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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM MEMORANDUM
FY 1970

INDONESIA

DEPARTMENT OF STATE

AUGUST 1968

[redacted]

EMBASSY
OF THE
UNITED STATES OF AMERICA
Djakarta, Indonesia

[redacted]

August 1, 1968

The Honorable
William S. Gaud
Administrator
Agency for International Development
Washington, D.C.

Dear Bill:

I have personally reviewed the USAID/Indonesia Program Memorandum for FY 1970, as have all other concerned members of the Country Team. As a result of this review, I feel that a high order of analysis has been brought to bear on defining a USAID role in Indonesia which both is appropriate in terms of U.S. objectives and promises to be effective in helping to advance these objectives.

The issues which the USAID program confronts in Indonesia have been clearly identified, and alternate strategies for resolving these issues have been realistically devised. I believe that the resulting program and types and levels of assistance proposed are soundly and imaginatively conceived, are focused on fundamental problems, and are susceptible of substantial achievement. Contingent on Indonesia's continuing self-help efforts, I fully support this proposal.

I should like to stress one point made in the Program Memorandum. In Indonesia, as elsewhere in the developing world, the way in which things are done is often as important as the things themselves. Recognizing the limitations as well as the advantages which the multilateral framework imposes on our operations, I urge that maximum feasible flexibility within this context be retained in the timing of our several A.I.D. inputs in relation to those of the other donors. We must preserve sufficient freedom of action in making both our aid commitments and our aid deliveries to derive maximum benefits, including favorable psychological impact, from their very real and very great value.

With every best wish,

Sincerely yours,

Marshall

Marshall Green
Ambassador

Enclosure:
as noted

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I N T R O D U C T I O N

Undoubtedly the most important developing country in Southeast Asia, Indonesia is now dedicating itself, after years of severe economic dislocation and political-military misadventures, to sensible development of its own resources and to peaceful cooperation with its neighbors.

A measure of success has marked Indonesia's political and economic progress over the last two years. While continuing in the path of political non-alignment with major powers, Indonesia has drawn closer to its neighbors for cooperation on common problems. Domestically, the economic stabilization program has succeeded in reducing the rate of inflation; although the rice crisis beginning in the last quarter of 1967 set back progress in this direction. The Government has dismantled many controls of the Sukarno era and now intervenes much less in the workings of the economy. An effort is being made to revitalize the private sector, and foreign private investors are exploring many possible ventures.

The Government must make an even more vigorous effort, assisted by substantial external aid, to brake the serious inflation which still grips the economy. At the same time, it must complement its stabilization measures with some visible signs of development. It will have to show progress in curbing corruption and in bringing the average Indonesian a sense that he can receive a fair share of the benefits of modernization.

If the Suharto Government does not meet these challenges, it will not retain the support of important elements of the society. The "New Order" might then be faced with the prospect of having to impose a much tighter military regime to keep its critics on both the right and the left in line. This could easily spark a vicious circle of agitation and governmental repression which would lead to outright military rule.

Because of the pace-setting role played by the United States over the last year, the U.S. has become closely identified with the Suharto Government. Such identification is inevitable; we have a heavy stake in the success of the "New Order" not only for the obvious reasons related to Indonesia's size, strategic importance, resources, and potential strength but also because this is a key test case of whether liberal economic policies combined with free world assistance offer a more feasible path to modernization than totalitarian solutions.

While our stake in the "New Order" is large, our ability to assist it is circumscribed. The experience of the U.S. in Indonesia over the past 15 years clearly shows that the injection of assistance into the Indonesian economy does not necessarily provide a directly corresponding stimulus to growth but rather that the effect is often blunted or transformed by basic features of the Indonesian social structure. For this reason, it is best to regard our ultimate aim in Indonesia not as economic development alone but as modernization.

We must not become so active that we conflict too sharply with Indonesia's cultural patterns or substitute our initiative for theirs, but at the same time we cannot and must not let the "New Order" fail. We have faced the problem of treading this narrow line ever since October 1965, but the increasing importance of the U.S. to Indonesia's hopes for recovery means that the margin for error and for misjudgment has become ever narrower.

The United States' timely economic assistance to date has strengthened the hand of Indonesia's modernizers. Further substantial outside support for the stabilization program will be required from the U.S. and the other IGG nations over at least the next few years. Following are our proposals for addressing U.S. assistance to Indonesia's short-term task of economic stabilization and the longer-range task of modernization.

S U M M A R Y   O F   I S S U E S

1. U.S. Strategy in the Multilateral Context

While the concept of multilateral aid to Indonesia is endorsed by all major participants, there is uncertainty regarding the desirable goals and mechanics of multilateralism. What does the U.S. want to achieve for Indonesia and for our own long-range policy objectives through this device? How effective are the IMF, IBRD, and IGG in coordinating both the substance and cost of multilateral aid.

2. Program Aid

What mix of program and project aid will best meet USG, IGG, and GOI aims in FY 1970 and succeeding years? Is the current foreign exchange system an effective means for channeling foreign aid to Indonesia's top priority needs, and are AID commodity import loans an effective device for providing U.S. aid? How can AID program loan funds be made more attractive to private Indonesian importers?

3. Project (Loan) Aid

Are project loans more effective in channeling U.S. funds to where they can do most good? What sectors of the economy meet the criteria of (a) high economic priority in Indonesia's developmental framework and (b) requiring technical know-how and equipment or materials where the U.S. is knowledgeable and cost-competitive?

4. P.L. 480 Title I

Food and fibre seems increasingly to be the most effective aid we can provide to Indonesia at the current time. How can we get maximum leverage from our P.L. 480 assistance, particularly in formulating self-help requirements that will positively affect the vital agricultural sector?

5. Technical Assistance and the U.S. Presence in Indonesia

What is the rationale for U.S. technical assistance to Indonesia and for the particular projects on which we are now embarked or hope to begin? How can we help Indonesia to solve its obvious managerial deficiencies without actually taking over the management ourselves? What are the effects of the U.S. presence? Is the use of TDY personnel an effective means of minimizing the American presence in Indonesia?

PART I - BASIC RATIONALE FOR COUNTRY PROGRAM

A. Selection of U.S. Objectives

The United States' political goals in Indonesia are:

1. To encourage Indonesia to pursue rational and constructive foreign and domestic policies.

2. To promote effective communication and constructive cooperation between military and civilian elements in the Indonesian Government, encouraging a larger civilian role if and when it becomes feasible.

3. To encourage the Government to promote national development by reducing corruption and inefficiency and by making more productive use of large military and civil services.

4. To further a long-term trend toward stable democratic institutions.

Economic assistance programs are one of the several tools--along with MAP and USIS programs--for achieving these goals. In the economic field, U.S. objectives are:

1. To assist, along with other donors in a coordinated burden-sharing effort, the achievement of economic stabilization.

2. Consistent with stabilization, to stimulate increasing efforts to rehabilitate and develop Indonesia's economy.

3. To encourage GOI selective participation in regional economic cooperation.

B. Evaluation of Progress Towards Objectives

1. U.S. economic assistance, primarily program loans and P.L. 480, has been effective in encouraging Indonesia to pursue rational and constructive foreign and domestic policies. Our stabilization assistance, including food aid, in concert with aid from other IGG nations, has sustained the Suharto Government in its determined pursuit of economic and political stability at home and friendly, non-polarized relations abroad. In particular, this assistance has given the GOI courage to undertake necessary but unpopular economic self-help measures in the face of very real domestic political risks. While the stabilization program has done much to free the economy and has begun to revitalize the domestic private sector, it has yet to halt serious inflation; and the need for some stabilization aid is likely to continue for at least the next two calendar years.

There are practical and desirable limitations on the use of U.S. aid to attain progress toward the other political goals. We have consciously not used our economic assistance as direct bilateral leverage to promote cooperation between military and civil elements, encourage a reduction in corruption and inefficiency, or further the development of democratic institutions. Apart from producing doubtful results, the exercise of such leverage would assign the U.S. a more direct role in Indonesian affairs than we think is currently warranted. The U.S. has, however, been successful in encouraging the GOI to make productive use of its military forces by limiting U.S. military assistance to support for Civic Mission programs. This support also includes an AID-funded training program for Civic Mission teams.

2. With respect to economic objectives, the Bonus Export or BE system was adopted by the GOI in late 1966 as part of a drive to dismantle the direct governmental controls of the economy which had proliferated under the Sukarno regime and to restore free market forces to a major role in guiding private economic activity. The U.S. agreed to channel a substantial portion of our aid into program loans which, along with similar aid from other countries, would go into a "pool" of foreign credits. These aid credits were sold for rupiah at a more favorable exchange rate than non-aid foreign exchange and could be used by any qualified Indonesian importer to purchase any item on the BE list.

In retrospect, the BE system accomplished much that the GOI set out to do. Foreign aid has unquestionably been better utilized than under the previous system of bureaucratic allocation of aid resources. The Indonesian Government has removed itself from direct foreign exchange control and allowed the market to set a realistic exchange rate, the private trade sector has been revitalized, and private enterprises have obtained much-needed spare parts, replacement equipment, and raw materials. The GOI did not initially, however, make adequate use of indirect tariff and credit measures to channel aid imports into the country's highest priority sectors. Consequently, many of Indonesia's most urgent requirements have not yet been met. Some of the donor aid--and particularly that from non-U.S. aid givers, who put little if any restrictions on eligible items so long as they were on the BE list--went for lower priority consumer goods, such as textiles. Such use of aid credits subsidized sizeable imports in direct competition with locally produced products.

3. To date, the U.S. and other IGG donors have been hampered in moving ahead with long-range rehabilitation and development because of the lack of adequately developed and supported projects. The $75 million project list prepared with IBRD assistance last fall has enabled the GOI to begin to focus on sectoral and project priorities for capital development. Supporting data and justification are needed, however, to ready these projects for donor consideration. The current expansion of the IMF and IBRD staff and scope plus the anticipated work of the Harvard Development Advisory Service team should help the GOI in this task as well as in further defining stabilization and development priorities.

Both donor and GOI mechanisms for coordinating multilateral aid are still taking shape, and the difficulties in working out these mechanisms (see Issues, C.1., on Multilateralism), have caused some problems. In addition to its assistance in preparing capital development projects, World Bank officials are prepared to assist the GOI in better coordinating donor technical assistance and to give general guidance to the Foreign Investment Technical Team on private investment proposals.

4. Our bilateral assistance activities and staff enable USAID/Indonesia to encourage the GOI in selective participation in regional economic cooperation. We have been discriminating in such encouragement because of the GOI's own misgivings about the benefits to be derived for Indonesia from cooperation in and with regional economic groupings and institutions.

C. Issues

1. U.S. Strategy in the Multilateral Context

It is necessary and desirable for U.S. economic aid programs in Indonesia to be set in a multilateral framework. The advantages for the U.S. and for Indonesia include the following:

a. A more forceful method than is politically acceptable through bilateral means for persuading Indonesia to make and implement difficult decisions.

b. A better safeguard against Indonesia becoming overdependent on the U.S.

c. A method for sharing equitably among many nations a relatively large assistance burden over the next few years (as well as rescheduling a substantial portion of Indonesia's heavy external debt).

d. The only feasible and realistic way--considering our pre-1965 aid experience in Indonesia and the predictable reaction of much of the U.S. public and the Congress to resumption of a strictly bilateral aid program in Indonesia--to mount a substantial assistance effort in Indonesia.

Along with the admitted advantages for all concerned, the multilateral context also poses serious planning and operational problems for its participants. The conditioning of the U.S. IGG contribution on both the levels and timing of other-donor contributions may well have elicited a larger total input of external resources; it has also delayed receipt of these resources beyond the point when they were desperately needed by the GOI, and thus probably aggravated last winter's economic crises. Although the U.S. is prepared to offer a variety of forms of valuable assistance, the full use of U.S. commodity import loans and, to a lesser extent, project loans, is inhibited by the built-in lesser competitiveness of the U.S. in these areas relative to other donors. The problem of foreign assistance coordination is horrendous and is quite probably beyond the capacity of the GOI to handle.

Yet, on balance, we feel that the advantages of multilateralism outweigh its problems and that, at a minimum, its conceptual integrity must be preserved. Maximum flexibility consistent with this concept, however, must also be retained. The U.S. should work to advance the timing of IGG meetings to allow an earlier pledging of aid commitments. A vigorous effort must also be made to speed up the formalization of these commitments.

2. Program Loans

Both we and the GOI have been greatly concerned about the slow rate of utilization of AID BE credits, particularly of the $25 million credit agreed to in February 1968. Our review of loan utilization to date indicates that, except for the abnormal rush to use AID credits in the last months of 1967, there is little reason to believe that Indonesian importers, public or private, will on their own initiative and in the absence of further USG and GOI efforts to alter the situation, purchase significant quantities of U.S. imports, particularly in the face of large aid credits from some of Indonesia's traditional foreign suppliers. The reasons for the historically small

U.S. commercial share of the Indonesian import market are fairly evident--and, although AID procurement regulations tend to be a further impediment to selling U.S. goods, the major barriers (as detailed in Annex 1) are the generally higher costs of these products, the greater transportation cost and time involved in shipping them, high Indonesian interest rates and the disinterest of most American exporters in the Indonesian market. Also included in Annex 1 is a brief analysis of the additionality/balance of payments problem as it applies to AID commodity import loans to Indonesia, which recommends a number of measures which might make AID credits more attractive to importers but not so attractive that normal U.S. commercial exports will suffer.

We recognize that Regulation One requirements on payment of sales agents' commissions, proprietary procurement, U.S.-flag shipping, etc. are based on considerable and valid experience in past AID commodity import programs in other countries. As pointed out in our TOAID A-477 of April 3, 1968, however, and as explained in some detail in the Audit Questionnaire attachment to our first Audit Report of April 30, 1968, most of these regulations are designed to promote competition between U.S. suppliers interested in participating in AID-financed transactions and have only academic interest in the situation of free markets and multilateral aid existing in today's Indonesia.

If AID is to make use of existing and possible future commodity import loan credits, intensive study should be given to possibilities for modifying Regulation One requirements to accord with the realities and needs of the Indonesian situation as well as to the recommendations of the Annex 1 study. If these administrative changes are not feasible, we should then devote our primary attention to P.L. 480 and project loans as our most useful means of participating in the IGG.

PART I. C. ISSUES

3. Project Loans

The Indonesian Government realizes that it must progressively shift its economic focus from stabilization to development activities. The IBRD survey of development priorities earlier this year was useful in pointing out project activities suitable for external financing. Certain of the so-called "projects" on the resulting $75 million list (e.g., agricultural, road and bridge rehabilitation, and dredging equipment) appear to be appropriate candidates for funding under the existing AID program loan, so long as the GOI has or obtains adequate capability for monitoring the use and maintenance of such equipment.

AID contract teams are also currently making feasibility studies of the proposed expansion of the Pusri fertilizer plant at Palembang, Sumatra, and of the Gresik cement plant in East Java. If the feasibility studies are favorable, these seem good candidates for project loans by the U.S. alone or as part of an international lending consortium. U.S. and other foreign private interests are also interested in building fertilizer and cement plants. Since the future market for both commodities appears adequate to warrant both private and public sector involvement, we believe AID loans to these two ongoing, profit-making state enterprises can be justified.

The World Bank mission to Indonesia in July 1968 reported that the GOI project list for 1969 proposes some $350 million (in total commitment terms) for transportation, communications, power, agriculture, and industry. Some of the areas recommended may be appropriate and desirable candidates for U.S. project lending -- particularly road maintenance equipment, agricultural equipment, and certain railroad and communications equipment. We are examining further with the GOI the usefulness of a general feasibility survey loan to develop several of these projects.

While many possibilities exist, few concrete U.S. project loan possibilities are visible on the Indonesian horizon. Logically, considerations other than cost, such as U.S. technology and experience in particular sectors, should and presumably will figure in the minds of the GOI and its World Bank advisors when decisions are made on sources of project loan funds, but cost considerations will continue to limit the range of projects likely to be presented to us.

We should consider the usefulness of a multilateral fund, managed or at least coordinated by the IBRD and financed by interested donors including IDA. Unless tied procurement is permitted under such a fund, however, the U.S. will face the same problem of non-competitive prices that we face in our bilateral program and project aid.

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PART I. C. ISSUES

4. PL 480

A major portion of our aid to Indonesia can most usefully be offered in the form of PL 480 food and fibers. Even here, however, the problem of non-competitiveness remains to some degree. It stems from the geographic distance between the U.S. and Indonesia; though the CCC can rebate the differential between non-U.S. and U.S. flag vessels, this does not negate the fact that freight costs for U.S. agricultural products are two to three times greater than from potential suppliers in the Far East or South Asia.

Normally, however, it is to Indonesia's advantage to import PL 480 commodities on 40-year terms at concessional rates of interest rather than to import from less expensive suppliers for cash on short-term payment. The GOI is nonetheless faced with the necessity to subsidize imports financed under PL 480; in the short run the budgetary effect of these commodities is not more than their sales value in Indonesia. While implicit subsidies have been hidden from the Indonesian public eye in the past, the issue will come to the fore with the import for consumption by the private sector of yarn and wheat flour.

A related issue is the system by which some of these commodities are purchased, imported and distributed. In the past rice and cotton have been imported by large public sector entities. This was workable because rice is a homogenous commodity, while raw cotton, if less so, is consumed by only sixteen fairly large enterprises whose requirements are easily communicated to the GOI. It may be unworkable with a commodity like yarn, traditionally imported by the private sector for resale to literally hundreds of large and small weaving enterprises with differing requirements.

Programming of PL 480 commodities is very difficult, at least in part, because the private sector is seldom consulted by government compilers of import and production plans. We continue to press for better data in self-help requirements but they remain sparse and unreliable; statistics are sometimes manufactured out of whole cloth to support positions arrived at independently. In addition, production goals and derived raw material requirements are sometimes politically motivated. We cannot resolve this statistical problem in a short time, and must therefore program PL 480 commodities as much by guess as by scientific method.

Legislative imperatives on self-help in food production represents another area of difficulty. There is no disagreement on the principles of self-help; on the contrary, increasing agricultural production holds a first priority in national rehabilitation and development programs. But specific self-help measures in PL 480 agreements (e.g., provision of farm-to-market roads) are agreed to by GOI officials not remotely involved or concerned with their implementation. While it is convenient to think of the GOI as a hierarchical and unified structure, this is not yet truly the case. Authority is diffused and responsibility not easily fixed. However, we note with

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optimisim that the new Minister of Trade has been given responsibility for assuring that all the terms and conditions of PL 480 agreements, including those on self-help, are complied with.

A final issue is related to the logistics capability of the GOI. Significantly larger quantities of PL 480 commodities are programmed for the future than have been handled in the past, and the GOI has not yet demonstrated that perishables can be purchased, shipped, stored and distributed without unacceptable losses due to inefficiency, negligence or corruption.

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5. Rationale for U.S. Technical Assistance

The needs of Indonesia for technical and managerial assistance are urgent and massive. Capital assistance alone will not enable Indonesia to carry out its rehabilitation and development program. The U.S. share in the provision of technical assistance should, however, be determined in the light of the multilateral context in which we are working, just as is capital aid. The willingness of other bilateral donors and international organizations to provide substantial technical assistance means that the U.S. role, and the American "presence" in Indonesia, can be sharply limited. The other donors should be encouraged to contribute their share of advisors, managers, and trainers, and to the extent possible we should seek to "multilateralize" the provision of technical assistance under the aegis of the IBRD, IMF, and ADB.

Projects involving U.S. technical assistance should continue to be limited in number, concentrated in a few fields, and derived from intensive study of the opportunities for success. Permanent modernization can be achieved only through the efforts of Indonesians who are committed to it and not through the substitution of American administrators and technicians. The alternative carries with it the risks of a weak and diffused program, over-identification of the United States, and a diminished likelihood of permanent change for the better in modernizing Indonesia's institutions and systems. The criteria applied, therefore, in the selection of TA projects are the following: the project should have high developmental priority; it must be strongly supported by the GOI; there must be evidence that the technical assistance would be effectively utilized and would have a lasting impact; the U.S. should be at least as well qualified as any other donor to provide such assistance; there should be no duplication of effort with other donors willing and able to provide the assistance; and the project should be appropriate for bilateral assistance (e.g., not involving a challenge to vested interests or sensitive national concerns which only an international institution could safely tackle).

Very few projects meet these criteria. The areas thus selected for TA concentration are agriculture, family planning, transport, and education. Agriculture was selected primarily because of its high developmental priority; along with P.L. 480 Titles I and II and related capital aid, technical assistance to agriculture forms an integral part of our already extensive commitment to help Indonesia overcome its food gap. Assistance to Project BIMAS has been confirmed as a valid point for focus within this context because, in addition to other attributes, it is an on-going program with past successes and defined objectives, and constitutes the basic Indonesian effort at this stage to achieve food self-sufficiency.

We are supporting an expanded family planning program as a necessary concomitant to our efforts in bridging the food gap through increased food production. In transportation, U.S. assistance is being directed to improving road equipment logistical management, since Indonesia's desperate need for improved roads has top priority for infrastructure development. In Education, we have instituted an activity to get the prime tool of the learning process, the book, to secondary and university-level students who will in a relatively short time add to the already crushing burden of inadequately prepared manpower unless assistance is rendered quickly. Looking to the longer term, we plan to assist in improvement of university-level agricultural instruction as part of our commitment to help vitalize agriculture.

The need for Indonesian modernizers is limitless. For this reason, we will continue to sponsor a large General Participant Training project for Indonesians who we hope will become modernizers in their particular fields.

Overall technical assistance coordination remains a difficult problem. The Foreign Technical Assistance Coordinating Committee (FTACC), located in the President's Cabinet Secretariat, functions chiefly as a clearing house for TA requests and a statistical service for the President and others when data on foreign experts are desired. The Government departments do not concern themselves, any more than does the FTACC, with questions of possible conflict and duplication between experts since their general attitude is that the needs are so great that the more experts the better. This area will require greater attention in future from all concerned.

To appraise potential technical and capital assistance projects and determine their priority and the Indonesian commitment to them requires certain permanent technical staff. Careful study must be given, however, to each technical assistance project to determine whether the American staffing should be of a permanent or TDY nature. Permanent technicians are better able to accomplish in-depth pre-project studies and to establish the personal and situational relationships necessary to gauge the effects of personality, political, and bureaucratic factors on a technical assistance project. On the other hand, permanent technicians can increase the common Indonesian tendency to place responsibility on others and to forego the effort of becoming self-reliant. TDY technicians leave the Mission free to terminate assignments quickly and to minimize long-term commitments to the GOI. They often, however, involve much additional effort for the Mission in covering the same ground more than once, and a serious lack of continuity in sometimes complicated situations. These factors should be weighed against each other in each case to determine whether permanent or TDY technicians better serve our purpose, which is not only to solve problems but, more important, to create problem solvers.

D. Examination of Alternate Aid Levels, Program Mixes, and Strategies

1. Assumptions

In developing the alternative aid levels and program mixes that follow, we have made a number of assumptions based on the aggregate and sector analysis appearing in Part II. These assumptions can be summarized as follows :

a. Overall political stability with some gradual increase in effective central authority over outlying regions and officials.

b. Substantial success in stabilization efforts achieved by early 1969, with the inflation rate reduced to maximum of about 25% in 1969 and 10-5% p.a. in 1970-72, without use of direct controls.

c. Moderate overall economic growth (about 4% p.a. on average during 1969-73) based largely on (a) recovery in some industrial production and in inter-island trade, and (b) expansion in foreign financed, managed or assisted projects (mining, estates, fertilizer). Agricultural production to grow about 3% p.a.

d. Improvements in the balance of payments and budget to permit a reduction of total program aid in favor of project aid at a rate of about $25 million p.a. during 1969-72. A total aid expenditure level of $330 million per year is estimated to be required. In addition project aid commitments in each year will have to be at least $50 million higher than expenditures in order to generate the required future $25 million p.a. increase in project expenditure, using a minimum lead time of two years for full impact of project commitments. The total requirement for aid commitments is thus estimated at $380 million per year.

(millions of dollars)	CY 69	CY 70	CY 71	CY 72
Expenditure Requirements				
Program/PL 480 Aid	245	220	195	170
Project Aid	85	110	135	160
Total Expenditures	330	330	330	330
Additional Commitment Requirement for Project Aid	50	50	50	50
Total Commitment	380	380	380	380

2. Non-U.S. Aid

Commitments by other donors are likely to total about $200 million in CY 1968, or slightly less than the target of two-thirds of $325 million plus supplemental food aid. Required non-U.S. aid commitments in 1969 and 1970 are estimated at $230-240 million in each year, on the assumption that the U.S. will provide about one-third of the total commitment requirement excluding wheat. Despite the difficulties experienced this year in obtaining non-U.S. aid pledges and the admittedly bleak

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general outlook for aid, this commitment objective for non-U.S. aid is considered attainable, primarily because the major commitment burden for other donors will shift from program to project aid. Non-U.S. program aid commitments in 1968 are estimated at about $130 million, or twice the level of project aid commitments. Given the assumptions made for U.S. PL480 and program aid (see below), the requirement for non-U.S. program aid commitments (including food aid) is projected to decline to $105-110 million per year in 1969-70. Non-U.S. project aid commitments, however, must rise rapidly, from about $65 million in 1968 to about $120 million in 1969 to $135 million in 1970, in order to generate the projected sharp rise in development project expenditures in 1969-70 and beyond (always assuming adequate financial stability and project preparation). Due to this projected heavy involvement in project aid, with the U.S. playing only a relatively minor role, non-U.S. aid expenditures will rise more slowly than commitments, increasing from about $160 million (including from pipeline) in 1968 to $200 million in 1970. (See aid obligation/expenditure table in Budget Summary).

It is assumed that the generally favorable development prospects of Indonesia and the vested interests in trade development and debt repayment of many donors will result in adequate aid. Japan will remain the largest non-U.S. foreign donor, presumably willing to provide about one-third of total project and program aid. The IBRD/IDA should emerge as a major lender, perhaps providing another third of project aid requirements ($40-$45 million p.a.). Except for greater willingness to make project loans, no significant change in other donor interest is forecast. Renewed project lending by Yugoslavia and one or two Bloc countries is a possibility.

A premature shift from program to project aid poses the chief danger in regard to non-U.S. aid. IMF, IBRD and GOI explanations, plus U.S. pressure and competent GOI financial management, will be required to maintain the flow of commodity aid and to provide some improvement in the exchange position. A possible solution would be for the U.S., Japan and other donors to agree within the IGG to limit their reductions in program aid (from their respective 1968 levels) to approximately a percentage reduction for program aid which would be recommended by the IMF and IBRD. It is estimated that a 20% reduction, if spread over both 1969 and 1970, would result in requirements being met during those two years. Beyond 1970 debt refinancing will be a major issue affecting net financing from other donors.

3. <u>Alternative Aid Levels and Mixes for U.S. Aid in FY 1970</u>

It is assumed that a substantial U.S. aid role will continue to be justified by the U.S. political and economic development objectives for Indonesia and that for many reasons this role can continue to be played best within a multilateral framework in which other donors contribute the majority of aid resources and debt relief. We recommend continuation of the present formula for defining the U.S. requirement; namely, one-third of the total aid requirement, excluding wheat aid, PL 480 Title II and technical assistance. Since the total aid commitment requirement so defined is $345 million in CY 1969 and $365 million in CY 1970 ($380 million less estimated wheat), the indicated U.S. aid share is $115 million in 1969 and $120-125 million in 1970, plus wheat aid estimated at $35 and $15 million. While these targets are judged feasible in terms of total magnitudes, a variety of possibilities exist for the aid mix, due to uncertainties associated with individual components. The following table, combining FY AID loan authorizations and CY PL 480 loan agreements, illustrates the possibilities for FY 1970 loans.

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FY 1969-70 Loan Obligations
(millions of dollars)

	FY 1969 Probable	FY 1970 Program Min. Est.	FY 1970 Program Max. Est.	FY 1970 Program Recommendation
Program Loan	10	0	20	10
Project Loan	15	10	40	25
Total AID DL	25	10	60	35
Rice (PL 480)	40	10	50	40
Raw Cotton	30	25	40	30
Cotton Yarn	20	15	25	20
Other (non-wheat)	0	0	5	0
PL 480 Non-Wheat	90	50	120	90
Total Non-Wheat	115	60	180	125
Wheat	35	8	40	15
Total U. S. Loans	150	68	220	140

Note: PL 480 estimates represent CY 1969 and CY 1970 agreements

a. Development Loans. At this writing it is uncertain whether Indonesia would in fact be able to utilize the $55 million proposed this Spring for FY 1969 Development Loans. The slow drawdown to date of the February $25 million program loan for commodity imports makes it difficult to predict the level of this type of aid which can be effectively utilized in future years. Similarly, while feasibility surveys are under way to identify and develop suitable high priority capital assistance projects, it is uncertain that such reviews will result in a substantial number of projects which we consider high-priority and in which we are sufficiently competitive with other donors (see sectoral analyses for further elaboration). The FY 1970 DL levels contained in Alternative A and B (given in the PPBS guidance instructions at $50 and $60 million respectively) could be utilized only under optimum conditions. For these reasons only $25 million is assumed for FY 1969 development loans and $35 million for FY 1970.

For program loans some success in developing incentives to utilization of AID credits (bonded warehouses, a time-distance equalization fund, and any other devices that would also foster "additionality" and not be considered by the IMF unduly discriminatory against other donors) is assumed, plus an increased amount of GOI procurement, directed or otherwise, in such items as fertilizer, pesticides, and selected equipment. As a result largely of accumulated government procurement orders, the current $25 million loan is assumed utilized prior to the end of FY 1969, and "replenishments" of $10 million each are assumed for late FY 1969 and FY 1970.

The outlook for project loans is less clear, pending submission of the GOI/IBRD project proposals for 1969 at the October IGG meeting. In addition some government equipment procurement currently under consideration will probably require separate project loans, and a $4 million loan to the Gresik cement plant is a probability in FY 1969. By 1970 the $50 million expansion to the Pusri fertilizer plant is expected to be ready for funding. AID financing of $15-25 million of the cost of this project, within an international consortium, is tentatively recommended pending the results of the evaluation survey. The amount and timing of project loans is of course difficult to estimate at this early stage of project preparation, prior to the arrival of the resident IBRD team.

b. PL 480, Title I. Despite various uncertainties, a CY 1969 PL 480 program totaling about $125 million and similar in composition to the CY 1968 program is currently anticipated. The chief variable will be the yet unproven substitutability of wheat for commercial rice imports. For CY 1970 a reduced wheat program of only $15 million is tentatively assumed, due to the expected narrowing of the gap between rice production (up 4% p.a.) and rice consumption (up 2.5% p.a.). Greater success in rice production could result in an even lower program, while successful realization of current ambitious plans for production of artificial rice could result in a greatly expanded flour program. The effect of such a success would be largely to eliminate the need for rice imports in CY 1970. For both 1969 and 1970 continuation of the present PL 480 rice export availability level of 200,000 MT is assumed, although 250,000 MT is a recognized possibility. By 1970 Indonesia's maximum rice import need is estimated at only about half the present 600,000 MT requirement, and by 1972 a production-consumption balance should be achieved.

Cotton and yarn sales under PL 480 are not forecast to increase greatly beyond their 1968 levels for several years, due to expected slow progress in rehabilitating the problem-ridden textile industry. Present GOI plans are much more optimistic; and USAID estimates may, hopefully, prove too modest. On the other hand U.S. yarn sales, apparently requiring a 30-40% GOI subsidy, may prove too costly to continue or may be replaced by Japanese sales under aid credits.

Small PL 480 sales of other commodities (such as tobacco and tallow) remain a possibility in future years.

c. PL 480 Title II. The projected doubling of the current Title II level to $7 million in FY 1970 (proposed in PPBS Alternatives A and B) is supported by possible involvement in GOI military-supported Civic Action activities, as well as anticipated expansions by CARE and other voluntary agency programs. However, an even higher level may result, if there is a dramatic increase in the scope of Food-for-Work activities, which we believe may come about if the concerned GOI ministries are able to develop effective projects.

d. Technical Assistance. Retention of a $6 million level would tend to freeze us in our presently contemplated areas of activity, whereas the Alternative B level of $8 million would allow us to expand our participant training and family planning programs. These seem to be the wisest and most effective projects in which the U.S. could increase its efforts, and the higher TC level would also allow the requisite degree of flexibility for moving into priority areas of concentration as the need arises.

4. Alternative Strategies

When we speak of our current "multilateral aid strategy" in Indonesia, we are actually describing our conduct of a bilateral aid program within the context of a relatively elaborate mechanism for coordinating aid funds, projects, and staffs for Indonesia from a good many countries, international organizations, and private agencies. The multilateral aid strategy, from which flow the policies and implementation actions in current and proposed U.S. economic aid activities, has been approved by the Country Team, and is, we believe, generally supported in Washington. This is not to say that there are not many problems to be ironed out, or that there are not, both within and outside the U.S. Government, critics of the present strategy.

Some of these are sincere in their belief that we should be involved in a more "interventionist" program, recommending--either through the IMF intermediary or outside of it--as a strict quid pro quo for our aid, that the GOI act more firmly and more rapidly to put stabilization priorities over domestic political considerations. There are also sincere critics of the "limited U.S. presence" and our cautious and tempered approach to technical assistance. These interested parties believe that we should get closer to "where the people are" and that we are overlooking our opportunity and, in fact, our obligation to complement our relatively impersonal stabilization aid with American know-how and experience.

On the other hand, there are those who are equally convinced that our bilateral assistance should be, if possible, limited to P.L. 480 and AID commodity loans, with technical assistance provided by the IBRD, the IMF, and the UN agencies. There is a fear that Americans and other foreigners are too prone to insert themselves or to be inserted by the Indonesians too directly in the Indonesian chain of command and to take over responsibilities which the Indonesians should handle themselves. These critics, with some accuracy, claim that it is too easy for American technical experts to believe that they are accomplishing lasting changes in managerial attitudes and work habits only to have the system collapse when the experts go home.

We believe that the strategies and programs contained in this Memorandum represent a middle course between the above points of view and is the only realistic and feasible plan for helping Indonesia to overcome her short- and medium-range development problems. The proposed programs purposely do not aim at quick solutions nor at setting up apparently Westernized institutions. Instead, they represent our considered judgment on how the U.S. can help Indonesia meet its priority needs and how best to fit the real advantages of U.S. assistance to the realities of Indonesia's people and of her government and of their attitudes, temperaments, strengths, and weaknesses.

PART I. D. OTHER INPUTS

5. a. Regionalism

We must continue to encourage Indonesia to join in Southeast Asian cooperation. In addition to economic and political benefits, closer regional ties will encourage Indonesia to see itself as a partner in a world-wide process of modernization rather than as a sick patient in the hands of Western doctors. Some of its neighbors are understandably suspicious of Indonesia's goals in the region. They should be encouraged by us, however, to realize that embracing Indonesia's new government and involving it inextricably in responsible regional activities is the best way to guard against the possibility of future Indonesian adventurism.

Our own expressions of support for regional economic and political organizations should be decidedly low key. Furthermore, we should not encourage participation by Indonesia in regional projects to the point where its scarce resources of skilled leadership and institutions are dissipated in activities which promise only marginal benefits to Indonesia.

Lastly, we must avoid giving the impression in regional programs involving Indonesia that the U.S. is running the show and that the U.S. is prepared to provide more than its share of dollar costs, organizational arrangements, and human resources.

5. b. Private Resources

AID can best assist in achieving greater use of profit-making private resources for Indonesia's development by intensifying AID's investment promotion activities, including investment guaranties, Cooley loans and expanded IESC and similar technical assistance. This is dealt with in more detail in the Industry sector analysis. With regard to non-profit private resources, particularly from the U.S., AID should actively encourage a broad role for VolAgency assistance, including appropriate Food for Work projects. In addition, organizations such as the Ford Foundation or the Stanford Research Institute should be encouraged to concentrate their activities in policy-determining areas where the chances for significant change are better if the assistance is from private rather than governmental sources. Indonesian non-profit organizations are generally ill-equipped in both financial and trained manpower resources to make developmental contributions. There may be a case, however, such as the Indonesian Planned Parenthood Association and family planning, where such an organization may offer the only means through which a specifically desired program may be pursued. Such instrumentalities will be appropriately supported.

5. c. Title IX

It will be apparent from many statements in the forgoing sections that the carefully designed U.S. role in Indonesia within the multilateral context does not lend itself to direct participation in Title IX-type activities.

On the other hand, a number of elements in the Mission's planned program should indirectly contribute to the advancement of broad Title IX objectives. Most prominent among those are our efforts to assist in increasing rice production; our Family Planning program; and our Title II programs, both the Food-for-Work programs and the several U.S. Voluntary Agency programs. To the extent that the GOI stabilization program, to which the U.S. is giving major support, is successful, Title-IX purposes will, of course, also be significantly served.

5. d. MAP

The U.S. Military Assistance Program for Indonesia, although relatively small in dollar terms, offers a substantial opportunity for economic development complementary to the AID program. The MAP is primarily justified as giving tangible support to the use of the Indonesian Armed Forces in civic rehabilitation programs and strengthening contacts between U.S. and Indonesian military personnel. There is significant developmental potential in those civic action projects which involve construction and rehabilitation of highways and harbors, irrigation, rice growing, crop dusting, land reclamation, flood control, disaster relief, school construction, and improvement of navigational aids and air facilities.

As suitable projects are developed by the GOI military in cooperation with DLG, AID will give active consideration to supplying Title II Food-for-Work commodities for labor performed by Indonesian civilian work forces employed in MAP-assisted Civic Action programs.

PART II - ANALYSES

A. Aggregate Analysis

Stabilization and growth remain the economic objectives of Indonesia. Stabilization has the immediate priority, since it is a prerequisite to large-scale economic expansion and because of the political risks involved in holding investment and incomes at their present depressed levels over a prolonged period. It is our current judgment that the present stabilization effort will prove largely successful during the present critical rice crop year ending March 31, 1969. On this assumption relative stability in domestic prices and the exchange rate is projected for the period 1969-73 (e.g., a maximum inflation of about 25% in 1969 and of 10-15% in subsequent years, recognizing that the gradual elimination of accumulated price and wage distortions will exert a continuing upward pressure for several years). This achievement should be sufficient to permit a general shift of economic interest from speculation and trade to production and investment, accompanied by the lowering of interest rates (now 8-10% per month), the re-establishment of normal liquidity balances, the resumption of medium- and long-term lending and saving, and the eventual establishment of a fixed, realistic exchange rate.

On the above favorable assumptions regarding stabilization, a development program directed to long-term growth, as well as short-term rehabilitation, can begin in 1969 with a substantial increase in investment imports and related domestic activity. The GOI Five-Year Plan for 1969-73 will hopefully spell out the objectives and content of an overall program. Pending a formal development program and a more solid data base, the following appear to be the key elements in Indonesia's development prospects.

<u>Investment & Saving Outlook</u> - Gross investment is apparently at a very low level, probably 6-7% of GNP, equal to estimated depreciation in magnitude but not in composition. For Indonesia to increase investment to the level of 20-30% of GNP, which is usually required for a rapid growth rate of 6-8% p.a., will obviously be a very long-term and expensive process. For example, if gross investment cannot be increased faster than 10% per year in absolute terms, which has been the general rule in developing countries, at least 30 years would be required to increase investment from 6% to 24% of GNP, assuming an interim average growth rate for GNP of 5%. In the short term, however, investment factors are more favorable: successful rehabilitation of existing capacity should result in a low overall capital/output ratio, and idle construction capacity and the low level of capital imports offer the possibility of increasing investment by more than 10% p.a. in the immediate future.

Gross saving is apparently only 3-4% of GNP, reflecting net dissaving by the government and probably by enterprises collectively. In the short term this is another situation that could improve significantly, although strong pressures for increased public and private consumption are also likely. If GNP grows at an average rate of 4% p.a. during the next five years, a marginal rate of saving from GNP of about 20% will suffice to finance nearly all of the assumed increase in investment. For certain other countries (e.g., Pakistan) such an assumption regarding saving would be perfectly reasonable. In Indonesia experience is lacking, but the prospect of stabilization and expansion offers hope of larger reinvested profits, reduced liquidity preference, and modest but rising budget surpluses on current account. The significance of Indonesia's potential for largely financing incremental investment out of incremental saving is, of course, that in such a case net foreign financing need not increase greatly once expansion has been generated.

Balance of Payments and Aid Requirements - The above investment-saving prospect is unfortunately not confirmed by the separate forecast of a steadily rising B/P deficit on current account, from only about $300-310 million in 1968-69 to about $360 million by 1973. This is based on the following assumptions: (1) total imports will grow at only 4-5% p.a., despite rising investment imports, largely as a result of progressive average savings of over $25 million per year in rice imports during 1969-72; (2) net oil earnings will increase at a very rapid but declining rate (up 28% in 1969, up 10% in 1973); (3) non-oil exports will increase on the average by only 4% p.a., from which must be deducted foreign concession profits, etc., on the service account; and (4) the deficit on other non-oil services will increase by about 6% p.a. On the key assumptions that debt rescheduling will continue after 1970 and that foreign investment will increase by $15-20 million p.a., a minimum foreign aid expenditure level of $330 million per year is forecast as required to finance a substantial increase in investment imports while providing some strengthening of Indonesia's precarious foreign exchange position in 1969-70. Due to the lead time required to generate increases in project loan expenditures, aid commitments will have to run at least $50 million higher per year, bringing the total commitment requirement to approximately $380 million per year, or $55 million higher than the 1968 target for Indonesia.

Of the $330 million in capital aid expenditures (measured as L/C's opened) recommended for 1969 and 1970, it is estimated that about $100-125 million could be provided in the form of PL 480, comprised of about $10-35 million in wheat products, $40-50 million in rice imports, and $50-60 million in cotton/yarn and other imports. Of the remaining $205-230 million, about $85 million will be required in project aid expenditures and $120-145 million in program aid in 1969. Project aid expenditures are projected to increase by about $25 million per year after 1969, with an equivalent reduction possible in program and PL 480 aid due to the favorable B/P factors assumed above. The projected increases in project aid and foreign investment will finance all of the additional investment imports required beyond 1968 (or approximately 50% of the projected increase in gross investment). A ceiling on the rate of increase of investment-type imports is set by the assumption that the maximum feasible rates of increase in gross investment will be about 14% in 1969 declining to 10% in 1972. Given the shaky data base behind all economic forecasts for Indonesia, a more rapid absolute increase in investment imports and investment, particularly foreign investment, may prove feasible. While there is apparently some scope for substituting project or equipment aid for investment imports financed with regular foreign exchange, thereby permitting a legitimate reduction in program aid, the great danger during the period will be that program aid will be reduced prematurely and that project aid commitments will be substituted for aid expenditures. It is partly for this reason that a gradual phasing down of program aid is forecast, providing a margin of safety and hopefully some replenishment of depleted exchange reserves in 1969-70. Unless export prospects improve or debt service can be held to small annual increases, the overall foreign exchange position will deteriorate after 1970, on the assumption of constant aid expenditures, as indicated in the following table:

[redacted]

Summary Balance of Payments Estimates
(millions of dollars)

	1967	1968	1969	1970	1971	1972	1973
Exports	770	863	942	1034	1084	1164	1268
Imports	-802	-833	-870	-909	-945	-989	-1065
Net Services	-263	-330	-380	-431	-460	-513	-568
Current A/C Balance	-295	-300	-308	-306	-321	-338	-365
Program Aid	192	255	245	220	195	170	145
Project Aid	69	40	85	110	135	160	185
Total Aid	261	295	330	330	330	330	330
Private Capital	100	95	110	120	130	150	170
Debt Service	-54	-89	-100	-115	-130	-150	-175
Net Capital	307	301	340	335	330	330	325
Overall Balance	12	1	32	29	9	-8	-40

If the stabilization effort (in its present intensive form) must be prolonged beyond early 1969, then investment will not be able to increase rapidly, eliminating the need for some project aid and prolonging the present need for program aid.

Growth, Budget and Self-Help - It is extremely difficult to forecast the rate of growth likely to result from a fairly rapid expansion of gross investment in the next few years, given the numerous unknowns and variables. Favorable factors are: the rapid increase forecast for oil earnings, the expected growth of at least 4% p.a. in rice output (based in part on more costly inputs), the steady stream of foreign investment approvals, and the "rehabilitation" aspect, especially in textiles, which supposedly offers large increases in value added with little new investment. Some unfavorable factors are: gross investment is very low (apparently 6-7% of GNP) so that only a rate growth of 3-4% p.a. would seem indicated; exports (recorded, at only about 8-9% of GNP) are not a large growth base; peasant agriculture, the largest sector, is not normally a rapid growth sector; industrial productivity and management are generally poor and handicapped by uneconomic rules and practices; and the swollen military and civilian government ranks constitute a heavy burden on the more productive sectors. On balance an average growth rate of 4% p.a. during the next five years appears to be the most that can presently be assumed, although a more rapid "recovery" may be possible for a few years.

Given such a growth rate and improved measures to collect revenues, the present near-balance in the operating (routine) budget should be converted to a growing surplus, permitting the GOI both to substitute its own revenues for declining program aid and to provide the rupiah financing required by growing project aid imports and domestic development. It is tentatively estimated that domestic revenues will grow by about 12% p.a. in FY 1969-70, while operating expenditures (including debt service) are held to a 7% p.a. increase. This projected improvement in the budget situation,

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parallel to that in the balance of payments, is of course crucial to the projected increase in project aid and reduction in program aid. Should the budget improvement fail to keep pace with that in the B/P, either investment will have to be reduced, program aid increased or inflationary financing used. The scope for increasing revenue collections, with IMF assistance, is of course very large. Integration of recorded and unrecorded regional, local, military, and other extra-budgetary revenues (which in total may approximate recorded central government revenues) offers one large possibility; but it should be recognized that many of these revenues finance legitimate governmental-type services or credits and that these expenditures would also have to be incorporated in the budget.

Among the numerous self-help measures prescribed for Indonesia by the IMF, IBRD, IGG and USG, the following appear to be most important for realization of the expansion-with-stabilization program outlined above: (1) encouragement of foreign private investment and management to assure growth, rising exports, and improved productivity; (2) increased revenues from domestic income and trade (and from selected imports) permitting an end to disincentive export taxes; (3) a more selective tariff policy to encourage domestic production and discourage lower priority imports; (4) a selective credit policy and expanded credit institutions responsive to the short and long-term development needs of the country; and (5) a more integrated, honest, and efficient public administration of the country, including improved management or sale to the private sector of public enterprises and other entities. For successful longer-term development, of course, additional factors will be important, such as population control, development of a domestic entrepreneurial class, and increased cultural emphasis on technology, management, and implementation.

B. Sector Analyses

1. Agriculture

There is general agreement that in Indonesia increased food supply through domestic production is a prerequisite for long-range growth. Programs designed to bring about major increases in food production and self-sufficiency in rice are receiving top priority in the Five-Year Plan currently under preparation.

The base for the GOI's program to encourage and assist in expanding food production rests on the creation of an economic climate which will make it profitable for the peasant producer to purchase increased quantities of modern agricultural inputs. Concurrently Badan Urusan Logistik (BUL) has been provided sufficient financing to enable it to spread government purchasing operations over a period of several months. This has stabilized rice markets and will permit the farmer to plan rationally for the future.

AID has been instrumental in making available some of the highly qualified agricultural economists who have contributed to the formulation of these liberal policies. More important, self-help provisions which we have written into PL 480 agreements have supported GOI economic leadership by binding the Government to implementing these provisions. In the coming year we will continue to press for extending the floor/ceiling-price principle as widely as feasible and for eliminating internal restrictions on the flow of rice from surplus to deficit provinces.

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In response to the Government's request for emergency supplemental food aid, the U.S. has agreed to provide up to 350,000 metric tons of wheat flour and bulgur in FY 1969 and perhaps additional amounts in FY 1970. While distribution and marketing details have not yet been worked out, we believe that, at the right price, the consumer will substitute wheat products for rice, thereby reducing pressure on the rice market. To devise and maintain a price structure which maximizes consumption of wheat products but still permits rice to sell at near-world-market prices during the between-harvest scarcity season requires sophisticated economic techniques. We intend to add to the USAID staff an American expert in foodgrain pricing to assess and advise on GOI performance in this regard.

A second factor affecting agricultural production is the success with which required inputs are made available to the farmer at the right time and for the right price. In 1968, although AID was prepared to finance fertilizer under our commodity import loan, the GOI elected a series of lower cost commercial purchases instead. It is generally to the advantage of the GOI to use long-term credit at concessional interest rates when such is available; and, if in the coming year AID is asked to finance imported fertilizer, we will probably act on the request. USAID is currently evaluating two other requests to utilize loan funds for the purchase of fertilizer (for estate agriculture) and pesticides (for use on the 1968/69 rice crops).

Related to the supply of fertilizer through the import system is the quantity of the product produced domestically. The Pusri Fertilizer Plant at Palembang is currently producing near capacity at about 100,000 metric tons of urea annually, which the Government seeks to triple. AID has contracted with a U.S. engineering firm which is now studying the technical and economic feasibility of the expansion. If justified we may participate in an international consortium arrangement to fund the project.

Another factor which affects agricultural production is the development of modern agricultural techniques and their dissemination throughout the countryside. Foremost among Indonesia's complex of agricultural research and teaching institutions is the Agricultural Institute at Bogor. As described elsewhere, we plan to provide major technical assistance to this Institute with the expectation of making a lasting impact on national agricultural development.

The Government's agricultural extension program in Java has been most effective when carried out in the context of the BIMAS program and we have therefore decided to concentrate our technical assistance in this already proven area. USAID's agricultural extension technical assistance project, to be started in FY 1969, will make available three agricultural technicians to work with BIMAS managers and planners.

A further U.S. contribution to the BIMAS program will be commodity assistance for the new, centralized seed multiplication center at Sukamandi. The Sukamandi farm will have the capacity to provide village seed farmers with enough pure foundation rice seed to plant one million hectares each year. Since the Sukamandi farm will be operated mechanically, it will also serve as a training ground for the development of modern techniques which can later be applied in the sparsely populated Outer Islands. Finally, the farm will bring together for the first time the technical and administrative staffs of the Central Agricultural Research Institute and the Agricultural Extension Service. The project will call for the use of approximately $286,000 in AID commodity loan funds to purchase heavy earth-moving equipment, farm machinery, seed processing machinery and laboratory equipment. USAID agricultural technicians will work closely with those responsible for developing the farm.

As an adjunct to the Sukamundi assistance, AID commodity loan funds will also be used to purchase vehicles for the transportation and information needs of the Agricultural Extension Service in BIMAS areas on Java. Two hundred eighty thousand dollars will provide for the purchase of 88 jeeps and five four-wheel panel trucks and an initial spare parts supply.

The Five-Year Plan places major emphasis on rehabilitating existing irrigation and flood control structures rather than building new ones, with concomitant cost/benefit ratios which are often strikingly favorable. AID's primary contribution in this area will be in Food-for-Work projects, which are ideally suited to Java, where for generations the gotong royong system of community cooperation has been practiced in the construction and repair of commonly shared facilities. President Suharto has shown a personal interest in Food-for-Work projects, and we have every expectation that their number and size will be increased in future years. By 1970 perhaps as much as $2 million can be constructively spent on projects of this type. In addition, the Department of Agriculture is preparing a series of extensive re-seeding projects in areas damaged by erosion which may equal the irrigation projects in dollar volume and number of workers employed.

We do have problems in the Food-for-Work area. The Ministry of Manpower maintains poor communications between field organizations and headquarters staff in Djakarta, there is insufficient coordination between the Ministry of Manpower and other Government entities, and rules and regulations established by AID and the U.S. Department of Agriculture are not completely understood. We shall continue to seek amelioration of these problems.

AID has also been asked to authorize the use of about $300,000 in commodity loan funds for the purchase of spare parts for American-made river dredgers to be used for flood control and irrigation purposes. The U.S. TDY expert who investigated this proposal recommended approval and suggested that AID authorize the expenditure of an additional $340,000 to equip two dredge repair workshops under the guidance of a four-man technical assistance team. The proposal is under review.

The USAID has moved carefully into the agricultural sector, which has delayed the presentation of technical assistance and capital projects. Our staff has lacked technical expertise, and we have not always been able to evaluate fully Indonesian needs and proposals. In addition, foreign assistance in the agricultural sector has been offered by a large and diverse group of donors; we are still not certain--as the Indonesian authorities are not certain--which of the many proposals for technical assistance will be forthcoming and how they will relate to our efforts. These problems should be at least partially alleviated by the assignment of a Food and Agricultural Officer in early FY 1969.

2. Industry

In developing an AID role in this critical sector particular attention is being given to the choice of projects that can act as a catalyst for industrial growth. A general feasibility loan would seem an excellent means of insuring the selection of both public and private industry projects with major catalytic effects, but the GOI has remained unenthusiastic since, in their view, feasibility studies should be grant funded. AID is currently grant funding two feasibility studies, one in the fertilizer and one in the cement industry. The fertilizer study is to determine the feasibility and justifiable extent of expanding an existing plant (PUSRI).

Concurrently AID is working with International Finance Corp. (IFC) and BAPPENAS on an overall study of national fertilizer needs and possibilities. The cement study will determine the feasibility of adding a fourth kiln to the largest, most modern cement plant in the country, Gresik. Both the Pusri and Gresik plants were built in the late 1950's with U.S. Export-Import Bank loans and appear to be promising project loan candidates.

A major problem in the field of foreign investment is to encourage the development of small- and medium-sized industries. USAID hopes to utilize Cooley Loan funds for this purpose to the maximum extent that they are available.

AID investment guarantees continue to encourage American investors in Indonesian industry, and to date 75 preliminary applications have been made. These cover a wide variety of industrial interests, particularly in the extractive industries. Smaller groups are looking at such labor-intensive industries as electronics, sub-assembly, pharmaceuticals, and similar enterprises. Guaranty programs have also developed significant interest in lumber production and land development. As an outgrowth of the GOI 1968 foreign investment law, four major American commercial banks recently opened branches in Djakarta; and all have requested specific risk guarantees.

The enactment of the 1968 domestic investment law is additional proof of the GOI's support for private sector participation in national development. Nevertheless, domestic private capital for industrial expansion remains limited; and most of the successful industrial development to date has been through state-owned enterprises. The Government has stated that it intends to divest itself of these as soon as private entrepreneurs can be found.

The International Executive Service Corps has started operations in Indonesia and can be of considerable assistance by providing development banks and industries with U.S. management and operations skills.

3. Transportation

The projects which USAID plans to undertake in the Transportation Sector can be arranged in three general groups: commodity assistance funded through the AID program loans, technical assistance, and Food-for-Work projects under PL 480 Title II. We would welcome the opportunity to consider well developed transportation projects for project and sector loans. These have so far not materialized, but we hope that the IBRD resident team will be able to help the GOI develop such projects.

Although AID 1967 program loans were used by public and private importers to purchase spare parts and equipment which contributed to transportation improvements, it now seems likely that future large loan expenditures will be made for directed public sector procurement. A road program with a commodity component to be funded under the 1968 program loan has been proposed by a team of AID engineers. It calls for about $1 million for structural steel and other materials to repair or replace 131 bridges, about $3.3 million for new heavy equipment and spare parts with which to upgrade and rehabilitate 1,083 kilometers of major roads, and $330 thousand for the establishment and equipping of three highway workshops. The activity also calls for a technical assistance team consisting of three master mechanics and two construction engineers to organize the workshops and supervise the use of the AID-financed equipment on primary road rehabilitation. AID and the IBRD have reached agreement that the American team will work in close concert with the UNDP/IBRD highway transport teams, which will provide policy guidance in the formulation and execution of highway rehabilitation programs. Also included in the foregoing plan are three asphalt laboratories and eight field quality control laboratories for testing asphalt and other materials required in road rehabilitation. Foreign exchange costs for this part of the project total approximately $130,000 and will be funded under the same AID program loan.

A technical assistance project which has been under development would improve the Public Works Department's central logistical management capability for road equipment, maintenance and repair. Although TDY assistance has been provided for almost a year, the USAID thus far has been unable to obtain the GOI commitment necessary to a viable project. Our position is under review, and a USAID decision will be shortly forthcoming.

In many parts of Indonesia the GOI military, through Civic Mission activities, is making a major contribution to rehabilitating essential infrastructure by up-grading primary and secondary roads. Subject to the development of qualifying Food for Work projects, USAID is prepared to support Civic Mission activities by providing PL480 Title II commodities for payment of needy civilian workers on such projects.

AID's bilateral assistance program will be complemented by a series of feasibility studies of regional or multi-national transportation and communications projects of potential importance to Indonesia to be undertaken in FY 1969 with AID regional funds. These funds will finance feasibility studies of potential ferry services between Sumatra and Malaysia, marine aids to navigation in the Straits of Malacca and elsewhere, and air-sea search and rescue facilities, aeronautical telecommunications, and flight inspection services for Southeast Asia.

4. Family Planning and Health

USAID will continue to concentrate its health assistance on the development and strengthening of Indonesia's national family planning program. Other U.S. assistance in the health field will be confined to participant training programs which are designed to assist the Department of Health meet its long-term needs for medical administrative and research leadership. This approach will complement but also give a great deal of latitude to the efforts of other donors in the health field.

While the Indonesian family planning program is a combined government and private effort, the Government is taking increasing responsibility for implementation and supervision as the program progresses from the pilot demonstration stage to the major national effort slated to begin in CY 1969. The IPPA will continue to share with the Department of Health major responsibilities for information, education, training, and overall policy, as well as pioneering the program in the outer islands.

There is still uncertainty as to the precise organizational structure which will be applied to the national program. A decision is expected soon, however, and in the meantime program planning progresses through a loosely coordinated consortium of government and private agencies operating under the umbrella of a temporary "Ad Hoc" committee for the National Family Planning Program. USAID will cooperate with this group in equipping MCH clinics and personnel, in developing overseas training, and in providing specialized technical advisory services.

5. Education

AID has both bilateral and, through the SEAMES mechanism, regional resources which it can assign to the education sector. The GOI, however, has only just begun determining sectoral priorities and projects. The new Minister of Education has announced that he intends to seek outside help in this task and has approached the Ford Foundation for help in an overall assessment of educational needs and priorities. AID welcomes such a study as necessary for providing all aid donors with a frame of reference for the selective application of foreign assistance to Indonesian education.

We far prefer that this assessment be performed by agencies other than the U.S. Government. This will give AID the detachment and freedom it should have in the selection of resulting projects. The early assignment of an Education Administration Advisor is crucial to successful project selection and implementation of current AID education commitments.

Pending the reliable determination of education priorities, USAID will continue bilaterally its highly diversified participant training program, which currently numbers over 300 participants annually and which should be enlarged through a variety of local English language training programs. Implementation will begin of the Educational Materials Development project, which will increase the availability of domestically produced and imported books through several interrelated methods including assistance in textbook writing and production and provision of basic libraries to key universities.

Final approval and contracting with an American university or university consortium is also expected early in FY 1969 to help improve agricultural higher education in two key institutions so that they in turn may upgrade the faculty, teaching methodology, and curricular for agricultural education instruction in selected middle and junior colleges. GOI participation in regional education programs such as the SEAMES regional Center for Tropical Biology at Bogor and the National Tropical Medicine Center specializing in nutritional problems at the University of Indonesia in Djakarta will continue to be encouraged to the extent that these programs make significant contributions to Indonesian education and do not divert scarce manpower from higher priority assignments.

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BUDGET SUMMARY (in $000)
FY 1968 Obligations

	TCDG	DL (PROJ)	DL (PROG)	DL (SECTOR)	PL 480 (TITLE I)	PL 480 TITLE II)	MAP
1. Gen'l Economic Support	-		26,526		46,610		
2. Agriculture	39		574 (2)			650 (4)	
3. Industry	150 (1)				11,000 (3)		
4. Health	112					2,400	360
Population	270						
5. Education	1,982						400
6. Public Administration	36						
7. Infrastructure	31 (1)		5,400 (2)			50 (4)	
8. Public Safety	-						
9. Labor	-						
10. Technical Support	700						
11. All Other							5,240
TOTALS	3,320		32,500		56,610	3,100	6,000

NOTES:

(1) Technical Services funded under Tech Support
(2) Quasi-projects in public sector funded under program loan (requires Sect. 611 determination)
(3) Cotton
(4) Food for Work projects

[redacted]

BUDGET SUMMARY (in $000)
FY 1969 Obligations

	TCDG	DL (PROJ)	DL (PROG)	DL (SECTOR)	PL 480 (TITLE I)	PL 480 (TITLE II)	MAP
1. Gen'l Economic Support	-		10,000		80,000		
2. Agriculture	700					900 (4)	
3. Industry	200	4,000 (1)			50,000 (3)		
4. Health	-					3,600	100
Population	910						
5. Education	3,040						500
6. Public Administration	-						
7. Infrastructure	450	11,000 (2)				500 (4)	
8. Public Safety	-						
9. Labor	-						
10. Technical Support	700						
11. All Other							5,400
TOTALS	6,000	15,000	10,000		130,000	5,000	6,000

NOTES:

(1) Gresik
(2) Feasibility Study Loan $1,000; $10,000 subject to development of viable projects by GOI and IBRD
(3) Cotton and Yarn
(4) Food for Work projects

[redacted]

BUDGET SUMMARY (in $000)
FY 1970 Obligations

	TCDG	DL (PROJ)	DL (PROG)	DL (SECTOR)	PL 480 (TITLE I)	PL 480 (TITLE II)	MAP
1. Gen'l Economic Support			10,000		57,000		
2. Agriculture	600					1,700 (3)	
3. Industry	400	25,000 (1)			53,000 (2)		
4. Health	-					3,600	50
Population	1,000						
5. Education	3,900						600
6. Public Administration	-						
7. Infrastructure	1,100					1,700 (3)	
8. Public Safety	-						
9. Labor	-						
10. Technical Support	1,000						
11. All Other							5,350
TOTALS	8,000	25,000	10,000		110,000	7,000	6,000

NOTES:
(1) Pusri / Fertilizer Plant
(2) Cotton, Yarn, perhaps Tallow and Tobacco
(3) Food for Work projects

[redacted]

BUDGET SUMMARY (in $000)
FY 1971 Obligations

		TCDG	DL (PROJ)	DL (PROG)	DL (SECTOR)	PL 480 (TITLE I)	PL 480 (TITLE II)	MAP
1.	Gen'l Economic Support	-		8,000		34,000		
2.	Agriculture	500					2,000 [3]	
3.	Industry	300	10,000 [1]			66,000 [2]		
4.	Health	-					3,600	25
	Population	1,000						
5.	Education	3,800						600
6.	Public Administration	-						
7.	Infrastructure	1,400	17,000 [1]				2,000 [3]	
8.	Public Safety	-						
9.	Labor	-						
10.	Technical Support	1,000						
11.	All Other	-						5,375
	TOTALS	8,000	27,000	8,000		100,000	7,600	6,000

NOTES:

(1) Pending development of viable projects by GOI with assistance of IBRD
(2) Cotton, Yarn, Tobacco, and Tallow
(3) Food for Work projects

CO[redacted]L

BUDGET SUMMARY (in $000)
FY 1972 Obligations

	TCDG	DL (PROJ)	DL (PROG)	DL (SECTOR)	PL 480 (TITLE I)	PL 480 (TITLE II)	MAP
1. Gen'l Economic Support	-		6,000		-		
2. Agriculture	500					2,200 (3)	
3. Industry	200	10,000 (1)			90,000 (2)		
4. Health	-					3,600	25
Population	1,000						
5. Education	3,700						600
6. Public Administration	-						
7. Infrastructure	1,600	19,000 (1)				2,200 (3)	
8. Public Safety	-						
9. Labor	-						
10. Technical Support	1,000						
11. All Other							5,375
TOTALS	8,000	29,000	6,000		90,000	8,000	6,000

NOTES:

(1) Pending development of viable projects by GOI with assistance of IBRD
(2) Cotton, Yarn, Tobacco, and Tallow
(3) Food for Work projects

PROPOSED LOANS FOR SERIOUS FY 1969 CONSIDERATION

INDONESIA
Country

Probable Loan Title (1)	Field of Activity (2)	New Amend or Extension (3)	Approx. Amount (4)	Anticipated Future Requirements (5)	Possibility of Financing Elsewhere (6)	Present State of Project (7)	Special Selection Criteria (8)
Gresik Cement Plant Expansion	Industry	New	$ 4,000,000	None	Doubtful	Preliminary feasibility study underway	Plant originally constructed using U.S. components and equipment. Compatibility is important consideration.
BE(Program) Loan	General Economic Support	New	10,000,000	$10,000,000 in FY 1970, declining thereafter	NA - This is US portion of IGG contribution to stabilization program	Ongoing stabilization program	Dependent upon utilization of extant program loan funds. See text of Program Memorandum.
Feasibility Study Loan	General--Industry, Infrastructure, Agriculture	New	1,000,000	Uncertain	None	Proposed to GOI	Limited availability of projects ready for financing and demonstrated need to sort out most useful development opportunities.
---	---	New	10,000,000	---	---	---	Anticipate additional viable projects to be developed by GOI with expected IBRD assistance.

CONFIDENTIAL

PROPOSED LOANS FOR SERIOUS FY 1970 CONSIDERATION

INDONESIA
Country

Probable Loan Title (1)	Field of Activity (2)	New; Amend.; or Exten. (3)	Approx. Amt. (4)	Anticipated Future Requirements (5)	Possibility of Financing Elsewhere (6)	Present State of Project (7)	Special Selection Criteria (8)
Pusri Fertilizer Plant Expansion	Industry	New	$25,000,000	None	Loan would be U.S. contribution to financial consortium	Preliminary feasibility study underway	Plant originally constructed by U.S. firm using U.S. source components and equipment. At present only U.S. firms have built plants now in operation using most modern and economic process.
BE (Program) Loan	General Economic Support	New	$10,000,000	$8,000,000 in FY 1971 and declining each year thereafter	N/A--This is U.S. portion of IGG contribution to stabilization program	Ongoing stabilization Program	Dependent upon utilization of extant program loan funds. See text of Program Memorandum.

[redacted]

ANNEX 1

Special Studies - U.S. Exports (AID and Commercially-Financed) to Indonesia

U.S. Exports to Indonesia Generally

The major existing obstacles to substantial U.S. commodity exports to Indonesia can be summarized as follows:

a. Price differential - Many U.S.-manufactured items cannot compete in Indonesia, on an absolute price comparison, with comparable products from nearby Japan, Hong Kong, Singapore and Malaysia. This unfavorable price differential also exists, although to a lesser degree, with comparable exports from the Netherlands, Germany, and England.

b. Transportation costs - A substantial portion of the unfavorable price differential can be attributed to the higher transportation costs from the U.S. Part of the higher cost results from the higher per ton shipping rates of U.S. freighters, while part arises from the greater distance involved in importing goods from the U.S. rather than from Indonesia's more normal suppliers, particularly Japan and other nearby countries. The greater distances increase not only shipping costs but also add considerably to the amount of time involved in receiving the goods ordered. While the time differential is always an important consideration for an importer who wants to satisfy his customers, it is particularly crucial in the current inflationary situation where the prospective importer has to tie up his rupiah or foreign exchange for additional weeks at very high interest rates while his goods are on the high seas.

c. Salesmanship - Export sales have traditionally received more aggressive effort by most of the other IGG nations than they have by the U.S. Indonesians are, with some important exceptions, more knowledgeable of and responsive to European and Japanese products and brand names than they are to U.S. goods. While the U.S. Government and presumably U.S. businessmen as well are desirous of sharing the aid burden here with other IGG nations, it cannot be denied that the presence of substantial Japanese, Dutch, and German aid makes it difficult to sell U.S. products in Indonesia.

As for those U.S. products which have established a market here, the action taken under our February 1968 loan to declare many of these items ineligible for financing with AID credits may serve ultimately to create "additionality" for the Japanese, Germans, etc. While U.S. manufacturers insist that price should not be the only factor influencing the purchasing decisions of an Indonesian importer, they have only recently begun to make a more aggressive sales pitch--heartened somewhat over-optimistically by the availability of AID credits--to convince Indonesians that higher U.S. prices may be warranted by better quality, better inventories, maintenance and repair follow-up, etc.

Weaning Indonesian importers away from their customary non-U.S. suppliers will be a long process, however, and many U.S. suppliers may not feel the effort is warranted by the present or anticipated market demand for their products. U.S.

suppliers charge, with accuracy, that several of the other IGG donors are more concerned with selling goods here than with using their aid credits to meet Indonesia's high priority needs. Accordingly, charge the U.S. suppliers, other embassies here allow their offices and staffs in Djakarta to be used as bases of commercial sales operations. While some of the U.S. businessmen's criticisms in this vein may simply be excuses for not going out and "beating the bushes" as aggressively as they should, it is true that many of the other IGG nations are not as pristine as the U.S. Government about using their diplomatic-consular offices in Djakarta for sales promotion activities.

AID-Financed Exports

An examination of the history of CY 1967 loan utilization shows an early spurt of sales in the first few months after our initial loan agreement in April 1967--undoubtedly reflecting pent-up demand and extremely low deposit requirements on BE purchases. This initial pace slowed down considerably, however, after other credits, particularly Japan's $60 million, came on the market. Coming into November of 1967, ours were practically the only credits left unused in any substantial amount, but were still moving very slowly.

We considered at that time a GOI proposal to use $10 million of the remaining $20 million worth of BE credits for several so-called "projects" on the GOI's $75 million "project list". Shortly thereafter, however, mainly as a result of the unfortunate rice crisis, prices began to rise rapidly. Regular BE's, at a floating rate, depreciated in value until by December they were selling at almost twice the rate of the pegged aid BE rate. Thereafter, and for the rest of 1967, AID credits were used at a phenomenal rate (particularly when the GOI withheld from the foreign credit pool the $10 million in BE credits made available from the last, grant portion of Japan's CY 1967 pledge).

Practically all of the AID credits were sold or administratively reserved by the end of the year. Subsequently, at the insistence of the IMF (as part of the Standby arrangement) and of the U.S. and other IGG donors, the Indonesian Government tied the BE credit rate to the regular BE rate thereby substantially reducing speculative interest in using aid BE's.

Recent GOI regulations early this year have narrowed the list of items eligible for aid financing. In addition, a number of tariff measures have been instituted which will make it far more costly to import finished consumer goods in competition with Indonesian manufactures. These actions should help to shift aid-financing to higher priority imports, but will in addition probably tend to impede the already lagging rate of utilization of such credits so long as any other foreign exchange is available.

The GOI has several times over the last year announced that various measures were underway to make credits available to productive enterprises, both public and private--at rates that would make it feasible to import goods needed for rehabilitation of the industrial, transportation, and agricultural sectors. To date the shortage of such low-cost credits has severely hampered importers' purchases of BE's for other than fast-moving and high-profit consumer goods. While the problem has affected all foreign credits, it is particularly crucial in the case of U.S. credits.

Additionality

1. The additionality dilemma facing AID has been and continues to be one of operating within the framework of the BE system so that the AID credit will be attractive to importers but not so attractive that AID financing is used to substitute for normal commercial imports from the United States. The inherent disincentives to the use of the AID credit--U.S. flag shipping, rupiah commissions and the attendant exchange risk, special documentation, etc.--together with the delivery time problem affecting imports from the U.S. generally will always make the use of the AID credit less desirable than other foreign exchange alternatives. The large discount on the AID credit BE in late 1967 was sufficient to overcome the disincentives. (The result is reflected in AID-financed orders during the year ending April 1968 for motor vehicles and parts in an amount roughly three times commercial imports in 1966.) The reduction of the aid BE rate discount to 15% in January 1968 reduced the attractiveness of the AID credit. The complete elimination of the differential in April or May 1968 contributed to the virtual cessation in the use of the AID credit.

2. The most recent AID credit of $25 million has remained virtually unused through mid-July. Because the Government does not command sufficient resources to respond to demands for non-AID foreign exchange, it requires that any demand for dollar exchange be met from the AID credit if the items are eligible for AID financing. This action tends to discourage importers from seeking to purchase on a non-AID basis from the U.S. in order to avoid getting caught in the unappetizing AID financing machinery. This suggests that the high rate of AID and non-AID imports in January-April 1968 will slow down considerably during the balance of 1968.

3. As pressure on Indonesia's foreign exchange resources continues the GOI may be expected to continue to resort to the variety of devices it has used recently to reduce demand for foreign exchange. These include the requirement of 100% rupiah payment at the time L/C's are opened, prepayment of customs duties, sales taxes payable before the release of goods from customs, and retroactive tax payments as a condition of eligibility for BE exchange. This financial pressure on importers has had the effect of increasing the competitive disadvantage of U.S. exports to Indonesia because of the high cost of money entailed in the long delivery time on U.S. goods.

4. All of the foregoing emphasizes the importance, from an additionality standpoint, of the following measures:

a. Directed procurement by GOI agencies as a means of using the AID credit BE.

b. A substantial discount on the AID Credit BE rate (or a downpayment system) coupled with low interest rupiah credits (from P.L. 480 sales) to Indonesian importers of non-AID-U.S. exports.

c. A managed system of rupiah credits from U.S. banks to importers of U.S. goods under which AID BE users get a more favorable interest rate than non-AID BE users.

d. U.S. financing with rupiahs of warehousing facilities for U.S. exporters.

e. If incentives are given to users of AID BE, add spare parts and perhaps other items to AID negative list.

f. Shifting, as soon as circumstances warrant, from AID Credit BE to project financing.

Recommendations on implementation of these measures will be available in September as part of the report now being prepared by the American Technical Assistance Company.

5. The following statistics of P.L. 480, AID and commercial exports to Indonesia 1965-68 are of interest in assessing the additionality problem.

U.S. Exports to Indonesia
(in U.S. $ millions)

	1965	1966	1967	Jan/Apr 1968
Total Exports	41.0	67.4	68.3	51.6
of which PL 480	-	23.5	23.5	21.3
Leaving non-PL 480	41.0	43.9	44.8	30.3
Of which AID-BE credit disbursements	-	-	5.4	9.7
Commercial exports	41.0	43.9	39.4	20.6

Sources: 1) U.S. Department of Commerce, U.S. Export of Domestic Merchandise, December 1965, December 1966, December 1967, April 1968
2) Controller, USAID/Indonesia

In the above table AID credit disbursements have been used to achieve comparability with the U.S. export data. These disbursements have been adjusted downward by 10% to remove the transportation costs. The effects of the heavy opening of AID L/C's in November and December 1967 are not fully felt in the form of disbursements until 1968.

6. The 10% decline in commercial exports for 1967 as compared with 1966 seems to substantiate some degree of substitution of AID imports for commercial imports. At the same time, in the first four months of 1968 with AID disbursements running at an annual rate of $30 million, commercial imports have increased to an annual rate of $60 million which is well above the annual average for 1957-66. This improvement may reflect the bringing together of the aid BE and general BE rates.

7. One area which requires attention is the extent to which U.S. export data include exports to oil companies in Indonesia. The estimates of total Indonesian imports in 1967 made by IMF are on a "non-oil" basis. Thus, the U.S. share of the total market calculated on the basis of U.S. exports to Indonesia as a percentage

of total "non-oil imports" would have to be adjusted downward by removing oil company exports from U.S. export data. (The IMF estimates of foreign assistance imports appear to be based on letters of credit opened in 1967, and which, therefore, probably overstates actual imports in that year.)

8. Other analytical problems include the extent to which the 1967 and 1968 imports reflect heavy non-recurring purchases to catch up on the earlier lean years and the extent to which imports of U.S. goods will show up as imports from Singapore and Hong Kong (rather than from the U.S.) as U.S. suppliers seek to overcome their delivery time problems by using regional supply depots.

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ANNEX 2. b.

USAID/Indonesia Program Evaluation Plan

CY 1968

Evaluation Scope	Evaluation Method	Evaluation Resources	Estimated Report Completion Date
1. Participant Training; Effectiveness in Meeting Varied Goals	PARs (General Participant Training, Civic Action Training Projects)	Ad Hoc USAID/ USIS/GOI Foreign Technical Assistance Coordinating Committee Team	October 16, 1968
2. Family Planning; Establishing Criteria	Airgram report	Ad Hoc USAID/ IPPA/Ford Foundation Team	November 27, 1968

CY 1969 1/

Evaluation Scope	Evaluation Method	Evaluation Resources	Estimated Report Completion Date
1. Completed Food for Work Project, Demak Phases I and II; Effectiveness and Significance of Project Goals	PAR	Ad Hoc USAID/ GOI Manpower Ministry Team	March 1, 1969
2. The Effectiveness of AID Instruments Operating Within the Multilateral Aid Donor Context	Consultant Report	AID Consultant Group (Team Leader from AID/W with extensive field programming experience; two other members with program background from USAIDs or recent service with same, one of whom would have worked in country situation where there was some multilateral aid mechanism, e.g. IBRD consultative group, donor consortium).	Entire evaluation should require minimum two months to complete and should begin in April 1969 with full group on board.

1/ Additional evaluation subjects ~~will be devel~~oped for CY 1969 following experiences gained from the first scheduled study and will be communicated to AID/W.

[redacted]

AID 1020-13 (4-65) C-1 | DATA CURRENT AS OF: July 15, 1968 | COOPERATING COUNTRY: INDONESIA | SECURITY CLASSIFICATION: UNCLASSIFIED

GROSS NATIONAL PRODUCT — C-1

[X] CALENDAR YEAR
[ ] FISCAL YEAR Beginning: Ending:

I. CURRENT MARKET PRICES — National Currency Units: Billions of Rp.

	(1) Actual 1965	(2) Actual 1966	(3) Actual 1967	(4) Estimated 1968 1/
A. GROSS NATIONAL PRODUCT (At Market Prices)	n.a.	n.a.	n.a.	3000
1. PER CAPITA GNP				
B. NET FOREIGN BALANCE (INFLOW (+))				90
Goods and Services: 1. Imports (+)				
Goods and Services: 2. Exports (-)				
C. TOTAL AVAILABLE RESOURCES				3090
D. TOTAL CONSUMPTION				2895
1. Private				
2. General Government — All Levels				
E. TOTAL FIXED INVESTMENT (GROSS)				195
1. Private				
2. Public Enterprise				
3. General Government (Excl. Defense)				
F. CHANGE IN STOCKS				
G. TOTAL NATIONAL SAVINGS				105
1. Private				
2. Public Enterprises				
3. General Government				
H. NET CURRENT TRANSFERS FROM REST OF WORLD				

II. CONSTANT 1967 MARKET PRICES — Billions of U.S. Dollar Equivalents

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

	(0) Bench Mark Period (Averages) 19__ thru 19__	(1) Actual 1965	(2) Actual 1966	(3) Est. 1967	(4) Estimated 1968	(5) Projected 1969	(6) Projected 1970	(7) Projected 1971	(8) Projected 1972
A. Gross National Product		n.a.	n.a.	9.75	10.00	10.40	10.82	11.25	11.70
1. Per Capita GNP				87	87	88	89	90	91
B. Net Foreign Balance				0.30	0.30	0.31	0.31	0.32	0.34
C. Total Available Resources				10.05	10.30	10.71	11.13	11.57	12.04
D. Total Consumption				9.42	9.65	9.97	10.30	10.65	11.03
E. Total Fixed Investment (Gross)				0.63	0.65	0.74	0.83	0.92	1.01
G. Total National Savings				0.33	0.35	0.43	0.52	0.60	0.67

III. TRENDS IN CONSTANT PRICES INDEXES — 1967 = 100

	(0) Bench Mark Period*	(1) Actual	(2) Actual	1967	Est. 1968	Proj. 1969	Proj. 1970	Proj. 1971	Proj. 1972
A. Gross National Product				100	103	107	111	115	120
1. Per Capita GNP				100	100	101	102	103	105
B. Goods and Services: 1. Imports, Net				100	100	103	103	107	113
2. Exports									
D. Total Consumption				100	102	106	109	113	117
1. Private									
2. General Government									
E. Total Fixed Investment (Gross)				100	103	117	132	146	160
1. Private									
2. Public Enterprises									
3. General Government (Excl. Defense)									
G. Total National Savings				100	106	130	156	182	203

IV. PERCENT OF GNP IN CONSTANT PRICES

	(0) Bench Mark Period	(1) Actual	(2) Actual	1967	Est. 1968	Proj. 1969	Proj. 1970	Proj. 1971	Proj. 1972
B. Imports, Net				3	3	3	3	3	3
D. Total Consumption				97	97	96	95	95	94
E. Total Fixed Investment (Gross)				6	7	7	8	8	9
G. Total National Savings				3	4	4	5	5	6

* Same period as used for averages in Section II, Column (0)

V. MARGINAL SAVINGS RATIOS: 1967 69 to 1970 72: .19 | 19__ to 19__

VI. INCREMENTAL GROSS CAPITAL OUTPUT RATIOS: 1967 69 to 1970 72: 1.84 | 19__ to 19__

Exchange Rate in Last Actual Year [illegible] $1 =

1/ Estimated from Section II on basis estimated average 1968 exchange rate of 300 Rp = $1

SECURITY CLASSIFICATION: UNCLASSIFIED

Notes to Table C-1

General: While the outlook is good for early development of a valid national accounts system for Indonesia, at present the data and estimates available from the GOI are both inadequate and unsuitable for conversion to dollars in any consistent fashion. The IMF has not attempted to construct national accounts estimates. The IBRD Survey Team, October-November 1967, made a variety of conflicting estimates as to key magnitudes of gross investment and GNP (IBRD Report No. AS-132A, "Economic Development of Indonesia", February 12, 1968). The IBRD effort included, in Volume VI, a separate study on the trends and structures of the national accounts during 1958-66 but avoided producing any absolute values convertible to a dollar series. The study also resulted in considerable differences in the structural composition of GNP, depending on whether current or constant 1960 prices were used. As a result of this situation, it has been necessary to estimate GNP and gross investment separately, as indicated below, with the result that the relationship between the two magnitudes in the base year is open to question. With the help of the Harvard DAS Team, the IBRD advisors, and other experts, the GOI should be able to develop an adequate national accounts system during the next year or two. The lack of such a system is proving a handicap in the formulation of the approaching Five-Year Plan for 1969-73. The requirements of a consistent plan will necessitate early attention to national account deficiencies.

GNP: In the absence of other valid indications the recurring estimate that national income per capita in Indonesia is about $80 has been used as the base for estimating 1968 national income at $9.2 billion. The latter figure has been increased to a very approximate $10.0 billion in 1968 GNP by using the .92 ratio between national income and GNP in 1965-66 indicated by the IBRD study, Volume VI, Table 3, in current prices. An average annual future growth rate of 4% p.a. has been assumed, as discussed in the text. Reliable data or consistent estimates on changes in GNP prior to 1968 are not available. The arbitrary estimate for 1967 GNP assumes no change in per capita GNP, 1967 to 1968, although total production may increase by 3-4% (probably good rice crop and export increases, plus some recovery in textile production).

Gross Investment: The estimates have been constructed as follows:

Table C-1 Investment Estimates & Assumptions, 1965-72
(millions of dollars)

	1965	1966	1967	1968	1969	1970	1971	1972
1. Investment Imports	272	230	180	180	225	270	310	355
2. Gross Investment	765	700	630	645	735	825	915	1010
3. Non-Import Invest. of which:	493	470	450	465	510	555	605	655
3.a. Non-monetary sector	223	233	243	253	263	273	283	293
3.b. Monetary sector	270	237	207	212	247	282	322	362
4. Increase in line 1		- 42	- 50	0	45	45	40	45
5. Increase in line 2		- 60	- 70	15	90	90	90	95
6. % increase in line 1		- 15	- 22	0	25	20	15	15
7. % increase in line 2		- 8	- 10	2	14	12	11	10
8. % increase in line 3		- 4	- 4	3	10	9	9	8
9. % increase in line 3.b.		- 12	- 13	2	16	14	14	12

Sources & Assumptions

Investment Imports: 1965-66 are from Table 7 of IBRD Vol. II, which adds certain "raw materials for capital goods" to the usual GOI definition of capital goods imports. (Import figures are apparently f.o.b. and exclude ocean freight, insurance, customs, taxes and local delivery, installation and other markups.) 1967-68 are from Table C-5 (see Notes) and represent rough estimates based on available indications. Estimates beyond 1968 are based on estimated changes in investment import arrivals, calculated from Table C-5 by assuming an average three-month lag between L/C and arrival (i.e., by reducing the annual increase by 25%).

Gross Investment: Out of a wealth of conflicting estimates the statement by the IBRD mission of last fall (IBRD Report Vol. I, p. 87) that, as nearly as it could judge, "investment in 1967 was in the range of $600-700 million equivalent" has been tentatively judged to be probably the most correct in absolute terms. A very small increase has been estimated for 1968, followed by an exceptionally large (14%) increase in 1969 as a result of the estimated very sharp increase in project aid expenditures and investment-type imports. Roughly the same absolute increases in gross investment are estimated for 1970-72, bringing the annual rate of increase gradually down to 10%, which is tentatively assumed to be about the maximum medium-term rate, due to absorbtive capacity limitations.

Non-Import Investment: This is a residual estimate composed of construction, domestic investment associated with investment imports and non-monetary sector investment. The IBRD estimate of gross investment in 1967, together with the apparent trend and relation of investment imports in 1965-67, indicates that the IBRD in Table 7 of Vol. II underestimated non-import investment by about $140-150 million in both 1965 and 1966. The increases here made bring domestic monetary sector investment up to approximately 100% of investment imports, f.o.b., in 1965-66, which is the more usual relation, vs. only a 43% ratio assumed in IBRD Table 7. The increase here made also results in a reasonable 50% ratio between probable CY 1968 central government non-defense investment cash expenditures (estimated from Table C-3 and converted at estimated average exchange rate of Rp. 300 = $1) and estimated 1968 domestic monetary sector investment, whereas use of the lower IBRD series results in domestic monetary investment apparently equalling only three-fourths of central government investment expenditures (which presently exclude foreign exchange expenditures financed by foreign aid). Since non-monetary sector investment is obviously a speculative magnitude, no change has been attempted in it for 1965-66 and an arbitrary annual increase of $10 million has been projected. It has been assumed that monetary sector non-import investment (largely construction) has declined more slowly than investment imports in 1969-72.

Other C-1 Magnitudes: The Net Foreign Balance is taken from Table C-4. All other magnitudes are residuals. It is not possible at this time to furnish additional details.

AID 1020-14 (4-65) C-2	DATA CURRENT AS OF: July 15, 1968	COOPERATING COUNTRY INDONESIA	SECURITY CLASSIFICATION UNCLASSIFIED

POPULATION, PRICES, RESERVES AND PRODUCTION

C-2

ITEMS	Calendar Years unless otherwise noted	ACTUAL (1) 1966	(2) 1967	ESTIMATED (3) 1968	(4) 1969	PROJECTED (5) 1970	(6) 1971	(7) 1972
A. POPULATION, MID-YEAR (In thousands) — Current Annual Growth Rate 2.5 %		109,593	112,311	115,130	118,054	121,089	124,248	127,515
B. PRICE INDEXES — 1. COST OF LIVING (Coverage: 83 items)	1963 = 100	9,502	25,612	61,213	75,266	86,556	95,212	104,733
Year-to-year increase (percent)		1,145	175	139	25	15	10	10
2. WHOLESALE (Coverage:)		n.a.						
3. (OTHER):	1958 = 100	n.a.						
4. GNP (Implicit Price Index)	19__ = 100	n.a.						
C. GOLD AND GROSS FOREIGN EXCHANGE (End of Year) — 1. TOTAL HOLDINGS	($ MILLIONS)	86	47	63	84	100	95	73
(a) MONETARY GOLD		-	-	-	-	-	-	-
(b) OFFICIAL FOREIGN EXCHANGE		23	6	22	43	59	54	32
(c) DEPOSIT MONEY BANKS		63	41	41	41	41	41	41
2. IMF GOLD TRANCHE (Memo Item)								
D. PRODUCTION INDICATORS — 1. INDUSTRY AND MINING								
INDUSTRIAL PRODUCTION INDEX	1963 = 100	n.a.						
MANUFACTURING INDEX	= 100	n.a.						
MINING INDEX	= 100	n.a.						
(OTHER INDEX):	= 100	n.a.						
Output of Major Commodities	Units:							
Crude Petroleum	Mill. barrels	170.1	186.2	223	270	303	315	333
Tin Concentrates	1000 MT	12.8	13.8	14	14.5	15	16	18
Bauxite (crude ore)	1000 MT	701	912	920	1050	1200	1300	1300
Nickel Ore	1000 MT	117	171	200	220	242	266	293
Electricity Production	1000 MT	1560	1794	1985	2176	2367		
2. AGRICULTURE	Crop Years:	1966/	1967/	1968/	1969/	1970/	1971/	1972/
AGRICULTURAL PRODUCTION INDEX	1957-59 = 100	111	115	120	124	128	132	136
Output of Major Commodities	Units: IMF							
Rice (milled)	1000 MT	9,137	9,324	9,800	10,190	10,600	11,020	11,460
Copra (comm'l only)	1000 MT	1,350	1,320	1,530	1,475	1,520	1,565	1,610
Cassava	1000 MT	10,840	10,900	11,000	11,100	11,200	11,300	11,400
Rubber	1000 MT	738	745	755	765	775	785	800

Notes to Table C-2

Population data and estimates are from Table 4, Vol. II of IBRD Report No. AS-132a of February 12, 1968. This table, based on GOI data, shows a rate of increase of 2.35% in 1963 increasing to 2.60% in 1971.

The Cost of Living Index (as required) relates average CY prices (not year-end to year-end). Estimated future percentage increases are indicated in a separate line.

Exchange Holdings refer to gross assets reported by the IMF. Changes accord with line B of Table C-4.

Oil and Mining data for 1966-67 are from the latest IMF document (SM/68/109). Estimates for 1968-72 are related to the export estimates shown in Table C-5.

Electricity data and estimates are from a recent published speech of the Director General for Power and Electricity. These revise earlier higher estimates. New figures for 1964 and 1965 (for AID/W records) are 1406 and 1513 thousand KWH.

Agricultural production is expected to increase 3% p.a. on the average after 1968. Rice, accounting for about half of total production, is assumed to increase by 4% p.a., although new strains and production inputs could result in considerably more rapid growth. Rubber, the next most important product, is expected to increase at only about 1½% p.a., or perhaps 2% p.a. after 1970. Copra is currently experiencing a temporary export boom and is assumed to increase by 3% p.a. However, cassava and most other crops are expected to experience very little growth, if any. The latest IMF data has been used for 1966-67, except for the lower AID/W cassava series used.

AID 1020-15 (4-65)

C-3

DATA CURRENT AS OF:	COOPERATING COUNTRY	SECURITY CLASSIFICATION	CENTRAL GOVERNMENT FINANCES	C-3
July 15, 1968	INDONESIA	UNCLASSIFIED		

Units of National Currency: Rupiah (billions)

Country Fiscal Year Ending: Dec 31 thru 1967; Mar 31 beginning with FY 68-69

		FORM AID 10-74 LINE NO.	ACTUAL (1) FY 19 66 /	ACTUAL (2) FY 1967 /	ESTIMATED 1/ (3) FY 19 68 / 69	PROJECTED 1/ (4) FY 19 68 / 69	PROJECTED 1/ (5) FY 19 69 / 70
A. REVENUES	1. TOTAL REVENUES FROM DOMESTIC SOURCES	A.1	13.4	60.1	150	40	168
	2. TOTAL REVENUES ORIGINATING FROM COUNTERPART of Loans AND FOREIGN GRANTS INCLUDING U.S.	A.2	-	24.7	40	15	67
	(a) TOTAL COUNTERPART AND U.S. GRANTS (Nonadditive)	A.2a					
	TOTAL	A.	13.4	84.8	190	55	235
B. EXPENDITURES	1. TOTAL NATIONAL DEFENSE	B.1	3.7	21.6	45	11	47
	(a) FROM COUNTERPART, U.S. GRANTS AND LOANS (Nonadditive)	B.1b					
	2. ALL OTHER CURRENT	B.2 - B.6	23.2	50.6	113	30	121
	3. TOTAL CAPITAL OUTLAY, CIVIL GOVERNMENT	B.7	2.1	15.3	37	14	67
	(a) FROM COUNTERPART, U.S. GRANTS AND LOANS (Nonadditive)	B.7b(2)					
	TOTAL	B.	29.0	87.5	195	55	235
C. DEFICIT (-) OR SURPLUS	1. BEFORE TOTAL FOREIGN GRANTS (Counterpart, U.S. and Non-U.S. Grants)	C.1					
	2. AFTER NON-U.S. FOREIGN GRANTS	C.2					
	3. AFTER TOTAL FOREIGN GRANTS / and Loans	C.3	-15.6	-2.7	- 5	0	0
D. FINANCING THE DEFICIT OR DISPOSAL OF SURPLUS (-) AFTER FOREIGN GRANTS	1. TOTAL DOMESTIC BORROWING (Net)	D.1	15.6	2.7	5	0	0
	2. TOTAL FOREIGN BORROWING (Net) INCLUDING U.S. (Included in line A.2.)	D.2					
	(a) U.S. LOANS (Net) (Nonadditive)	D.2a					
	3. NET CHANGE IN CASH BALANCE AND OTHER RESERVES (n.a.)	D.3					
	TOTAL (Must Equal C.3 above with sign reversed)						
E. RATIO TO GNP OF DOMESTIC REVENUES AND EXPENDITURES	1. GNP IN CURRENT PRICES@ Rp. 300 = $1 for 1968	-	n.a.	n.a.	3000		3150
	2. DOMESTIC REVENUES (From A.1) AS % OF GNP	-			5.0		5.3
	3. TOTAL EXPENDITURES (From B.) AS % OF GNP	-			6.5		7.5
	4. DEFENSE EXPENDITURES (From B.1) AS % OF GNP	-			1.5		1.5

1/ For purposes of comparability the special five-quarter FY 1968-69 has been broken down into one four-quarter period (CY 1968) plus the transitional extra quarter, and constant average CY 1968 prices have been used for the projected amounts. (See Table C-2 re price assumptions.)

SECURITY CLASSIFICATION UNCLASSIFIED

Notes to Table C-3

Sources: 1966 data are taken from Emb A-524 of May 17, 1967.

1967 data are from IMF document SM/68/109 of June 27, 1968.

1968 data are based on IMF/GOI estimates for the first three quarters (reported in TOAID A-683 of July 2) plus estimated fourth quarter results in current prices.

FY 1969/70 data (expressed in average 1968 prices) assume a 12% increase on domestic revenues, a 7% increase in operating expenses (including debt service), foreign revenues equal to the estimated net proceeds of $225 million from recommended FY 1969-70 program/PL 480 aid of $240 million, using the estimated 1968 average rate of Rp. 300 = $1. The result is a small surplus of Rp. 3 billion in the routine budget, equal to estimated defense expenditures in the development budget. The Rp. 30 billion increase (equal to $100 million) forecast for the development budget is judged adequate to finance authorizations covering the associated GOI local currency costs of the estimated $45 million increase in project aid expenditures in CY 1969, additional GOI project expenditures and additional credit provisions for enterprise investment.

Defense estimates are based on TOAID A-660 of June 18, 1968. In 1967 the operating (routine) budget accounted for Rp. 19.4 billion of defense expenditures. The estimates for 1968 and 1969-70 are necessarily approximate, and all but Rp. 3 billion has been assumed to be financed by the routine budget in each year.

Capital Outlay represents non-defense authorizations in the development budget. To date authorizations and expenditures in the development budget have been small and nearly equal (about Rp. 10 billion in the first half of 1968). Authorizations have also apparently been limited to funds currently available for expenditure, a conservative practice helpful to stabilization. Future practice is unknown but the "outlays" here shown represent authorizations. Probably actual non-defense cash disbursements in CY 1968 and FY 1969-70 are likely to be Rp. 30 billion and Rp. 45 billion, at most, reflecting the difficulty of rapidly increasing effective investment outlays. The "idle" cash thus created could form the basis for expanded lending to the private sector, if financial stability permits. The development budget presently includes some GOI-financed investment imports but excludes project/equipment authorizations or expenditures financed by foreign aid. The latter may be added in the FY 1969-70 budget, which could bring development budget authorizations to Rp. 100 billion or more.

Grant/Loan budget financing data is not available. The relative proportions in dollar terms can be judged from Table C-4. Due to the variable exchange rates prevailing these would not necessarily be the same proportions in rupiah terms.

Domestic Borrowing is entirely from the Central Bank. Changes in cash balances have reportedly been small.

FY 1969/70 GNP in constant CY 1968 prices has been estimated by adding 1% to the CY 1969 dollar estimate for GNP in Table C-1 and converting at the estimated average 1968 rate of Rp. 300 = $1.

AID 1020-15 (4-65)

C-4

DATA CURRENT AS OF: July 15, 1968

COOPERATING COUNTRY: Indonesia

SECURITY CLASSIFICATION: Unclassified

BALANCE OF PAYMENTS
(In Millions of U.S. Dollar Equivalents)

C-4

All figures converted at $1 = ___ unless otherwise noted

ITEM	LINE NO.	ACTUAL (1) 1966	ACTUAL (2) 1967	ESTIMATED (3) 1968	PROJECTED (4) 1969	PROJECTED (5) 1970
A. BALANCE ON GOODS AND SERVICES	A	-148	-295	-300	-308	-306
1. GOODS — EXPORTS, f.o.b.	1a	714	770	863	942	1034
IMPORTS, f.o.b. (-)	1b	-604	-802	-833	-870	-909
NONMONETARY GOLD	2					
TRADE BALANCE	A(1)	110	-32	30	72	125
2. SERVICES — FREIGHT AND INSURANCE	3	-62	-86	-105	-110	-115
OTHER TRANSPORTATION	4	-7	-30	-37	-40	-42
TRAVEL	5	-18	-4	-12	-10	-8
INVESTMENT INCOME	6	-47	-63	-87	-120	-160
GOVERNMENT, n.i.e.	7	-35	-20	-25	-30	-30
	7a					
OTHER SERVICES	8	-89	-60	-63	-70	-76
TOTAL SERVICES, NET	A(2)	-258	-263	-330	-380	-431
B. TRANSFER PAYMENTS, NET	B	20	29	20	15	15
1. PRIVATE	9					
1) P.L. 480 - Title III (non-add)	9a	(1)	(1)	(3)	(3)	(4)
	9b					
2. CENTRAL GOVERNMENT	10					
U.S. TOTAL (non-add)	10a	(-)	(5)	(8)	(10)	(13)
A.I.D.	10b	(-)	(1)	(1)	(2)	(3)
P.L. 480 - Title I	10c					
P.L. 480 - Title II	10d	(-)	(1)	(1)	(2)	(4)
2) MAP	10e	(-)	(3)	(6)	(6)	(6)
OTHER, TOTAL	10f					
Program Grants	10g	20	29	20	15	15
TA (non-add)	10h	(7)	(7)	(10)	(13)	(15)
C. CAPITAL AND MONETARY GOLD, NET	C	137	291	280	293	291
NONMONETARY — 1. PRIVATE — DIRECT INVESTMENT	11		8	15	30	45
OTHER LONG-TERM	12	50	64	80	80	75
Supplier Credits	12a	N/A	2	20	20	20
Other	12b	50	62	60	60	55
	12c					
OTHER SHORT-TERM	13	N/A	28	(Included in Other above)		
2. LOCAL GOVERNMENT, NET	14					

ITEM	LINE NO.	ACTUAL (1) 1966	ACTUAL (2) 1967	ESTIMATED (3) 1968	PROJECTED (4) 1969	PROJECTED (5) 1970
NONMONETARY SECTORS CONTINUED — 3. CENTRAL GOVERNMENT, NET	15	46	178	186	215	200
LOANS RECEIVED	15a	108	232	275	315	315
U.S., TOTAL	15b	37	56	136	145	130
A.I.D.	15c	0	26	21	20	25
P.L. 480 - Title I 3)	15d	37	30	115	125	105
P.L. 480 - Title IV	15e					
	15f					
OTHER, TOTAL	15g	71	176	139	170	185
Program Loans	15h	N/A	107	99	85	90
Project Loans	15i	N/A	69	40	85	95
	15j					
	15k					
	15l					
LOAN XXXXXXX Service	15m	-62	-54	-89	-100	-115
U.S., TOTAL	15n					
	15o					
	15p					
	15q					
OTHER, TOTAL	15r					
	15s					
	15t					
	15u					
	15v					
COUNTRY-USE L/C, LIABILITIES TO U.S. (non-add)	15w	(-1)	(0)	(2)	(0)	(0)
OTHER	15x					
MONETARY SECTORS — 1.* LIABILITIES	16	24	20			
ASSETS [Increase (-)]	17	5	22			
2. CENTRAL INSTITUTIONS — LIABILITIES	18	6	-16	15	-11	-13
TO IMF	18a	-	-14	15	-11	-13
TO IBRD AND IDA	18b					
L/C FOR U.S. USE	18c					
OTHER, TOTAL	18d	6	-2			
	18e					
ASSETS [Increase (-)]	19					
IMF SUBSCRIPTION	19a					
MONETARY GOLD	19b					
FOREIGN EXCHANGE	19c	-2	17	-16	-21	-16
OTHER, TOTAL	19d	6	-16			
D. NET ERRORS AND OMISSIONS	D	-9	-25	-	-	-
E. CHANGE IN GOLD AND FOREIGN EXCHANGE (Increase (-)) (Memo Item) line 19c		-2	17	-16	-21	-16

* COMMERCIAL BANKS

Remarks:

1) Voluntary Agencies, now Title II.
2) Civic Action.
3) Dollar repayable only.

SECURITY CLASSIFICATION: UNCLASSIFIED

Notes to Table C-4

Base Years: 1966-67 data are from Table 8, Part II of IMF document SM/68/109 of June 27, 1968 and of course refer to recorded data only. For ease of comparability the C-4 has been prepared in accord with the IMF practice for Indonesian data, i.e. technical assistance and relief-type aid are excluded from imports and services and from aid data, debt service includes interest payments normally shown on the services account as well as servicing of private debt, and oil investment imports and financing (chiefly drilling equipment) are excluded from the B/P. (Non-capital grants have been entered as non-add items in the C-4.) IMF Table 8 should be consulted re footnotes pertaining to 1966 data. For the breakdown of 1966 services, the B/P table in the AID Economic Data Book has been used, except that Other Services have been increased by $17 million to bring Total Services in line with the IMF total. The breakdown between grant and loan aid for 1966 is arbitrary in the absence of precise data.

Projections for 1968-70 represent USAID estimates of the probable implications of the broad assumptions and estimates described in the Program Memorandum. The Summary B/P table (for 1967-73) in the PM and the Notes to Table C-5 are particularly relevant to Table C-4, which follows the same IMF definitional practices described for 1966-67. Additional comments are:

Services are expected to be a rapidly increasing deficit item, due chiefly to rapidly growing foreign investment earnings in oil and lumber. Appendix Table VI in IMF document SM/68/109 has been used as the basis for 1968-70 estimates. The non-oil deficit has been assumed to grow by 6% p.a. plus estimated foreign exchange expenses and profits involved in lumber and fisheries exports (Table C-5).

Private Capital inflow has been estimated by the IMF to consist largely of repatriated capital in 1966-68, although non-oil direct investment and suppliers credit become more important in 1968. The IMF 1968 estimates have been revised on the basis of first quarter results (Table 8). Future estimates are necessarily arbitrary: direct investment (actual outlays, non-oil) may increase more rapidly, with nearly equivalent effect on investment imports; suppliers credits (sometimes related to direct investment) may also increase more rapidly although a sharp limit should be observed for debt-servicing reasons; and net repatriated capital flows, here assumed to be somewhat less important after 1967, will obviously be linked to financial and foreign exchange stability.

Debt Service: These are rather arbitrary minimum estimates based on maximum possible success in rescheduling and refinancing debt service, particularly after 1970. A new IBRD debt study, now in process, should provide better estimates.

IMF Position: The present standby and repurchase agreements are expected to be completed as scheduled. The present standby credit of about $52 million is arbitrarily estimated to be repaid $10 million in 1970 and $14 million p.a. in 1971-73.

Other Monetary: For 1966-67 the total changes shown in the IMF B/P table (and the errors and omissions items shown there) have been used. However, the data for reserve changes in lines 17, 18d, and 19c has been derived from IMF Appendix Table XI, with unaccounted liability changes shown in line 16 and unaccounted asset changes shown in line 19d.

AID 1020-17 (4-65)	DATA CURRENT AS OF:	COOPERATING COUNTRY	SECURITY CLASSIFICATION	FOREIGN COMMODITY TRADE	
C-5	July 15, 1968	INDONESIA	UNCLASSIFIED	(In Millions of U.S. Dollar Equivalents)	C-5

All figures converted at $1 = ____ unless otherwise noted.

		SITC* GROUP	CATEGORY	ACTUAL (1) 1966	ACTUAL (2) 1967	ESTIMATED (3) 1968	PROJECTED (4) 1969	PROJECTED (5) 1970
A. COMMODITY EXPORTS (f.o.b.) ($ Millions)	1. MAJOR GROUPS	0 & 1	FOOD, BEVERAGES AND TOBACCO	n.a.				
		2 & 4	RAW MATERIALS, (EXCLUDING FUELS); AND FATS AND OILS	n.a.				
		3	MINERAL FUELS	n.a.				
		6 & 8	MANUFACTURED GOODS	n.a.				
		5, 7 & 9	ALL OTHER	n.a.				
		0 - 9	TOTAL EXPORTS	714	770	863	942	1033
	2. MAIN EXPORT COMMODITIES	ITEM:	Petroleum & Products, gross	215	244	303	374	434
			Rubber	(235)	205	210	215	215
			Coffee	(38)	63	65	66	68
			Tin Ore	(22)	32	33	34	36
			Tobacco	(27)	30	30	30	30
			Palm Oil	(22)	29	20	22	23
			Copra	(31)	21	45	34	35
B. COMMODITY IMPORTS (c.i.f.) ($ Millions)	1. CAPITAL GOODS AND INDUSTRIAL MATERIALS	SITC* GROUP	CATEGORY					
		5	CHEMICALS	(See Notes)				
		6 (Nos. 671 - 596)	IRON, STEEL AND NONFERROUS METALS					
		7	MACHINERY AND TRANSPORT EQUIPMENT					
			SUB TOTAL					
	2. OTHER	0, 1 & 4	FOOD, BEVERAGES, TOBACCO, FATS AND OILS					
		3	MINERAL FUELS					
			POL PRODUCTS** (Sitc Nos. 331-332) (Nonadditive)					
		2, 6 (Other), 8 & 9	ALL OTHER					
		0 - 9	TOTAL IMPORTS, f.o.b.	604	802	833	870	909
C. TERMS OF TRADE (Indexes)	1. EXPORT PRICE INDEX		1960 = 100	71	69	68	67	66
	2. IMPORT PRICE INDEX		1960 = 100	115	117	119	121	123
	3. TERMS OF TRADE INDEX (1 ÷ 2)		1960 = 100	62	59	57	55	54

* Standard International Trade Classification

** Petroleum and Petroleum Products

Notes to Table C-5

A. Export projections have been made with the assistance of an international organization expert who has been making a detailed study of export prospects through 1975. The following detailed projections use 1967 as the base year, with $90 out of $96 million of non-oil "overprice" earnings, which vary greatly by commodity, allocated on the basis of a detailed study made by the assisting expert. An additional $8.5 million was reported as "errors and omissions" in 1967. No allocation of the $47 million reported for overprice in 1966 has been possible, so that the 1966 BNI export data shown in parentheses in Table C-5 are not comparable with the remainder of the series.

Notes re Export Commodities

Oil: The estimates used represent an upward revision of those presented in an IMF paper of October 11, 1967, as the result of new discoveries, investment and a more optimistic exploration assumption (50% success, vs. only 25%). (Previous net figures 1969-73 were $125, 152, 173, 188 and 205 million). The estimates beyond 1969 should be regarded as on the optimistic side, since they go beyond current firm plans and production estimates. On the basis of the latter, net earnings in 1973 would reportedly be only about $170 million. Current and prospective exploration is fairly extensive, however, and one or two very large new discoveries could boost future earnings beyond the estimates here used.

Rubber: Some short-term recovery, followed by slow growth beyond 1970, is assumed, along with a 10% price reduction, 1967-75.

Coffee: Overprice was a large factor in the 1967 export value. An increase of 2.5% p.a., that foreseen for marketing within the Coffee Agreement, is projected.

Tin: A price drop of 20%, 1967-75, is assumed. Production in 1975 of 18.4-20 million MT is assumed vs. 25 in the IBRD report. The effect of a world surplus is assumed to largely offset increased production, due to occur mainly in 1972.

Tobacco: Price drop of 10%, 1967-75 expected to offset any increase in production.

Table C-5. Estimated Exports, 1967-73
(millions of dollars)

	1967	1968	1969	1970	1971	1972	1973
Gross Oil Exports	244	303	374	434	464	515	572
Less Oil Imports & Services	-175	-207	-244	-274	-289	-323	-361
Net Oil Earnings	69	96	130	160	175	192	211
Rubber	205	210	215	215	218	221	224
Tin Ore	32	33	34	36	37	39	40
Coffee	63	65	66	68	69	71	72
Palm Oil	29	20	22	24	26	28	30
Tobacco	30	30	30	30	30	30	30
Copra	21	45	34	35	36	37	38
Tea	16	24	24	24	24	25	25
Lumber (gross)	10	11	13	20	30	45	60
Bauxite	5	5	5	6	6	6	6
Nickel Ore	2	2	3	3	3	3	3
Fisheries (gross)	0	0	5	20	20	20	20
Other Commodities	99	101	103	105	107	110	113
Unaccounted	14	14	14	44	14	14	14
Total Non-Oil	526	560	568	600	620	649	675
Total, Incl. Gross Oil	770	863	942	1034	1084	1164	1247
Net Earnings (see note)	595	656	692	739	767	802	837

Palm Oil: Exports are down sharply in 1968 due to price decline. Production is estimated to increase about 50% during 1967-75, but export value by only 20% (over the 1967 value) due to lower prices.

Copra: The large 1968 increase is due to the temporary replacement of Philippine exports. A trend line of about $1 million p.a. increase from a 1966 base figure of $31 million is expected to be resumed in 1969.

Tea: Very slight increase, if any, foreseen beyond current higher earnings.

Lumber: The commencement of foreign company exploitation is expected to result in a very rapid increase in gross earnings in 1970-73. 1975 exports are estimated at $80 million, of which only 30-40% would represent net foreign exchange earnings from concessions.

Bauxite: Present exports of $4.5 million p.a. are expected to increase to $6.4 million p.a. by 1970 due to a change in Japanese delivery contract.

Nickel Ore: Production and export are expected to increase about 10% p.a. over the 1968 export value of about $2.4 million.

Fisheries: Estimates are rather arbitrary, based on the assumption that four foreign concessions will be in full operation by 1970. Net earnings for Indonesia are likely to be only 30%.

Net Earnings: If only 30% of projected increases in Lumber and Fisheries exports are considered net foreign exchange earnings (royalties and local expenses) then the gross increases projected for non-oil exports, 1969-73, are reduced by about $6, 21, 28, 39, and 49 million. Oil earnings are included on a net basis.

Rice Exports are not included in the export table, although the rice production/consumption projections used for imports indicate an export availability of 140,000 MT, included as an export earning in the PM Summary B/P table in 1973, equal to $21 million at $150 per ton. The successful production of "artificial rice" from local products or imported wheat could accelerate the shift from rice imports to potential exports. For example, it is estimated that the use of 400,000 MT of flour for artificial rice in 1971 could eliminate the need for 170,000 MT of rice imports and generate a rice export availability of 190,000 MT in that year.

B. Imports. The only category data available has been on a simple consumption-materials-capital goods basis through 1966. This data includes very large "all other" magnitudes and some changes in category totals appear inconsistent with known commodity detail in recent years. Therefore effort has been concentrated on preparing the projections below (on an f.o.b. basis) for investment imports and a few key commodities. The division between "Other Materials" and "Other Consumption Goods" in particular is only illustrative of the trends expected. The 1966-67 totals are from IMF document SM/68/109 of June 27, 1968, which notes that the 1966 total excludes imports financed by direct investment and by pre-July 1966 project credits.

Import Projections have been made according to the following commodity and category breakdown and cross-checked with estimated financing. Imports and financing are both based on L/C's opened and thus pre-state arrivals and economic impact. Imports are f.o.b.; aid figures include some freight but exclude TA and other non-capital aid. Some investment-type imports are financed by program aid but separate estimates are not possible.

(See Import Table on Next Page)

Investment Imports have been estimated on the basis of need, absorbtive capacity and financing, assuming stabilization success permits expansion beginning in 1969. (See Notes to Table C-1 for detail of investment assumptions and estimates.) Imports here/are on an L/C basis, whereas those in Table C-1 are on an arrival basis. Financing estimates are described in the text of the Program Memorandum.

Rice imports, currently the largest single foreign exchange expense, are forecast to disappear by 1973 on the basis of a 4% p.a. production increase and a 2.5% p.a. consumption increase. Of the large $45 million improvement estimated for 1969, $27 million is accounted for by a reduction in the stock accumulation rate from 250,000 MT in 1968 to 100,000 MT in 1969 (and 100,000 MT in 1970 and none thereafter). Exceptional wheat imports are assumed to reduce rice consumption by 240,000, 210,000 and 150,000 MT in 1968-70. The successful production of artificial rice could accelerate the shift from rice imports to potential exports, as noted in the Export section. PL 480 deliveries assume a 200,000 MT p.a. U.S. availability at $200 per ton, whereas sales (L/C's) of 250,000 MT p.a. in 1968-70 are equally likely. (CY L/C's cover April-March crop year needs.)

Wheat imports are projected at an exceptional rate in 1968-70, reflecting the aforementioned effort to reduce rice consumption and aid stability and the B/P. The 1968 PL 480 total includes $3 million of bulgur for which the L/C was opened in 1967, $13 million of bulgur and flour already agreed and an estimated $22 million in additional wheat products to be agreed. Total flour imports (L/C's) in the first half of 1968 were apparently about 200,000 MT, including about 170,000 MT non-U.S. ($15 million). An additional $3 million in Australian imports is expected. Current "normal" flour consumption is difficult to estimate but is probably at least 200,000 MT, before possible large-scale use of flour in the production of artificial rice (here not assumed). The phase-down in PL 480 wheat sales (here shown for 1970-71) obviously depends on all the factors affecting rice/wheat supply and demand.

Oil imports for 1967-68 are from the IMF B/P tables and are assumed to increase by about 7% p.a.

All Other Imports are assumed to increase by 5% p.a. in value terms, or about 3% p.a. in real terms. The latter would be slightly lower than the 4% p.a. rate forecast for GNP in real terms. A higher rate of increase in imports is expected to be prevented by restraints on import demand and by import substitution, particularly in the textiles field. The 1967 base year breakdown between "Materials" and "Consumption Goods" is necessarily somewhat arbitrary. The 1968 increase in Materials

Estimated Imports, f.o.b. & Financing
(millions of dollars)

	1967	1968	1969	1970	1971	1972	1973
Capital Goods	150	150	200	230	265	300	335
Investment Materials	30	30	40	50	55	65	75
Investment Imports	180	180	240	280	320	365	410
(Project Aid)	(69)	(40)	(85)	(110)	(135)	(160)	(185)
(Direct Inv., non-oil)	(8)	(15)	(30)	(45)	(60)	(80)	(100)
(Supplier Credits)	(2)	(20)	(20)	(20)	(20)	(20)	(20)
(Remainder)	(101)	(105)	(105)	(105)	(105)	(105)	(105)
Rice	97	112	67	53	34	2	0
(PL 480)	(20)	(40)	(40)	(40)	(34)	(0)	(0)
(Remainder)	(77)	(72)	(27)	(13)	(0)	(2)	(0)
Wheat	18	56	53	39	25	26	27
(PL 480)	(-)	(38)	(35)	(15)	(0)	(0)	(0)
(Remainder)	(18)	(18)	(18)	(24)	(25)	(26)	(26)
Oil Products	68	73	78	84	90	96	103
Other Materials	100	135	150	160	175	190	205
Other Cons. Goods	339	277	282	293	301	310	320
Total	439	412	432	453	476	500	525
(PL 480)	(8)	(37)	(50)	(50)	(66)	(75)	(85)
(Program Aid)	(162)	(140)	(120)	(115)	(95)	(95)	(60)
(Remainder)	(269)	(235)	(262)	(288)	(315)	(330)	(380)
Total Imports	802	833	870	909	945	989	1065
Total Aid	259	295	330	330	330	330	330
PL 480	28	115	125	105	100	75	85
Program Aid	162	140	120	115	95	95	60
Project Aid	69	40	85	110	135	160	185

is estimated to be $20 million in fertilizers and insecticides, plus $15 million net in cotton, yarn and cambric imports. Total BE imports in the first half of 1968 were reportedly only 41% of full-year 1967 BE imports, with textiles (the largest single 1967 item) equal to only about one-third of full-year 1967 imports, indicating (at that rate) a possible reduction of $40-50 million for all of 1968. Higher tariffs and other import barriers, introduced during April-July, are expected to result in additional savings and to contribute to the approximate 20% decline in non-grain consumption imports estimated for 1968. The estimated effects of continued import substitution in consumer goods and of a growing demand for agricultural and industrial materials are projected beyond 1968. These trends combined with the improvement in rice, could reduce total consumption goods from over half of total imports in 1967 to less than a third by 1973.

PL 480 financing covers estimated L/C's for cotton and cotton yarn plus possible small sales of other commodities in future years.

C. Terms of Trade. The first series of Table 51 of Vol. II of the February 1968 IBRD Report presents the best recent estimates (1960-66) and has been used for the 1966 figures. Export prices are assumed to have fallen 3% in 1967 (chiefly due to rubber) and to fall about 1½% p.a. thereafter (see Export section). Import prices are estimated to increase by an average of about 2% p.a.