

**MANAGEMENT ACTION PLAN**

**USAID/Indonesia**

**April, 1989**

## EXECUTIVE SUMMARY

1. USAID's comparative advantage in Indonesia is now as a "knowledge transfer" Mission rather than as a "resource transfer" Mission. Unlike many countries in which USAID operates, Indonesia is very receptive to American technical assistance and training. Knowledge transfer helps the GOI identify what the important areas for reform are and how to implement them. It is where USAID excels.
2. With its receptive environment and its specialization on knowledge transfer, USAID now supports over 150 expatriate technical assistance purveyors in addition to USDH staff. The Mission functions as a sizable technical assistance institute with USDH at its core. The specialized and more esoteric knowledge required is increasingly being held by contractors. Some ratio of USDH's to contractors is needed to manage contractors and give them technical direction and oversight even if more of the support burden can be appropriately put on the contractor or the host country. In our knowledge transfer formation, each of our USDH manages four expatriate contractors, on average, compared with about one-per-USDH in other Missions.
3. Managing A.I.D.'s USDH resources in parallel with its contractor resources, managing them both efficiently, and deploying such resources in the development problem areas in which they are most effective are the keys to managing this Mission. This set of considerations involves both (a) conventional management concerns and (b) managing the implementation of our CDSS strategy so that staff and contractor resource allocations can eventually be assessed in terms of their contribution to CDSS performance. This Management Action Plan treats both conventional management improvement and ways to assess management by strategic objectives ("Development Problem Areas").
4. Management improvements include:
  - More searching project design procedures aimed at reducing the number of projects and their complexity;
  - A new, systematic project implementation review system that gets at purpose-level issues as well as schedule issues;
  - Aggressive program financial management that has reduced 1988 and 1989 pipeline significantly and used de-obligation/

re-obligation authority to move funds to their best use in strategy implementation;

- Making our contracting load less USDH-intensive by consolidating institutional contracts, making contractors more self-sufficient logistically, and trying to make Host-Country Contracts live up to their intended purpose;
- Realizing Operating Expense efficiencies such as: reducing USDH positions, cutting FAAS bills from \$3 million to \$350,000 in five years, increasing Trust Funds, and cutting the Mission's combined dollar OE budget and FAAS bill in half since 1984;
- Using performance-based disbursement; and
- Consolidating geographically.

5. Management factors causing more staff time demand include:

- Policy-based program assistance requires more staff time to do well than was originally believed, though it is a very useful and quick-disbursing instrument;
- Policy analysis in the project portfolio is also more time and staff consuming than commonly realized;
- New donor coordination initiatives, particularly that with Japan, have great short-term staff time costs accompanying their great potential long-term benefits; and
- Our financial analysis capability must be strengthened to address a serious potential vulnerability area. This is in part due to the fragility of many existing Indonesian institutions.

6. Linking Management to Strategy

- To integrate management and strategy concerns, we are using an innovative management framework which ensures that (1) individual program components can be more firmly and explicitly linked to the broader CDSS goal and subgoals, and (2) staff resource allocations can be assessed in terms of their contribution to CDSS achievements.
- This framework consists of thirteen Development Problem Areas (DPAs) which lie between the CDSS sub-goal level and the project activities level. DPAs consist of tightly defined technical areas in which USAID and the GOI are seeking to overcome specific, identifiable constraints on

development. In each DPA the Mission has a clearly stated DPA objective and is establishing concrete indicators to track progress toward it.

- Based on the DPA framework, the Mission has allocated staff resources against individual DPAs over the CDSS period. By assessing the "balance" of staff costs against CDSS objectives achieved and then comparing these across the full range of DPAs, the Mission will be able to determine where it is likely to get major CDSS benefits with relatively lower staff costs and where it is investing too many resources for less important or less assured results.
- Over time, through rigorous evaluation of "results," this framework then makes possible a performance-based approach to management planning.
- This approach, if agreed to and further refined, will accord well with the Hamilton Report and ANE Bureau retreat concepts of measuring a Mission's performance against its over-all strategy, rather than looking at every project.

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## **I. USAID/INDONESIA: A KNOWLEDGE TRANSFER MISSION**

### **A. Indonesia's Development Needs**

Foremost among the challenges Indonesia faces in the 1990s is the need to generate 18-20 million new jobs for new entrants to the labor force. Creating jobs is the overriding social, political, and economic problem of the next decade. It is the centerpiece in Indonesia's Fifth Five Year Plan, which started this month, and it is the goal of USAID/Indonesia's new CDSS, approved last year.

Solving the employment problem requires fundamental reforms in the structure of the Indonesian economy and in the role of the Government of Indonesia (GOI). Faced with reduced public resources since the drop in oil prices in 1986, the GOI has had to confront the need of restructuring broad areas of its economy. The GOI has, accordingly, announced five major reform "packages" in the past two years. If fully implemented, these reforms will greatly increase the role of the private sector in manufacturing, trade, and banking; improve efficiencies in those areas in which government must retain the lead role; and determine the sustainability of economic growth well into the next century.

These reforms, unprecedented in scope and direction for Indonesia, have equally profound implications for the role of foreign donors, particularly USAID. Although Indonesia still needs resource transfers to finance its development, it needs knowledge transfer (technical assistance and training) as much or

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1. A full discussion of the problem and USAID's strategy for addressing it are presented in the new CDSS.

more. Knowledge transfer helps the GOI to identify what the important areas for reform are, and how to implement them. It is where USAID excels.

**B. USAID's Response: a "Knowledge Transfer" Mission**

USAID's comparative advantage here has shifted from resource transfer to knowledge transfer. The GOI is receiving increasing infusions of funds from other donors, and our quantitative role has declined both absolutely and relatively. In fiscal year 1988/89, donor assistance topped \$4 billion, with \$2.3 billion from Japan alone.

We are now best positioned to have a qualitative impact on Indonesian development through knowledge transfer. American ideas and expertise through well-placed technical assistance advisors make an economic development difference far beyond their cost. The GOI is unusually receptive toward technical assistance and particularly to American TA (no doubt in substantial part because USAID has sponsored the U.S. education or training of roughly 10,000 Indonesians (including many senior officials) since 1953, and perhaps four times that number have studied in America under other funding). Accordingly, since AID believes in technical assistance, on the one hand, combined with this receptive environment, on the other, USAID now supports over 150 expatriate technical assistance purveyors, in addition to USDH staff.

With the possible exception of the IBRD, USAID is the donor the GOI looks to for ideas and expertise to consider in its restructuring process. A striking illustration of the value of this role is that other donors, most notably the Canadians, are now using the USAID approach as a model for their own assistance programs.

Because of our growing experience, success, and comparative advantage with a knowledge transfer role, our CDSS strategy reflects a technical assistance delivery mode. A knowledge transfer role is possible only by maintaining a stable in-house USAID professional staff and project contractors, technically proficient, well trained in Indonesian language, and experienced. These characteristics give Mission staff and contractors easy access to all levels of government and to the private sector, and explain why Mission advice is sought by other donors.

Dollar-to-staff ratios are a crude and inadequate measure of USAID/Indonesia's management load, because they do not reflect the workload associated with knowledge transfer.'

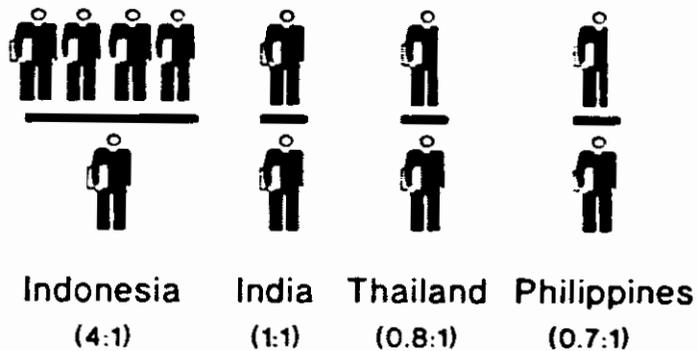
A knowledge transfer mission functions as a technical assistance institute with USDH staff as its core. Therefore the appropriate indicator of the Mission's management load and efficiency is the ratio of TA contractors to USDH staff. Staff required and the Mission's efficiency of utilization of available

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2. For those who feel they must keep track of dollar-to-staff ratios, the funding levels managed by this Mission, though reduced from earlier years, are still much higher than is generally appreciated. Although USAID/Indonesia's annual bilateral OYB is at about \$42 million, our total annual program is about \$90-\$100 million, and we manage an active portfolio of about \$720 million. (see Attachment A)

USDH should be assessed in terms of the total consulting resources we manage and how effectively we do so.

We have 154 U.S. contractors who are being managed by 40 USDHs. This ratio of approximately 4:1 is striking when compared to ratios at or below 1:1 for the Philippines, Thailand, and India. Each USDH staff member in Indonesia manages four times the number of U.S. contractors as the compared missions with four times the number of vouchers to approve and check for vulnerability, and four times the amount of technical guidance to give to the contractors.

**Figure 1**  
**Ratios of American TA Contractors to USDH Staff**



**C. Accomplishments of USAID's Knowledge Transfer Mode**

In order to know whether a knowledge transfer mode with 40 USDH and 154 expatriate contractors is "worth it" one needs to know

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3. Philippines has 23 TA contractors and 34 USDH; Thailand has 16 TA and 20 USDH; India has 18 TA and 18 USDH; Indonesia has 154 TA contractors and 40 USDH. These figures were provided by the Contracts Officers in the Missions cited.

something about its results. Here are a few areas in which effectiveness of the USAID knowledge transfer has already been well demonstrated:

**1. Movement toward a more open, competitive, trade-oriented economy**

Through specialist advisors placed within key Ministries and through EPSO's in-house staff, USAID is providing valuable economic policy advice to the GOI. A USAID-funded team of economists has been working closely with the National Planning Ministry to provide in-depth policy analyses on key trade and industry topics, identifying priority areas for reform. In capital markets, USAID technical assistance is playing a lead role in helping the GOI to implement recent reform decisions aimed at establishing a diverse and viable system. Mission technical advisors are also assisting the GOI to transform the massive rural banking system into a sound financial intermediation system capable of providing general purpose credit on a self-sustaining basis. In the area of tax reform, our team of IRS advisors is playing a key role in assisting the GOI to implement new tax regulations established in 1986.

**2. Support for development of more sustainable and productive agricultural systems**

A key reform issue in this area is correction of agricultural inputs and commodities pricing. Technical assistance under USAID projects combined with program assistance helped in the GOI process of partial de-subsidizing of fertilizer, elimination of pesticide subsidies, and the initiation of an integrated pest management program. In addition, a team of USAID consultants formulated the increasingly accepted policy concept of "trend self-sufficiency" for rice. Long-term assistance in agricultural

planning has resulted in an important shift from "production push" to "demand pull" growth strategies. In irrigation, our technical assistance has played a critical role in pilot demonstrations showing the advantages of user fees and farmer involvement in system planning, operation, and maintenance, which the GOI has now stated as national policy.

### 3. Education reforms

USAID has a team of advisors who are assisting the GOI in its development of a major educational policy reform package expected to be announced in the next few months.

### 4. Health and fertility reduction

The Mission's technical assistance has been critical for moving rapidly in implementing new reforms in these areas. A major area of Mission accomplishments over the past decade has been our assistance in establishing one of the most effective public family planning programs in the world. USAID has provided critically needed expertise, training, and operations research in this process. As the GOI now moves rapidly forward in its plans to privatize the family planning services system, USAID technical assistance and training are playing a major implementation role. In efforts to improve efficiencies in the health sector, the GOI announced in early 1989 a major package of progressive reforms concerning drugs and pharmacies. This package has set the stage for addressing many of the drug sector inefficiencies targeted in our Health Sector Financing Project. Also, major legislation supporting the rapid development of private and public sector health insurance in Indonesia has been drafted with technical assistance from USAID. Finally, the MOH has built into its Five Year Plan the actions necessary to increase the self-sufficiency of private hospitals which will

permit a decrease in the MOH's burden of recurrent cost financing of hospitals.

**5. Support for democratic pluralism**

The Mission is making progress in this important CDSS area. In the NGO sector we have been very successful in assisting grassroots Indonesian organizations to upgrade their organizational and financial management, and to improve project design and implementation. We have totally restructured our PVO Co-Fi project to give institutional pluralism criteria the greatest weight, including advocacy groups and Muslim organizations for the first time. We are also assisting in the area of rule of law by supporting (through The Asia Foundation) ground-breaking television programming to reach millions of Indonesians to promote greater awareness of legal rights and responsibilities. We will be broadening and refining our institutional pluralism strategy, integrating assistance from AID [including 116(e)], USIA, AAFLI, and the National Endowment for Democracy.

## II. MANAGEMENT ANALYSIS AND MANAGEMENT PROGRAM

The shift to a knowledge transfer role and AID/W's concern with reduction in OE costs and in USDH staff both have major implications for the role and mix of USAID in-house staff. To understand why the Mission is presently organized as it is requires (a) a review of staff resources now available, (b) an examination of where the Mission can and has reduced its in-house workload, (c) where the Mission is facing new demands on staff time, and (d) whether the Mission is and can be deploying its staff so as to achieve the most CDSS performance benefits.

### A. Staff Resources Available to the Mission

The Mission is implementing the decision made during Program Week last year to reduce USDH staff from 41 in FY 88 to 37 by FY 93, i.e., roughly 10 percent. FSN-DH and FSN-PSC projections remain relatively constant through the CDSS period. Over-all Mission staffing trends are shown in tabular form in Table 1 and in graphic form in Figure 2 (both on the following page).

The small number of OE-funded US PSCs (the sliver in Figure 2) will probably be reduced further. Program funded PSCs are discussed in Section II-C-2c.

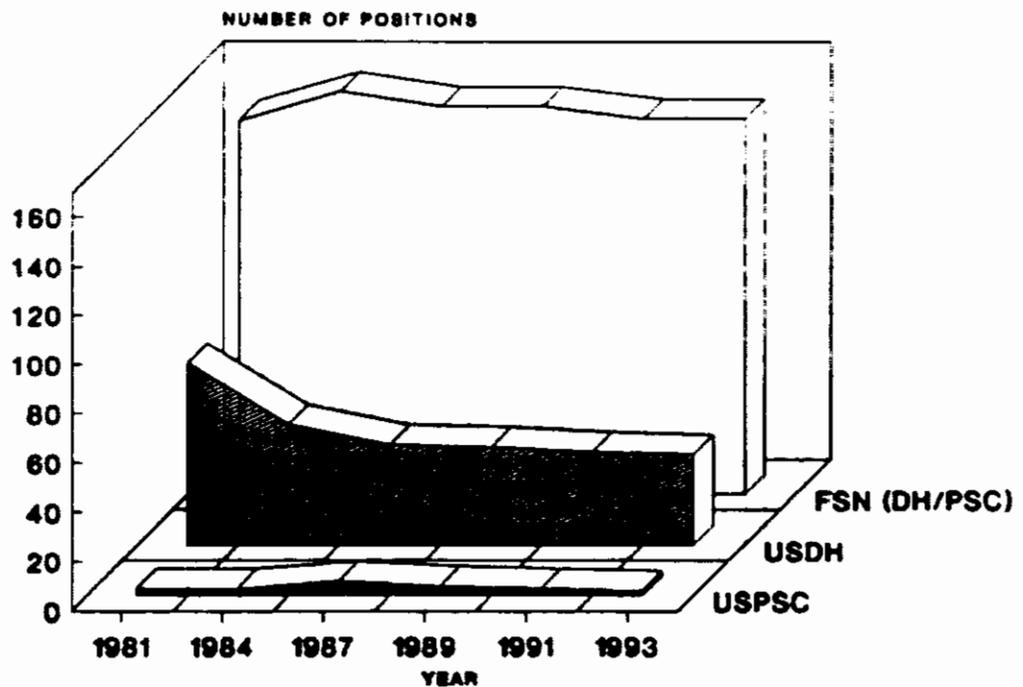
USAID has been carefully examining possible conversions of USDH positions to FN personnel. Two such conversions have recently been made. The three to four most likely additional conversions have already been factored into the plan to reach 37 USDH by 1993. There may be one or perhaps two additional possibilities between

1992 and 1994. These conversions are sometimes constrained by AID's inability to offer competitive higher level professional

**Table 1**  
**OE-Funded Staff Trends**

	----- Actual -----			- Projected -	
	FY 81	FY 87	FY 89	FY 91	FY 93
USDH	74	41	39	38	37
USPSC	3	6	4	3	2
FSN DH	112	68	68	66	66
FSN PSC	40	90	90	87	87
<b>TOTAL</b>	<b>229</b>	<b>205</b>	<b>201</b>	<b>194</b>	<b>192</b>

**Figure 2**  
**OE Funded Staff Trends**



salaries where support offices such as PPS are concerned, t' further delayed by the lengthy, specialized training and experience in AID operations that must precede conversion. An FSN Enhancement Plan is under way in several priority areas to enable USAID to rely more on our Indonesian technical and support staff. The Plan stresses short-term training in computer skills, the management skills and project implementation courses, and English language.

Figure 2 does not show the important change in professional skills mix which has been occurring both in-house and in technical assistance supplied to the GOI. EPSO is now fully staffed, greatly augmenting the Mission's ability to conduct policy analysis, policy advocacy and macro-economic tracking. But since these skills are in short supply within AID, the Mission has had to put together a team of JCC and contract analysts to supplement the Mission's two USDH economists. A parallel change has occurred in the mix of skills of TA contractors provided to the GOI. In the past the emphasis was on technical skills and the ability to be effective under field conditions. The GOI now has greater need for highly skilled policy analysts who can work closely with high level decision makers in the central government. The specialized and more esoteric knowledge required is increasingly held by contractors rather than USDH, and the USDH job has become one of managing those contractors. Even if much of the administrative load is put on the contractor or the host country, a certain ratio of USDHs to contractors is needed to manage the latter and give them technical guidance.

#### **B. Program to Reduce USDH Workloads and to Increase Efficiencies**

We have been carefully examining means for reducing the workload on USDH staff. We have taken several important steps

over the past two years, including measures taken under recommendations of the 1988 Mission Management Assessment:

**1. Better Project and Program Management**

**a. More Efficient Project Design and Implementation Procedures**

The 1988 Mission Management Assessment (MMA) stimulated Mission management to revamp and codify its project procedures so that project officers can more quickly determine what is required. This should help ensure that papers can be cleared the first time through. Responding to the MMA, we have re-organized and issued written guidelines, including Mission Orders, and updated and re-issued the Project Officers Handbook to serve as a clear guide for the full range of most critical implementation procedures.

Simplifying and reducing the complexity of projects is one sure path to streamlined implementation. This is an area where we can do more. In our design and implementation review processes the Mission can systematically examine components in ongoing and proposed projects to transfer a greater share of implementation responsibility to the GOI or private sector organizations, and to screen out project components which have unacceptably high management requirements. The most notable example is the General Participant Training Project, where we are transferring operational responsibility for training to the GOI Overseas Training Office (OTO). We are also consolidating project components within simpler management units, as in the Health Sector Financing Project.

Behind the facade of high-rise downtown Jakarta, the host country institutional milieu in which we still must operate remains extremely fragile and limited. It took a carefully

planned institution building process to get the OTO to the point it could assume a management load. Administratively, we still have to use USAID cars to get important documents from GOI ministry to ministry when time is of the essence. We still must help the GOI write a number of reports and requests to send us. The GOI administrative system has not caught up with the burden imposed by donor assistance.

In the design of the new PVO Co-Financing III Project and Democratic Initiatives strategy, we will increase the scope for organizations such as The Asia Foundation to serve as intermediaries in providing project funds and support to local PVOs (including local intermediaries) and thereby reduce the direct USAID project management burden. Yet some work directly to strengthen NGOs is important to institutional pluralism itself; that carries a particularly intensive management requirement and is a "cost" of pursuing a program to foster institutional pluralism.

Another drain on management resources are the myriad small experimental and innovative activities such as Collaborative Research Support Project and the Program for Science and Technology Cooperation, and centrally funded activities. We do not accept all offers, but a "no thank you" often disappoints. We can screen these small activities through a finer sieve, but would need an acceptance by central bureaus of the management constraints that dictate more selectivity.

**b. A New Integrated Project Implementation Review System**

The Mission has made rapid progress in establishing more efficient implementation review procedures, and we have moved well beyond the initial MMA recommendations. We are nearing completion on a more integrated over-all review system which

consists of four types of review:

Monthly Implementation Reviews (MIRs): These are the lowest level outside the technical offices themselves of the Mission's review process. MIR meetings are conducted for each technical office on a rotating basis. They are chaired by the Program and Project Support Office and draw in key support offices (PPS, RLA, CM, FIN). MIRs deal with basic questions related to implementation rate, and are aimed at keeping contracting, training, evaluation, and commodity procurement on track. Required actions identified during the MIR are recorded and distributed for completion prior to the next review. MIRs were a major factor in getting our pipeline down (Section II-B-1c).

Director's Implementation Reviews (DIRs): DIRs draw senior, mid-, and junior staff to the field to review individual projects with contractors, and where appropriate, the GOI. A different DIR is conducted every two weeks, which allows the Director to review each of the Mission's 27 projects at least once per year. Meetings are chaired by the Director with Finance and other support offices attending. DIRs serve as self-initiated annual purpose level reviews. They raise goal and purpose level issues which would otherwise be dealt with only through evaluations held every second or third year. Through the DIRs, the Mission can flag issues requiring evaluation and, where necessary, redirect projects or reallocate budgets. Actions generated through the DIR are followed up in subsequent MIRs.

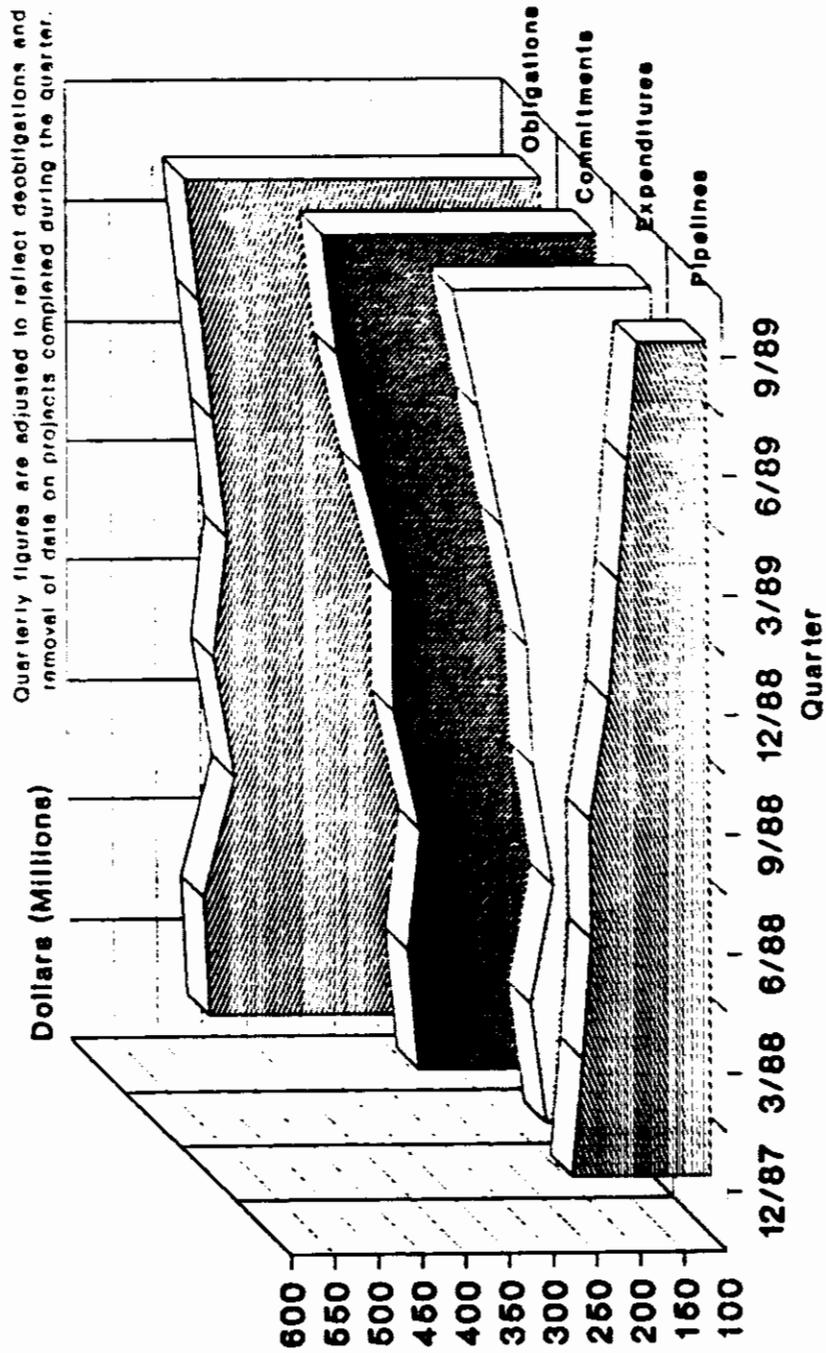
Quarterly Financial Reports (QFRs): PPS and FIN have begun to produce a Quarterly Report of key financial information and basic project design and implementation plans. QFRs are an important contribution to the information data base on which the Mission's portfolio management decisions are based.

Project Implementation Reviews (PIRs): Information from all three of the above implementation systems feed into the semi-annual PIR process. This is our standard project reporting system to AID/W. A new strategy results reporting system is outlined in part II D of this Management Action Plan.

c. Reduction of the Pipeline

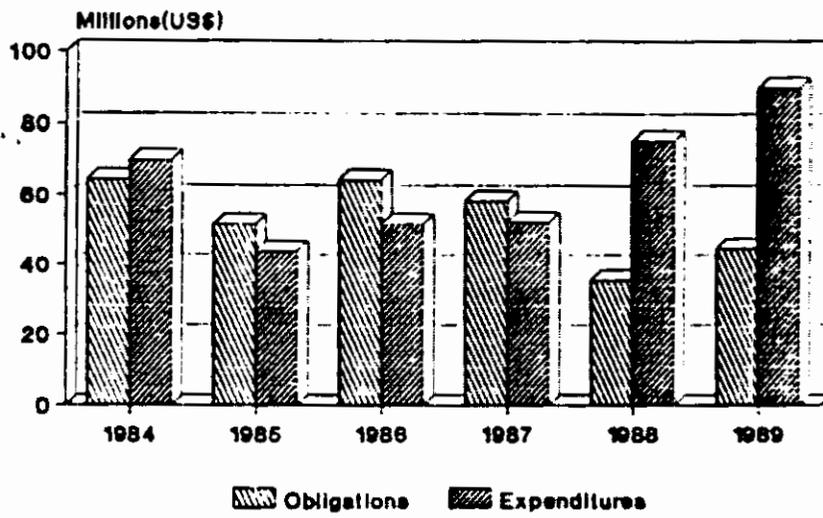
The Mission's pipeline has been reduced by about 15%, from \$280 million at the end of FY 87 to \$240 million at the end of FY 88. Further progress in this area appears to be self-sustaining (see Figures 3,4 and 5). The Mission will continue to ensure rigorous pipeline management.

**Figure 3**  
**AID/Indonesia Financial Status History**

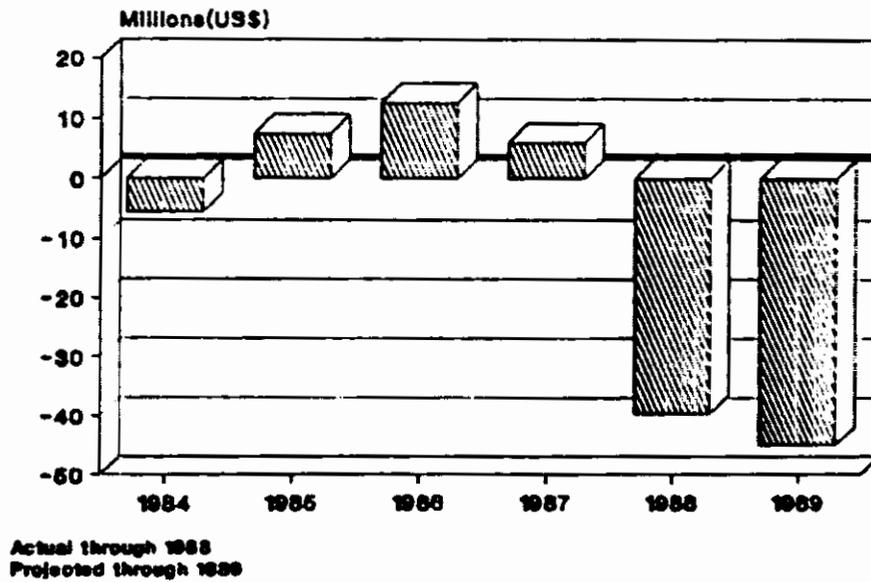


Actual through Dec. 1988  
 Projected through Sept. 1989

**Figure 4**  
**Actual Obligations and Expenditures**



**Figure 5**  
**Changes in the Pipeline**



d. Aggressive Use of De-obligations

We have made aggressive use of de-obs to ensure that available funds are allocated where they are most needed. We have also used the up-graded implementation review process to scrutinize projects which are not progressing well, or where excess or residual funds have collected. In FY 88 the Mission deobligated a total of \$6.4 million from such sources, freeing these funds for priority use elsewhere.

e. Further Improvement of the Project Design System

The Mission is working to achieve efficiencies in the project design process which are comparable to those being achieved in our new project implementation system. Fine-tuning efforts in this area are aimed at ensuring that all important design issues are raised and addressed systematically, rather than in ad hoc fashion. The Director and Deputy Director participate in at least one wide-ranging brainstorming session for each concept paper and PID to surface issues. The PPS Office then summarizes these in a paper for review at a meeting chaired by the Director or Deputy Director. This latter is analogous in function to the role of ANE/PD in AID/W.

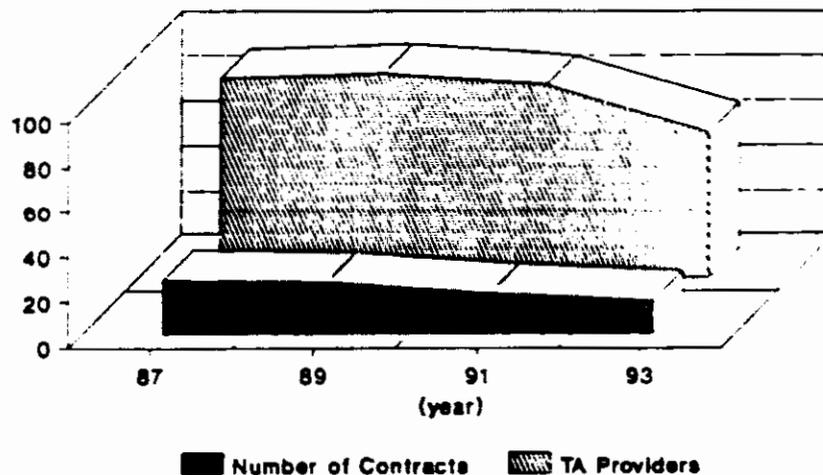
2. Making Contracting Less USDH-Intensive

The Mission is taking several important steps in efforts to increase implementation efficiencies. Those areas which concern technical assistance personnel are receiving particular attention, given the large numbers of persons involved and the workload implications for Mission staff.

a. Reducing USDH Workloads by Consolidating Institutional Contracts

In the past, USAID/Indonesia projects have frequently employed a combination of contract modes, including institutional contracts, personal services contracts, AID/W centrally-funded buy-ins, and IQC's. We are now committed to designing new projects as unified management units to be carried out by a single institutional contractor where feasible (Figure 6).

**Figure 6**  
**Projected Decrease in Direct Institutional Contracts**



These more comprehensive contracts will be more implementation efficient, since they will include project components previously dealt with under separate contracts (e.g., commodity procurement, participant training, technical assistance). Reducing the number of contracts managed by USDH staff will

allow the Mission to give greater priority to policy dialogue and donor coordination.

b. Increasing Logistical Self-Sufficiency of Contractors

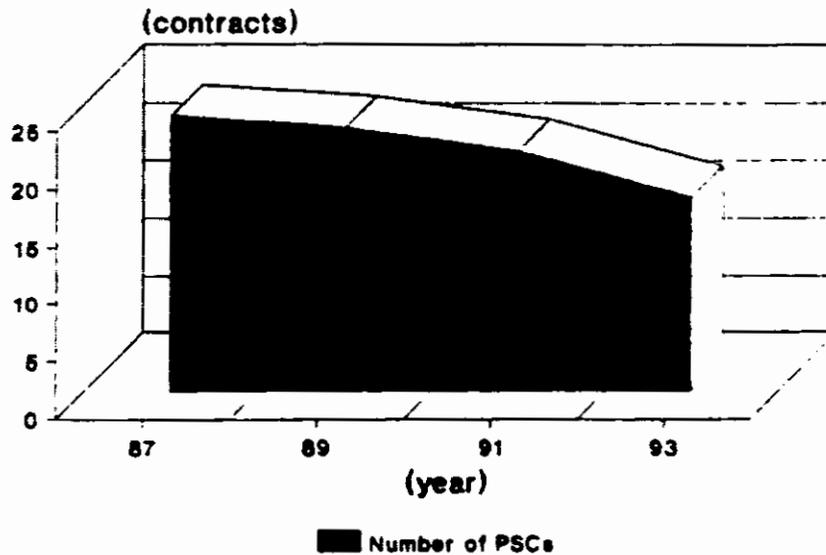
The Mission is actively seeking ways to increase contractor logistical self-sufficiency in new projects as a means for reducing in-house Mission administrative workloads. A number of logistical support practices have become standard over the years which resulted in a more active style of administrative contract management than is necessary. We have begun efforts to decrease the level of administrative responsibility of the Mission by shifting the bulk of the logistical burdens under new contracts to the contractors themselves. For example, historically the Mission had located and provided (project-funded) housing and associated domestic maintenance services for some institutional contract personnel. Except for a declining number of grandfathered contracts, this practice has been ended.

c. Reducing Program-Funded Personal Services Contracts (PSCs)

Program Funded Personal Services Contracts have long been an important implementation mode for this Mission. As an economical source of sound expertise, PSCs can be particularly useful in provision of project TA and for special purposes, such as policy analysis or project phaseout. The evidence on PSCs as a management tool is mixed. On one hand, increased use of PSCs in recent years has added to the administrative management burdens on USDH staff by increasing both contracting actions and the administrative support services burden. On the other hand, PSCs, once administratively managed, reduce the program management burden, and are a bargain if local hired.

These trade-offs will be dealt with by the Mission now that the costs and benefits are better understood. Although we will continue to need PSCs for critical (and especially short-term) skills inputs, we currently plan to reduce the number of PSCs, but will use the PSC mode selectively. We expect this intention to result in a greater reliance on institutional contracts. (See Figure 7)

**Figure 7**  
**Projected Decrease in Numbers of PSCs**



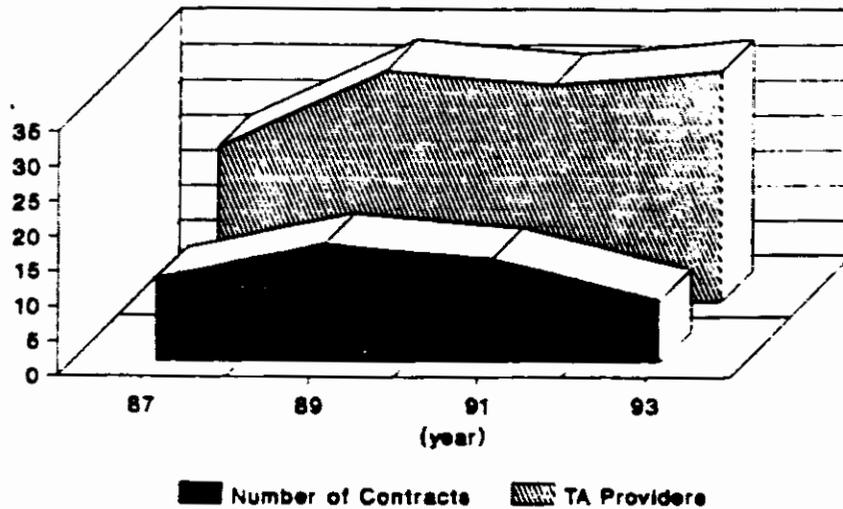
**d. Assessing Host Country Contracting vs. Direct Modes More Systematically**

Usually, a Mission utilizes the Host Country Contracting mode to increase its ability to provide TA to the Host Country while

reducing the management costs to the Mission. Although a number of host country contracts have been used in Indonesia over previous years, the gains in USAID workload savings have been minimal due to lack of experience of certain GOI agencies making it difficult for them to assume the corresponding management burden. This inability has resulted in more "hands on" management by Mission staff in order to insure accountability and necessary technical management of the TA contractor. Many HCC's are HCC's in name only.

Given the potential for reducing USAID management burdens through host country contracting, the Mission will continue to attempt to utilize this mode (see Figure 8). However, we will also incorporate more rigorous analyses of GOI agency management capabilities during project design. Where feasible, the Mission will take steps to upgrade the management capabilities of the cooperating agency to make more true host country contracting possible.

**Figure 8**  
**Number of Host Country Contracts**



**3. Realizing Operating Expense Efficiencies**

Although we do not have exact figures for all ANE Missions, we believe that since 1981, Indonesia has been the over-all leader in saving operating expenses for the Bureau as evidenced in three significant areas:

**a. Reduction in USDH positions**

Although several ANE Missions have also been reducing their USDH staff, we doubt that any of these Missions is taking a 50% cut as has Indonesia in going from 74 positions in FY 1981 to 37 positions in FY 1993.

b. Reductions in FAAS payments

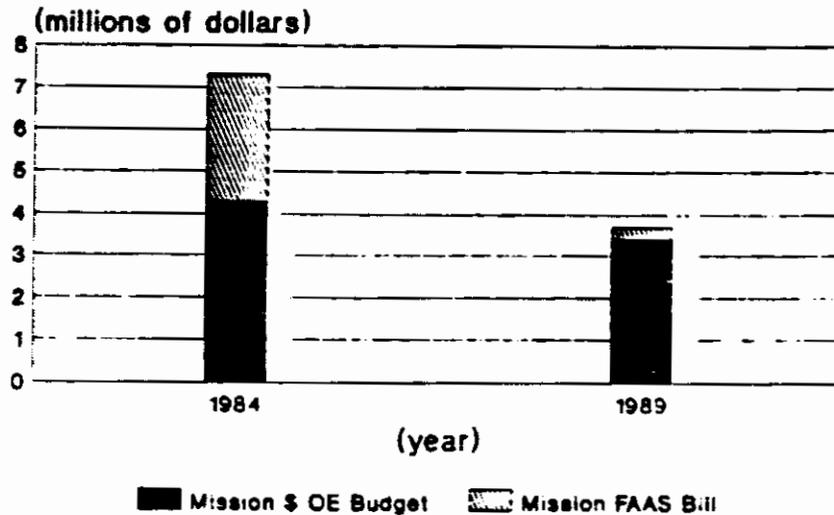
We know that other Missions have had reductions in their FAAS bills, but doubt that any other Mission, with the possible exception of Egypt, can match the success Indonesia has had in reducing its FAAS bill from a 1984 high of almost \$3 million to a current level of \$350,000.

c. Increase in Trust Funds

Again only a few ANE missions have experienced increases in their trust fund contribution since 1981. We believe our increase, in addition to almost tripling the GOI's contribution, was more difficult as it has to be separately appropriated by the GOI as part of its budgeting process. It is not simply a percentage contribution of our program funding as in most countries which contribute Trust Funds.

The efforts of these three initiatives have had a significant saving in the OE dollar needs of USAID/Indonesia as reflected in Figure 9.

**Figure 9**  
**Mission Dollar OE Budget and**  
**FAAS Bill Reduced by Half**



We are continuing to look for ways to reduce our OE dollar requirements even further. Among these are the following:

- a. A Mission Management Operations Oversight committee has been created and is working to coordinate long-term planning of Mission operational needs which affect the OE budget and to monitor all OE expenditures.
- b. A Mission Automated Data Processing committee has been established and as part of this effort the Data Management Center has been reassigned to the Controller's Office. We believe this area has potential for improving the automation efforts of the mission. This is viewed as a means for bringing USAID/Indonesia up to par with other missions.

- c. The Mission's international travel budget has been consolidated under the Front Office in an effort to control and prioritize our limited travel funds better. Domestic travel for project monitoring is, of course, encouraged.
- d. We have begun laying the ground work for an increased contribution to our OE Trust Funds by the GOI. However, based on prior negotiations, we are not optimistic that we will be successful so soon after the recent increase to \$ 1.5 million, though it may be possible to convince the GOI to increase their contribution to keep pace with inflation. In our opinion, any significant increase is not possible given GOI's own budget constraints. We also believe that last year's action to reduce our dollar OE budget following an increasing GOI trust fund contribution makes it near impossible to seek a significant increase this year.'
- e. We have made great strides in archiving prior year financial (MACS) and other data and word processing files, in an effort to reduce the need to purchase additional expensive ADP hardware.
- f. The Mission is following closely a \$113 million accountancy development project initiated by the World Bank to determine how AID projects can benefit over the long term. This project is designed to improve accounting practices in both the public and private sectors as well as improve the

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4. The idea in our Action Plan Guidance that we could provide more aid to the GOI if they raise the trust fund is probably a non-starter since we obviously cannot promise more aid. Within the program level we have, we could do more budget support and less projects. But we are trying to reduce budget support, not increase it, and to use program aid more for new policy implementation costs rather than for recurrent costs. Finally, relying on the GOI for most of our OE would be unhealthy for our independence while negotiating.

quality of accounting education and prepare for a future demand for accountancy manpower. Even though the Mission is currently using two IQC type contracts for financial management services, we see this effort as a supplement to, not a replacement for the direct hire efforts currently taking place within the Mission. It is too early to tell how successful this World Bank project will be in helping us rely even more extensively on the accounting firms practicing within Indonesia.

#### **4. Using "Performance-Based" Project Disbursement**

"Performance-based" disbursement offers a middle ground between traditional project input financing and sector support aimed at policy reform, that could offer further possibilities for reducing management workloads. This type of assistance also helps to focus management attention on accomplishment of a project's higher level objectives.

We expect this mechanism to be particularly appropriate for the family planning and health sectors. In designing the Private Sector Family Planning Project, we are exploring the possibility with the GOI of disbursing project funds based on achievement of agreed upon workplans and outputs measured by established indicators for at least one component of the project. We are also considering use of performance-based disbursement in the new health project planned for FY 90. Another possible area for consideration of performance-based assistance is in tax reform.

#### **5. Consolidating Geographically**

The Mission has sought to reduce staff workloads by narrowing the geographic spread of project activities. Most of the project

activities which require close USAID staff supervision are now concentrated in only 7 of Indonesia's 27 provinces. As the Mission increasingly focuses on policy advocacy and policy implementation, including work with key national-level institutions, the major project and program assistance activities are being carried out with the central government. Activities at the provincial level are being limited to those (1) necessary for gaining sufficient background understanding for USAID to identify credible policy options, or (2) necessary to demonstrate local impact or efficiency gains to the GOI as a step toward national level implementation.

**C. Areas in Which the Mission Faces New Demands on Staff Time**

Although workload reductions noted above are substantial, they are being off-set, at least in the short-term, by new demands on in-house Mission staff time. The following areas are particularly important in this regard:

**1. Experience with Program Assistance**

In 1987, the Mission began through ARRSP to explore the possibility of using program assistance to support GOI efforts to undertake critical policy reforms, while reducing USAID staff workloads. However, the recently completed mid-term evaluation of ARSSP concluded that the expectation that D.A. sector program assistance would require less staff per dollar than project assistance was overly optimistic. Rather, the ARSSP experience is showing that to be effective in facilitating policy change, program assistance requires almost as much staff time as project assistance.

To improve the effectiveness of ARSSP, the evaluation su the need for a more active USAID role in assisting the GOI with its policy-related activities (analysis, dialogue, and implementation). This role will require a commitment of more staff and a skills mix different from the usual requirements in project assistance. ARSSP has required more JCC-type analysts and additional USDH time than planned to conduct adequate policy analysis and budget monitoring. The evaluation recommends an additional person with an accounting and information systems background be hired, and that we allocate additional USDH and FSN time to manage ARSSP funds and its program of policy related activities.

Despite higher than expected staff costs, USAID program assistance fills an important niche in our assistance instruments. This mode still has the potential to make a flexible, quick-response, non - project contribution to policy implementation that, dollar-for-dollar, could well be greater than the policy results of other donors' program aid. We are now exploring ways of shifting the use of program assistance funds increasingly to fund the implementation of reforms through the concept of "targeted budget support." At this point we do not advocate a further shift in the portfolio composition from project to program assistance (40% of FY 89 D.A. OYB is being delivered through program assistance). What is needed during the FY 89-FY 91 period is more testing of this new mode in the Indonesian context, and experimentation with the "targeted budget support for policy implementation" approach advocated by the evaluation team.

## **2. Shifting Emphasis to Policy Analysis and Policy Implementation**

In line with the CDSS strategy, the Mission is seeking means to increase its impact in priority areas by shifting emphasis from

pilot demonstration and local institutions development to more policy analysis, policy dialogue, and reform implementation. This change in focus is requiring a major shift in type and utilization of USAID contract technical assistance, which in turn has important implications for USDH workloads.

These changes can best be understood using the concept of the Mission's "Policy Cycle Strategy." In its over-all efforts to achieve greater national level impact in key reform areas, the Mission views most of its knowledge transfer activities as related to one of three steps in the policy cycle:

**Figure 10**  
**Policy Cycle Strategy**

STEP	ACTIVITIES
1. <u>Identification of Constraints</u> clarifications of reforms needed and likely implementation constraints	- Pilot Demonstrations - Research - Local Inst. Develop.
2. <u>Policy Reform Advocacy</u> including both "general policy" and "implementation policy" reforms	- Policy Dialogue - Program Support
3. <u>Implementation of Reforms</u> these are the means for achieving desired impact on a large scale and sustained basis	- National Level Inst. Development - Donor Coordination

Of the Mission's total contract technical assistance, 45% is presently concentrated on identification of constraints, 13% on policy reform advocacy, and 33% on implementation of reforms.'

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5. The remaining 9%, is involved in more traditional "direct beneficiary impact" activities outside the Policy Cycle Strategy, such as in the Western Universities Agriculture

Though it is difficult to make precise estimates at this stage, the new projects under consideration or development in the Mission (e.g., Trade and Technology, Technical Support, Natural Resources Management, and Private Sector Family Planning) are expected to result in an increase in percentage of TA allocated to policy reform advocacy and implementation of reforms. This shift in emphasis is already increasing the need of careful and complete policy analysis. A good portion of this is being carried out by in-house contract economists in the newly staffed Economic Policy Support Office, and by contract specialists in the technical offices. These analysts absorb additional USDH management time, particularly in the short run as they become established. Although the Mission has high expectations regarding the long-term benefits from greater in-house policy analysis capabilities, there is an unavoidable short-term increase in Mission staff workloads.

### 3. Increased Donor Coordination (particularly with Japan)

#### a. Other Donor Coordination: General

As part of this Action Plan we have been asked to report on the management costs and benefits of increasing other donor coordination. The principal time invested in the first year of our CDSS implementation has been, appropriately, with the Japanese, and the costs and purposes of such coordination deserve attention. We will therefore select the relationship with Japan for treatment in this section. We hope to have a side meeting devoted to Japan coordination during Program Week. At that meeting we hope to treat the subject in more depth than the Management Action Plan format permits.

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Education Project.

A second up and coming, and little known, other donor coordination requirement will be with the Canadians who, based upon an extensive parliamentary study of their aid system rivaling our November report and Hamilton Committee report combined, have decided to adopt the "AID model" of overseas mission management and to apply it first in Indonesia. Canada this summer will upgrade its operation to a full mission, including a Director with project approval authorities, increase CIDA staff from 11 to 26, and spend time (principally with USAID/Jakarta) to learn our system. Our coordination with the IBRD and ADB is quite close and we manage one project for the IBRD. There are no excessive time constraints in those relationships.

b. Other Donor Coordination: Japan

1. Purposes of GOJ Cooperation

In order to assess what we are "getting" out of cooperation with Japan, one first has to agree on the purpose of AID/Japan cooperation, often misunderstood. Never until now has a country given more foreign aid than the United States; Japan now does. In Indonesia, moreover, the disparity is most striking: Japan's \$2.3 billion annual program, arguably the largest annual economic aid program in history from one country to another, compares with our up to \$100 million (if we count everything). The purpose of AID coordination with Japan in Indonesia is stated in our CDSS: to influence the allocation of other donor resources, in addition to our own, for better development results. Our purpose is premised on the assumptions that (1) Indonesian economic development is in the U.S. interest, so that (2) improving Indonesian development by all means, including influencing other donor resources to be more developmentally effective and of higher quality, is also in the U.S. interest. The benefit accruing to the U.S. interest in Indonesian development of such an activity is, presumably, the

greatest in the case of AID's coordination with the Japanese, where the developmental "influence" is spread over a larger sum of money. Also, Japan's program, being more different in content as well as size from our own, offers more opportunities for complementarities.

On the other hand, the cost (effort) may be greater with Japan than with more familiar donors in view of the very different aid systems and philosophies which we must learn in order to mesh well. Also, the diversity of Japanese aid institutions (MFA, JICA, OECF, EPA, Ministry of Finance, MITI) can cause AID officers bewilderment, and confusion as to when a GOJ interlocutor is speaking with final authority. These learning factors add to the effort side.

We offer an analogy that may clarify the topic: it helps to look at our responding to Japan's requests for advice on how we do development assistance as a form of bilateral (AID-GOJ) institution building. It is not unlike our taking on a separate development project, in which the GOJ, rather than the GOI, are our counterparts. Like any aid project, and particularly institution building, the process takes years. The results of institution building, on the other hand, would be more sustainable than mere cooperation on individual projects, such as co-financing them.

## 2. Elements of GOJ Cooperation

U.S./GOJ cooperation for the purpose of improving GOJ aid "quality" so as to achieve better economic development has manifested itself here in several ways. They include, but are not limited to:

- a. coordinating strategies, including getting the GOJ to join us in increasing awareness of a key sector (e.g. environment);

- b. getting the GOJ conversant with a sector we are leaving (roads, irrigation) to assure donor attention to it and to protect our investment;
- c. getting the GOJ conversant with our software;
- d. assisting in GOJ design, implementation, evaluation, audit techniques;
- e. advising the GOJ on how to administer aid better (suggestions for field delegation, increased staffing, etc.), and last;
- f. getting GOI funds into our projects. (Note: a common misperception is that this is our primary interest. It ranks low).

We will evaluate these in turn in terms of (1) results and (2) effort.

a. Coordinating development plans

The GOJ has just begun a country development study for Indonesia, following up on the one they did for the Philippines and Thailand. We briefed them intensively. Second, we have selected environment as a sector for joint cooperation: as a result, the GOJ stated at the last IGGI that environment was a priority area for Japan and that cooperation with other donors "such as the United States" was welcome. Though we regard that policy decision by the GOJ as an outcome of our dialogue with them, we have yet to translate that decision into tangible results because of the very preliminary stage of our environmental project (see conclusion of this section).

Results: preliminarily, quite good, but will take much more time to tell. Costs: perhaps 30-40 person/hours. Benefits: too

early to tell, but groundwork for the long term benefits has been laid.

b. Getting GOJ in a sector we are leaving; familiarizing GOJ with our software; and funding

Small Scale Irrigation Project: We have, as we intended, gotten the GOJ interested in the small scale irrigation sub-sector that we are leaving so that a major AID prior investment area can be looked after by another donor. We have nearly gotten the GOJ to contribute \$14 million in parallel financing after protracted discussions (involving 700 person/hours staff time); their contribution is a mix of hardware and software, but unfortunately mostly the former. Conclusion: considerable staff time involved, no feeling that next time (next project) will be any easier, too early to say if it results in long-term GOJ involvement in the sub-sector or lateral transfer of our software knowledge to GOJ; probably will result in GOJ money for project, on a parallel co-financing basis rather than a "joint" co-financing basis. We believe the superiority of parallel over joint co-financing, in terms of ease of meshing the two systems, has now been demonstrated in virtually every case of AID-GOJ co-financing.

Joint co-financing would teach more of our systems but the effort always proves too formidable.

e. Assisting GOJ design techniques; software; funding

Higher Education Development Support Project: Our effort to do the first ever jointly designed project with the GOJ was intended to transfer our design techniques laterally. However, the GOJ design team's schedule overlapped ours only partly and was not really a joint design team as was hoped. But the GOJ did get

involved in this type of private sector education focus, and we expect it will contribute \$20 million, to double the size of the project. Draft GOJ design documents indicate that the GOJ will replicate the major input categories set forth in our PP. A full time GOJ consultant has already arrived at the GOI Directorate General of Higher Education for the principal purpose of working on our joint project. He will coordinate completion of GOJ design based on our PP. Results: less than hoped in terms of demonstrating design techniques and getting involvement in software; about what was hoped in terms of funds, if approved. Got GOJ interested in private sector education. Got GOJ Education Ministry more involved in Japanese foreign aid with possible long term improvement in substance of GOI aid projects; lots of our time.

#### Other

##### a. Failure

In terms of loosening up the effective tying of Japanese procurement, or de-emphasizing commercial aspects of GOJ aid, we have not made any headway despite some effort. Indonesia remains in the most restricted category as concerns Japanese untying. On the other hand, our assistance was not predicated on achieving that headway, but on development, as earlier set forth.

##### b. Success

We have made considerable headway as part of an effort to change public opinion internationally, and in Japan, that Japan needs more economists and more field staff. There are frequent articles now in international popular media suggesting that Japan needs more aid field staff, usually with reference to Indonesia, and usually comparing it with AID (Newsweek cover story,

International Herald Tribune, Japanese English language press.) There is a change from a year ago in that virtually all GOJ staff and Japanese media have accepted the need to strengthen the GOJ's core field presence substantially, and to beef up analytical capacity in Tokyo and the field. Japan has begun to build its aid institutions to try to catch up to its leading world aid role. AID played a role in helping Japanese opinion coalesce on this point.

c. Conclusion

We estimate the total cost of Japan cooperation as one USDH person year each year. The benefits are long-term and resemble an institution building project with a \$2.3 billion/year institution in Indonesia alone.

If we had to cut back GOJ cooperation to gain efficiencies, we would probably reduce project level cooperation, which is the most time consuming, and stay with (a) long haul institution building assistance for strengthening Japanese aid's development assistance administration capacity (b) information exchange, and (c) pressing continually on untying. These would be done better if we were part of a larger AID/GOJ exercise between Washington and Tokyo. Perhaps AID/W should consider undertaking a reimbursable aid project with the GOJ to strengthen Japan's aid institutions, in which USAID/Jakarta would be a field participant to give "ground truth." For our part, we hope to have a USDH expert on Japanese aid systems on board here July 1. We have proposed but not yet pursued having a Japanese Government aid intern assigned to our mission for 6 - 12 months. These ideas should be settled in Washington by the appropriate bodies.

As concerns Indonesia-specific cooperation, if we had to reduce time spent on cooperation, we would not want to give up on the

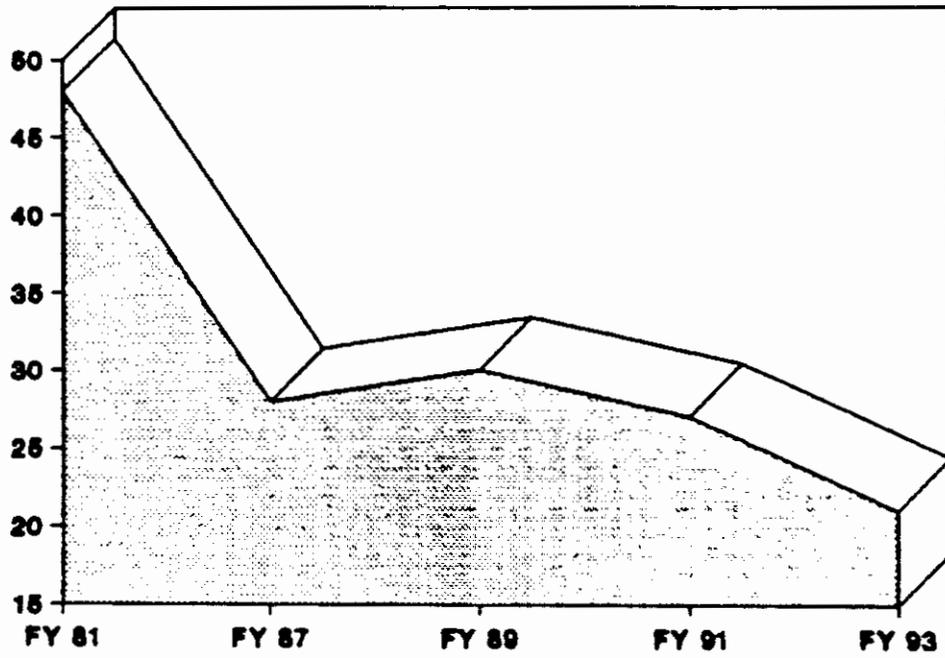
hard won Japanese commitment to cooperate with us in the crucial environment sector, though we would probably stay away from joint projects and instead seek to help Japan select an appropriate niche in the over-all donor framework for assistance in the environment sector.

#### **4. Short-Term "Peaking" in the Number of Projects**

The Mission has concentrated on reducing its number of projects load and we have had a high degree of success in achieving a long-term downward trend through FY 93. We have been particularly attentive to the workload implications as new projects have been considered.

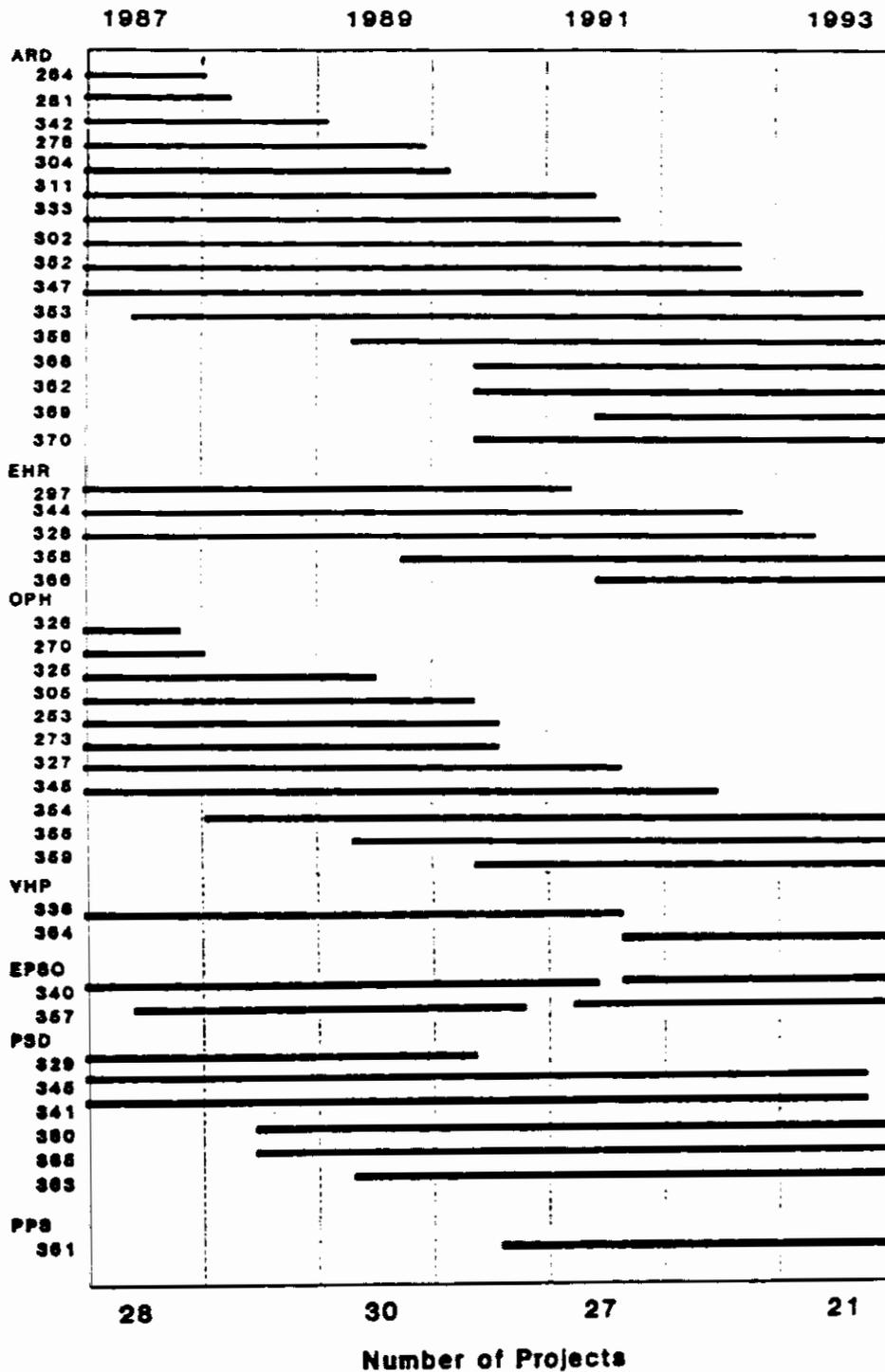
However, the re-orientation of Mission activities under the new CDSS to reflect the GOI's massive re-structuring efforts has had a short-term, but unavoidable "peaking" effect on the range of areas in which we are involved (see Figure 11 and Figure 12). We have expanded rapidly into several important new areas which will have direct impact on the overall CDSS goal (e.g., capital markets, tax reform, urban financing, natural resources management). But it takes time to move out of past areas in which USAID still has on-going project commitments. The "peaking" of project activity in FY 89 and FY 90 is therefore a temporary phenomenon, and project numbers will drop off dramatically, from 30 to 21 by FY 93.

Figure 11  
Short-term Peaking in Number of USAID Projects



**Figure 12**  
**Numbers of Projects and Program Assistance**

How we plan to consolidate the program around a number of CDSS mainstream projects, over time, by office, by shedding old projects and consolidating around a few new ones.



## **5. Strengthening Financial Analysis**

We are continuously looking for ways to streamline and simplify financial controls as a means for reducing USAID staff workload, but special need for financial oversight in Indonesia will not permit further significant reduction in staff time devoted to financial control. For example, the Mission has reduced the number of PILs by using standardized contract forms and checklists for host country contracts under \$100,000, and this has contributed to the over-all efficiency of the approval process. But these steps have not resulted in significant time savings in the certification process by the Office of Finance.

Both the Mission Management Assessment and the FM Controller Assessment indicated severe understaffing for financial analysis in the Finance Office, and we have taken steps to correct this shortage. Experience over recent months indicates that the Mission and the Agency are seriously vulnerable without this expanded financial analysis capability, perhaps because prior understaffing produced an environment short on guidance and oversight from the Finance Office. Through our stepped-up efforts to intensify financial analysis and monitoring over the past year, we have surfaced instances of fraudulent vouchers, over pricing, and estimated expenditures being reported as actuals.

The Mission and the Manila RIG have expanded utilization of public accounting firms as one component of the oversight effort. However, contracting out oversight responsibilities is not a panacea--- services currently available are not always up to standard (even those from affiliates of large American accounting firms with expatriate managers) and in any case they, too, require oversight. We believe that the Non-Federal Audit effort for PVOs and our review processes will require substantial Finance Office

involvement to ensure performance to suitable standards over the next several years.

**D. LINKING MANAGEMENT WITH STRATEGY: THE DEVELOPMENT PROBLEM AREA (DPA) FRAMEWORK**

In the previous sections we have discussed the measures we have taken to reduce the workloads on and increase efficiency of the Mission's USDH staff. This is essentially what would be expected under the usual approach to developing a Management Action Plan. We firmly believe, however, that to be useful as a planning instrument, further analyses must be undertaken which show how planned staff allocations actually link back to the Mission's broader CDSS objectives and strategy. USAID/Indonesia is seriously addressing the need of strategically integrating its overall program management so that (1) program components can be more firmly and explicitly linked to broader CDSS goals and subgoals, and (2) staff resource allocations can eventually be assessed in terms of their contribution to CDSS achievements. The concept is like having "CDSS profit centers."

**1. The First Step: A Tightly Integrated CDSS**

The selection of a single all encompassing macro-economic CDSS goal and strategy (incomes and employment), with limited sectoral sub-goals, was an important first step in this direction. It has helped the Mission to redefine and sharpen its priorities. It has specifically helped us to divest our portfolio of many worthy but lower priority holdings. We have decided not to pursue several new program areas (energy, basic education), to downplay or disengage from others (fisheries, extension, rural infrastructure, nation-wide projects, general institution building), and to target one sector (family planning) for a final push toward "graduation."

In recent months, USAID/Indonesia has undertaken a thorough re-examination of the staffing implications of the Mission portfolio. One outcome of this process has been an innovative management framework which has allowed us to link staff allocation more tightly and explicitly to specific CDSS sub-goals. This section describes the framework and shows how we are using it to tighten the linkages between management improvements and CDSS strategy.

## **2. Development Problem Area Concept**

AID has long struggled with the difficult problem of evaluating management performance in terms of concrete progress toward broad program goals. To a great extent, this reflects the persistence of a "void" (what Joe Wheeler has called "anarchy") between more general program goals and concrete project level activities. Assessment of management performance often begins with broad strategic issues, but usually drops quickly from strategy to project level measurements. It thus becomes nearly impossible to assess a Mission's success in achieving its overall CDSS objectives or, equally importantly, to assess the resource costs associated with specific CDSS achievements.

As a step toward developing a more explicit linkages between CDSS goal, sub-goals, implementation activities, and staff resource costs, the Mission has developed a framework based on thirteen Development Problem Areas (see Figure 13). Each Development Problem Area (DPA) consists of a tightly defined technical area in which USAID and the GOI are seeking to overcome specific, identifiable constraints on development. DPAs are, in general, wide enough to incorporate several projects (or project activities), specific policy objectives, donor coordination objectives, etc. But they are narrow enough that a clear Mission

objective and strategy can be articulated and evaluated for each. Finally, most of the Mission's USDH, other OE, and non-OE staff resources can be explicitly allocated among the thirteen DPAs.' The allocation includes all Technical Office personnel and three project development officers and their support staff in the PPS Office.'

A particularly useful aspect of the Development Problem Area framework is that the resource allocations, like the problem areas themselves, need not be artificially fitted within single offices. Rather, the resource investments in a given DPA from the lead technical office, other technical offices, EPSO, and PPS can all be assessed.

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6. We have not allocated Senior Management and Support Staff to DPAs since to do so would have been highly arbitrary. These positions include: Director, Deputy Director, American Secretary, Legal Adviser, Contracting Officer, Executive Officer, Controller and two assistants, Program Officer and one assistant, and a Senior Economist. The 12 USDH are the minimum core required to manage a mission of this size.
  7. A significant non-management demand on U.S. personnel time is at-post language training. We have allocated this time proportionately to DPAs since ultimately it results in greater USDH ability contribute to DPA objectives.

**Figure 13**  
**Mission Objectives in Development Problem Areas**

COSS SUBGOAL	DEVELOPMENT PROBLEM AREAS	MISSION OBJECTIVES
1. To Support a More Open, Less Regulated,  Trade-Oriented Economy	1. FINANCIAL RESOURCE MOBILIZATION	To assist the GOI to increase public and private resource mobilization by improving efficiencies in banking, capital markets, and taxation systems.
	2. TRADE AND INVESTMENT	To assist the GOI to improve trade and investment environments to stimulate economic growth, particularly in areas with high employment potential.
	3. ENTERPRISE DEVELOPMENT	To assist the GOI to increase performance of the industrial sector by increasing the availability of well trained PS managers, privatizing SOE, and facilitating introduction of higher productivity technologies.
	4. URBAN DEVELOPMENT	To assist the GOI to improve effectiveness in urban development activities by improving efficiencies in the allocation and utilization of public funds for urban development.
2. To Improve Sustainability, Productivity, of the Agricultural System	5. AGRICULTURAL SERVICES	To assist the GOI to increase efficiencies in the ag sector by shifting more responsibilities for planning, implementation, and financing to local government and, where possible, to non-government actors.
	6. AG TECHNOLOGY	To assist the GOI to increase efficiency and productivity in the agriculture sector through introduction of new and appropriate technologies in areas with high growth potential.
	7. AGRI-BUSINESS	To assist the GOI to shift its role from logistical control to facilitation by reducing ag subsidies and pricing controls and opening new channels of information on pricing and investment opportunities.
	8. NATURAL RESOURCES	To assist the GOI to determine the most critical problems for natural resources management and to address these through policy and institutional reforms.
	9. RURAL PHYSICAL INFRASTRUCTURE	To assist the GOI to increase the efficiency of its investments in public rural infrastructure.
3. Efficient HRD System Linking Outputs to Market Requirements	10. EDUCATIONAL SYSTEM	To assist the GOI to increase both internal and external efficiencies in the educational system.
4. To Reduce Fertility and Improve Rates of Infant and Child Survival	11. HEALTH	To assist the GOI to reduce child mortality by increasing efficiencies in GOI health services, privatizing segments of the health services delivery system, and increasing budgetary allocations to child survival programs.
	12. FERTILITY REDUCTION	To increase the effectiveness of the national FP program by improving efficiencies within the government program and shifting toward privatization of the delivery of FP services.
5. To Improve the Institutional Basis for Effective and Responsible Participation in National Development	13. DEMOCRATIC INSTITUTIONS	To assist the GOI to develop the institutional basis for a more open, democratic, and pluralistic participation in the development process.

### 3. Staff Allocation Criteria

#### a. Determining Priorities

In determining its priorities for planning staff allocations against the thirteen Development Problem Areas, the Mission has placed heavy emphasis on the following three criteria:

1. CDSS Linkage: How well does a given Development Problem Area contribute to the achievement of the sub-goal above it, and how well does it contribute to overall CDSS goal and strategy?
2. Benefits: How successful is the Mission likely to be in a given DPA and when will results begin to show? In part, the likelihood of future results can be estimated based on past Mission experience. But success also depends on the future receptivity of the GOI to reforms in that area.
3. Costs: What will it cost the Mission to get acceptable results in a given DPA? In the current Management Action Plan "cost" is considered in terms of in-house staff workloads (depicted here as person-years), particularly for USDHs.

To set initial priorities for planning allocation of staff against DPAs, the Mission makes projections of cost-benefit balance for each and makes comparison among DPAs in this regard. Obviously this requires a qualitative judgment which, though imprecise, is nonetheless useful for identifying the more extreme DPA cases where the Mission can reasonably expect to get very little or very much CDSS benefit, relative to the staff investment required.

b. Performance-Based Re-allocation Over Time

The Development Problem Area framework gives the Mission a powerful tool for improving management efficiencies over time. Two characteristics of the framework make this possible:

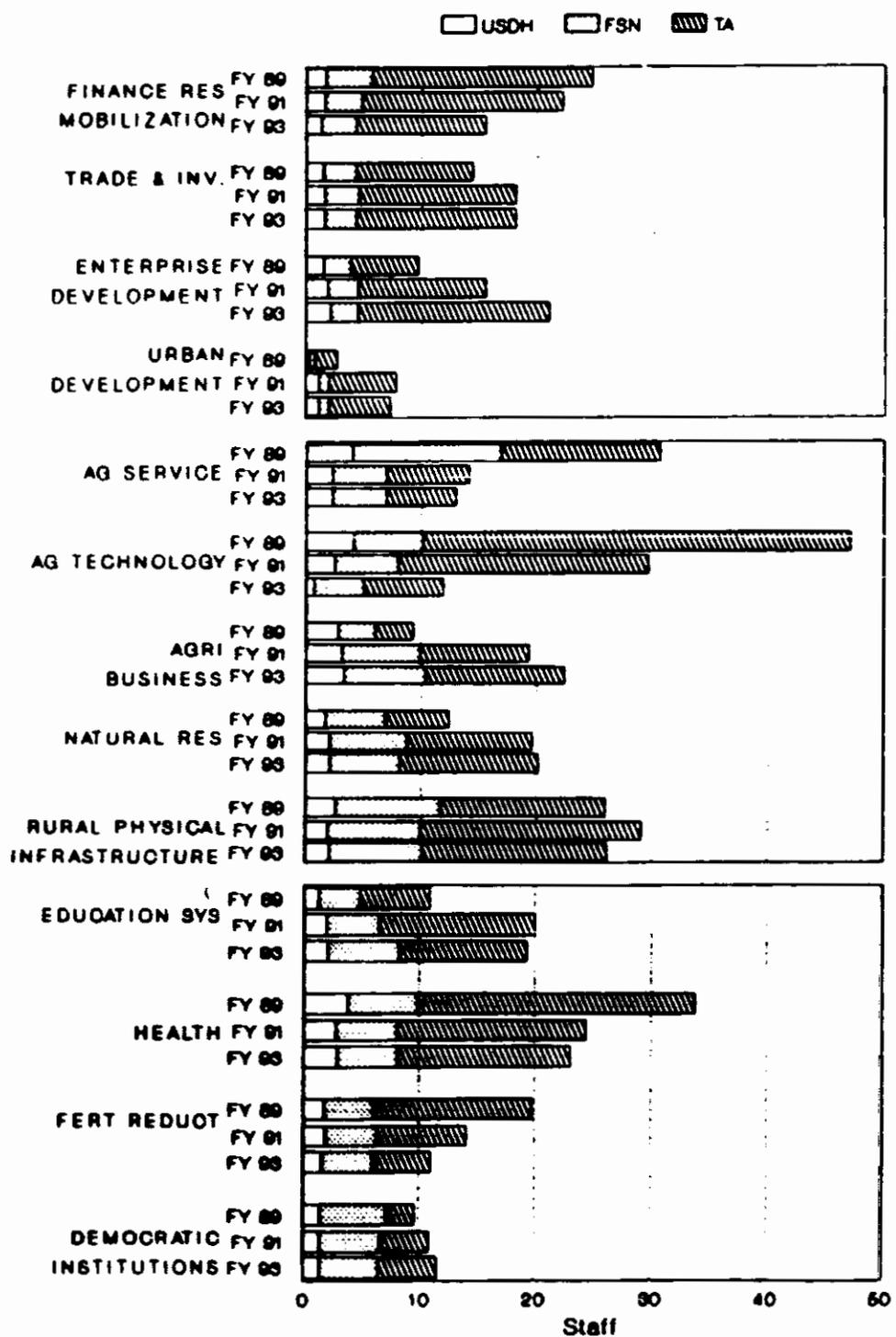
1. cost/benefit transparency: What the Mission seeks to accomplish in terms of development objectives and what this "costs" in terms of staff and funding become clear. Since trade-offs among current and potential new activities become more transparent, the DPA framework provide a useful tool to impose greater discipline in allocation of resources against priority CDSS objectives.
2. performance based decisions: Since the Mission has a clearly definable objective and strategy under each DPA, concrete performance indicators can be selected and progress continually re-assessed over the life of the CDSS. Future re-allocation of available resources toward or away from individual DPAs can then be based upon USAID's actual performance. Activities that do not contribute powerfully enough to DPA objectives or that do so only marginally can be de-emphasized or culled from the portfolio. Conveniently, this method, if it proves to be feasible, would accord with both the "Hamilton Report" concept and the ANE Bureau retreat concept of measuring a Mission's development performance and results rather than picking at individual projects which although important, are not always the most informative means to reflect the results of over-all strategy implementation in a way that policy level and program oversight officials need.

#### **4. Allocation of Staff Based on DPA Priorities**

Figure 14 summarizes in graphic form our current and planned levels and deployment of USAID staff based on the DPA framework (see Attachment B for the actual figures). Staff is considered in three basic categories: (1) USDH, (2) other OE funded staff (FSNs and in-house USPSCs), and (3) non-OE funded contractors serving primarily as technical assistants to the GOI (PSCs, PASAs, JCCs, and direct institutional and host country contractors).

Before discussing our planned re-allocations among DPAs, it is important to note that there are limits on how far the Mission can go in actually moving in-house staff to priority areas, because the Mission already has a well established portfolio with long-standing commitments to the GOI. However, as staff becomes available due to the orderly completion of present commitments, the new priority areas will receive increased attention. The following discussion considers the Mission's re-allocation of available staff in three categories (shown as the three boxes in Figure 14.)

Figure 14



DEVELOPMENT PROBLEM AREAS  
FY 89 - FY 93

a. Subgoal 1: Development of an More Open, Trade-Oriented Economy

The Mission is giving high priority to all DPAs under this broad category based on their very close linkages to the overall CDSS goal and strategy. Moreover, the GOI is clearly committed to undertaking major reforms in these areas, and the Mission has already realized and expects to continue to realize major achievements in each of these DPAs during the CDSS period. The Mission's portfolio was being rapidly expanded in these areas even before the current CDSS, and funding commitments will be increased if the Mission moves forward with the planned ARSSP amendment and the Technology and Trade Project. Although the USDH allocation is being increased in the Enterprise Development and Urban Development DPAs, unfortunately we cannot expand further given commitments and priorities under other subgoals.

Except in Financial Resource Mobilization, contract technical assistance will increase. The decline in TA under the Financial Resource Mobilization DPA does not reflect reduced commitment, but rather the winding down of the multi-province demonstration Financial Institutions Development Project (banking). The Financial Markets Project (stock, bond, and commodity markets) and new tax reform activities in this DPA are concentrated on policy reform and implementation at the national level and thus do not require numerous contractors at the provincial level.

b. Subgoal 2: Increased Sustainability, Productivity, and Efficiency of the Agricultural System

In general, DPAs in this broad category are also closely linked to achievement of the over-all CDSS goal. But the Mission is

making important shifts in priorities, and in staff allocations, among these DPAs. Figure 14 shows clearly that the Mission is now making major investments of USDH and FSN staff time to the Agricultural Services and Agricultural Technology DPAs. Past results have been impressive in these areas, but today, as the potential for further agricultural growth has shifted to non-rice crops and to improvements in the processing and distribution of agricultural products, gains in these areas have become more difficult and less assured. The Mission will remain committed to continuing in these important areas. But we feel that the very high cost in USDH and FSN staff workloads are not justified by the potential for success. The Mission has already cut back in one project (Fisheries Research and Management) under the Agriculture Technology DPA and as current projects in these two DPA areas wind down, the staff allocations to them will be reduced.

As this phase down in the Agriculture Services and Agricultural Technology DPAs is implemented, the Mission will re-allocate both USDH and FSN staff to the CDSS priority areas of Agri-Business and Natural Resources. We will consequently be able to support increased technical assistance to the GOI in these DPAs. Agri-Business is closely linked to the CDSS agriculture subgoal and goal, and shows potential for substantial benefits in the short- to medium-term given GOI commitments to reform in this area. The Mission is now designing a new project which is expected to concentrate on high-impact policy reforms. Natural Resources is another area of major concern to the Mission, even though the potential for rapid reform gains may not be as high as in other areas. Nonetheless, we feel that the importance of this area under the CDSS justifies the modest increases in staff allocations planned during the CDSS period.

The remaining DPA is Rural Physical Infrastructure, which consists of the completion of our commitment to the Small Scale Irrigation and Rural Roads projects. Both projects are demonstrations of the benefits of greater local responsibility for planning and maintenance, and have moderately high potential for contributing to national level reforms. Moreover, SSIMP is a key area of interest in our efforts to coordinate with the Japanese; we are trying to hand irrigation systems concerns over to the GOJ in an orderly way. Staff costs are not high given the potential for achievements over the medium term.

c. Subgoals 3 and 4: Improving Social Benefits: Family Planning, Health, Education, and Democratic Institutions

Fertility Reduction has long been a priority area for the Mission and we have supported major achievements over the years in this DPA. We are assisting the GOI in its current priority of rapid privatization of substantial portions of the system over the next few years. The Mission staff costs in this DPA are relatively moderate and certainly justified by impressive achievements over the years. The Private Sector Family Planning project is expected to eliminate the need for further bilateral assistance after this CDSS period, and consequently the Mission has already planned to reduce staff allocations gradually in this DPA. These changes are included in the present agreed USDH reduction figure through FY-93.

The Mission assistance in the Health DPA is undergoing important changes from emphasis on demonstration and research activities focusing on government services (including public health education), to support for privatization of health services and greater emphasis on assisting the GOI to achieve efficiencies in the hospital and pharmaceutical sectors. All

of these sub-areas, particularly the latter, show high potential for achievements during the CDSS period. However, the older child survival projects (Health Training Research and Development (HTRD), Expanded Program of Immunization (EPI), Village Family Planning/Mother-Child Welfare (VFP/MCW), and Comprehensive Health Improvement Program Health Sector Finance (CHIPPS), are winding down, and the new projects (both HSF and the follow-on health project) achieve greater USAID staff efficiencies. The over-all staff allocations to this DPA will therefore be reduced gradually within existing over-all gradual staff reduction plans as shown.

Given the large budgetary outlays by the GOI for education and the importance of linking education to market demand, the Education System DPA has close linkages to the over-all CDSS goal and strategy. GOI commitments to education policy reforms mean that the Mission can expect substantial reform impact over the next few years. The Mission is therefore increasing allocation of staff resources to this important DPA.

The Mission considers the Democratic Institutions DPA to be an area of growing priority. As stated in our CDSS, an open economy can quickly become an empty shell without the emergence of an open society. For the government to facilitate private initiative in the society, a broad spectrum of the society needs access to the decision-making processes affecting its ability to contribute to and share in sustained growth. The current absence of broad participation of all elements of the society in these processes limits the potential for future growth to be equitably shared throughout the society.

In the past, the Mission has been a major source of direct support for grassroots NGO organizations. We would like to

support improvements in the sub-areas of representative organizations, rule of law, and advocacy. By working through intermediary foundations, the Mission expects to increase technical support under this DPA, while maintaining USDH and FSN workload costs at roughly current levels. We have totally restructured our PVO CO-Financing project criteria to make institutional pluralism contributions the number one weighted factor. We also aim to sharpen our institutional pluralism strategy through a more conscious effort to use 116(e) funds, USIA funds, and National Endowment for Democracy funds. We hope to have a side meeting on Institutional Pluralism during Program Week.

#### **E. Conclusion**

The management analysis and management program presented in this section have shown that the Mission has done a great deal both to limit our entry into new high staff cost areas and to increase staff utilization efficiencies. We have been successful in squeezing out some workload savings through streamlining management, improving implementation modes, and other means. We have also shown how much of these gains are being off-set by increases in demand for USDH time, which are primarily due to the Mission's careful but already promising moves into the new CDSS mandated areas. Finally, we have developed an innovative and promising new strategy-related management framework for making more results-oriented staff allocation choices in the future.

Ultimately, for a program based on knowledge rather than resource transfer, the problems posed by precipitous staff reductions have less to do with quantity of funding levels than

with the quality of the program. We have shown that our current staff numbers are a function of the amount of technical assistance we are providing to the GOI. Even with contracting efficiencies, our 4:1 contractor-to-USDH ratio is about the limit we can maintain and still retain effective management, avoid unacceptable vulnerabilities, provide technical guidance, and utilize the policy analysis being done. As we re-align our DPA priorities, we are finding ways to reduce both the USDH and TA contractor levels slightly, while retaining the high quality of our program during this important period of Indonesian reforms. But this process has clear limits, since new initiatives such as program assistance and Japan coordination have had considerably more USDH staff time costs than commonly assumed. We believe we have an excellent management plan that is achieving efficiencies, guarding appropriately against vulnerabilities, and delivering important development results. And, with the DPA framework, we will have a mechanism to make management and staffing decisions over the course of our CDSS implementation that will keep us efficient, and make us an excellent example for the Agency of a D.A. knowledge transfer Mission.

**ATTACHMENTS**

**Attachment A: USAID/Indonesia Funding Levels**

Dollar-to-staff ratios are a crude and inadequate measure of USAID/Indonesia's management load, because these ratios do not reflect the workloads associated with our emphasis on knowledge transfer. Nevertheless, because such measures are still used by some observers as a rule of thumb, we wish to show the true magnitude of our dollar "numerator".

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**1. The active portfolio under our management exceeds \$720 million:**

DA	\$ 561 (1)
PL 480 I & II	39
Housing Guarantee	100
Other Donor Funds	12 (2)
Central Funds (per year)	8
PRE Revolving Fund	2
<b>Total</b>	<b>\$ 722</b>

**2. Our annual program levels are approximately \$100 million:**

DA	\$ 42
Central Funds	8
PL 480 I	10-20
PL 480 II	5
Section 416 Program	5
Housing Guarantee	25 (3)
<b>Total</b>	<b>\$ 95-105 (4)</b>

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**notes:**

1. Includes \$462.4 million already obligated in active projects plus 98.2 million mortgage of active projects to be obligated in future years.
2. Funds in the Uplands Project that we manage for IBRD.
3. Not part of ODA.
4. Exclusive of PRE Revolving Fund and IBRD funds we manage. Decision on initiation of Sec. 416 Program is pending.

**Attachment B: Allocation of USAID Staff to Development Problem Areas**

COSS SUBGOAL	DEVELOPMENT PROBLEM AREA	FISCAL YEAR	STAFFING				
			USOM	FSM	TA	TOTAL	
[SB 1] To Support a More Open Less-Regulated, Trade- Oriented Economy	1. FINANCIAL RESOURCE MOBILIZATION	FY 89	1.7	4.0	19.3	24.7	
		FY 91	1.6	3.2	17.4	22.2	
		FY 93	1.3	3.0	11.2	15.5	
	2. TRADE AND INVESTMENT	FY 89	1.5	2.8	10.1	14.4	
		FY 91	1.6	2.0	12.5	16.1	
		FY 93	1.6	2.7	12.8	16.1	
	3. ENTERPRISE DEVELOPMENT	FY 89	1.5	2.4	5.8	9.7	
		FY 91	1.9	2.6	11.0	15.5	
		FY 93	2.1	2.4	16.5	21.0	
	4. URBAN DEVELOPMENT	FY 89	0.3	0.5	1.9	2.7	
		FY 91	1.1	0.9	5.8	7.8	
		FY 93	1.1	0.9	5.3	7.3	
[SB 2] To Improve the Sustain- ability and Productivity of the Agricultural System	5. AGRICULTURAL SERVICES	FY 89	4.0	12.8	13.8	30.6	
		FY 91	2.3	4.7	7.1	14.0	
		FY 93	2.3	4.5	6.9	13.8	
	6. AG TECHNOLOGY	FY 89	4.1	6.0	37.0	47.1	
		FY 91	2.5	5.5	21.5	29.5	
		FY 93	0.7	4.3	6.9	11.8	
	7. AGRI-BUSINESS	FY 89	2.8	3.2	3.3	9.3	
		FY 91	3.1	6.8	9.4	19.3	
		FY 93	3.3	7.1	12.6	22.9	
	8. NATURAL RESOURCES	FY 89	1.7	5.2	5.5	12.4	
		FY 91	2.1	6.7	10.8	19.6	
		FY 93	2.1	6.1	11.9	20.0	
	9. RURAL PHYSICAL INFRASTRUCTURE	FY 89	2.6	9.1	14.2	25.9	
		FY 91	2.0	8.0	19.1	29.1	
		FY 93	2.1	8.1	15.9	26.0	
	[SB 3] Efficient HRD System Linking Outputs to Market Requirements	10. EDUCATIONAL SYSTEM	FY 89	1.3	3.6	6.0	10.9
			FY 91	2.0	4.5	13.5	20.0
			FY 93	2.1	6.2	11.0	19.3
[SB 4] To Reduce Fertility and Improve Rates of Infant and Child Survival	11. HEALTH	FY 89	3.8	6.1	23.9	33.8	
		FY 91	2.8	5.3	16.3	24.4	
		FY 93	2.9	5.3	14.9	23.1	
	12. FERTILITY REDUCTION	FY 89	1.8	4.3	13.6	19.7	
		FY 91	1.9	4.5	7.7	14.1	
		FY 93	1.6	4.4	5.0	11.0	
[OTHER] To Improve the Institutional Basis for Effective and Responsible Participation in National Development	13. DEMOCRATIC INSTITUTIONS	FY 89	1.5	5.7	2.4	9.6	
		FY 91	1.4	5.3	4.2	10.9	
		FY 93	1.5	5.1	5.1	11.7	
		TOTALS	FY 89	28.3	65.7	156.3	250.3
			FY 91	26.1	60.9	157.3	244.3
			FY 93	24.5	60.0	133.3	219.9

Totals do not reflect allocation of 12 USOM Senior Management and Support Staff & related FSM support staff

Attachment C: OE Funded Mission Staffing by Office

	1981 (a)		1984		1989		1991		1993											
	USMI	USPSC	USMI	USPSC	USMI	USPSC	USMI	USPSC	USMI	USPSC										
<b>MISSION MGT &amp; SUPPORT</b>																				
DIRECTOR'S OFFICE																				
IA																				
ECONOMIST																				
PPS (PROGRAM SUPPORT)																				
CH																				
EXO																				
FIN																				
ZHR (LANGUAGE)																				
S/T	20	2	85		16	2	98		12	4	94		12	3	94		3	-	1	1
<b>TECHNICAL OFFICES</b>																				
PPS (PROJECT SUPPORT)																				
KPSO																				
PSD																				
ARD																				
OPW																				
ZHR (WITHOUT LANGUAGE)																				
VHP																				
	54	1	67		33	1	66		28	0	64		28	0	59		26	0	59	
<b>TOTAL MISSION</b>	74	3	152		49	3	164		60	4	158		70	7	153		70	7	153	

(a) DETAILED FIGURES FOR 1981, NOT AVAILABLE BY OFFICE