

PJ-AX-108

Women in Development  
Agency for International Development  
Room 3104, 11th Floor  
Washington, D.C. 20525  
(202) 632-3833

50144

INDONESIA  
Date of Acquisition \_\_\_\_\_  
Source \_\_\_\_\_

AND

U.S. ASSISTANCE

USAID/Indonesia

August 1, 1975

## TABLE OF CONTENTS

### PART I

#### INDONESIA OVERVIEW

- A. History
- B. Population and Geography
- C. Economy and Resources

### PART II

#### U.S. ECONOMIC ASSISTANCE

- A. The Multilateral Framework
- B. U.S. Economic Assistance Programs
  - 1. Redirection of AID program within FY 74 Legislation
  - 2. PL 480 Title I
  - 3. PL 480 Title II
  - 4. Development Loans - Capital Projects
  - 5. Technical Assistance Grants

#### TABLES

- I. I.G.G.I Aid Requests and Pledges
- II. U.S. Economic Assistance to Indonesia
- III. PL 480 Title I Credit Sales Agreements (1966-76)
- IV. PL 480 Title II Grant Food Aid to Indonesia (1966-76)
- V. U.S. Capital Project Development Loans (1969-75)
- VI. U.S. Grants for Technical Assistance (1967-76)
- VII. U.S. Sectoral Assistance in FY 1975

the Indonesians tried unsuccessfully to govern their country with a system of parliamentary democracy based on the Western European pattern. As parliamentary government became increasingly ineffective, President Sukarno, the charismatic father of the Indonesian Republic, gradually assumed more and more power. In the later 1950s, Sukarno dismissed the elected parliament and introduced an authoritarian system of government which he called "Guided Democracy." At the same time, he nationalized most of the foreign enterprises in the country and emerged as a spokesman of the "left-wing" developing countries whom he pictured as victims of the imperialistic "Old Established Forces." Under "Guided Democracy" the economy of Indonesia deteriorated rapidly as production and trade declined and prices soared. In the early 1960s, the Communist Party of Indonesia (PKI) grew rapidly, China and Russia became the major donors of foreign assistance to Indonesia, a campaign was inaugurated to incorporate Dutch New Guinea into the Republic, and a military "confrontation" with the neighboring states of Singapore and Malaysia was launched.

The situation changed abruptly after September 30, 1965, the date of an abortive Communist coup which led to fundamental changes in Indonesia's political life. Within eighteen months, Sukarno was removed from power, General Suharto established control of the government and rallied the country to eliminate the Communist party. What followed was a national revolt against Communism which extended to the village level. In 1967, General Suharto became "functioning" president and in 1968, he was elected president for a 5-year term.

The "New Order," composed of a moderate army leadership working in cooperation with civilian "technocrats" whose first priority was economic and social development, was introduced by Suharto. Work began on economic stabilization in 1967: measures were taken to attract Western capital, the Inter-Government Group for Indonesia was also established and treaties were included to provide special guarantees for investments in Indonesia. Measures were taken to stabilize the rampant inflation which had increased roughly 650% between 1951 and 1961.

In July, 1971, general parliamentary elections were held following the passage of the Election Law which allowed for government appointment of a certain number of seats. The results of this election showed the relative strength of the government supported party -- GOLKAR.

## PART I

### INDONESIA OVERVIEW

#### A. HISTORY

From earliest historical times the archipelago nation of Indonesia has been a strategic passage between two oceans -- the Pacific and the Indian -- and a link between two continents -- Asia and Australia. In the First Century A.D., Hindu merchants visited the islands and began a prosperous trade in exotic spices. In the 9th and 14th Centuries, respectively, Indonesia's two great empires, Shrivijaya and Majapahit, became powerful by gaining control of the international trade passing through the Straits of Malacca. Later Chinese, and then Portuguese, Dutch and English seafarers joined in the trade with the "Spice Islands." In 1619, the Dutch established their first bridgehead in Java and began the process of expanding their control throughout the different parts of the archipelago. This process was not completed until the 20th Century, although in the 17th Century the archipelago became known as The Dutch East Indies.

The Dutch governed the Indonesian archipelago for about 300 years until 1942 when the Japanese occupied Indonesia at the beginning of World War II. Under the direct rule of the Dutch, various economic activities were promulgated on Java which undermined the potential for later economic development. In the 18th Century the Dutch began to lease areas of Java to Chinese entrepreneurs for their control. Through this process, the indigenous market class was largely eliminated and its strength has not yet recovered. Then, in the 19th Century, roughly between 1830-1870, the Dutch established the cultivation system and net profit policy, which forced the peasants to produce a varying percentage of export crops. The Javanese local aristocracy was established as regents for the Dutch and given almost feudal powers. As a result, the authoritative content of Javanese society was increased, especially between the village and the political structure above it.

An independence movement had arisen in Indonesia in the early 1900s, and shortly after the Japanese surrendered the nationalists proclaimed the independence of the Indonesian Republic -- August 17, 1945. There followed four years of revolutionary struggle against the Dutch who attempted to re-establish their control over the archipelago. Finally, at the end of 1949 and under pressure from the United Nations, including that of the United States, the Dutch withdrew their military forces and recognized The Sovereignty of Indonesia except for New Guinea. In 1968 West Irian chose to become part of Indonesia. During the next seven years,

On March 23, 1973, President Suharto was re-elected to another 5-year term of office. The Government has taken a new course of action since the establishment of the Second Five Year Plan in 1974/75 -- its emphasis on employment generation, improved income distribution, and rural development. The gravity of the present social and economic situation has been further realized by the Government as a result of the riots in Bandung in 1973 against the Chinese, and in Jakarta in 1974 against Japanese economic dominance. Presidential elections will again be held in 1977.

#### B. POPULATION AND GEOGRAPHY

Indonesia consists of 735,000 square miles of land (about three times the size of Texas) and claims territorial waters almost four times the land area. From East to West the more than 3,000 islands extend over a distance of 3,200 miles. The five largest islands are Sumatra, Kalimantan (Borneo), Sulawesi (Celebes), Irian Jaya (the western half of New Guinea) and Java. There are 26 provinces, 287 districts, 3,270 sub-districts and approximately 47,000 village entities.

Indonesians now number more than 132 million. Statistics are unreliable, but the population growth rate is estimated at  $2.2 \pm 0.2\%$  annually. The majority of the population is below the age of 19. Two-thirds of all Indonesians live on the islands of Java and Bali which constitute 7% of the land area---with only 45% of this land area arable. Java is one of the most densely populated parts of the world with 1,500 people per square mile, in contrast to some of the outer islands where the population density is 2 per square mile.

Although Indonesians are primarily of Malay stock, the population includes a large number of distinct ethnic groups with their own dialects, customs and social organizations. The Javanese are the most numerous, accounting for over half of the total population. Two of the most famous cultural groups are the Hindu Balinese and the matriarchal Minangkabau of West Sumatra. The Chinese, who originally came to the islands as traders and later as laborers for the Dutch, number approximately three million. Like the overseas Chinese communities in other Southeast Asian countries, the Chinese community in Indonesia is economically very powerful and separated from the rest of Indonesia society by cultural differences. About 90% of the people are nominally Moslem, animistic and Hindu/Buddhist about 2%, and the remainder are Christian.

### C. ECONOMY AND RESOURCES

Crude oil production is estimated at about 500 million barrels for GOI FY 1975/76. The gross value of crude production is projected at \$6.3 billion for 1975/76. The net result of oil account earnings and the current projection for the remainder of the balance of payments is an estimated continuation of net foreign exchange reserves of \$900 million during GOI FY 1975/76. GOI tax revenues from the oil sector are estimated at \$3.0 billion---over 50% of government domestic revenue.

Agriculture is the dominant activity in the economic life of Indonesia. Including forestry and fishery, it accounts for 40% of the national income, employs 63% of the population, and accounts for about two-thirds of the country's foreign exchange earnings (excluding petroleum exports). Production of rice, the most important crop, increased rapidly in the 1968-71 period but there were setbacks in 1972 and 1973 when more than 10% of the rice consumed had to be imported. Production during 1974 and 1975 appears to have increased significantly. This plus large stocks of rice insures Indonesia of ample rice supplies this year.

A great resource for Indonesia is its forests and unutilized lands---122 million hectares---of which 45 million hectares are currently in productable forest. The Government of Indonesia has reserved some 24 million hectares for permanent forest exploitation. From 1967 through 1972, the government granted or agreed to 203 logging concessions in 19.1 million hectares of forest land to local and foreign investors in joint venture. Timber has now become the second largest source of export earnings (\$750 million in 1974). Rubber produced by estates (plantations) and by smallholders was the third largest export (\$500 million in 1974) and accounted for about one-fourth of non-oil exports.

The most important export is petroleum. Indonesia is the only major petroleum producer in Southeast Asia, and currently oil exports are the largest source of foreign exchange earnings. Net foreign exchange earnings from oil equaled \$640 million in 1973, \$2.6 billion in 1974, and are projected at about \$2.7 billion for 1975. More than 40 foreign firms are actively engaged in exploration and production under agreements signed since 1967. Copper, nickel and bauxite mining ventures are also being actively pursued. Indonesia possesses many other natural resources, but known reserves are small because geological mapping has been completed on only 5% of Indonesia's land area. Non-oil exports increased 100% in 1973/74 but have remained constant since then due to the world-wide economic slowdown.

Although the country has impressive natural wealth, the people have remained poor. Average per capita income is estimated at about \$200, one of the lowest in the world. Many complex social, historical and geographical factors contribute to this poverty, but perhaps most notable among these were the policies of the Sukarno regime which led to declining productive capacity and uncontrolled inflation.

The "New Order" inherited from the Sukarno regime an external debt of almost \$2.7 billion. In 1966 the Western creditor nations joined to form the "Paris Club" which agreed to a long-term rescheduling of both the principal and interest on the "Sukarno debt" to the members of the Club. This debt is now being repaid in annual installments over a thirty-year period from 1970 to 1999. Contractual interest accruing from 1970 will be paid in fifteen annual installments beginning in 1985. The entire arrangement is subject to renegotiation on the initiative of either Indonesia or the creditors at any time after 1980. Similar debt rescheduling agreements have also been negotiated with the Soviet Union and other Eastern European countries. The "New Order" has, of course, acquired new external debts, approximately \$3.6 billion since 1967. Most of this new borrowing has been on "soft" concessional terms for basic infrastructure and productive enterprise.

The domestic economic policies of the Suharto government included a stabilization program which effectively reduced inflation from 629% in 1966 to about 8% in 1971. Inflation rose to 25% in 1972/73, due to rice shortages at the end of the year, and equaled 47% in 1973/74 due to a variety of factors. Most important among these were rapid increases in bank credit, export earnings, and prices of imported commodities. The GOI took steps to control the inflationary problem and price increases fell to about 20% during 1974/75.

Government revenues nearly doubled during 1974/75 and are projected to increase by about 60% during 1975/76---primarily due to oil. Development expenditures more than doubled in 1974/75 and are projected to increase by about 50% in 1975/76.

PART II

U.S. ECONOMIC ASSISTANCE

A. MULTILATERAL FRAMEWORK

U.S. economic aid to Indonesia was first begun in 1943. However, it was temporarily terminated in 1965 because working relationships had become increasingly difficult under the Sukarno regime. In 1967, following the establishment of a "New Order" under Suharto, the U.S. joined with other governments and international organizations to form the Inter-Governmental Group on Indonesia--the IGGI. The aim of the Group was to extend economic assistance to the GOI for the purpose of its stabilization and rehabilitation program and subsequently for meeting the need of external financing for Indonesia's First Five-Year Plan. As a consequence of the success of the stabilization program, the U.S. and other donors have been able to shift the emphasis of assistance from stabilization to economic rehabilitation and development, during the latter part of the First Five-Year Plan and the Second Five-Year Plan.

The IGGI is composed of Indonesia and fourteen other member countries: Austria, Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, The Netherlands, New Zealand, Switzerland, United Kingdom, and the United States. The World Bank (IBRD), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) are also members of the IGGI. The IMF plays a key role in developing economic stabilization requirements; the World Bank is instrumental in identifying development needs.

The Scheduling and Preparation for IGGI Meetings

In the recent past, the Inter-Governmental Group on Indonesia (IGGI) has met twice each year in The Netherlands, around December and April. The first meeting was the occasion for a discussion of the developmental problems confronting Indonesia and for the presentation of the IBRD and IMF analysis of the current economic situation and the economic prospects and assistance needs for the coming year. Most donors made their assistance pledges at the second meeting in April. For 1975 and 1976 this procedure has been altered, however, in light of the changing development situation in Indonesia and only one meeting was held each year.

At the May, 1974, meeting the IGGI members agreed that the World Bank would undertake a comprehensive assessment of Indonesia's development program, including an evaluation of the role of oil revenues in the financing of Indonesia's Second Five-Year Plan. The members agreed not to meet in December, 1974, but to reconvene in May, 1975, after having reviewed the World Bank report. In the May, 1975, IGGI meeting the discussion centered around the conclusion of the World Bank report that recent increases of Indonesia's foreign exchange from petroleum production is modest in relation to the huge development needs of the country. Although a shorter meeting may be scheduled for November, 1975, members scheduled the next full meeting for May, 1976. Prior to that meeting the World Bank will prepare a report on the employment aspects of the Indonesian development program.

### Pledging Formulae and Levels for the IGGI Members

Through FY 1973, the U.S. pledged to provide one third of the Indonesian bilateral aid dollar request, although the basis for calculating the U.S. contributions changed somewhat over the years. There has been some difficulty in meeting pledge levels in the past few years. The Japanese have also pledged to provide one third of the request, although in recent years their pledges have actually exceeded those of the U.S. Other countries and multilateral organizations do not base their pledges on formulae, but have tended to increase their pledges each year.

For 1975/76 the total IGGI pledge is a substantial amount, about \$900 million. The terms of assistance are somewhat less concessional than those pledged in 1974/75.

In May, 1975, the U.S. had difficulty in establishing a consensus on the level and terms of U.S. Government assistance to Indonesia. The 1975/76 pledge of \$61 million (including \$11 million in technical assistance) was a drastic reduction from the 1974/75 pledge of \$176 million. This reduction in part reflected the strong sentiment in the U.S. against providing assistance to oil exporting countries, including Indonesia. On the other hand, with the exception of PL-480 Title I, the U.S. did not harden its assistance terms in the 1975/76 pledge, as did several other members of the IGGI. The IBRD Basic Economic Report prepared for the May, 1975, IGGI meeting recommended that roughly three fourths of the foreign aid funds to Indonesia provided from 1975-1980 should be provided on a concessional or semi-concessional basis.

### Assistance Programs Within the Multilateral Framework

As of the end of CY 1973, the IBRD/IDA/IFC and the Asian Development Bank (ADB) had committed about \$600 million for capital assistance loans for basic infrastructure, agriculture, and industry projects. The ADB also provides grant funds for studies and advisory services. The UNDP and UN specialized agencies have technical assistance and grant programs in virtually every sector of the economy and it is the UN rather than the bilateral donors which provides planning assistance at the Ministry level. The UNDP undertook to plan for Five Year Country Programming in coordination with the GOI Second Five-Year Plan. In 1973, the UN technical assistance program amounted to approximately \$30 million. Their in-country staff of advisors and technicians is expected to reach nearly 300, excluding a resident staff of about 17 maintained by the World Bank and 15 by the International Monetary Fund. The latter two groups function as advisors to the Indonesian planning agency (BAPPENAS), the Central Bank, and the Ministry of Finance.

The bilateral donors function mainly at the project level. Bilateral project assistance pledges have risen steadily and reached a level of about \$900 million for IGGI year 1975/76. Annual technical assistance grants have equaled about \$35 million recently. The bilateral donors are also the source of all balance of payments (commodity import finance) and food aid. Coordination among bilateral and multilateral donors is carried out partially in this context and partially through additional consultation with the Indonesian planning agency, BAPPENAS. The latter agency is by a Harvard Development Advisory Group under a Ford Foundation financed contract. BAPPENAS, together with the IBRD and its advisors, draws up information concerning capital and technical assistance projects for which donor financing will be requested. In a series of meetings involving BAPPENAS, the appropriate Indonesian Ministries or agencies and the donors, general agreement is reached regarding priorities and donor interest and competence in particular areas. Day-to-day discussion and coordination then takes place at the working level. IGGI pledges and commitments are summarized in Tables I and II.

#### B. U.S. ECONOMIC ASSISTANCE PROGRAM

The objective of U.S. economic aid to help is to help Indonesia, within the multilateral framework outlined above, to preserve economic stability and to develop a sound base for economic growth. In the past, the assistance provided by the United States Government, within the framework of the IGGI has consisted of Program (Commodity) loans, Project loans, and agricultural commodities under PL 480 Title I. In addition, outside the IGGI framework, the U.S. provided grant financing for technical assistance and for agricultural commodities under PL 480 Title II. Since 1974, Program (Commodity) loans, have been phased out, and in 1975/76 technical assistance grant financing of \$11 million was included in the IGGI pledge. Total U.S. economic assistance to Indonesia since FY 1966 is shown on Table III.

##### 1. Redirection of the AID Program along lines required by FY 1974 Foreign Assistance Legislation

AID's legislation for FY 1974, in a major departure from previous years, specifically directs U.S. assistance efforts toward improving the quality of life of the poorest people in the developing countries through new programs in the functional sectors of agriculture and rural development, health and population, and education and manpower training. For the AID program in Indonesia, which has been primarily focused on the problems of stabilization and rehabilitation of infrastructure, this means a very sharp change in direction.

AID's concern with those who have not benefited from Indonesia's development gains comes at a time when Indonesia's own perception of development objectives is changing toward much greater emphasis on employment generation, equity, and regional distribution. President Suharto has stated explicitly that the Government will attempt to manage development during the Second Plan Period so as to effect a wider sharing of the gains of growth. Moreover, the civil disturbances in Jakarta in January, 1974, were a further warning signal of substantial social and economic discontent and it can be expected that the Government will press forward with efforts to effect a more socially just distribution of income in Indonesia.

U.S. aid to Indonesia has undergone a major transition---program lending has been discontinued (primarily because Indonesia's case for foreign exchange financing is a weak one) and a number of new initiatives which were designed to more directly meet the needs of the poor majority have been authorized while a number of others are on the drawing boards. These include projects in malaria control, rural water supply and sanitation, small scale irrigation (primarily in the outer islands), an integrated development scheme on Sulawesi, the improvement of provincial planning, the improvement of rural roads in Aceh province at the northern tip of Sumatra, the possible expansion of an ongoing activity in higher agricultural education, and a rural public works program called the Padat Karya program which was previously supported on a food-for-work basis under PL 480 Title II and is now funded under the Rural Works Loan.

## 2. PL 480 TITLE I

Agricultural commodities have been provided by the U.S. on 40-year concessional lending terms authorized under Title I of the "Agricultural Trade Development and Assistance Act of 1954," as amended (Public Law 480). The sale of these commodities by the GOI has generated revenue for the Indonesian development budget. Title I commodities are primarily rice, cotton/yarn and wheat/flour. See Table IV for details of these sales agreements. Due to shortages in PL 480 commodities in FY 74, there was a major shortfall in PL 480 from the planned target. The FY 75 PL 480 program consisted of \$40.9 million for raw cotton.

### 3. PL 480 TITLE II

Under Title II of PL 480, U.S. agricultural commodities such as bulgur and dried milk are donated to Indonesia to assist in several relief and development activities. Voluntary agencies, including Catholic Relief Services, Church World Service and CARE, receive Title II support for a wide variety of programs which range from food-for-work to mother-child feeding programs. Title II commodity grants are also being made to U.N. World Food Program projects in Indonesia. The National Food-for-Work Program, funded previously under Title II, has been converted into the Rural Works Loan.

### 4. Development Loans - Capital Projects

As a result of the success in economic stabilization programs and successful large-scale infrastructural development and rehabilitation projects, new priorities as established by the GOI in AID New Directions (beginning in FY 1974), as well as other donors, are refocusing on the social and rural development sectors.

A list of the U.S. loans to Indonesia from 1969 through 1976 is given in Table VI. The following describes the status of ongoing and new loans during the current implementation period:

#### (a) Gresik Cement Plant Expansion (ongoing)

Indonesia's reserves of limestone and clay are large, yet substantial imports of cement are presently required to supplement limited domestic production and meet market demand which is expanding rapidly. The major Indonesian source for cement has been the Gresik Cement Plant in Surabaya, which was completed in 1958 under Export-Import Bank financing. An AID development loan made in FY 1969 amounting to \$5.8 million has financed the expansion of the plant's annual capacity from 375,000 to 500,000 metric tons of cement. When construction was completed in 1972 this represented a 20% increase in Indonesia's production of cement and a saving of about \$2 million annually in foreign exchange. The Morrison Knudsen International Construction Company was awarded a turnkey contract for the project.

#### (b) Pusri Fertilizer Plant Expansion (ongoing)

The U.S. has joined Japan (OECD), the IBRD and the ADB in providing total loans of \$80 million to increase the capacity of the Pusri fertilizer (urea) plant in Palembang (Sumatra) from 100,000 to 480,000 metric tons a year. The U.S. contributed \$24 million, the IBRD \$33.5 million, Japan \$12.5 million, and the ADB \$10 million. The Government of Indonesia has provided an additional \$33 million in local currency. A British firm was selected as the consulting engineer for the project and the firm of M.W. Kellogg, International was selected as general contractor. Construction was completed in 1974.

(c) Central Java Power Rehabilitation and Expansion - Tuntang (ongoing)

A study of the long-range requirements for electric energy in central and western Java identified additional generation, transmission and distribution facilities needed to meet such requirements. The long-range study also recommended the introduction of United States design and construction practices as standards for Indonesian electric distribution systems. As a first step in providing the needed facilities, AID made a \$27.7 million loan to the state electric enterprise (PLN) to finance the foreign exchange costs of rehabilitating the Tuntang electric power system. Four major cities - Semarang, Yogyakarta, Solo and Magelang plus fifteen villages will have their overloaded and outdated distribution systems rehabilitated under the project. To cope with severe shortages of generation capacity until construction of the AID-financed Central Java Thermal Power Plant (Semarang) is completed (late 1977), a gas turbine driven generating unit is operating at Semarang and a diesel electric generating unit is now under final test in Yogyakarta - both of which are financed under this project loan. A U.S. contractor is providing the equipment, material and labor to do the distribution system rehabilitation work in the four cities and adjacent villages and is expected to complete that work by August, 1976. The work of converting the customers' electric service facilities is being done by PLN.

(d) Jakarta-Bogor-Ciawi (Jagorawi) Highway Design and Construction (ongoing)

The Jakarta-Bogor corridor is probably the most traveled route in Indonesia and traffic is increasing every year. An AID loan for \$800,000 was made to the Indonesian Highway Department to finance the engineering and design of a four-lane controlled-access highway on a new alignment some three to six kilometers east of the present road. Designs were completed in 1973 and construction was started in mid-1974 under a new AID loan of \$26 million. When completed in 1978, the road will handle over 30,000 vehicles per day, including several hundred cement trucks from two plants now being completed near the highway.

(e) Medan Electric Power Rehabilitation and Expansion (ongoing)

An AID loan of \$13.8 million dollars was authorized in fiscal year 1971 for the rehabilitation of the existing generating and distribution system and provision of a new generating plant. The rehabilitation program consists of unit overhaul and modification of the existing diesel power plant and complete rehabilitation of the distribution system in the city of Medan and the adjoining towns of Binjai and Belawan. The new generating plant of six diesel units will provide 24 MW of electric power for the new distribution system. Scheduled project completion date is December, 1976.

(f) Central Java Power Transmission and Distribution Rehabilitation and Expansion - Ketenger Project (ongoing)

In a manner similar to the Tuntang Project and based on the same long-range planning study, the Ketenger project will rehabilitate and expand the electric distribution system in an area west of the Tuntang project and including the major cities of Pekalongan, Tegal, Purwokerto and Cilacap. The project consists of three major components - substations, distribution rehabilitation and transmission. A U.S. contractor is furnishing equipment, material and labor for the substations and distribution contracts under AID foreign exchange financing, and for the transmission line construction under Government of Indonesia foreign exchange financing. The Ketenger 150 kv transmission line facilities will serve the four cities and will be connected also with similar facilities (built under West German credits) now going into operation which will serve to integrate the Tuntang and Semarang Thermal Power Plant projects with the Ketenger project. Construction work, now under way on all three components, is scheduled for completion in July, 1977.

(g) Central Java Thermal Power Plant- Semarang (ongoing)

An AID loan of \$19.7 million, supplemented by Government of Indonesia foreign exchange, was authorized in fiscal year 1972 to assist in the construction of a steam-electric power plant near the city of Semarang in central Java. An initial installation of two 50 megawatt units will provide the energy requirements of the central Java Tuntang and Ketenger projects for roughly ten years and provisions have been made in the design and site area for increasing the installed capacity to several hundred megawatts when the Central Java loads require it. Energy generated at Semarang Steam Power Plant will be transmitted to central and west Java by the recently completed German-financed 150 kv transmission lines, augmented by 150 kv transmission under the Ketenger project and by the AID-financed West Java projects. Completion is scheduled for late 1977.

(h) West Java Electric Power Transmission and Distribution I & II (ongoing)

In a manner similar to the Central Java power projects and based on the same long-range power study, the two AID loans totalling \$36.9 million were authorized in June, 1972 (phase I) and August, 1973 (phase II). The project provides for the engineering design and construction of a 150 KV double circuit transmission line from Jakarta, through the cities of Bogor, Bandung, Cirebon to Tegal where it will connect with the Central Java Transmission System and establish an integrated power system for Central and West Java. The loans also provide for rehabilitation of the distribution system in the cities of Bogor and Cirebon. Scheduled project completion date is July, 1979.

(1) Project Development Loan (ongoing)

A loan to the GOI in the amount of \$5 million was authorized in FY 1972 to finance feasibility studies and engineering/design work for proposed capital projects. Selection and development of capital projects is accelerated through the use of this loan. At present three projects are in final design and three others are in the master plan/feasibility study stage. All of the projects being studied and designed are expected to be constructed using financing from AID, the World Bank, Asian Development Bank, or another source. A seventh project, Preparation of a Project Plan for Jragung Dam, has advanced to the contract negotiation stage.

The implementation status of these studies is as follows:

- (1) Citanduy River Basin Master Plan and Feasibility Studies: Engineering Consultants Inc. (ECI) has completed a "Master Plan for the Basin," a feasibility study on flood control, irrigation, and drainage for the lower part of the basin, and a feasibility study for reclamation of the Segara Anakan, a brackish water bay in the lower basin. ECI is now preparing designs for the lower Citanduy Basin and conducting further studies on the Segara Anakan. USAID expects to finance part of the construction of the lower Citanduy/Ciseel River Basin Flood Control Irrigation and Drainage Project with a \$10 million loan in FY 1976. It is anticipated that the World Bank will fund construction of the Segara Anakan Reclamation Project.
- (2) Surabaya Environmental Studies: Camp Dresser and McKee officially started work on June 16, 1975. They are to prepare Master Plans for Potable Water, Drainage, and Sewerage and propose methods of handling solid wastes. They will also prepare a feasibility study for first stage expansion of the city's water system.
- (3) Semarang Environmental Studies: The joint venture of Burns-McDonnell/Trans-Asia (BM/TA) are to prepare the same reports as described above under Surabaya Environmental Studies.
- (4) Surakarta Design: BM/TA will prepare the final design of a new 24" inch potable water transmission main to supply the city and distribution system improvements.
- (5) Jragung Dam: A consultant is expected to be selected by August 15. The contract will call for further geological investigations and updating of costs and economic studies.
- (6) North Sumatra Electric Power Long Range Planning Study: A contract has been awarded to a U.S. consulting firm for \$305,000 to conduct a study of electric power requirements in the provinces of North Sumatra and Aceh and the preparation of a load and energy forecast for the next 15 years and development of plans for generation, transmission and distribution to serve these loads. Scheduled study completion date is September, 1976.

(j) West Java Interim Generation I and II (ongoing)

AID loans totalling \$13.3 million were authorized in fiscal year 1973 (Phase I) and 1974 (Phase II) for the procurement and installation of four gas turbine generators with a total capacity of 104 MW. This interim generation will provide base power for the Jakarta system to meet the projected load growth and will be used for peak loading after completion of the World Bank financed steam plant. Scheduled completion date is December, 1975.

(k) Malaria Control (ongoing)

A \$24.7 million loan for a five-year implementation project was signed in 1975. The loan helps finance an all-out malaria control program of the Ministry of Health, which is concentrated on the islands of Java, Bali and Madura, and also extends to the outer islands, particularly to the transmigration areas and sites of high priority development projects. AID inputs are largely logistical support, commodities, and training.

(l) Rural Works (ongoing)

A loan of \$6.8 million for implementation by the Ministry of Manpower. This new program will assist the GOI in converting local level food-for-work payments to cash-wage payments in small-scale labor-intensive sub-district public works projects, to the poorest and heaviest populated areas of the nation. The GOI program has been ongoing for several years using PL 480 Title II food as payment but began incorporating the cash-wage payment replacements beginning in mid-1974.

(m) Aceh Road Betterment (ongoing)

This loan, for \$10.3 million, will assist in upgrading and constructing nearly 400 kilometers of roads and bridges within the northern Sumatran high agricultural potential province of Aceh. In addition to the construction component, the loan will finance technical advisors to improve the GOI's institutional capability to administer other road betterment projects. Construction will begin in late 1975 and should be completed by the end of 1978.

(n) Luwu Agricultural Development Project (FY 75)

A loan for \$15 million will assist the GOI in executing a package of high priority, agricultural development related activities in the District of Luwu in the Province of South Sulawesi designed to increase the area's agricultural productivity, improve the well-

being of its poorer income groups and build an institutional capability to plan, direct, and evaluate integrated area development schemes. The main components of the project include: (1) betterment of the main trunk road through the district; (2) rehabilitation and extension of two irrigation systems bordering the trunk road; (3) establishment of four agro-education and agro-business centers, two of which will service the proposed irrigation schemes; (4) transmigration of approximately 3,500 families to farm the two irrigation systems; and (5) establishment of the necessary institutional and technical capability to undertake this integrated project through the support of training and foreign technical assistance and an evaluation program. Implementation will begin in FY 1976.

(o) Sederhana (Simple) Irrigation and Land Development Project (FY 75)

The project involves assistance in the upgrading and/or new construction of facilities and the carrying out of farm level implementation activities connected with 275 irrigation sub-projects included in the GOI Sederhana (Simple) Irrigation and Land Development Program, covering 110,000 hectares located in 24 of Indonesia's 26 provinces and special areas. The major characteristic which differentiates the Sederhana Program from other irrigation programs in Indonesia is the simple nature of the sub-projects to be undertaken. Sederhana sub-projects are visualized as small-scale, simple to design, simple to construct, capable of rapid execution using labor-intensive methods and relatively inexpensive. They are expected to have a quick impact in terms of rice production and improvement of the well-being of the low income segment of the rural population. The \$20 million loan will finance the foreign exchange cost of long-term and short-term consultants, overseas training and certain types of equipment. It will also finance reimbursement of a mutually agreed percentage of the predetermined cost of in-country training; survey, design and construction of sub-projects; and necessary farm level implementation activities in connection with these sub-projects.

(p) Rural Sanitation Manpower Development Project (FY 76)

The GOI seeks to extend the access of safe water in the rural areas substantially during the Second Five Year Plan from the present low level of 1% of the rural populace, thereby greatly improving overall health conditions. However, the shortage of adequately trained Department of Health employees has been identified as a key constraint to the achievement of this objective. This \$2-3 million loan will strengthen the educational system whereby Indonesia meets its manpower needs in the field of rural sanitation. The loan will provide upgrading training to all Department of Health employees currently engaged in rural sanitation activities and improve the sanitarian school system producing new rural sanitation workers.

(q) Higher Agricultural Education (FY 76)

This proposed loan will fund the second phase of a ten-year project for the development of quality programs of graduate teaching and applied research in agriculture at various universities in Indonesia. During the first 5-year phase, the two principal institutions involved, Gajah Mada University in Yogyakarta and the Bogor Institute of Agriculture (IPB), were being developed into centers of excellence which in turn assist in the strengthening of agricultural education in 24 provincial universities. Whereas the first phase concentrated on the production of top level planners, administrators, technicians and researchers at the two centers of excellence, the emphasis in the second phase will shift to the development of the provincial universities as centers of undergraduate and graduate instruction, applied research and public service, and will enable them to more directly support programs for the rural poor. U.S. assistance is provided through an Institutional Development Agreement with the Midwest Universities Consortium for International Activities (MUCIA) which includes the Universities of Illinois, Indiana, Michigan State, Minnesota and Wisconsin. It provides for the full-time services of two advisers at Gajah Mada and two at IPB, (a Director and a Deputy), technical assistance in curriculum development and seminars/research on a short-term basis, overseas training of a large number of Indonesian faculty, and some commodity assistance.

(r) Citanduy/Ciseel River Basin Flood Control, Irrigation and Drainage Project (FY 76)

This proposed \$10 million project will provide assistance in the rehabilitation and upgrading of flood control, irrigation and drainage systems in the Citanduy/Ciseel River Basin of Southern Java. The project will also include construction of a diversion of the Ciseel River and two new irrigation systems. Assistance will be provided in project management and O and M of both the flood control and major irrigation works. In addition, a substantial input will be made in the farm level implementation area. The project is expected to have a major impact on the area in terms of increased agricultural production, principally rice, and improvement of the well-being of the low income segment of the rural population.

(s) Technical Assistance, Consultants and Training (FY 76)

This loan will finance certain foreign exchange and local costs of project development activities, technical assistance and training, primarily in the sectors of agriculture (including irrigation), health, and education. As in the case of the Project Development Loan (497-N-027) this loan would finance feasibility and other studies related to project identification and development. In addition, however, loan funds could be utilized to finance technical assistance to GOI agencies in the form of consulting services to assist with planning, budgeting, institutional organization, etc. as well as training related to such assistance.

(t) Program Loan (ongoing)

Tin Dredge, Surveillance Radar and Surabaya Gas Turbine

As part of the Program Loan procurement of previous years, three purchases were made which can fall into the category of projects. A tin dredge off Banka Island is being supplied with major parts financed for \$2.13 million. The repairs will be complete and the dredge in operation in 1976. A radar system for Halim airport is already installed and operating, financed for \$1.6 million. A gas turbine is being supplied to the electric agency in Surabaya for \$2.205 million. The gas turbine will go into operation in 1975 and will drive a 25 megawatt electric generator supplied under a Belgian aid program.

5. Technical Assistance Grants

The U.S. is providing technical assistance funds for projects in sectors to which the Indonesian and U.S. governments accord high priority. These funds are used to finance advisory services of U.S. technicians, overseas education and training for selected Indonesians, and some equipment and supplies to support project activities. Specific project activities being funded in FY 76 are described below:

AGRICULTURE/RURAL-REGIONAL DEVELOPMENT

(a) Assistance to Agriculture

The Indonesian Government has assigned top priority to increasing agricultural production during the current Five-Year Development Plan. The emphasis is on increased production of food grains (principally rice) through wide-scale promotion of new technology based on the introduction of high yielding varieties, more extensive use of fertilizer, greater availability of credit and an improved marketing system. Incentives include a "floor price" for rice at a level which makes the use of the technology profitable when properly applied.

This project is designed to strengthen the administrative capability of the Ministry of Agriculture to identify policy, and to organize and implement programs to put it into effect.

In the current year, three sub-projects are planned for funding which were identified through pre-project appraisal under this project: Inland and Brackish Water Fisheries Expansion, Secondary Crops Intensification, and Kabupaten Rural Development Management. All three projects have considerable potential for benefiting smallholders.

(1) Secondary Crops Intensification (FY 76-79)

The goal of this sub-project is to increase smallholder production of major secondary food crops, such as maize, soybeans, sorghum, peanuts, cassava, and sweet potatoes. Project experience would, eventually, be used in several areas, but its initial concentration would be in kabupaten Indramayu in northwest Java. With increased production of these foodstuffs, both increased nutrition and income would accrue to the producers. These will result from the development of the appropriate technology for extension to the farmer, currently being evaluated on existing demonstration sites, and from an in-depth examining of the area's marketing system and its needs for market information. Techniques for the accelerated dissemination of technology will also be developed. AID inputs will include one agronomist, one marketing expert (both full-time), other specialized consultants, participant training, and limited commodities. The GOI will upgrade its Ministry of Agriculture Extension Service activities and accelerate its outreach program through its agency for education, training, and extension.

(2) Inland Brackish Waters Fisheries Expansion (FY 76-77)

The GOI has identified fisheries development as a priority area in its Second Five Year Plan and calls for an increased rate of fish production of 4% per year. This project will demonstrate improved fish pond construction production technology and pond management in Aceh and North Sumatra provinces, and train fisheries extension workers to provide innovative techniques and materials for the delivery of this technology. AID will provide long-term advisors, participant training and commodities, while the GOI will provide production credit for producers, training and demonstration facilities, administrative and technical staff support and local costs for U.S. advisors.

**(3) Area Development Planning and Management for Central Java (FY 76)**

The primary objective of this sub-project is to develop and introduce techniques for quickly and accurately defining the needs of the rural poor and responding to those needs through the existing governmental structure and programs. The proposed two-year sub-project is a pilot effort to apply a systems approach to the management and planning of rural development efforts at the kabupaten level. Under the project, a team of consultants will be based at a selected provincial capital and, at the direction of the governor, will be assigned to work with four or five specified kabupaten. The project should be viewed as a practical workshop for kabupaten officials where they will work through actual planning exercises, utilizing problem-solving and goal-setting techniques, under the guidance of the combined consultant team. The sub-project is expected to require \$350,000 from AID. The GOI will provide housing and vehicles for expatriate personnel.

**(b) Agriculture Research**

The purpose of this project is to develop a more effective crop research capability in Indonesia with emphasis on rice agronomy and breeding, research statistics, and multiple cropping. A contract with the International Rice Research Institute (IRRI) in the Philippines constitutes the major part of AID's share in this multi-donor effort which includes Japan, The Netherlands and the Ford Foundation.

The current AID-financed contract provides the full-time services of four specialists in plantbreeding and research for rice and other crops, plus an agricultural economist, all working with the Central Research Institute for Agriculture at Bogor, in coordination with the Indonesian National Rice Research Program under the Ministry of Agriculture. In addition, training at IRRI in the Philippines and in the U.S. and other countries is provided for staff of the institutes participating in the project.

**(c) Voluntary Agency Co-Financing**

In an effort to multiply and improve local-level development activities in Indonesia within the priority sectors of agriculture, health and education, the U.S. is contributing financial support through co-financing. Selected small-scale community development projects which are planned and implemented by several U.S.-based voluntary agencies such as CARE, Catholic Relief Services and Church World Service, are jointly co-financed by USAID, the voluntary agency and local governments/citizens committees. Twenty-three sub-projects have been approved in such fields as credit union development, nutrition, rural public works, public health, irrigation, and vocational training. By the end of FY 75 grant funding will reach \$346,000 and by the end of the project in FY 77, \$1 million is scheduled to be obligated. An evaluation and review of the project is scheduled for September, 1975.

(d) Area Development Project Planning

In the current Five Year Plan, the central government has sought to increase the participation of provincial level authorities in agricultural planning and development through the establishment of planning units in each of the governors' offices, called BAPPEDAS. This project will assist selected BAPPEDAS in designing eight development projects. The assistance will improve BAPPEDAS planning procedures and the capability of economic analysis and the projects, after implementation by the provincial governments, will improve the standard of living of the rural poor through improved agricultural production and rural employment. The assistance will include technical advisors and short-term training of provincial planners of 2-4 months in progressive planning units of other developing countries. Currently, the selection of two project planning sites is under way.

POPULATION AND HEALTH

(e) Population and Family Planning

Recognizing that unchecked population growth could negate the benefits of economic growth, the GOI initiated a family planning program in 1967. Then, in June, 1970, the President inaugurated the National Family Planning Coordinating Board and began a concerted effort to accelerate program progress. Since that time, GOI budgetary allotments for the National Family Planning Program have dramatically increased each year, reaching the equivalent of over \$12.5 million in the GOI FY 75/76. In terms of expenditures, the GOI has been the largest program financier, and AID has been the major donor with the multilateral agencies, UNFPA and the World Bank (IDA), following closely behind. The donor effort has been an international one with over twenty agencies providing assistance.

Through FY 1975, AID has obligated approximately \$25 million through its bilateral grant assistance program to the GOI population sector. About \$15-16 million of this assistance has been obligated to provide over 90 million cycles of oral contraceptives. Other commodity assistance has consisted of condoms, vehicles, and specialized medical equipment. AID has also contributed to:

- development of village and sub-village contraceptive supply centers;
- expansion of the program into the commercial sector, especially with the offering of condoms through "jamu," or traditional medicine distributors;
- assisted in the development of a cadre of health education/family planning specialists;

- stimulated the development of manpower for leadership functions in planning, administering and evaluating comprehensive MCH/FP services;
- collaborated in the development of innovative research and development activities to promote, test, and evaluate new directions in the population sector;
- sponsored long and short term training.

In order to gauge the effectiveness of the family planning program, USAID supported the 1973 fertility/mortality survey to establish base-line population measures. In addition, USAID plans to provide support to the GOI's 1976 Intercensal Survey and cooperate with the World Fertility Survey in Indonesia. These surveys will allow an evaluation of the family planning program's impact on fertility.

In addition to our bilateral contribution, AID has indirectly provided assistance of approximately \$0.8 to 1.0 million yearly to the GOI family planning program through support to local programs of such organizations as the IPPF, Pathfinder, Population Council, FPIA, AVS, Asia Foundation, and World Education, Inc. and others. These organizations have played a key role in pioneering services and offering training, IE&C, research, and population education assistance.

With these resources, the National Family Planning Program presently offers services in 3,018 clinics, 2,482 on Java and Bali and 536 on the ten outer island provinces included in the GOI program. In addition, 10,000 village contraceptive distribution centers have been established on Java and Bali to facilitate acceptor maintenance and resupply. Over 4.7 million new acceptors have been recruited into the program during the last six years. Estimated March, 1975, incidence and prevalence of contraceptive use via the GOI program appears below:

<u>Area</u>	<u>Population</u>	<u>Cumulative New Acceptors as % of Married Women Ages 15 - 44</u>	<u>Current Users as % of Married Women Ages 15 - 44</u>
Java/Bali	84.1 million	34%	18%
10 province outer island program	33.4 million	6%	4%
10 additional outer island provinces not yet included in GOI program	11.5 million	NA	NA

The average acceptor is 28 years old, has 3 living children, less than 6 years of education and is the wife of a farmer, manual laborer or fisherman. These results have been achieved at a total cost per new acceptor of approximately \$10.

Although progress has been impressive, Indonesia's population growth problem is far from being resolved. Even if the GOI goal of a 50% reduction in fertility by the year 2000 is met, projections show that by the year 2000 Java/Bali alone will have to support a population of 134 million. Clearly, more time, attention and resources must be devoted to encouraging participation in the program and sustained contraceptive use. At the same time, more concerned efforts and greater resources are needed to reach the 50 million high fertility population in the outer islands.

(f) Health Research and Development

This three-year project was initiated in FY 75 to provide direct local currency cost, participant training and short-term technical advisory assistance to the Department of Health's Health Research Institute for the implementation of a variety of rurally-oriented health service projects, and the institutional development of the Health Research Institute.

This project is important for the development of the Department of Health to effectively utilize its increased budgetary resources for the development of the country's low-cost health delivery system. The activities and resultant information from this project should provide reliable health system benchmark measures, estimates of the impact of rural health programs, alternative modalities for health delivery systems, new insights into variables affecting the health of the rural population, and the selection of areas for possible future project development.

For the implementation of this project a series of seven-ten sub-projects is being funded each fiscal year. To date four have been funded and initiated.

## EDUCATION AND MANPOWER RESOURCES DEVELOPMENT

### (g) General Participant Training

One of the most important constraints on Indonesia's economic and social development is its scarcity of skilled technicians. This project, which offers selected Indonesians an opportunity to acquire skills, knowledge and experience, therefore, is of great importance. The focus is on high priority yields where there is a critical need for trained manpower. Since July, 1966, 1,938 Indonesians have been sent to the U.S. or to other (non-IGGI) countries for education or training under this project. During this period, USAID participant funding under this project totalled over \$8 million. An FY 76 USAID obligation of about \$955,000 is programmed for the project.

The GOI has increased its cost sharing for this project as well as for all participant training by assuming their international travel costs beginning April 1, 1975. In addition to the travel costs, the GOI maintains the participants' basic salary and all pre-departure costs such as domestic travel, medicals and passports.

AID and its predecessor agencies have supported overseas education and training for nearly 6,000 returned participants since 1951. Many of these returned participants are staffing important Indonesian institutions and departments.

### (h) Educational Finance (FY 75)

This project, designed to serve in the preparation of the Third Five Year Plan, will provide assistance to the Ministry of Education for the development of criteria to realistically and properly allocate budgetary resources to provinces and district educational programs. This will be accomplished through an improved data collection and reporting system on the existing allocation of public and private resources at all levels of the national education and training systems, and on the identity and needs of those who receive education in the schools. A series of studies will be undertaken at two pilot demonstration areas (W. Sumatra and C. Java) to develop methods of financial distribution and analyze the effects of various factors on resource allocation. Primary focus will be placed on an assessment of the effects of private school fees on the population's access to education and on methods to improve the assessability of education and the mobilization of local community and national resources into educational programs.

(i) Nonformal Education (FY 75)

This project will increase the capability of the Office of Educational and Cultural Research and Development and associate institutions to perform nonformal education research and development activities. Two pilot sites in South Sulawesi and Java will be developed for the establishment of community-resource based nonformal educational learning centers, which will emphasize functional literacy in a variety of programs, especially targeted for the rural, out-of-school poor between the ages of 10 and 24. The community learning system will be coordinated at the kabupaten level and functional at the village level. USAID funds will be expended on short-term advisor management specialists and research specialists, participant training, and a one-year resident advisor.

SELECTED DEVELOPMENT PROBLEMS

(j) Narcotics Control

The purpose of this limited assistance project begun in FY 74 is to assist the GOI through the National Narcotics Coordinating Board (BAKOLAK) in establishing, developing and implementing the national drug abuse program. It primarily provides inter-disciplinary training, short-term consultants and advisory assistance, and limited commodity support to Indonesian medical, social, education, and enforcement agencies. Project activity centers include Jakarta, Bandung, Surabaya, Yogyakarta and Medan.

(k) Project Development Activities

Special funding is provided for selected surveys, feasibility studies, specialized consultancies, and project identification activities in the three priority sectors of Food Production-Nutrition-Rural Development, Population-Health, and Education-Human Resource Development. These activities provide the base foundations for the planning of future developmental projects and programs in Indonesia.