4,593	4,411	4,411
Title II Monetization	-	6,000	-
Title II Section 206 Monetization	-	4,000	4,000

* CP level \$10 million; ** will be taken from Title I if available

D. Management and Work Force Issues

Attention to management and workforce issues has increased considerably in the Mission over the past several years as USDP ceilings have decreased precipitously from 56 in 1983 to the current 41 while program levels have been reduced less drastically. Some of the early reductions may have promoted operational efficiency but as the number of staff dipped below the 50 level the Mission has paid a price in terms of a reduced management capacity. Effects include the possibility of increased vulnerability, reduced capacity to respond to program targets of opportunity, and reduced staff time available for anything but the most essential paper processing. Time for reflection, building counterpart relationships, and staying on top of one's technical speciality has been reduced.

In past years, the Mission has undertaken a number of actions to compensate for staff reductions including reducing portfolio size, decentralization of decision making, reorganization, and creative use of contractors. This past year, the Mission has taken additional steps including the following:

- Negotiated a Technical Support to Mission (TSM) contract with Colorado State University for quick short-term T.A. in rural development;
- Contracted with a PSC to support Mission evaluation activities and to support program and policy focused research endeavors;

- Drafted an FSN Enhancement Plan which, over the next several years will, among other things, replace some USDH personnel;
- Began negotiations for a Mission IQC for financial services;
- Increased the Mission stock of ADP equipment in response to a PPC/COIE information processing report;

- Conducted Indonesian Language Training at post resulting in cost savings to the Agency and allowing our assigned officers to be operational considerably sooner. Of the ten officers trained since August 1985, only 12.6 weeks on the average were required to bring them to the S2/R2 level. Training at FSI normally requires 20-24 weeks.

- Developed strong linkages to highly qualified in-country research organizations to support project design and evaluation.

Management improvements envisioned over the coming 12 months include:

- Consolidation of all procurement and contracting functions under the Contract Management Office.

- Creation of a special PD&S type arrangement that will allow us to maintain a strong dialogue with the GOI on certain critical policy issues in agriculture, health, private sector development and education. The arrangement would be used to fund JCC's, TSM, IQC's and PSC's for both short and long-term contracts.

- Further strengthening of the Mission ADP information system. This will require purchase of supplementary equipment and software.

- A close examination of all our personnel management functions, including an analysis of workforce requirements over the next five years.

- Employment of three IDI's.

- An in-depth vulnerability assessment by Price Waterhouse of the operations of the Office of Finance and of the CE procurement function. The assessment will be completed by end-May.

The Mission will be looking for AID/W support during the coming year for:

- Sufficient CE funds to finance the ADP upgrade program and increase FSN training opportunities.

- Approval of the use of GYB to fund PD&S type arrangement for obtaining policy expertise similar to JCC's.

- Certification of the Indonesian language program by FSI. In order to negotiate long-term staff contracts and otherwise institutionalize the Mission Training Unit, we need formal approval from AID/W.

- Protection against further USDH reduction.

In addition, to the extent that ANE can "weigh-in", the Mission would appreciate any pressure which can be brought to bear to increase the Mission's ability to attract and retain highly qualified FSN professionals. De-linking AID from the LEPSCH local compensation system, revisions to FSN position classifications so that they more closely approximate USDH personnel, improving the FSN FER system are possibilities.

E. Gray Amendment

FY 86: Approximately \$1.5 million in contract were executed which qualify for inclusion under the Gray Amendment. This was 4 percent of the eligible funds. An additional commitment of \$122,000 was made under OE and FDS funds to PSCs who meet Gray amendment criteria.

FY 87: It is estimated that a total of approximately \$4.5 million of contracts attributable under the Gray Amendment, will be awarded by the end of FY 87. The FY 87 OYB level is \$45 million, of which \$31.7 is either for local costs or PASA contracts, leaving \$13.3 million in eligible funds. The Mission thus anticipates 33.7% of eligible funding will be utilized by Gray Amendment contracts versus a target of 100%. An additional commitment of \$133,000 is anticipated under OE and PD&S funds.

FY 88: At this time we are estimating potential Gray Amendment contracts of \$3.5 million. However, this is very heavily dependent on the authorization of the Rural Roads Maintenance Project, which accounts for more than half of the total. We are estimating OE and PD & S funded contracts at about \$95,000. The main thrust of current project contracting is peaking in FY87 and it is anticipated that in reaction to the GOI budget crunch, project/program obligations in the near-term will have a large local cost component.

Attachment B provides detailed information on Gray Amendment contracts.

STATUS OF PROJECT EVALUATIONS PLANNED FOR FY 86

<u>Project</u>	<u>Status</u>
1. Health Training Res. & Dev. (497-0273)	Completed 02/86
2. Private Sector Development (497-0329)	Completed 02/86
3. Sumatra Agr. Research (497-0263)	Completed 02/86
4. Village FP/Mother Child Welfare (497-0305)	Completed 03/86
5. Private Sector Management (497-0345)	Completed 03/86
6. Secondary Food Crops (497-0304)	Completed 06/86
7. Exp. Program in Immunization (497-0253)	Completed 06/86
8. Family Planning Dev. and Service II [Training component] (497-0327)	Completed 10/86
9. Provincial Dev. Program I/II (497-0264/0275)	On-going - est. completion date 04/87
10. PVC Co-Fi II (497-0336)	On-going - est. completion date 06/87
11. CLUSA (PL 480 - Title II)	Revised to FY 88

EVALUATIONS UNDERTAKEN OR TO-BE UNDERTAKEN PRIOR TO NEW DESIGN

<u>Project</u>	<u>Date</u>	<u>Design Activity</u>
1. Health Training Res. & Dev. (497-0273)	2/86	Project Amendment
2. Village FP/Mother Child Welfare (497-0305)	3/86	Project Amendment
3. Exp. Program in Immunization (497-0253)	6/86	Project Amendment
4. Provincial Dev. Program I/II (497-0264/0275)	On-going	Follow-on Project
5. Grad. Agr. Schools (497-0290)	FY 87/Qtr 4	Higher Education Dev. Support* (497-0358)
6. FP Dev. and Services II [Village FP component] (497-0327)	FY 87/Qtr 2	Priv. Sect. FP Project* (497-0355)
7. FP Dev. and Services II [Research component] (497-0327)	FY 87/Qtr 2	Priv. Sect. FP Project* (497-0355)
8. Educ. Policy and Planning (497-0344)	FY 86/Qtr 3	Project Amendment

* new projects

TABLE VII - LIST OF FUNDED EVALUATIONS
 FY 1987-1988
 COUNTRY/OFFICE: INDONESIA

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987 Start To (Qtr) A10/W (Qtr)	FY 1988 Start To (Qtr) A10/W (Qtr)	Reasons/Issues	Function Source (RWD)	USAID Person Days	Collateral Assistance
Provincial Area Development Program 1 & II (497-1E:64/12/6)	9/81	FY 86	4	<p>PNLD: 04/17/88 PNLD: 12/01/89</p> <p>Both projects aim to improve the capabilities of local government to undertake rural development activities, to improve the capabilities of the central government to support these activities and further decentralization, and to increase the incomes of the rural poor through the implementation of small sub-project activities.</p> <p>This major evaluation began in mid FY86, will continue to FY87. Activities will focus on completion of the institutional impact assessment and reviewing the findings of this and the earlier beneficiary impact study carried out by JRI. Results will be used to reassess the current POP strategy and as a basis for a follow-on project.</p>	MDS Proj.	760 180	<p>1. Peabody - PSC (FMS funded) \$105,000.</p> <p>2. JRI - Indonesian firm \$180,000 project funded for beneficiary impact study.</p> <p>3. 6 - 4 PSCs (FMS funded) \$155,000 for institutional assessment.</p>

TABLE VII - LIST OF AWARDED EVALUATIONS
 FY 1987/1988
 COMBING/OFFICE: THIRANEZIA

Project List (Project No. & Title)	Last Eval Completed (No./Yr.)	FY 1987 Start In (Qtr) AID/W	FY 1988 Start In (Qtr) AID/W	Reasons/Issues	Funding Source (1000)	USAID Person Days	Collateral Assistance
AR-II Graduate Agriculture School (497-0294)	4	4	1	<p>PMO: 07/31/86 The project assisted the Agricultural University of Bogor (IUB) in the development of a graduate education program in the agricultural sciences, and strengthened research and outreach activities related to these areas.</p> <p>This evaluation will examine the impact of AIG project assistance to IUB over the past 28 years. It will include assessment of instructional programs, research, and other institutional capacities, and possibly a tracer study of recent graduates.</p>	AID/W 80	10	AID/W - 20 days
AR-III Comprehensive Health Improvement Program Province Specific (697-0325)	05/84	5	4	<p>PMO: 9/30/89 The project is designed to strengthen provincial capabilities to deliver health services.</p> <p>The evaluation will assess whether the project is enhancing the capabilities of provincial officials to target, manage, and evaluate their health/nutrition activities.</p> <p>Results will provide a basis for follow-on activities.</p>	Proj. 50	10	Contractor - 65 days

TABLE VII - LIST OF PENDING EVALUATIONS
 FY 1987-1988
 COUNTRY/OFFICE: INDONESIA

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987 Start to (Qtr) MID/W	FY 1988 Start to (Qtr) MID/W	Re-starts/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
<u>PREPARATION</u> Family Planning Development and Services II (497-0527)	10/86	2	3	PWD: 12/31/87 The project is designed to help decrease the crude birth rate by 50% to 22 births per 1,000 in 1994 and to promote greater participation of local govern- ments in the planning, implementation and funding of population activities. The evaluation examines the sustainability of the Village Family Planning component.	Proj.	5	Contractor
<u>ADMINISTRATIVE</u> <u>IN AID/MID/W</u> PWD Co-F Financing II (497-0536)	6/82 (Co- FI I)	2	3	PWD: 09/30/91 The purpose of the project is to multiply and improve local development efforts in Indonesia within the priority sectors of AID assistance. This evaluation is a continua- tion of efforts begun in 1986 to review PWD needs in relation to Co-FI resources and to assess the potential of the "block grant" model. The results will be used to reexamine Co-FI objectives and implementation strategy.	Proj.	20	Contractor - 30 days

TABLE VII - LIST OF PLANNED EVALUATIONS
 FY 1987-1988
 COUNTRY/OFFICE: INDONESIA

Project List (Project No. & Title)	Last Eval Completed (No./Yr.)	FY 1987 Start To (Qtr) AID/M	FY 1988 Start To (Qtr) AID/M	Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
<u>AIRD</u> Agricultural Planning II (497-0342)			3	4 PACD: 06/30/89 The project will assist the Ministry of Agriculture to insti- tutionalize, at the national and provincial levels, an improved capacity for agricultural policy analysis and planning linked more closely with the formulation of agricultural programs and projects.	Proj. 40	30	Contractor - 72 days
<u>HEALTH</u> Faculties of Public Health (497-0348)			2	3 PACD: 06/30/92 The project aims to expand and regionalize public health education and research by strengthening public health training programs in selected universities. This mid-term evaluation will examine project performance to date to make appropriate adjustments in the project.	Proj. 30	10	Contractor

TABLE VII - LIST OF HANDED EVALUATIONS

FY 1987-1989

COUNTRY/OFFICE: INDONESIA

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987 Start To (Qtr) AID/W	FY 1988 Start To (Qtr) AID/W	Reasons/Issues	Funding Source (HR\$)	USAID Person Days	Collateral Assistance
PERKRAFIDDI Family Planning Development and Services II (627-0322)				PKOU: 12/31/89 The project is designed to help decrease the crude birth rate by 50% to 22 births per 1,000 in 1990 and to promote greater participation of local governments in the planning, implementation and funding of population activities. The evaluation will examine the research component, the modern management technology component, and the voluntary sterilization evaluation system of USAID support to BKKBN, to determine the need for follow-on assistance.	Proj.	75	5 Contractor - 30 days

TABLE VII - LIST OF PLANNED EVALUATIONS
 FY 1987-1988
 COUNTRY/OFFICE: INDONESIA

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987 Start To (Qtr) AID/W	FY 1988 Start To (Qtr) AID/W	Reasons/Issues	Funding Source (000)	USAID Person Days	Collateral Assistance
LLUSA Cooperatives Agro- business Enter- prise Development Project (Title II)	05/84	3	4	<p>PACU: 12/31/90 The purpose of the project is to improve rural food systems and incomes by encouraging farm leaders to develop existing cooperatives into growth oriented agri-businesses.</p> <p>The evaluation will review project performance against objectives to date; financial status; problems encountered; and proposed courses of action. Indicators to be used in the assessment are production, productivity, employment and financial viability.</p> <p>Results will be used by CLUSA to reassess and improve their strategy and implementation.</p>		25	Internal review

GRAY AMENDMENT ACCOMPLISHMENTS FY 86

Office	Project Number	Name	Type of Activity	Estimated Value(\$000)	Approx. Timing	8(a) Set-aside	Contract Mode	Comments
ARC	0342	Ag. Planning	TA	414	06/86	Yes	SUB	RONCO
EIR	0344	Education Policy & Planning	TA	157	12/85	No	Consortium	HBCU Howard+FSU+ Sunny/Albany+IIR
OPH	0305	MFP/MCW	TA	18	12/85	No	PSC	Alma Kern
	0325	CHPPS	TA	200	10/85	No	PSC	Karen H. Smith
	0348	Faculties of Public Health		537	08/86	Yes	Prime	ISII Minority
PPS	0297	Western Universities Ag.Education	Commodities	139	05/86	Yes	Prime	ADBC Minority
MP	0336	PVO-Co-FI	TA	12	06/86	No	PSC	Andra Corrothers
			Total	1,477				
DA Funds				49,000				
PASA		1,800						
Local Costs		10,600						
Eligible Funds				12,400				
10% Target				36,600				
Percent Actual				3,660				
				4.0				
EIR	OE	-	-	24	09/86	No	PSC	Jeanette Lucas
EXO	OE	-	-	10	07/86	No	PSC	Marjorie Moore
	OE	-	-	26	10/85	No	PSC	Phung O'Riordan
PPS	OE	-	-	6	09/86	No	PO	Wynne Coughill
PPS	0249	PD&S	TA	18	07/86	No	PSC	Mary Judd
MP	0249	PD&S	TA	38	08/86	No	PSC	Lalit Kraushaar

FY 87 GRAY AMENDMENT

Office	Project Number	Name	Type of Activity	Estimated Value(\$000)	Approx. Timing	8(a) Set-aside	Contract Mode	Comments
NRD	0311	Upland Ag and Conservation	TA	118	01/87	No	PSC	Cynthia Mackie
	0347	SSIMP (1)	TA	1,250	04/87	Yes	Sub	25% Set aside out of total \$5 million
	0352	SSIMP (2)	TA	75	02/87	No	Non-PSC	Suzanne Siskel
		Fisheries Research & Development	TA	32	06/87	Yes	Sub	HRCU
EED	0329	Private Sector	TA	300	07/87	Yes	Prime HCC	Amendment Pragma
	0341	Financial Institutions Dev.	TA	1,500	04/87	Yes	Prime HCC	Minority CMS 8(a), Minority
0/111	0305	Village Family Planning/MCH	TA	788	03/87	Yes	Prime/DA	ISTI
HPS	Various	Procurements	Commodities	400	09/87	Yes	Prime Direct	
			Total	4,463				
DA Funds				45,000				
PASA		1,910		31,760				
Local Costs		29,850						
Eligible Funds				13,240				
10% Target				1,324				
Percent Actual				33.7				
EMR	OE		-	24	09/87	No	PSC/DA	English Instructor
EXO	OE		-	16	02/87	No	PSC/DA	Marjorie Moore
	OE		-	26	10/86	No	PSC/DA	Phung O'Riordan
HPS	OE		-	23	12/86	No	PSC/DA	Wynne Cougill
MJP	0249	FD & S	-	24	09/87	No	PSC/DA	Lalit Kraushaar
			Total	133				

FY 88 GRAY AMENDMENT POTENTIAL

Office	Project Number	Name	Type of Activity	Estimated Value(\$000)	Approx. Timing	8(a) Set-aside	Contract Mode	Comments
NRD	0352	Fisheries Research & Development	Commodities	500	06/88	Yes (PSA)		Prime
PPS	0353	RRMS	TA	1,600	10/87	Yes	DA	Bridging + certification A&E (8.5 m) Amend NAS Contract
	0353	RRMS	TA	1,000	05/88	No	DA/HCC	
	0333	PUSPIPTEK/NAS	TA	500	10/87	No	DA	
		Total		3,870				
DA Funds				45,000				
PASA		250						
Local Costs		28,157		28,437				
Eligible Funds				16,563				
10% Target				1,656				
Percent Est.				23.37				
FPS		PD&S	TA	25	06/88	No	PSC	
VIP	0249	PD&S	TA	70	11/87	No	PSC/DA	Uncertain will be reviewed
		Total		95				

Overview of the Pipeline

Summary

USAID/Indonesia continues to give high priority to reducing its pipeline. In the next few years, the Mission projects a substantial decline in the FY 86 pipeline level of \$273 million to an FY 88 figure of \$178.8 million. The FY 88 level of \$178.8 million is equal to approximately 2 times the Mission's projections for annual expenditures for the latter part of the 1980s.

Background

Over the five year period from FY 82 to FY 86 DA obligations of the Mission amounted to \$355 million and total expenditures from DA accounts equaled \$328 million. However, expenditure figures for FY 85 and FY 86 were significantly lower than previous years reflecting the impact of Indonesia's economic downturn on the portfolio. Those which affected the pipeline include: devaluations of the rupiah in 1983 and 1986; the introduction of austerity measures resulting in a slowdown in project implementation; and, in conjunction with the above austerity measures, the establishment of new review procedures for loan funded contracts which significantly delayed the start-up of new projects.

A separate factor which contributed to an increase in the pipeline during the FY 82-86 period was the Mission's policy, following AID/W guidance, of fully funding projects within the first few years. As a consequence, mortgage levels were quite low during this period, averaging about \$35.0 million.

The Mission took major steps, beginning in 1984, to respond to the changing economic circumstances in Indonesia and the pipeline. As part of these efforts, the Mission de-obligated a total of \$27 million in FY 83-86 from projects with excess funds generated by the 1983 devaluation and projects which were not performing as expected due to the changed economic circumstances. The Mission also encouraged amendments rather than new starts to avoid the time consuming negotiations and start-up activities required for new contracts. The Mission sought and received a higher grant proportion in its OYB, and undertook extensive reviews of all projects to identify key implementation bottlenecks and work with counterpart ministries to overcome these problems.

FY 87 Plans

By mid-1986, the full extent of the economic crisis confronting Indonesia was reviewed by the Mission. To assist the GOI's efforts to respond to this crisis and to take advantage of the new opportunities for policy dialogue which it presented, the Mission set about revamping key aspects of its portfolio. These efforts should have a major impact on both the Mission's pipeline as well as its mortgage. These effects are described below.

In early FY 87, the Mission submitted to AID/W a proposal for a new non-project assistance program to support policy reform and implementation. This program will be submitted for approval in April, 1987. To fund the one year \$43 million program, the Mission plans to de-obligate \$25 million from existing projects. Of the \$25 million, \$17 million will be borrowed from the Small Scale Irrigation Management Project (497-0347) and become part of our future mortgage, \$8 million will be from "excess" funds in Citanduy II, PDP I and PDP II. The program will be fast disbursing with projected expenditures of \$3.5 million in FY 87, and \$39.5 million in FY 88. (Actual expenditures depend on the speed with which the project is approved and negotiated.) An anticipated follow-on program in FY 88 or FY 89 could disburse its presently programmed \$17 million in the FY 88-89 time period.

Based on a recently completed review of on-going projects, the Mission plans a number of other actions which will reduce the pipeline. These actions include:

- 1) De-obligations of \$10.997 million dollars from on-going and terminated projects with excess funds. (Eight million dollars will be re-obligated for the Policy Support Program. The remainder is for reobligation to the Western Universities Agriculture Education project (\$2.6 million) and the regionally funded Tropsoils project (\$.375 million).
- 2) Conversion of \$34.15 million dollars from loan to grant funding. (Twenty-five million dollars for the Policy Support Program and \$9.15 million for four on-going projects to shift to grant funding for technical assistance and policy research.)
- 3) USAID assumption of an increased proportion of non-recurrent local costs to speed-up project implementation in priority areas.
- 4) A shift from fully funding projects at the outset to incremental funding of new starts.

The above activities will significantly reduce the Mission's pipeline. (See attached table). At the same time, it is important to point out that much of the Mission's portfolio remains technical assistance intensive and involves funding for policy analyses and field research, all of which are slow disbursing in the early stages of negotiation and agenda setting, and which disburse fairly evenly thereafter.

Pipeline and Mortgage Estimates (FY 87-89)

According to Mission projections, the pipeline will be significantly reduced in the next three years and mortgage levels will rise. (The unexpected reduction in our FY 87 OYB level and current assumptions that this level will not increase in the next two years account, in part, for these changes.) The recently submitted Congressional Presentation forecast expenditures of \$71 million (FY 87) and \$25 million (FY 88). Based on the Mission's assessment of first quarter and second quarter FY 87 planned vs actual expenditures these figures appear to be on target. (The planned vs actual expenditures were \$16.0 million and \$14.6 million in the first quarter.) Expenditures for the Policy Support Program were originally based

on a \$25 million LOP. The proposed increase of the LOP to \$60 million for the Policy Reform Support Program will increase expenditure projections in FY 88 by \$27.5 million and bringing total project expenditure to \$112.9 million for FY 88. Early projections for FY 89 are for total expenditures of \$90 million. If the above projections are correct, the pipeline will decline to \$246.7 million in FY 87, \$178.8 million in FY 88, and \$133.8 million in FY 89.

The mortgage has significantly increased in this time period with two new proposed starts in FY 87, two in FY 88, and two new starts in FY 89. In addition, there will be 6 amendments to on-going projects during the three years. As a consequence, the mortgage will increase to \$111 million in FY 87, and remain at that level in FY 88 and FY 89. This is between 2 1/2 and 3 times our estimated yearly OYB during that time period.

USAID Pipeline and Mortgage Estimates (FY 87 - FY 89)

FY	Obligation OYB (000s)	Expenditures (000s)	Pipeline (000s)	Mortgage (000s)
1986	48,793	51,997	273,000	41,000
1987	45,000	71,334	246,700	111,000
1988	45,000	112,900*	178,800	109,000
1989	45,000	90,000**	133,800	110,000

* Includes planned expenditures of \$39.5 million for the Policy Support Program.

** Includes planned expenditures of \$17.0 million for the Policy Support Program.

New Project Descriptions

Western Universities Agriculture Education Project: Amendment 2
(497-0297)

Funding: Present LOP Cost (L) \$12,450,000
(G) \$9,400,000
Amendment 2 (L) \$2,622,000 (all to be obligated in FY 87)

PACD: 31 August 1990

The Development Problem

A major component of the Western Universities Agriculture Education Project (WUAE) is training staff at the 11 participating universities that comprise the BKS/B Consortium. The project as presently designed provides AID funding to train 151 participants in graduate studies in the U.S (in agriculture and related fields) and GOI funding for about 270 university staff for graduate level training in Indonesia (in all fields). Under the WUAE project, over 60 participants have already earned graduate degrees from US institutions, 57 are still in training in the U.S. and all the remaining candidates are in predeparture English language training. To date, the GOI has supported 269 staff of BKS/B institutions for in-country graduate degrees, while an additional 24 have been budgeted by the GOI for FY 1987-88.

When WUAE was designed in 1981, a target of 20-25% was established for the participation of women in WUAE training activities. When Phase II of the project was being developed in 1985, it was found that while the target was met for in-country short-term training activities, it fell short (only 16%) for women who had been selected for overseas graduate programs. As a consequence, the Phase II amendment re-emphasized the 20-25% target and stressed the need to be more active in seeking female candidates for U.S. training programs.

Progress in this area has been encouraging. It appears that participant recruitment efforts which both announce the project's desire for increased women's participation and insist on objective selection criteria pay off. Of the 81 long-term participants selected to date under Phase II, 23 (28%) have been women. Moreover, the trend is that more and more women are being nominated. In the penultimate round of interviews, 18 of 50 (36%) interviewees were women with 11 of 30 (37%) acceptable. In the interviews just completed in January 1987, 40% (6 of 15) of acceptable candidates were women.

Although USAID strategy of encouraging application by women staff members, and insisting on younger staff with high GPA's as acceptable candidates is promoting higher participation rates for women, project resources for long-term training have now been fully committed. The project has an opportunity to demonstrate that qualified women candidates can be identified in significant numbers, but lacks the resources to do so. Currently all positions for participant training and the Spouse Program (a component of Amendment 1 aimed at increasing training opportunities for women) have either been filled or have candidates identified against the positions. No additional funds exist in the project for participant training.

The problem is not solely, nor even primarily, the "women's participation issue," but the larger need to increase the quality of university staff in agriculture and related disciplines. Even with the 240 new U.S. and in-country graduate degree holders that will be produced under WUAE by the time it terminates in 1990, agriculture faculty from BKS/B institutions holding graduate degrees will still be unacceptably low -- about 20%! If the numbers can be increased, a critical program need will be served; if women staff are the benefactors of this extra effort, an additional social need will be addressed.

A survey conducted in 1983 of academic staff, involving only the agriculturally related faculties located throughout Indonesia, found that females represented only 22% of the total. Moreover, when these faculty statistics were examined by highest degree earned, females were found to be even more under-represented, holding only 13% of the Masters and 8% of the doctorate degrees. Although the study findings did not distinguish between Java and off-Java institutions, the sample's Java bias would indicate that the proportion of female staff at the BKS/B institutions is likely to be somewhat lower than the figures presented, in part due to the greater employment opportunities of professional couples in Java.

Response to the Development Problem

The Mission intends to address the problem of the low qualifications of BKS/B university staff by providing an additional \$2,626,000 to the WUAE Project, which will be programmed to insure maximum participation of women instructors in advanced degree programs. This increase in resources would allow for an additional 50 masters programs in agriculture and related or supporting fields for women staff of the 11 BKS/B institutions. Given the experience of the past 3 rounds of candidate interviews, this appears to be a realistic goal. Because the PACD is August 1990, each of the participants would have to enter their programs by mid-1988. During 1987, the candidates would be identified and, if needed, their English language preparation started. Placements in the U.S. would start in January 1988.

Previously all AID-funded training was done in the United States. Given the fact that several qualified women candidates have been forced to reject WUAE training opportunities abroad due to social pressures and family obligations, the project will fund, in addition to US training programs, a limited amount of advanced degree training for women in Indonesia. While the use of AID money to fund in-country advanced degree training is somewhat unusual, it has been done previously and successfully. In-country training will allow a greater number of women to receive post graduate degrees than if training were limited only to the United States. For the in-country programs placements can start as early as September 1987.

This new amendment will dramatically increase the percentage of women instructors with advanced degrees as well as promote the overall project purpose which is to upgrade the academic qualifications of the instructors in the various project universities. Given the current GOI budget crunch, these loan funds would be used to pay all costs associated with participant training, including transportation, tuition, maintenance allowance, and books. This would apply to training in the U.S. and Indonesia.

It is worth noting that by earmarking funds in this amendment for the training of women, the Mission will have set an important precedent with the GCI which in the

past has objected to such set-asides on the grounds they would represent official recognition of gender inequities in the system. As long as the Mission does not broadcast its efforts in this regard, the GOI now appears ready to acquiesce, albeit quietly.

AID Priorities

In a recent cable concerning WID efforts, the Administrator asked each Mission to "improve our record" and to "take whatever steps are necessary to ensure that women in development issues are fully addressed ..." With specific regard to training, the Deputy Administrator has indicated with an endorsement of recent ST/IT report his desire to see women comprise 40 to 45% of all AID participants by 1990. Implementation of this amendment would achieve that target for the LOP of the WUAE Project, while also supporting the Mission's long term interest in promoting higher education in Indonesia. The newly appointed Mission WID officer has reviewed this proposal and fully supports its approach and objectives.

Major Components

The major purpose of this amendment is to improve the quality of instructional staff by increasing the numbers of women receiving advanced degrees in agriculture and related fields. There will be two separate components to the amendment. First is the U.S. participant training component which, although limited to women, will be administered with the same criteria as currently used under the project. The second component will fund in-country post graduate work for women who, because of social or family constraints, are not able to travel to the U.S.

Under Phase I and Phase II of the Project, 117 instructors have gone to the U.S. for advanced degrees. The "mix" of U.S. training versus Indonesian training under this new amendment is unknown at this time. However, even if all candidates opted to go to the U.S., approximately 50 additional women instructors would have received advanced degrees due to the additional resources of this amendment. The total number of women trained would then be 79 out of 189 participants or 42%.

The universities in the WUAE project have 5194 professional teaching staff, of which 1084 are women. Given the decision not to extend the PACD of August 1990, all candidates must start their training programs no later than mid 1988. Time will thus be a critical factor in achieving the above targets. However, approximately 20 women have already been identified as potential candidates through interviews conducted in December 1986 and January 1987. Recruitment for remaining positions will begin immediately upon the signing of this amendment, planned for July 1987.

AID/W Action Request

Mission requests AID/W approval to proceed with authorization of this amendment in the Mission. No PACD extension is anticipated. The final level of funding will be based on available funds from obligations under Sumatra Agricultural Research, Graduate Agricultural School, Local Government Training II, PRD II and In-Country Management Development.

Health Sector Financing (497-0354)
(Status Report)

The FY 1987 Action Plan indicated the Mission's plans to pursue a Private Sector Health and Family Planning Project beginning in FY 88. The AID/W review found the initiative "appropriate and timely in view of GOI need to reduce public sector budgets and costs and develop further private sector activities". The Mission now has decided to treat this as two separate projects, given the two different implementing agencies involved and the status of each in connection with utilizing the private sector. Rather than submit yet another concept paper this year for the Health Sector Financing activity, we will forward the PID to AID/W for approval. A copy of the Private Sector Family Planning concept paper follows.

In brief, the five-year, \$15 million Health Sector Financing project, scheduled for initial obligation in FY 88, would work with the Ministry of Health to reallocate scarce public resources away from the financing and delivery of curative health care towards preventive, promotive public health programs, i.e., child survival. This will be done through initiatives to:

- reduce government expenditures for hospital services (35% of the MOH budget) through management efficiencies and an increased role for the private sector in financing health care via health insurance schemes;
- reduce government expenditures for pharmaceuticals (21% of the MOH budget);
- reduce provision of GOI provided curative services to those able to pay;
- establish operational mechanisms at policy level to reallocate "saved" resources to GOI supported child survival initiatives.

Higher Education Development Support Project (497-0358)

Funding: LOP (L) \$8,500,000
(G) \$6,500,000

FY 88 Obligation (L) \$1,000,000
(G) \$2,000,000

PACD: September 30, 1994 (6 years)

The Development Problem

Science, technology and technical progress are widely recognized by economists as a major engine of economic growth. Indonesia, however, ranks last when its numbers of scientists, engineers and high level technicians are compared on a per capita basis with those in other ASEAN countries. A measurable indicator of such manpower shortages is the relative high cost of highly skilled labor, resulting in excessive production costs. For a country trying to poise itself for broad based economic development and to meet the demands of export and domestic markets, preparing its youth to fill and even create these high level positions is critical. But preparation of this professional workforce must be accomplished through a system which delivers the type and quality of education needed by the economy. Indonesia's higher education system is slowly being developed, and indeed remarkable gains have been made since independence, but it is still of low quality and inefficient. Given the high cost of higher education relative to other levels of education, the system must be as efficient as possible from both a cost and operations standpoint. This is particularly essential in light of the current serious state and bleak outlook for government revenues.

An analysis of Indonesia's higher education system, both public and private, carried out by the AID financed Education and Human Resources Sector Review of April 1986, revealed several serious shortcomings: a significantly underqualified teaching staff (the least qualified in the ASEAN region), inefficiencies regarding the production of graduates as well as administrative and programming procedures, and an economically unjustified ratio of government to private financing of the system. The economic downturn, which has undermined the GOI's ability to support its universities financially, is forcing a re-examination of several key policies affecting enrollment levels, operations and financing, creating in addition an urgency for change. At this juncture, and to protect the enormous investments Indonesia has made in higher education, efforts to sustain and improve the system are required.

Response to the Development Problem

In response to the unusually high numbers of under-qualified teaching staff, the HEDS project will devote most of its resources to graduate level overseas training of university staff. With public university full-time teaching staff at about 25,000, of which only 15% possess more than an undergraduate degree, and with a private university system of almost equal

size but even less qualified staff, the need for staff upgrading is as large as it is acute. Given the combined resources of several donors, including AID, that are being applied to the upgrading of staff, and given that public university enrollments and program expansions have recently been curtailed, there is opportunity for real gain.

Under HEDS, training will be targeted to selected departments from a range of institutions which are important to Mission program interests such as agriculture, public health, business education/administration, basic and applied sciences, and engineering. Fellowships will be made available to public universities, principally those of the outer islands, private universities of sufficient status and relevance to the communities they serve, and private institutes of business management. In project design, a set of criteria will be formulated to ensure that HEDS training support is targeted properly. Depending on the size of the individual programs assisted, the total numbers of institutions affected will range from 10 to 15. With a Mission participant return rate of 99% (based on approximately 10,000 participants), and a GOI requirement that those trained return to their employing institutions, there is sufficient assurance that the contributions of upgraded staff will be realized. The GOI, in recognition of this potential, is fully supportive of the type of overseas academic training programs to be funded by HEDS.

In addition to overseas training, HEDS will provide support to staff of the targeted universities to become engaged in research and other professional upgrading activities. Research, especially, is woefully inadequate at the universities, due again to underqualified staff and a recent cutback in GOI funding. Building upon the experience of the Western Universities Agricultural Education Project, research capacities of recent overseas or in-country graduate degree holders will be strengthened by providing competitive research grants and opportunities for utilizing in part the resources and facilities of the World Bank supported Inter-University Research Centers. Project funds will also be provided to allow university staff to participate in subject specific inter-university networking activities, similar to those established in WUAE.

A special studies and incentives fund will support investigations into and applications of higher education system improvements. A basic reference for the improvements that will be promoted is the Education and Human Resources Sector Review. Part of these funds will be available to the Directorate General of Higher Education to assist with policy related studies (e.g., better articulation and management of the private university system). A second component would be reserved for HEDS institutions to fund their own explorations into program and operations improvements, or to reward these institutions (perhaps with additional fellowship or research funds) for initiatives taken which have resulted in verifiable improvements. Particularly favored under this incentive scheme would be approaches which have applicability in areas such as financing, administrative procedures and efficiency improvements. Other examples include student loan and other private funding schemes, tracer studies, case study development by the business schools, private sector involvement in Open University programs, new staff recruitment programs, staff/facilities planning and utilization studies.

AID Priorities

The HEDS project is aimed at a segment of the education system that builds regenerative capacity for development: institutes of higher learning. Its goal is to increase Indonesia's ability to meet the social and economic needs of the population by stimulating scientific and technological advances needed for development. Its purpose is to realize quality and efficiency improvements in the higher education system by upgrading selected public and private university staff principally through overseas training and on-site post-training support, and by supporting policy initiatives, both at the institution level and the national level. HEDS will also endeavor to affect the way the GOI works with and through the private university system to help meet the country's requirements for high level manpower. The aims of this project are consistent with the goals of the Mission CDSS as well as responsive to the Administrator's call for increases in participant training and improvements in efficiency of educational systems.

HEDS will complement the activities of several other donor activities. It will support the efforts of IBRD's University Development II Project by utilizing the newly established Inter-University Research Centers in carrying out HEDS financed research and it will explore ways to apply the approach to university instructional improvement currently being developed with Dutch assistance. Post training staff opportunities under HEDS will be available to those trained under other donor financed projects, thus helping to those solidify the training efforts of others.

Major Components

This project will provide funding for participant training (\$9.5 million), special studies related to testing ideas for policy changes (\$2 million), support funds for research and after-care (\$1.25 million) and technical assistance (\$2.25 million). One long-term advisor will be required to coordinate the program, while short term assistance will be utilized in the implementation of activities/studies carried out under the policy and research support funds.

The Directorate General of Higher Education in cooperation with the Overseas Training Office of the National Planning Agency, and (an ad-hoc) committee representing the private sector management institutes will be the main Indonesian counterpart organizations.

It is anticipated that by the end of the project there will be:

1. A more effective structure and policy framework within the DGHE for utilizing the services of the private university system.
2. Several policy studies undertaken and recommendations acted upon regarding the improved efficiency and financing of higher education.
3. 175 upgraded staff serving their institutes of higher learning as effective instructors and researchers.
4. Staff of public and private universities participating in problem oriented inter-university networks and an improved system of university managed research.

AID/W Action Request

AID/W approval is requested for the development of a PID followed by a PP, both of which will be approved by the Mission for initial funding in FY 88.

Private Sector Family Planning Project (497-0355)

Funding: LOP Cost (L) \$ 4,000,000
(G) \$16,000,000

FY 89 Obligation (L) \$2,000,000
(G) \$2,000,000

PACO: September 1994

The Development Problem

Rapid population growth in Indonesia continues to undermine the GOI's achievement of its socio-economic development goals. Although there has been a substantial drop in fertility due in large part to Indonesia's National Family Planning Program (NFPP), concomitant drops in mortality have resulted in continued high population growth rates. Moreover, with the addition of about 600,000-800,000 couples in the reproductive ages each year (due to past high fertility), the NFPP has to redouble its efforts just to remain at its current percentage of contraceptive coverage.

From the crude birth rate (CBR) current level of about 32 per 1000, the GOI is committed to attaining its goal of 22 per 1000 by the year 2000 in order to attain replacement level fertility. To achieve this goal, at least 65 percent of the couples in the reproductive ages must be using modern, effective methods of contraception. In terms of numbers of continuing users, from an estimated 15.7 million in 1987, the program must expand to serve 18 million by 1990 and about 23 million by the year 2000. However, the GOI will be severely constrained in its ability to meet these targets due to its shrinking financial resources. It is estimated that currently, through the NFPP coordinated by the National Family Planning Coordinating Board (BKKBN), about 80 percent of continuing users are provided free services by the Government. Thus, the key problem for the BKKBN is how to meet the ambitious but critical GOI demographic targets with shrinking GOI resources. To approach this problem, the BKKBN is currently addressing the policy questions of how to recover a portion of its costs and how to shift services to the private sector.

Response to Development Problem

To enable the NFPP to expand its coverage to meet the GOI CBR target at less cost to the GOI budget, the BKKBN has proposed a policy with a heavier private sector involvement and a goal of 80 percent coverage in family planning by the private sector by the year 2000. To accomplish this, the BKKBN will shift emphasis from a community-based group dynamics approach for recruiting new family planning acceptors and ensuring continuing use, to a system more based on individual choice. Such a system would depend on advertizing and other forms of information and education: 1) to convince couples in the childbearing ages that it is in their own best interest to plan their

families; 2) to encourage them to pay for the contraceptive method of their choice; and 3) to inform them that contraceptive methods are available either from public sector service points or from the private sector.

AID Priorities

This project is in line with the Mission CDSS objective of improving family planning coverage. It will assist the GOI to amend and develop those policies which will permit the Government to restructure its resource allocations by permitting the involvement of the private sector in the NFPP and expanding the role of contraceptive social marketing. It will provide institution building for those private sector family planning agencies and foundations and improve the public's reliance on the private sector to provide quality family planning services. It will also support the Agency's child survival program by assisting families to improve the spacing of their children by having readily available temporary contraceptive methods and better knowledge of their use.

Major Components

This project will assist the BKKBN to increase the number of acceptors paying for their services and to improve the level of family planning coverage among couples of fertile age in the following ways:

- Expansion of the Contraceptive Social Marketing (CSM) Program: the current CSM program will be expanded to provide all methods through commercial distribution channels and through professional outlets such as the Indonesian Doctors' Association, the Indonesian Midwives' Organization, and private sector clinics and hospitals. This expansion should also improve the sales and production of Indonesia's nationally owned contraceptive manufacturer, Kimia Farma. It is important to note that agreement was reached recently to sell pills over-the-counter without prescription to women with family planning cards. This represents a significant policy change and opens up the largest part of the family planning market to the private sector.

- Development of a National BKKBN Community-based Delivery (CBD) System: As an out growth of the successful village family planning delivery system, a new approach to CBD will be developed to allow family planning field workers, volunteers and charity services outreach workers to charge small fees for door to door delivery of contraceptives (which are provided on a subsidized basis). These workers will refer patients to public or private service centers dependent upon their financial resources.

- Development of Fee-for-Service and Prepaid Provision of Family Planning Services: Fee-for-service and/or prepaid provision of family planning services approaches will be developed in both public and private sector clinics and hospitals. This would include the expansion of surgical family planning services where the acceptor would pay all or part of the cost.

- Appropriate Targetting of GOI Funds: improve the system's ability to collect data about the private sector's contribution to coverage, to make grants to private sector agencies for services rendered, and to focus its GOI public sector funds to serve the lowest economic class.

The following inputs are anticipated:

Technical Assistance to assist in establishing family planning services in prepaid insurance programs, developing delivery and management systems, project design and evaluations, and developing data systems. (\$3,000,000)

Operational Studies would be undertaken to test the viability of new delivery systems, conduct contraceptive prevalence surveys, and to do appropriate market research. (\$2,000,000)

Local Costs would be provided for the expansion of the CSM activity for advertizing and operational support, to assist EKKBN to expand the community based delivery system nationwide, and to provide grants to private sector agencies for pilot efforts to expand fee for service and prepaid FP services. (\$11,000,000)

Training and Manpower Development focused on long and short term training and internships in management, health business systems and administration, marketing and modern advertizing techniques would be provided to individuals from selected public and private institutions and firms involved in family planning services, marketing and finance. (\$2,000,000)

Commodity Support will be considered for new contraceptives and for management and data equipment. (\$2,000,000)

AID/W Action Request

Request approval of concept paper at this time and delegation of authority to the Mission for PID approval.

Local Resources Development (497-0356)

Funding: LOP Cost (L) \$10,000,000
(G) \$10,000,000

FY 89 Obligation: (L) \$2,000,000
(G) \$2,000,000

PACD: August 1995

The Development Problem

The size and diversity of Indonesia require the decentralization of government authority in certain key areas to encourage equitable economic development. In the past 20 years, the GOI has made significant policy changes and created an active role for local government in regional economic growth while maintaining national unity and stability. Further progress in this direction must be sustained to allow continued viable economic growth throughout such a diverse nation.

The greatest progress has occurred at the provincial and district levels, but further policy and legal changes are required to enable these levels to fully function and to strengthen the sub-district and lower levels. While provincial and district governments are willing and able to exercise greater responsibilities for local development, central government is often reluctant to expand delegations to the local levels and frequently has been unable to resolve conflicting policies which restrict local authority.

Response to the Development Problem

Over the past 10 years, AID has become increasingly involved in supporting the GOI's efforts in development of local government capabilities beginning with the Provincial Area Development Program (PDP) in 1978. Through PDP, AID has seen increased capacities at provincial, district and sub-district levels particularly in multiyear, multi-sectoral planning and budgeting; inter-agency coordination; identification of target groups and project objectives; and increased input into these processes by local participants. The quality of projects planned and implemented by local government has demonstrated the increased capacity at this level. Based largely on the PDP experience the GOI has continued its support for decentralization in economic development sectors.

To facilitate the further development of local government a 3-pronged approach is proposed to: 1) improve analysis of current GOI decentralization policies to identify conflicts and formulate policies to support local government development, 2) broaden and deepen local government experience in resource management for more efficient, effective use of funds, and 3) increase local government's effective mobilization and use of resources for local economic development activities. The intent of this strategy is to strengthen local government's role in management of resources which have positive impact on development, as well as encourage support for the informal and private sectors.

AID Priorities

Decentralization and support for more effective local governments is an important condition for the sustained achievement of key elements of AID's strategy in Indonesia. These elements include diversified food production, improved efficiency, and increased employment opportunities. These objectives can best be achieved under a decentralized system working effectively with the private sector under sound overall policies. Weak and inexperienced local governments are likely to present obstacles to such development which in turn provide further reason for less progressive forces in the central government to resist decentralization.

Major Components

The proposed project will focus on three components of which only the first two would be directly supported by AID; the third would be funded jointly by the GOI and other donors.

1) Develop a semi-governmental support and consulting entity at the central government level which would provide policy and routine guidance and direction to the GOI decision makers on its decentralization program and revenue generation. This entity would primarily assist the Ministry of Home Affairs, National Planning Agency and Ministry of Finance, with some attention to other line ministries, and might be placed in one of these agencies.

2) Funding made available to the semi-governmental entity would be used to carry out special studies, experimental projects/activities; operational research, and assist the entity in identifying and developing elements which encourage effective decentralization and revenue generation.

3) Establishment of a fund allocated annually to local governments (primarily to district level but also provincial and sub-district) for development activities. Annual funding levels would be based on a fixed minimum amount with performance based supplements to a maximum level. Performance would include, among other things, quality of design, planning and implementation of appropriate programs and, possibly, generation of local revenues (local taxes or other sources).

AID/W Action Requested

The nature of the project requires that project design be carried out simultaneously with negotiations on GOI policies and programs. Following initial approval of this concept and goals of the project, the Mission will enter into discussions with the GOI and submit a PID in April 1988 for approval to proceed with a Mission-authorized PP.

Private Sector Development Project Amendment (497-0529)

Funding: Present LOP: (L) \$6,850,000
(G) \$2,750,000

Amendment : (L) \$2,000,000
(G) \$4,000,000

FY 89 Obligation: (G) \$2,000,000

PACD: September 1, 1990

The Development Problem

The downturn in the economy has imposed severe constraints on the Government's ability to support development. To maintain growth at a pace that will come close to providing opportunities for Indonesia's expanding workforce will require an increasingly active private sector. Despite a number of changes in the last four years to open the economy to market forces, real limits affect private sector development, particularly in trade and industry, and private efforts to mobilize resources through capital and financial markets and from foreign investors. Government efforts to spur small enterprise development, a major potential source of employment, have also largely failed.

Response to the Development Problem

The on-going Private Sector Development project has been providing resources to assist in these efforts, but funding is insufficient to maintain support for those components which the Mission believes are particularly successful, special studies and small enterprise development. This amendment will provide funds for special studies and consulting services to identify and address further constraints on private sector development. It will provide the Ministry of Finance funds for technical assistance to review policies affecting private sector growth and to initiate and implement appropriate changes. It will not be effected by the limited GOI counterpart budget because much of the assistance will be provided directly to the Ministry of Finance and Bank Indonesia where the counterpart contribution is largely in-kind and required counterpart funds are adequate.

AID Priorities

The project supports the current CDSS priority of increasing off-farm employment through a strengthened private sector. It is in line with plans during the next CDSS to focus on improving the macro-policy environment for private sector development. It provides funds for identifying and addressing constraints on the private sector and allows for continuing discussion of key policy issues. In so doing it also supports two of AID's pillars--private sector development and policy dialogue.

Major Components

The first component (\$4,200,000) provides for special studies and consulting services aimed at policy constraints affecting private sector development. Funds under the existing project have been used to assist the government in administering the new tax reform, to provide assistance from the Federal Reserve to Bank Indonesia to strengthen bank supervision, automation and strategic planning, to provide studies of pensions and capital markets development and technical assistance for implementation of a recent trade reform package. A major portion of the amendment would continue these efforts. Funds would also be used for technical assistance in investment policy formulation and implementation similar to that now being provided under the facilitating investment component of Private Sector project, for other special studies relating to private sector development and for assistance in establishing a process for management training exchanges between the Indonesian and U.S. private sectors.

The Amendment would also provide funds (\$1,800,000) for follow-on activity to the Central Java Enterprise sub-project, helping to institutionalize some of the lessons learned in assistance to small enterprises and transferring specific technology in shrimp culture and export promotion to new locations.

During the existing project, USAID has helped develop resources important to small enterprise development in several key areas. The Central Java Enterprise project has been particularly successful in development of appropriate technologies for shrimp production and pond culture and in creation of private intermediaries to facilitate small enterprise exports. A business advisor has been developing business systems for small enterprises. In Lhokseumawe, substantial groundwork is completed--feasibility studies of potential small enterprises, contacts with a major market and potential source of financial and technical support (the industrial estate), development of a local private voluntary organization to assist small business, and commitment of support from the Governor's office and local government officials. In Ujung Pandang, a group active in shrimp culture has been identified and may be able to serve as the base for expanding shrimp technology developed under the Central Java sub-project. At the national level, the program in Central Java has attracted favorable attention from the Ministry of Industries' Director General for Small Enterprise Development.

The Amendment will encourage the integration of these efforts. It will allow the transfer of technologies and approaches tested in Central Java to new areas--appropriate shrimp culture techniques to Lhokseumawe and Ujung Pandang, for example, or development of new business systems for small enterprises. It will also provide technical assistance to the Ministry of Industry to develop at the national level an experimental approach to small enterprise assistance based on the Central Java model. The Mission would seek commitment from the Ministry to a technical assistance approach that emphasizes the use of private companies to provide self-sustaining extension services to small industry.

AID/W Action

Request approval to proceed with the Amendment for Mission authorization. Also request approval to extend this 6 year project for an additional 25 months to September 30, 1990. (The Mission has already utilized its authority to extend the project for two years.)

Child Survival Project (497-0359)

Funding: LOP Cost (L) \$ 7,000,000
 (G) \$18,000,000

FY 90 Obligation

PACD: September 1995

The Development Problem

While impressive reductions have been achieved in general health status in Indonesia over the last few decades, a disproportionate number of deaths still occur in children less than five years of age. In 1980, there were 1.7 million deaths in Indonesia, 48% of which occurred in children under five, 30% in children less than one and 12% during the neonatal period. The major causes of death in these age groups are from preventable diseases. Respiratory and diarrheal diseases cause 62% of post neonatal and childhood mortality. Risk of illness and death during the under five age period is exacerbated by poor nutritional status. While Indonesia's infant mortality rate has declined steadily over the past 5 years, it still remains high compared to other countries with similar GNPs, at roughly 90/1000 live births. Immunizable diseases and dehydration still cause approximately 370,000 child deaths per year. Acute respiratory infections are among the leading causes of death and yet the Ministry of Health (MOH) has no organized control and treatment program.

The Government of Indonesia is committed to reducing the infant mortality rate and has set ambitious targets for itself. However, while Indonesia already has a massive health infrastructure, it has one of the lowest per capita health budgets in SE Asia. There are difficult financial and organizational problems which must be overcome in order to make essential health services available, to increase utilization of those services and to overcome the other conditions which contribute to the high infant and childhood mortality rates. The government has launched a program of integrated health and family planning service delivery at the village level through what is called the PosYandu program. It is an attempt to make immunization, diarrheal disease control, family planning, and other maternal and child health services more readily available and to generate better community participation in the organization and delivery of services. But it is difficult to make further progress with this program until the planning and budgetary process become more decentralized. The ability to gather and analyze epidemiological and health service data and the ability to plan for relevant programs which address those problems is badly needed at the provincial and regency levels in the health system. These levels also need greater control over their financial resources.

In addition to making improvements in the organization and delivery of health services, there is a growing awareness within the Ministry of Health that it is not enough to simply make services available. Evidence from a recent evaluation of the Expanded Program for Immunization (EPI) indicated that, while over 60% of

children received their first DPT vaccine, there was a dramatic decline in the number of those who came back for the 2nd and 3rd doses. Throughout the government health care system there is evidence of under-utilization of services. Studies in other countries, and some evidence from Indonesia, suggest that there are many service alternatives available and that health consumers, even poor ones, are more sensitive to quality and non-monetary costs than planners may be assuming. Experience has shown that the demand for health care can be influenced in much the same manner as demand for other kinds of goods and services. Therefore, there is a gradually increasing interest within the government to experiment with social marketing of certain services to try to manage the supply and demand in a way that helps increase utilization of essential child survival interventions such as ORT, immunizations, breastfeeding, Vitamin A supplementation and the like.

Response to the Development Problem

The manner in which USAID will help the government address the problems described above will be through a child survival project which addresses the following issues: (1) the policy considerations with respect to resource allocation for child survival programs and the need to move toward a decentralized service delivery system involving both the government and private sectors, (2) the need to demonstrate the power of a social marketing and consumer oriented approaches as to delivery of child survival services such as ORT and immunizations, and (3) the need to institutionalize the PosYandu concept by finding ways of increasing community involvement in the organizing and financing of such services.

The project will start to address these issues by providing funds for studies of health behavior and market oriented research on how to influence health related behaviors. This information will be used to design immunization and diarrheal disease control programs which attempt to increase the demand for the services as well as assure that the supply of services is available to meet increased demand. Activities will be initiated to create new incentives for government and private sector health care providers to begin taking a more active role in promoting ORT use and exploiting opportunities to assure full immunization protection for their clients. The project will demonstrate the advantages of decentralization to the provincial and regency levels for planning and managing health programs. New methods for increasing cost recovery for village level service and organizing the PosYandu program in ways that improve the demand for services will be pilot tested. The information gathered and the experimental work undertaken during the project will be used as the basis for policy discussions with the MOH to encourage them to (1) accelerate the process of reallocating more resources for child survival programs, and (2) encourage the development of a pluralistic health care delivery system in which the government functions as a catalyst and a regulator of quality as well as the primary provider of public health services which are difficult to finance individually.

AID Priorities

The proposed project reflects the priorities of the Agency in its Child Survival Strategy. It recognizes the great potential for decreasing rates of infant and childhood death by improving utilization of ORT and immunization services. The

project also recognizes that accomplishments in increasing child survival need to be protected through carefully considered investments in institutionalizing these programs and assuring that adequate attention is paid to long term program management and financing issues. The Project is also consistent with the Mission's CDSS and is an outgrowth of the Mission's Child Survival Strategy which was approved by AID/W. It offers an opportunity for the Mission to consolidate its population and health sector portfolio so that for 1990 and immediately beyond, USAID bilateral assistance will flow through three major projects.

Major Components

The project will be organized into three major components all of which are closely related even though they may involve working with several MOH divisions and private institutions. These are:

1. Communicable Disease Control (\$9 Million): bring a new dimension to both the CRT and EPI programs by looking for opportunities to involve private practitioners and private organizations in promoting and delivering services, and using social marketing techniques to increase demand for services and assure adequate supply. Helping assure adequate supply of services will also require further attention to the management of the communicable disease control program of the MOH to strengthen their logistics and service information systems which are currently weak but without which, improvements would be difficult.
2. Decentralization (\$9 Million): help institutionalize some of the previous work done on decentralization in the health system by demonstrating the desirability of strengthening the managerial capacity at the provincial and reGENCY level and by improving their ability to support the health center staff to manage village level service delivery programs. This effort will involve improving the capacity of the provincial and reGENCY levels in the health care system to identify and target groups at high risk for early childhood death so that services are directed in a more cost-effective manner.
3. Village Level Services (\$7 Million): experiment with alternative ways of involving communities and individuals with the organization, management, and financing of PosYandu services. This will involve creating more demand for maternal and child health services and influencing nutrition related behavior, studying current health seeking behavior in order to make services more relevant to consumer needs, experimenting with cost recovery and fee-for-service practices at the village level with selected goods and services, and strengthening the support for the PosYandu program from community organizations. This will expand the fee-for-service emphasis in the Private Sector Family Planning Project to areas other than contraceptives.

AID/W Action Request

The proposed project represents an important element in the Mission's attempt to consolidate and streamline its population and health sector portfolio to conform to resource and staffing constraints. A more fully developed concept paper will be submitted with next year's Action Plan. The purpose of this early draft is to alert AID/W to this possibility, and to indicate the complementary relationship between the Health Sector Financing Project proposed for FY 88, the Private Sector Family Planning Project, proposed for FY 89, and this project in FY 90.