

PD-ABE-683

U N C L A S S I F I E D 134 18885

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

Amendment II

Indonesia: Budget Support and Related
Technical Assistance
(497-0357)

August 8, 1990

U N C L A S S I F I E D

____ This is a draft form. The revised form will be issued when available.

CLASSIFICATION: Att 1 to App 3B, Ch 3, HB 4 (TM 4:11)

AID 1120-1 PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Amendment No. 2 2. COUNTRY Indonesia 3. CATEGORY Budget Support and Related Technical Assistance 4. DATE
5. TO: The Director, USAID, Jakarta/Indonesia		6. OYB CHANGE NO.
7. FROM: Peter Gajewski Chief, Economic Policy Support Office		8. OYB INCREASE TO BE TAKEN FROM: None
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$3,000,000		10. APPROPRIATION - Approp. 72-1101021. BPCS
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD N/A
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N/A

16. PERMITTED SOURCE U.S. and Indonesia: \$3,000,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: \$2,250,000 Industrialized Countries: Local: Other: \$750,000 (local TA)
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18. SUMMARY DESCRIPTION

The Agriculture and Rural Sector Support Program (ARSSP) is designed to support policy changes targeted at increasing rural employment and incomes during a critical period in Indonesia's development. Under the ARSSP program to date, through which \$63.0 million has already been obligated, the Government of Indonesia has shown a commitment to policy reform beyond the expectations when ARSSP began. Effective implementation of current policy reforms and adoption of further measures will be necessary to consolidate the process of economic and institutional liberalization, paving the way for faster growth in the rural and non-rural sector both. This amendment will add \$3.0 million of additional DA resources, to be obligated in FY 90.

These funds will supplement the current allocation of \$3 million for technical assistance to design, implement, and evaluate the policy changes supported by the program assistance component of ARSSP.

19. CLEARANCES ARD: GKerr PSD: JWatson PPS: Glewis LA : SOverall FIN: CChristensen CM : MStevenson	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Lee Twentyman AUTHORIZED SIGNATURE 8/7/90 DATE Acting Director TITLE
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CLASSIFICATION: - - - - -



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
AMERICAN EMBASSY
JAKARTA, INDONESIA

August 1, 1990

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, USAID/INDONESIA

FROM : Peter Gajewski, EPSO 
SUBJECT : Approval of Amendment No. 2 to the Agriculture and
Rural Sector Support Program (497-0357)

ACTION: You are requested to authorize amendment to the Agriculture and Rural Sector Support Program (ARSSP) to provide an additional grant in the amount of \$3.0 million for technical assistance, raising the program's total funding to \$66 million, to expand the policy framework for the program.

This amendment was approved by the Assistant Administrator, Bureau for Asia and the Near East in State 174691 dated 31 May 1990 (ANNEX A). It was approved by the Mission Executive Committee for signature by the Director on June 27, 1990.

DISCUSSION: Between 1987 and 1992, ARSSP is programmed to provide a total of \$60.0 million in budget support for the Government of Indonesia's development program in the rural sector and a total of \$3.0 million in technical assistance to support the design, implementation, and evaluation of policy reforms necessary to accelerate the growth of incomes and employment in that sector. At the same time, the demand on technical assistance services to support the policy process has exceeded initial expectations, as policy changes have given rise to demands for assistance and training to make the reforms fully operational. Additional technical assistance is therefore needed

to support progress on the current policy agenda. This amendment will add \$3.0 million, raising the total available for technical assistance to \$6 million.

The PAAD Amendment No. 2 Facesheet and the Program Recommendation and Executive Summary in Section I of the PAAD Supplement summarize the scope of the Program and define the fundamental terms, conditions, and budget level of this amendment for purposes of approval and authorization.

RECOMMENDATION: That you approve negotiation and signature of an amendment to the Agriculture and Rural Sector Support Program Grant to raise the total level of assistance to \$66.0 million and authorize the obligation of up to \$3.0 million for this purpose in FY90 by signing the attached PAAD facesheet.

AUTHORITY: Under A.I.D. Delegation of Authority no. 652 (41 F.R. 22114, June 1, 1976), as amended, the Mission Director in Indonesia does not have generally delegated authority to amend non-project assistance authorizations where total LOP funding exceeds \$30 million, Sec. 2B(1). However, by cable no. State 174691 (May 31, 1990), ANNEX A, the AA/ANE, who possesses authorization authority without dollar limitation, has approved the proposed amendment. Thus, in the opinion of the Legal Advisor you have authority to sign the attached authorization amendment.

Cleared:

1. EPSO:LARoss (in draft)
2. PPS :GLewis (in draft)
3. LA :PScott (in draft)
4. ARD :MWinter (in draft)
5. PSD :JWatson (in draft)
6. FIN :CChristensen (in draft)
7. CM :MStevenson (in draft)

Drafted:EPSO:MH  8/1/90
#WP50/ARSSP.action

GLOSSARY OF TERMS

ADB	Asian Development Bank
ARD	Agricultural and Rural Development Office, USAID
ARSSP	Agriculture and Rural Support Program
BAPPENAS	National Development Planning Agency
CDSS	Country Development Strategy Statement
EPSO	Economic Policy Support Office, USAID
GOI	Government of Indonesia
IBRD	International Bank for Reconstruction and Development
JCC	Joint Career Corps
PASA	Participating Agency Service Agreement
PIO/T	Project Implementation Order/Technical Services
PPS	Program and Project Support Office, USAID
PSD	Private Sector Development Office, USAID
TCIP	Technical Collaboration (Indonesia) Project
USAID or AID	United States Agency for International Development

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497-0357

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- A. ANE Approval Cable
- B. Statutory Checklist
- C. Draft Program Agreement Amendment
- D. Initial Environmental Examination
- E. Certification Checklist

I. PROGRAM RECOMMENDATION AND EXECUTIVE SUMMARY

A. Recommendation

This PAAD Supplement was developed with ANE Bureau concurrence for Mission approval for amending the ARSSP Program Authorization. The Supplement presents the framework for grant to the Government of Indonesia (GOI) in the amount of \$3.0 million to increase the U.S. contribution to the Agriculture and Rural Sector Support Program (ARSSP) to \$66 million. The PACD, December 31, 1992 remains unchanged by this amendment. This program will assist the GOI to develop and implement policy measures which promote more rapid growth of income and employment. The program will build on and continue A.I.D. support to Indonesia policy development and implementation provided under ARSSP since 1987.

B. Program Summary

1. Program Title

Agriculture and Rural Sector Support Program

2. Summary of Current and Proposed Assistance

	<u>Funding Summary</u> (\$ million)		
	<u>AID</u>	<u>GOI</u>	<u>Total</u>
Current funding	63.0	27.8	90.8
Funded by this amendment	<u>3.0</u>	<u>--</u>	<u>3.0</u>
Total funding:	<u>66.0</u>	<u>27.8</u>	<u>93.8</u>

The cumulative U.S. contribution now provides 70% of total ARSSP program costs and the GOI contribution accounts for 30%. The GOI contribution shown does not fully reflect actual GOI support to ARSSP because it includes only the GOI budget allocations agreed upon in accordance with ARSSP program assistance. The GOI contributes substantial in-kind resources to technical assistance activities, but these resources cannot be estimated in advance of more specific technical assistance programming and therefore are not shown in the budget, nor will they be tracked on a financial basis.

The grant amendment will raise the technical assistance element in ARSSP to \$6.0 million, 9% of total A.I.D. support.

C. Summary Program Description

The additional funding provided by the grant amendment will

finance long- and short-term technical assistance to support design and implementation of policies and strategies for economic development, primarily in the areas of agricultural diversification and trade, domestic resource mobilization investment deregulation and environment and natural resource management. This assistance will assist the GOI in achieving reforms in these areas, thus supporting the ARSSP's overall aim of growth in rural incomes and employment.

D. Statutory Checklist

The Statutory Checklist is provided in ANNEX B.

II. PROGRAM BACKGROUND AND RATIONALE

A. Program Background

Indonesia's good economic performance over recent years has been underpinned by a series of macroeconomic policy reforms which give greater emphasis to the private sector and market-led development. Five major reform packages have been introduced since mid-1987 and others are under preparation. In many cases, technical assistance from external sources has played a vital role in the reform process.

The ARSSP experience to date demonstrates that an infusion of specialized expertise, targeted to areas where GOI commitment to introduce reforms and increase efficiency is strong, can be highly effective in strengthening and accelerating the reform process. For example, rapid fielding of advisers on stock market regulation helped the GOI to forestall serious problems during the critical transition to an expanded and better regulated equities market. Other advisers fielded under ARSSP have provided assistance to the Central Bank, Ministry of Trade, Ministry of Finance, Ministry of Agriculture, and to BAPPENAS to address a variety of issues that the Government must confront as the reform process unfolds. The GOI's commitment to economy-wide reform will continue to create new demands for technical support and new opportunities for donor assistance to accelerate and consolidate reforms under way.

A.I.D.'s role in Indonesia has evolved in tandem with the development of the economy, as demonstrated by the evolution of ARSSP. When ARSSP was initiated in 1987, the greatest need was for budget support. Consequently, 97% of ARSSP's first tranche consisted of fast-disbursing program support, and only 3% took the form of technical assistance. As the economy recovered from the shock of falling oil prices and macroeconomic reforms began to have an impact, the need for program support lessened, but the need for assistance to consolidate progress on the government's aggressive reform agenda increased. ARSSP's second tranche, funded in 1989, doubled the share of total program assistance allocated to

technical assistance.

Indonesia's current macroeconomic situation does not justify overall budget support assistance by A.I.D., coupled with large-scale resource transfers from several other donors, notably the IBRD, the ADB, and the Japanese bilateral program. At this time, A.I.D.'s most effective contribution takes the form of a transfer of expertise, an area where A.I.D.'s ability to respond rapidly with specialized expertise is highly valued by our counterparts. Even the budget support component of ARSSP has become narrowly targeted to achieve specific objectives. In some cases budget support is provided for the GOI TA services, e.g. for the IPM program and tax collection efforts. This role positions A.I.D. to make a contribution to Indonesian development far exceeding its small share (1-2%) in Indonesia's foreign assistance portfolio.

This experience has underscored the evolutionary and often unpredictable pace of the reform process. One reform builds on another, as deregulation in one area creates new opportunities for progress in others, giving rise to additional needs for technical assistance. Unforeseen demands for expertise arise, particularly during the implementation phase. In many instances, the ability of a donor to respond effectively to these needs will depend on its ability to mobilize assistance rapidly and flexibly, going beyond the limits defined by the project portfolio in place.

Over the next few years, the focus of economic restructuring is expected to shift increasingly to the sectoral level as reforms to fiscal, monetary, and trade policy are consolidated and a sound macroeconomic basis for growth is established. The expanded opportunities created by macroeconomic restructuring are already generating renewed pressure for further liberalization within the production sectors, as well as greater recognition of the need to place social services supporting production on a sound and sustainable financial basis. The emphasis within A.I.D. assistance to the restructuring process is therefore expected to shift as well, increasing the focus on the production sectors, including industry and commerce as well as agriculture and agribusiness, and on redefinition of private and public sector roles in the provision of social services.

B. Program Rationale

The overall reform process is hampered by the absence of timely and appropriate expertise to assist Indonesian authorities wrestling with implementation challenges that lie outside their range of experience and are often extremely complex. Given the urgency of responding to these needs, the A.I.D. mission has worked with the GOI to meet as many requests for assistance as possible within the existing portfolio. ARSSP's current resources are fully budgeted, however, and a limit has been reached beyond which further recourse to other project resources cannot be made without risking disruption of the programs supported by these projects.

In a number of instances, the mission has already been forced to decline requests for assistance in areas of high priority to the GOI and A.I.D., because the resources necessary, although modest, could not be mobilized within the current portfolio.

This amendment to ARSSP will enhance the ability of the Mission to meet these needs as they relate to ongoing support to policy reform in Indonesia. It will provide urgently needed technical expertise in Program related policy areas targeted for assistance under the CDSS and the USAID/ANE Performance Contract in pursuit of open markets and open societies objectives. The program will have the capability to mobilize short-term technical assistance on a quick-response basis to meet urgent policy analysis and implementation needs, and, where necessary, to follow up this assistance by fielding long-term technical advisers with greater rapidity and flexibility than possible under existing mechanisms.

The technical assistance component of ARSSP does not constitute a policy analysis institution-building project in the traditional sense. It does not seek to raise GOI capacity in policy analysis and programming directly. Its strategy is to provide the technical inputs needed to address urgent policy analysis program development needs, and implementation procedures, filling a critical gap while projects such as the Development Studies and Financial Markets Projects raise GOI capacity in policy analysis to meet longer-term needs. Technical advisers fielded under ARSSP will continue to work closely with Indonesian government and private sector counterparts, and will therefore strengthen Indonesian analytic capability, but this is not the principal aim of the program.

The technical assistance component of ARSSP is intended to strengthen institutional capabilities for Program related policy implementation, however. It will provide the technical assistance and on-the-job training needed to implement the new systems and procedures demanded by policy reforms. Temporary infusions of technical expertise are an appropriate response to the high priority placed by the GOI on the deregulation of market institutions. Once policies are defined and adopted, however, limited capacity to implement new policies often becomes a constraint. The ARSSP mechanism has proven to be highly effective in providing the know-how and ideas to overcome constraints to policy reform implementation.

C. ARSSP Background and Results to Date

The Agriculture and Rural Sector Support Program was initiated in FY 1987 to assist the GOI in meeting urgent needs for balance of payments and budgetary support and in implementing the ambitious program of macroeconomic and sectoral reform needed to accelerate development in the rural sector. This program has provided a total of \$60 million in program assistance to support GOI programming in agriculture and the rural sector and has financed technical

assistance in support of policy reform with total funding through FY 1991 of \$3 million. The program has also served as a mechanism to focus GOI-A.I.D. discussions on relevant policies, particularly those relating to agricultural diversification, agricultural trade, domestic resource mobilization, financial deregulation, and the environment.

Amendment 2 to the ARSSP PAAD, approved in September 1989, reviews the evolution of the macroeconomic and sectoral policy environment since initiation of ARSSP, with particular attention to measures covered by the ARSSP policy agenda. The discussion in this amendment will therefore focus on events since that date and on the experience with technical assistance under ARSSP.

The GOI has continued to move aggressively to deregulate the market environment for investment, progressively increasing the scope for private sector participation in financial markets. Measures were implemented to promote increased savings, improve banking efficiency, and develop a more dynamic equity market. These measures have been reinforced by a conservative fiscal policy and prudent monetary policy. At the sectoral level, and in line with the ARSSP policy agenda, the government has recently restated its commitment to improving the efficiency of agricultural production, processing, and marketing; adding value to agricultural exports; increasing private sector involvement; and increasing attention to natural resource management, environmental, and sustainability issues.

Measures taken in 1989 include the removal of the pesticide subsidy, deregulation of trade in corn and fish meal, continued progress toward phasing out of fertilizer subsidies, and phasing out of subsidies on liquidity credits in the agricultural sector.

In May 1990 the GOI announced major shifts away from non-tariff trade barriers and eased regulations affecting the poultry and livestock industries.

The mission believes that program support and technical assistance provided through ARSSP have played a valuable supporting role in the restructuring process. Demands placed on the technical assistance funds have been high, with over 26 activities carried out under the first tranche of \$1.5 million and 12 activities already in process under the second tranche at the date of this document (also \$1.5 million). The funding requirements of these 38 activities have already accounted for nearly 90% of the funds available, severely limiting the mission's ability to respond to emerging needs.

ARSSP has mobilized long- and short-term technical advisers in a variety of fields and disciplines to assist the GOI in addressing a wide range of policy issues, including the following activities completed, planned, or under way:

- . long- and short-term advisors to the Central Bank to assist in formulating new banking laws and regulations, and to strengthen the Bank's research department.
- . short-term advisers to assist in developing procedures for management and privatization of the newly-liberalized stock market.
- . a long-term adviser to train Ministry of Trade staff in analytic techniques needed to support a liberalized trade environment, including effective protection and domestic resource cost analysis
- . a workshop to train senior GOI personnel on the issues and operations of the current GATT round
- . a long-term advisor to ECUIN to assist with planning electric power production and management, including arrangements for privatization.
- . short-term adviser to assist the GOI in upgrading the sanitary regulations governing shrimp and shellfish exports as the basis for expanding export levels

This list demonstrates both the range of issues likely to arise and their importance for successful market liberalization.

III. PROGRAMMATIC CONSIDERATIONS

A. Relationship to GOI Objectives

ARSSP was developed to support the GOI's development strategy and objectives, as embodied in the planning documents for Repelita V (1988-93). In particular, ARSSP reinforces the emphasis on broad-based review of policies and programs to

accelerate the restructuring process, as called for in Repelita V:

... a sound and dynamic investment climate will be constantly developed among others through the simplification of procedures, the promotion of business certainty, smoother services at central government and regional administration levels, the provision of adequate infrastructure and means and support in the preparation and provision of the needed skilled people. The communication and information forum between the government and capital investors will also be further promoted, leading to a more integrated planning and realization of capital investment. (Chapter 1, page 36)

As a demand-driven and strategic response activity, the

technical assistance component of ARSSP will continue to respond directly to specific GOI needs as they arise in the context of implementation of Repelita V and the development and initial implementation of Repelita VI. Each activity considered for funding under ARSSP will be reviewed to ensure that it is in conformity with overall GOI priorities, that it strengthens the free market system, and that it has strong support from the technical ministry responsible. Close coordination with BAPPENAS, the counterpart GOI organization for ARSSP, will further strengthen the linkage between program activities and evolving GOI needs.

B. Relationship to CDSS

The program directly supports the CDSS's central goal, which is to "improve long-term sustainable employment and income opportunities through means which promote efficiency and productivity." Program activities will focus on the strengthening of policy implementation in areas directly supportive of priority areas identified in the CDSS, including 1) supporting a more open, less regulated market and trade-oriented economy; and 2) increasing the sustainability, productivity, and efficiency of the agricultural production, processing, distribution, and consumption system.

The Mission's Program Performance Contract includes four objectives where ARSSP activities to date have had direct impact, i.e., freeing up the private sector, mobilizing financial resources, redefining the role of government, and sustaining the natural resource base. Additional activities under this amendment will further progress and reinforce the impacts already achieved on these objectives.

C. Relationship to Other Projects

This amendment to ARSSP grows directly out of and builds on past experience with the regional Technical Collaboration (Indonesia) Project (TCIP) as well as ongoing activities under ARSSP itself. The expansion of ARSSP's technical assistance component is designed to reinforce mission policy support provided through both these mechanisms, to complement these efforts across a broader range of policy areas, and to replace these projects as they come to an end. As further discussed below, activities now under way with TCIP or other funding will be financed under ARSSP to the extent that their continuation proves necessary to build on and consolidate policy gains made, and to the extent that these activities fit under the scope of ARSSP.

The technical assistance component of ARSSP complements the activities of other projects in the mission portfolio, many of which also have a strong policy orientation. These projects include the Development Studies Project, which funds a team of advisers to BAPPENAS on macroeconomic policy and planning, the

Financial Markets Project, the Financial Institutions Development Project, Commercial Law and Procurement Systems Project and the Education Policy and Planning Project, as well as three projects under design, the Trade and Investment Project, the Agribusiness Project, and the Natural Resources Management Project. Close involvement of all of the mission's technical offices in ARSSP implementation will ensure coordination with these projects, avoid use of ARSSP resources for activities that can and should be funded under these projects, and prevent duplication. ARSSP funds will not be used for project augmentation, but selected use of ARSSP's technical assistance component will be made for bridge financing to enhance the mission's ability to move quickly to develop and implement projects with a strong market reform or policy focus.

D. Coordination with Other Donor Activities

Both the IBRD and the ADB are actively supporting policy reform and structural adjustment in Indonesia, primarily through resource transfers accompanied by policy dialogue on trade and deregulation issues. ARSSP will continue to support these activities in two important ways. First, it will strengthen GOI ability to participate in policy discussions by assisting GOI decision makers to define and compare policy options. Second, it will reinforce GOI efforts to implement policy measures agreed upon by providing the technical assistance necessary to translate these measures into specific and feasible programs and then to carry out the programs defined. ARSSP support to these activities is both necessary and appropriate given the limited levels of such support within the multilateral programs and the difficulty of funding such support on a loan basis.

While the other bilateral donors are generally less active in providing technical assistance in the policy area, ARSSP provides important indirect support to their programs by further strengthening the policy and regulatory environment in which their programs are implemented. Continued support to agricultural deregulation and market development under ARSSP, for example, will reinforce rural development initiatives funded by Australia and the Netherlands, as well as those of the multilateral lenders.

IV. PROGRAM DESCRIPTION AND ANALYSES

A. Program Focus

The goal of this Program is to support the Government of Indonesia's efforts to increase rural employment opportunities and incomes in Indonesia through agricultural diversification, agricultural trade, domestic resource mobilization, financial deregulation, and improved environmental and natural resource management. The program focuses on policy objectives of the Government of Indonesia (GOI) which include: (1) to create the

conditions conducive to expansion and diversification of the agricultural sector, including improvement of the environment for agricultural processing and trade; (2) to plan for and initiate the steps to expand and improve the efficiency of domestic financial markets; (3) to increase total investment in Indonesia, particularly off-Java, through accelerated implementation of financial deregulation; and (4) to sustain the economic productivity of the natural resource base through the development and implementation of sound environmental and natural resource management policies. The **purpose** of the Program is to provide assistance for design, implementation and evaluation of policies in these areas of program focus.

B. Program Activities

To achieve the purpose stated above, ARSSP's technical assistance component will provide technical assistance services to reinforce the analytic and technical resources available to the GOI and local private sector institutions involved in Program related policy reforms and program initiatives, helping them to consolidate market deregulation and sustainable economic growth in Indonesia. These technical assistance resources will be mobilized in coordination with expertise from Indonesian counterpart resources drawn from both public and private sector institutions for analysis, program development, and implementation. Technical assistance advisers will assist in identifying and comparing policy options, developing implementation plans for policy changes, and implementing the reform measures.

Advisory services will be provided in response to formal or informal requests for assistance from the GOI and Indonesian private sector institutions or to needs identified by USAID mission personnel working with these institutions. Particular attention will be given during implementation to identifying opportunities to support and work with private sector institutions involved in the policy review process, as well as to respond to the needs of the private sector for better representation of their concerns in policy design and implementation.

To ensure that program resources are available to respond to priorities as they arise, it is critical to develop a selection system that will screen requests and ensure that they meet clearly established criteria. The emphasis during program design has been placed on development of such a screening system (described in the Implementation Plan below.) Nonetheless, examples of requests for assistance received by the mission over the past several months illustrate the range of services envisaged:

- an adviser in monetary policy for the Bank of Indonesia (Central Bank) to assist in structuring central bank operations;

- . an adviser for the Ministry of Research and Technology to develop technology policy as it relates to relative factor prices and Indonesia comparative advantage; and
- . advisers for the stock exchange to consolidate progress in market regulation

C. Program Inputs and Management Structure

A.I.D.-funded inputs will consist of technical assistance services and related support. This technical assistance will include both long- and short-term services and will be mobilized within the three policy analysis and implementation support activities outlined above, for the following:

- . ARSSP program management and advice to A.I.D. and the GOI on policy aspects of future program development, particularly in areas related to the ARSSP agenda, including trade, agriculture and agribusiness, and the environment
- . Technical assistance for reform design and implementation, including analysis of the impact of reforms in place or under consideration; development and implementation of regulatory or administrative changes necessitated by the reform process; and training for personnel in analytic techniques or other skills needed to support the reform
- . Bridging support for upcoming projects and programs; such support will be limited to technical assistance and to cases where the personnel fielded, the program supported, or both have a strong policy focus

In order to maximize flexibility and responsiveness to a wide range of requests for assistance, these services will be mobilized through a number of complementary contracting mechanisms, as described in the procurement plan below. Decisions on which channel to use will be made on a case-by-case basis.

Technical advisers may be called on to conduct informal training seminars or to participate in training workshops for policy implementation personnel and decision makers. The costs associated with these activities, other than technical assistance personnel and the logistic support associated directly with such personnel, are expected to be provided by the GOI or the private sector entity involved in the activity and may be funded on an exceptional basis under ARSSP only on the basis of an Action Memorandum approved by the Director. ARSSP will not fund overseas travel or overseas training activities of any kind without Director approval. ARSSP will not fund commodity procurement or construction.

The formal GOI contribution to ARSSP will be limited to the additional budget resources made available to support economic restructuring. GOI support and participation will nonetheless be critical to the success of the technical assistance provided. This support will take the form of professional and support staff in the GOI and the private sector, operating expenses and logistic support for the technical assistance and training activities, and other costs. These costs cannot be quantified in advance of determining the specific nature of the technical assistance activities to be supported.

V. PROGRAM IMPLEMENTATION PLANS

A. Implementation Responsibilities

The Economic Policy Support Office (EPSO) will continue to take the lead within A.I.D. in coordinating activities under ARSSP, but several other mission offices will continue to participate in planning and implementing specific activities. Given the sectoral emphasis of ARSSP activities, it is anticipated that the Offices of Agriculture and Rural Development and Private Sector Development will have the most direct involvement in ARSSP activities, but other mission offices will also be kept informed and may become directly involved on a case-by-case basis.

The degree of involvement by technical offices other than EPSO will vary, depending on the nature of the activity funded. Where the activity is an initiative supporting the mission's policy dialogue independent of the Mission's technical offices, EPSO will take the lead, coordinating technical issues with the appropriate technical office or offices. Where the activity will provide policy or program development support to a project managed by a technical office other than EPSO, that office will play a more active role in planning and managing the activity, and may be assigned responsibility for technical support to contracting and for management of the technical assistance personnel required.

The same principle will apply to assignment of program management responsibilities within the GOI. BAPPENAS is the coordinator between A.I.D. and other agencies of the GOI. In most cases, however, the primary responsibility for management of ARSSP-supported activities within the GOI will rest with the agency requesting the assistance.

The specific procedures developed for selection and approval of ARSSP activities remain essentially the same as under current funding, as discussed in Section C below. Once an activity is approved for ARSSP funding, the technical office responsible for that activity will have the responsibility to work with the mission contracts office to contract for technical services. As further described below in Section D, a local firm will be contracted to

provide logistic support to all short- and long-term personnel funded under the program on an as-needed basis.

B. Implementation Schedule

The demand-driven nature of ARSSP activities makes it impossible to develop a detailed implementation schedule for all potential activities. Aside from normal Mission internal management activities, such as Director's Implementation Reviews, the major event in the implementation schedule for this Program is the second evaluation. This evaluation is scheduled for April 1991.

C. Procedure for Selection of Activities

The procedure for selection of activities to be funded by this expansion of ARSSP's technical assistance component has been developed to meet four conditions: 1) the procedure must ensure that ARSSP resources are channeled into activities with a high priority for the mission and the GOI; 2) the procedure must prevent the use of ARSSP resources where another source would be more appropriate; 3) the procedure must provide for adequate review of all activities to ensure coordination and support during implementation; and 4) the procedure must be consistent with rapid and flexible response to GOI needs.

The procedure developed has two components: a set of criteria for screening of activities proposed and a procedure for review of each activity. The program monitoring system described in Section G below is designed to ensure that this procedure is used effectively to channel program resources to their best use.

1. Criteria for Activity Selection

The primary criterion for selection of activities under ARSSP's expanded technical assistance component remains the same as under current practice: the degree to which the planned activity has a high probability of contributing to Program related policy development and reform implementation. In addition, each activity proposed for ARSSP funding will be reviewed using the following programming criteria:

- a. Consistency with ARSSP policy framework: i) the activity directly supports one of the policy areas on the ARSSP policy agenda; ii) it strengthens the free market system; and iii) the activity is consistent with the mission's strategy as stated in the CDSS, the Action Plan, and other mission policy statements.

- b. Need for ARSSP funding: the activity cannot be funded from another source, including other A.I.D. project funds, PD&S funds, or another donor project. ARSSP funding will not be used for project or program design or evaluation activities that are usually funded with PD&S funds.
- c. Separability from other projects: the activity does not constitute an augmentation of a planned or ongoing A.I.D.-supported project.
- d. Availability of complementary inputs: either i) the activity does not require any inputs other than technical assistance and logistic support directly connected to that assistance or ii) additional inputs required will be provided by the Government of Indonesia, the private sector, or another source. Approval for any use of ARSSP funds for activities other than technical assistance (including commodities or services for seminars or other activities) will be conditional on the Director's approval of an action memo justifying such expenditures.

The PIO/T for each activity approved for ARSSP funding will include an attachment confirming that the activity meets the above criteria or providing a justification and the Director's approval for activities that do not meet these criteria.

2. Procedure for Review of Proposed Activities

The procedure developed for review and approval of proposed activities balances the competing needs to ensure adequate review by A.I.D. and the GOI and to streamline the review consistent with rapid response to requests. The procedure therefore includes two basic steps:

- a. Programming plan. The ARSSP program manager will maintain an up-to-date budget plan including separate listings of commitments and associated expenditures; planned expenditures; and future contingencies. This budget plan will be continuously revised as program activities evolve. PPS and the technical offices will be provided reports on this budget plan on a quarterly basis, or more often as planning needs warrant. Each technical office will keep the EPSO program manager informed of their best estimates of life-of-program needs, so pressing immediate needs can be properly weighed against projected future needs for prioritization and funding decision-making.

- b. Procurement. Each activity will be reviewed and approved on the basis of a PIO/T or other procurement document (such as a purchase order). While most procurement documents will be formally approved by BAPPENAS, such documents may be issued on an A.I.D.-direct basis for certain long- and short-term personnel. When this procedure is used, BAPPENAS will be informed through a Program Implementation Letter, and the procurement document (PIO/T, etc.) will reference the PIL. This procedure will be the exception rather than the rule, but may be used when the adviser or advisers will be working with private sector groups or in other cases where the GOI counterpart relationship departs from the usual model.

The formal review and approval of each activity will take place during review of the relevant procurement document. Development and issuance of each procurement document will follow standard A.I.D. practice, but will vary with the nature of the activity and how it is to be implemented. Each activity will follow one of three procedures as further described below: an abbreviated procedure based on a the procurement document alone for activities with a total cost of less than \$100,000, a two-step procedure including a concept paper and the procurement document for activities costing more than \$100,000 but involving only short-term technical assistance, and a more thorough review for activities involving long-term technical assistance. In all cases where BAPPENAS approval of the procurement document will be sought, a draft of the terms of reference will be passed to the ARSSP counterpart in BAPPENAS as soon as available, to permit informal review and modification before submission of the document to BAPPENAS for signature.

Activities with a total cost of less than \$100,000 will follow an abbreviated clearance process. Based on the definition of a need by the GOI, a private sector organization, or an A.I.D. office, EPSO or another technical office in the mission will prepare the procurement document (PIO/T, etc.) together with a budget and a scope of work. The procurement document will be approved by the Program and Project Support Office, the Office of Finance, Contract Management Services, BAPPENAS, and the Director. A copy of the scope of work will be circulated to all technical offices on an information basis.

In the case of short-term technical assistance activities with an expected cost of \$100,000 or more, the procedure will begin with preparation of a one-to-two page concepts paper. The concepts paper will i) provide an abbreviated scope of work stating the nature of the activity and identifying the GOI counterpart agency; ii) explain its relationship to the ARSSP objectives and CDSS priorities and its relationship, if any, to other mission

activities; iii) estimate the funding requirements; iv) indicate how the activity will be implemented (the technical office responsible and the contracting mechanism); and v) provide any additional justification needed. Preparation of the concepts paper will be the responsibility of the technical office initiating the request.

The concepts paper will be circulated to EPSO, the appropriate technical office, PPS¹, and the Director's Office for review and, simultaneously, will be circulated on an information basis to each of the technical offices. At that time, the Director or another office may request that EPSO call a review meeting to discuss technical or programming issues related to the activity. Otherwise, EPSO or the relevant technical office will prepare the procurement document and submit it to BAPPENAS for approval. Whether or not a meeting is called, concepts papers will be treated on a "no-objection" basis, i.e., formal clearance will not be required prior to proceeding to contract the services described.

Activities involving a long-term adviser will follow essentially the same procedure as short-term activities with a total cost exceeding \$100,000. However, each concept paper involving a long-term adviser will be reviewed by a committee chaired by EPSO and including representatives of PPS, the relevant technical offices, and mission management offices (including the Director's Office where appropriate), as determined by EPSO in consultation with PPS. This review will address the need for long-term assistance, the relationship of the adviser to ongoing project activities, and the level of support for such assistance within the GOI counterpart institution involved. The review will also consider management issues, including the ability of the mission to provide technical support, assignment of responsibility for technical and logistic support, potential institutional sources for the adviser, and the adequacy of the proposed budget.

Each procurement document will include a certification checklist (ANNEX E) specific to this program. In the event that one or more of the criteria on the checklist is not satisfactorily met, an action memorandum providing the Director's approval will be necessary for the activity to proceed.

D. Contracting and Procurement Plan

Contracting for technical assistance services funded under the

¹. If EPSO or PPS is the originating office, one or more technical offices will generally be designated by the program manager to review the concepts paper at the time that it is circulated, based on the nature of the activity involved (on a non-objection basis; formal clearance of concepts papers will not required).

amendment will follow one of two procedures:

- a. Personal Service Contracts and non-institutional contracts: Most of the long-term advisers and many of the short-term advisers will be contracted for on an individual basis using PSCs, purchase orders, Joint Career Corps (JCC) or Participating Agency Service Agreement (PASA). This source will be used when the mission can readily identify the individual best suited for the job.
- b. Other contract mechanisms: Where it is determined to be in the interest of the U.S. Government and the Government of Indonesia, technical assistance services may be contracted by A.I.D. utilizing one of the centrally funded contracts established in the Science and Technology Bureau, in the Private Enterprise Bureau, or in the regional bureau to provide support in the policy area. Services may also be procured under one of the existing IQCs, or by developing a new institutional contract.

The selection of a contracting mechanism will be made on a case-by-case basis, taking into consideration the implications of each contracting alternative for mission management workload, rapidity of response to the request, total cost of the activity, and quality of service.

E. Logistic Support

To ease the Mission management burden and to ensure that technical advisors have adequate facilities to carry out their tasks, USAID may use part of the additional funds to contract with a local firm for logistic support. Such support is expected to include office space, computer, secretarial services, car and driver, as well as other facilities or services on an as-needed basis. For long-term personnel and their families, the logistical support contractor will provide additional services needed for settling in, including assisting with housing arrangements and adherence to required Indonesian government regulations such as visas, driver licenses, etc.

F. Financial Plan and Analysis

1. Summary Financial Plan

The financial plan for this program amendment is presented in Figure 1 and a more detailed budget is presented in Figure 2. The principal inputs required for program implementation include long- and short-term technical assistance, and short-term local consultants.

FIGURE 1
PROGRAM COST BY CATEGORY OF INPUT
(\$'000)

Category of Input	\$
Long-term technical assistance	1,375
Continuation of current activities	(375)
New activities	(1,000)
Short-term technical assistance	1,000
Short-term local consultants	250
Contingency	375
TOTAL	3,000

FIGURE 2
ILLUSTRATIVE BUDGET PLAN

Item	Planned Expenditure (\$',000)
<u>Long-term</u>	
ARSSP Program management	350
Advisors on banking deregulation	225
Training for trade deregulation	250
Regional advisor to BAPPENAS	100
Mission natural resource economist	250
Other long-term	200
Sub-total	1,375
<u>Short-term</u>	
ARSSP evaluation	60
Policy advisors to BAPPENAS	175
Advisors on banking deregulation	200
Advisors for Ministry of Trade	90
Advisors for Ministry of Agriculture	175
IPM research support and evaluation	300
Other short-term	250
Sub-total	1,250
<u>Contingency</u>	375

2. Financial Analysis and Basis of Cost Estimates

Because ARSSP funds technical assistance to support the policy reform process in response to needs as they emerge, it is impossible to determine at this time with precision the types and levels of technical assistance that will be required. The estimate on which this amendment is based results from the following assumptions, which in turn are based on experience to date under the ARSSP and the Technical Collaboration Project:

- Continuing need for TCIP and ARSSP personnel: The mission has found the advisory services provided by these personnel to be extremely valuable in moving the policy reform process forward. The mission expects a continuing need for the advisor in natural resource management (now funded through the Technical Collaboration Indonesia Project) and for other advisors to facilitate the initiation of pre-project "bridging" activities which lay the groundwork for subsequent new projects. Total additional funding for these personnel is currently estimated at \$375,000.
- Support for the ARSSP Policy Agenda. Demands for technical assistance to support the current policy agenda are expected to increase from their current level covered by the existing TA resources of \$3 million. Total additional funding required for these activities is \$2.625 million.

G. Monitoring and Evaluation Plan

The ARSSP evaluation, planned for April 1991 will focus on the broad Program objectives and activities. Thus, the merit of the Program will be determined by observed progress on the objectives delineated in the policy agenda. Clearly, however, the technical assistance component of the Program will also be subject to evaluation.

As a demand-driven and strategic response activity, ARSSP's technical assistance has special requirements for monitoring and evaluation.

ARSSP-funded activities are subject to tracking on four levels:

- a. Input level: Was the planned technical assistance or other inputs provided on a timely basis and in a professional manner? Did the GOI or private sector institution participate at the level anticipated?
- b. Output level: Were the planned outputs produced (study, training program, draft regulation, etc.) in a timely and

professional manner consistent with the scope of work?

- c. Purpose level: Did the activity have an observable impact on the government or private sector client? Were the recommendations adopted, for example?
- d. Goal level: What impact did the implementation of the recommendations have on the Indonesian economy?

Impact at the goal level is generally not subject to determination during the life of the program. Impact at the purpose level can in principle be determined but the cost effectiveness of devoting the resources necessary to do so depends on the nature of the activity. Given the diversity of the activities planned under ARSSP, it will not be possible to monitor all activities at the purpose level. However, the Program evaluation should make some attempt to assess the purpose level impact of the technical assistance component in instances where those impacts can be discerned.

The formal ARSSP evaluation scheduled for April 1991 will address among others the following questions with respect to the technical assistance activity:

- a. Has the expected demand for program support materialized?
- b. Has demand been as diverse as expected, including macroeconomic, financial, and productive sectors, and have both public and private sector entities been involved in identifying activities?
- c. Has the program implementation structure been effective in translating requests into assistance activities in a timely and efficient manner, considering the activities of the mission, BAPPENAS, and other participants?
- d. Have activities been too diffuse (dissipating the potential for impact) or too concentrated (precluding action in areas of priority for Indonesia's economy)?
- e. Have the monitoring, follow-up, and tracking of activities been adequate?

The team will review these issues and make recommendations for changes in the program management structure or procedures as appropriate. In addition, the evaluation will recommend appropriate next steps, including continuation of the program, termination, or restructuring to focus on a subset of the activities supported under ARSSP.

VI. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

The proposed activities have been reviewed with BAPPENAS and no issues have been identified that would prevent moving forward to obligation as planned.

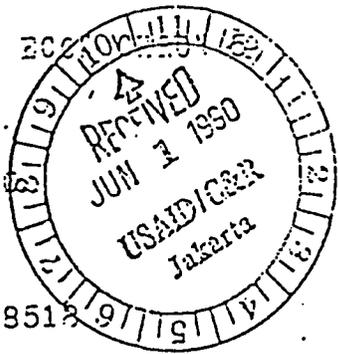
Covenants and conditions precedent to disbursement remain unchanged.

ANNEX A
ANE APPROVAL CABLE

ATTENTION AID 3 INFO DCM ZC...

CP50
ACTION COPY
LOC: 0262 135
09 MAY 97 1303
CN: 40365
CHRG: AID
DIST: AID

VZCZCJA0210
RR RUEHJA
DE RUEHC #4691 1511330
ZNR UUUUU ZZH
R 311259Z MAY 90
FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA 8512
BT
UNCLAS STATE 174691



WORKING COPY

AIDAC

E.O. 12556: N/A

TAGS:
SUBJECT: INDONESIA - AGRICULTURE AND RURAL SECTOR
SUPPORT PROGRAM (ARSSP), 497-0357
THE ASSISTANT ADMINISTRATOR FOR ASIA, NEAR EAST AND
EUROPE (AA/ANE) HAS APPROVED AMENDMENT TO AGRICULTURAL
AND RURAL SECTOR SUPPORT PROGRAM (ARSSP) TO ADD DOLS.
3.0 MILLION FOR TECHNICAL ADVISORY SERVICES WITH NO
EXTENSION IN THE PACD BEYOND DECEMBER 1992. THE BUREAU
SUPPORTS THIS LOW-COST APPROACH TO FURTHERING OUR "OPEN
MARKETS/OPEN SOCIETIES" OBJECTIVES. THIS SHOULD PROVIDE
FUNDING TO CARRY ON THIS SUCCESSFUL PROJECT FOR ONE TO
TWO YEARS. BAKER

BT
#4691

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UNCLASSIFIED

STATE 174691

USAID ROUTING		
TO	ACT.	INFO
DIR		<input checked="" type="checkbox"/>
DD		<input checked="" type="checkbox"/>
EPSO	<input checked="" type="checkbox"/>	
LA		<input checked="" type="checkbox"/>
FPS		<input checked="" type="checkbox"/>
EXC		
CM		
FIN		<input checked="" type="checkbox"/>
FIN/S		<input checked="" type="checkbox"/>
FIN/FA		<input checked="" type="checkbox"/>
ARD		<input checked="" type="checkbox"/>
O/PH		
EHR		
EHR/T		
VHP		
PSD		
INFO C		
PER		
DMC		
GSO		
C & R		

ANNEX B
STATUTORY CHECKLIST

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO 1. YES
DATE? HAS STANDARD ITEM 2. YES
CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project. A CN for this amendment was submitted to the Senate and House Committees and expired on June 30, 1990.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? No further legislative action is required within the host country.
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development program. This Program is specifically focussed on economic development problems in Indonesia and can not be implemented as a regional program.
4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (d) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. The Program policy agenda is specifically designed to encourage efforts of Indonesia in (a), (b), (d), and (e).

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The Program's principal objective is to open up financial and investment markets to increased trade and investment from U.S. and other sources.
6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by Yes

the country in a separate account and not to be commingled with any other funds?

(b) Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? (d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance.

a. FAA Secs. 102(a), 111, 113, 281(a).
Extent to which activity will: (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help

The Program supports the development by the host country of sound economic and resource management policies which, in turn, should increase employment and incomes at all levels, including in the agricultural and rural sector

efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

The policy agenda supported by the Program is specifically targeted at increasing income and employment in the agricultural sector through increases in agricultural diversification, agricultural trade, financial deregulation, and improvement of environmental and natural resource management policies.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and required minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

N/A

ANNEX C
DRAFT GRANT AGREEMENT AMENDMENT

A.I.D. PROGRAM NO. 497-0357

AMENDMENT NO. 4
PROGRAM GRANT AGREEMENT
BETWEEN THE
REPUBLIC OF INDONESIA
AND THE
UNITED STATES OF AMERICA
FOR THE
AGRICULTURE AND RURAL SECTOR SUPPORT PROGRAM

DATED:

Dated:

This AMENDMENT NO. 4 is entered into between the REPUBLIC OF INDONESIA ("Grantee") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

WHEREAS, the Grantee and A.I.D. entered into a Program Grant Agreement for the Agricultural and Rural Sector Support Program on August 31, 1987, as amended on September 28, 1987, on September 1, 1989, and on September 28, 1989 ("Grant Agreement"), whereby A.I.D. agreed to grant to the Grantee up to Sixty Three Million United States Dollars (\$63,000,000) ("Grant"); and

WHEREAS, pursuant to Section 2.2 of the Grant Agreement, the Grantee and A.I.D. desire to amend the Grant Agreement to provide an additional increment of A.I.D. financing of \$3,000,000 for the Program and to make other related changes in the agreement;

NOW, THEREFORE, the Grantee and A.I.D. hereby agree as follows:

1. In the last sentence of Section 2.2(b), change "\$63,000,000" to read "\$66,000,000".

2. The first paragraph of Section 3.1 of the Grant Agreement is revised to read as follows:

"SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Program, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Grantee under the terms of this Agreement not to exceed Sixty Six Million United States ("U.S.") Dollars (\$66,000,000) ("Grant")."

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3. Annex 1, Amplified Project Description, Section III C. Technical Assistance, page 5, is deleted in its entirety and replaced as follows:

"C. Technical Assistance. It is anticipated that additional \$3.0 million in A.I.D. funding will be made available during this fiscal year for technical assistance activities (bringing the total to \$6.0 million budgeted for technical assistance over the entire program). These funds will be used to finance the cost of expert services and studies related to the design of policy reform packages and the assessment of their implementation. A portion of these funds will be reserved for program evaluation. Also, a portion will be reserved to obtain the services of an accounting firm to help monitor the budget support provided by ARSSP. Allocation of the remainder will be mutually agreed upon by the ARSSP Program Manager and BAPPENAS. The monitoring of this \$6.0 million in technical assistance will be in accordance with normal project financing procedures."

4. Attachment 1.1 to Annex 1, Summary Budget Support Plan and Cost Estimates, is deleted in its entirety, substituting therefor the Attachment 1.1 to Annex 1 attached to this Amendment No. 4.

5. Except as amended herein, the Program Grant Agreement is unchanged and, as amended, remains in full force and effect.

IN WITNESS WHEREOF, the Republic of Indonesia and the United States of America, each acting through its duly authorized

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representative, have caused this Amendment No. 4 to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

Lee Twentyman
Acting Mission Director
USAID/Indonesia

REPUBLIC OF INDONESIA

Mrs. Buly O. Surjaatmadja
Deputy Chairman
for Implementation & Monitoring
BAPPENAS

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AGRICULTURE AND RURAL SECTOR SUPPORT PROGRAM
SUMMARY BUDGET SUPPORT PLAN AND COST ESTIMATES
(US \$ 000)

COMPONENT	ORIGINAL AGREEMENT + AMENDMENTS NO. 1, 2, AND 3		AMENDMENT NO. 4		TOTAL		
	AID (1)	GOI (2)	AID (3)	GOI (4)	AID (5)	GOI (6)	TOTAL (5)+(6)
BUDGET SUPPORT	60,000	27,815	0	0	60,000	27,815	87,815
TECHNICAL ASSISTANCE	3,000	0	3,000	0	6,000	0	6,000
TOTAL	63,000	27,815	3,000	0	66,000	27,815	93,815

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ANNEX D
INITIAL ENVIRONMENTAL EXAMINATION

INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROJECT COUNTRY: Indonesia
- (B) ACTIVITY: Agriculture and Rural Sector Support Program (497-0357)
Amendment 4
- (C) FUNDING: \$3.0 million
- (D) PERIOD OF FUNDING: FY 1990
- (E) STATEMENT PREPARED BY: Michael Hammit, ERSO, USAID/Indonesia
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical exclusion under AID
Regulation 16, Section 216.2 (c)
- (G) ACTION REQUESTED BY: Peter Gajewski, ERSO, USAID/Indonesia
- (H) LEGAL ADVISOR CLEARANCE: Paul Scott, LA, USAID/Indonesia
- (I) ENVIRONMENTAL OFFICER CLEARANCE: Jerry Bisson, ARD/RPM
- (J) DECISION OF USAID/INDONESIA DIRECTOR

APPROVED: *[Signature]*

DISAPPROVED:

DATE: Aug 7, 1990

- (K) DECISION OF AN ENVIRONMENTAL OFFICER

APPROVED: *M. Cox, RME/PO/ENV*

DISAPPROVED:

DATE: 6/29/90

REFERENCE: Jakarta 593Z

EXAMINATION OF THE NATURE, SCOPE, AND MAGNITUDE OF THE ENVIRONMENTAL
IMPACT

A. DESCRIPTION OF THE PROGRAM:

This amendment to the ARSSP program will add \$3.0 million to the technical assistance component of the Program. This technical assistance will consist primarily of short- and long-term advisors to key ministries of the Government of Indonesia having significant impact on the progress of policy reform. These advisors will assist the Government of Indonesia to define, implement, and evaluate policy reforms to promote more rapid growth of income and employment, particularly in the rural sector. In addition, technical assistance funds will be used to finance overall

program management needs within the USAID/Indonesia Mission.

This amendment will ensure that the Mission maintains the capability to provide quick response resources to target emerging needs during the process of economic policy reform which is currently unfolding in Indonesia. Experience to date with ARSSP technical assistance has demonstrated that having the means to quickly access the expertise needed to target key areas of concern to the GOI, and the Mission, gives the Mission the ability to be a key actor in the policy reform process.

B. RECOMMENDED ENVIRONMENTAL ACTION:

The activities to be funded by this grant consist in their entirety of technical assistance and therefore, in accordance with AID Regulation 16, Section 216.2 (c), are categorically excluded from further environmental review. No further environmental action is recommended.

ANNEX E
CERTIFICATION CHECKLIST

CERTIFICATION CHECKLIST FOR ARSSP TECHNICAL ASSISTANCE ACTIVITIES

1. Proposed TA activity : _____
2. Briefly ascertain whether or not the proposed TA activity conforms to the following criteria:
 - A. Consistency with the ARSSP policy framework.
 - B. Need for ARSSP funding: Can the activity be funded from another source?
 - C. Separability of this activity from other A.I.D. projects; the activity does not constitute project augmentation.
 - D. Need for and availability of complementary inputs.