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# Country Development Strategy Statement

**FY 1985**



## Indonesia

January 1983

Agency for International Development  
Washington, D.C. 20523

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Productivity and Participation -  
Keys to Growth in Indonesia

Country Development  
Strategy Statement  
for FY 85

January, 1983

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## EXECUTIVE SUMMARY

### Introduction

The CDSS proposes a program of AID assistance to Indonesia for the remainder of the decade. It begins with a review of the political framework, examines recent development trends and current conditions, and concludes with a proposed Mission strategy that outlines priorities, objectives, plans and time-frames.

### Analysis

Since the New Order Government came to power, Indonesia has made substantial progress. A strong central government emerged that was capable of exercising authority over a large nation with substantial ethnic and cultural diversity. National education, communications and transportation systems, and a family planning program were established. Efforts were undertaken to increase rice production. The management of the economy was improved -- inflation was brought under control, foreign debt was kept at reasonable levels, oil exports were expanded.

The evidence of progress during the 1970s is substantial: per capita income increased to \$520; rice production doubled while harvested areas increased only slightly, and yields (3.4 tons per hectare) are now among the highest in ASEAN countries; the birth rate dropped from 45 to 33 per 1000 and approximately 40% of eligible couples now practice contraception; access to primary schools widened and 90% of children now enter school compared to 78% in 1970; steps were initiated to place more responsibility and resources with local government and village organizations.

Despite this progress, difficult problems persist and resource constraints are likely to retard Indonesia's progress towards middle-income status, at least for the next few years. Per capita income is well below levels in other ASEAN countries; unskilled labor wage rates in Java are low, around \$1.00 per day; mortality rates are still the highest in the ASEAN region; rates of unemployment and underemployment are high and growing and productivity is low; manufacturing as a percentage of GDP is the smallest in the ASEAN region, only half that of India; the percentage of young people in secondary schools and universities and the number of doctors per 100,000 people is the lowest in the ASEAN countries and lower than in India. Even though the family planning program has been effective, population pressures remain significant and are pushing rural people into ecologically fragile upland areas or off the land altogether. At present rates, Indonesia's population will reach 194 to 200 million by the end of the century. Availability of experienced and trained management and technical manpower is extremely limited. It is estimated that only 5% of the civil service has completed four years of university education. These figures are averages and conceal large regional variations.

These conditions reflect several problems: weak institutional capacity; continuing population pressures; policies which have historically favored public sector enterprise; a regulatory system that constrains private sector development; problems of management; and possibly the extensiveness of central control which has limited opportunities for wider public participation.

In the past, oil revenues provided the financial flexibility to undertake development programs. The world recession and a reduction in the growth of oil revenues, which account for 70% of the government's budget, have sharply curtailed growth and budgets. Large balance of payment deficits and a decline in reserves of about 40% are expected by the end of FY 82/83. The government is aware of these problems and a number of measures are being introduced to deal with them.

The conclusions of the analysis are that 1) Indonesia in several respects is still a low-income country, and that it does not yet have the necessary institutional capacity and policy framework for sustained development; 2) because of the downturn in the economy, the transition to middle-income LDC status will not be quick or easy; 3) rural poverty is shifting and off-farm employment has become crucial; 4) Indonesian institutions in general are fragile; 5) the country is not yet self-sufficient in food grains, further advances in yields will be increasingly difficult to achieve, and, if rice production stagnates or secondary crops fail to expand rapidly, the recent dynamic growth of the rural economy will be threatened; and 6) although there are historical and political reasons for a centrally controlled political and economic system, this approach has had costs including insufficient responsiveness to local needs and conditions, and limited local participation.

The Mission believes that Indonesia will face four main challenges during the 1980's: creating productive employment; maintaining the momentum of social development programs; establishing more open and flexible decision-making and implementation processes; and mobilizing more local resources and managing them more productively.

### Strategy

In view of the complexity of Indonesia's development problems and present economic uncertainty, the Mission proposes a longer-term assistance perspective, 15 years, with roughly three phases: helping establish basic development institutions and policies, a transition involving completing work on basic institutions while increasing support for efforts that aim at problems more characteristic of low middle income status, and a middle-income status phase. The current CDSS represents a later part of the first phase.

During the CDSS period, the Mission proposes to focus on the following:

1. Increasing off-farm employment. This is an area which is complex and relatively new for the Mission, particularly widening opportunities in the private sector. The Mission's objectives will be largely exploratory during the early part of the CDSS. These will include studies of constraints to enterprise development, and support for generally experimental projects related to financial institutions, management training, investment information, and non-oil export quality control. If initial interventions are effective, this program area will become top priority for the decade.

2. Strengthening food production and resource management. The major goal is to bring to a successful conclusion past efforts to increase rice production to levels of self-sufficiency, and to encourage the development of secondary food crops. Priority will be given to the following objectives a) completing the development of the agricultural research networks; b) developing a broader based and better coordinated agricultural planning system; and c) strengthening water resource management, including the development of farming systems in upland watershed areas. It is anticipated that USAID support will decline towards the end of the decade, except for water resource management.

3. Improving primary health care and completing the institutionalization of family planning. Major goals are twofold a) assist in reducing morbidity and mortality for infants, children under five, and women of reproductive age; and b) assist the government achieve its national goal of lowering the crude birth rate from 32 to 22 by the end of the decade. Within health, priority will be given to 1) helping design cost effective systems to reduce diarrheal disease and related, morbidity and mortality, and to immunize children against selected diseases; 2) improving health care management; and 3) completing an evaluation of a USAID-supported integrated family planning/nutrition program, and improving data on nutrition and nutrition interventions generally. In contrast to the past, AID's objectives in family planning will be 1) helping establish effective approaches to urban family planning; 2) developing closer ties between health and family planning programs; and 3) assisting in overcoming specific problems in selected densely populated provinces. Major USAID support for family planning should come to an end late in the 1980s, while activities in health will probably extend into the 1990s.

4. Accelerating Human Resource Development. The Mission's major goal is to strengthen education and training that provides the manpower needed to address problems and constraints in the Mission's other program areas. Objectives will be to a) assist the Ministry of Education build capacity for planning and policy formulation for the national education and training system; b) help develop selected

higher education and training institutions which can provide skills related to the Mission's other program areas; and c) provide graduate level and short-term training in the U.S. for managers and technicians involved in development activities.

By focusing on these four areas, the Mission will be leaving behind a number of program areas that characterized USAID's efforts in the past. These include road-building, major irrigation works, large integrated area development programs, rural electrification and energy. While these continue to be important problem areas, they are increasingly addressed by other donors, such as the World Bank and the ADB. In each of the four areas, the CDSS specifically notes other program areas that the Mission will in general not be supporting.

To address the four program areas, several common approaches and themes are discussed. First, common to all will be an emphasis on institutional development. While attention will be given to national centers, a major focus will be on efforts to increase devolution of authority and responsibility to lower levels of government and to private organizations. Second, the Mission plans to strengthen and extend policy analysis through discussions with government, support for research, and demonstration projects in each of the main areas of the Mission's work. Third, transfer of science and technology will be closely linked to training and the establishment of institutions. A fourth common approach will be to support modest efforts to expand opportunities in the private sector with a view to expanding off-farm employment. While important to the Mission's strategy, the CDSS notes a number of constraints in this area and appeals for modest expectations. Finally, in all program areas the Mission will give attention to the role of women in development and ways in which specific projects can enhance that role.

The final section of the paper deals with resource levels and shifts in the portfolio that reflect priorities outlined in the CDSS. It concludes that the funding and staff resources required for this program can be accommodated within the planning levels set by Washington.

Productivity and Participation -  
Keys to Growth in Indonesia

I. Introduction

The draft CDSS represents the culmination of extensive reviews and discussions within the Mission and Embassy, and with government, university and private sector counterparts. Its purpose is to provide a comprehensive perspective with priorities, objectives and general lines of action which will generally govern USAID's program in Indonesia during the mid to late 1980's and possibly beyond. The paper begins with a brief review of the political and ideological framework within which development takes place in Indonesia, then turns to an analysis of macroeconomic and internal social and economic conditions, and concludes with a proposal for a USAID assistance strategy. Lack of reliable data has proven to be a major constraint to the analysis. The country is large and diverse, research is limited, and the pace of social and economic change has been so rapid that even recent studies quickly lose currency. Despite this limitation, a number of common themes and perceptions have emerged that seem to support a general understanding of Indonesia's development, and the policy and program options available to the nation during the next few years.

II. The Political Framework and State Ideology

The present government came to power in 1967 after a prolonged period of political unrest and general economic decline. Although

national independence had been achieved and a sense of nationalism established, Sukarno's rule from 1945 - 1967 was marked by regional rebellions, increased political divisions, and tensions with Indonesia's neighbors. The economy, already suffering from the disruptions of the Japanese military occupation and the revolutionary struggle, deteriorated further during Sukarno's final years. Public infrastructure facilities were neglected, government budgets were heavily in deficit, international debt was high, and annual inflation reached several hundred percent. By 1965, per capita income was estimated to have dropped below levels achieved prior to World War II.

Responding to these conditions, the New Order Government articulated three main national goals: stability, economic growth, and equity. Since then, these inter-related goals have consistently governed the formulation of the government's policies and development programs.

Concern for stability has meant first and foremost centralized control, and the establishment of a strong national government capable of exercising effective authority throughout the archipelago which includes 13,000 islands, stretching over 3,000 miles, and more than 200 varied socio-linguistic groups. (Though 49% of the population speaks Indonesian, only 12% use it at home.) The military plays a key role in assuring this stability and is a dominant actor in the national parliament and the civil service. In addition, there is a relatively small group of Western trained technocrats in the ministries who work with the military and the National Assembly in planning economic policies. Their interest in

a stable economic environment as a prerequisite for investment and growth has complemented the military's interest in central control and political order.

Stability and control have been further reinforced by the cultural traditions of the Javanese, who constitute approximately 60% of the total population and occupy many of the important positions within government. One aspect of Javanese culture is the emphasis on hierarchy, centralized control and order, which makes notions such as separation of powers or federalism difficult to understand and accept.

Within this framework of political stability, the government has encouraged economic growth through a variety of channels. Growth policies, in turn, have helped ensure political stability. State control of the marketing of rice and other key commodities, heavy subsidies for fuel and fertilizer, and the improvement of the transportation and communication infrastructure have all facilitated the government's ability to maintain its authority and control over a vast and diverse nation.

The achievement of stability and high economic growth rates in the 1970s allowed the government to focus on equity during the Third Five Year Plan (IFY 1978/79-1983/84). During this period, large programs in agriculture, health and family planning, and education were funded in order to increase opportunities across the nation. Equity has generally been understood to mean greater access to government services and to the benefits of development, rather than social equality, and beneficiaries have generally been consumers of

government goods and services rather than active participants in planning and development.

The policies and programs of the present government reflect a general political ideology known as Pancasila. This ideology as interpreted by the New Order Government excludes both communism and the establishment of an Islamic state, and assigns a paramount role to the state as the nation's unifying and guiding force. While there is an important place for both the private and cooperative sectors in the economy, the state determines and regulates the development of the country. Acceptable debate about future options for the nation, as well as specific policies determined by the government, must be consistent with this ideology.

In brief, an understandable historical concern for national stability and orderly growth has resulted in strong central government controls and regulations which continue to shape the country's development policies and programs. The record of achievements that have occurred within this political framework, as well as continuing problems, appears in the following section.

### III. Progress and Problems -- An Analysis of Present Conditions

#### A. Macroeconomics -- Financial Resources

In 1982 there was a marked downturn in the country's macroeconomic position. This followed a period of rapid progress during the late 1970s with average GDP growth rates of over 7%, highs of 9.6% in 1980 and 7.6% in 1981, and annual per capita income increases of 5%. To a large extent, oil and later gas revenues have

been the driving force behind these impressive growth rates. Gross oil revenues jumped from \$1.1 billion in 1973/74 to \$16.7 billion in 1980/81. But despite these gains, absolute per capita income remains low, around \$520 in 1982, considerably below other ASEAN nations. The World Bank estimates that the absolute number of poor people in Indonesia has remained steady at around 60 million between 1970 and 1982 as measured by a \$150 per capita income level.

The decline in the economy which began in 1981 reflects flat oil prices, reduced world demand for oil, and falling non-oil exports. The growth rate for 1982 is expected to fall to 2%, and the rate for 1983 may be even lower. Manufacturing output between 1981 and 1982 increased for processed foods, domestic products and appliances, and for building materials, but in 1983 domestic manufacturing overall is expected to fall slightly. In late 1982, manufacturing firms began to lay off workers, and there is evidence that this trend is continuing. Credit expansion has abated, consumer demand has contracted, and there are signs that the growth of imports is slowing. The domestic recession is likely to worsen since actual public expenditures, 70% dependent on oil, may decline further in absolute terms in 1983/84 and possibly again in 1984/85.

Because of sharp declines in oil and non-oil exports, even with a reduced growth rate in imports, the country's balance of payments moved into substantial deficit in FY 81/82. The current account deficit reached \$2.4 billion, and the IMF and the World Bank anticipate levels of \$6.5 - \$7.5 billion for FY 82/83. The IMF forecasts that total foreign exchange reserves may drop from \$10.6 billion at the beginning of FY 82/83 to \$6.1 billion by the end of

the fiscal year (March 30, 1983). Reserves of \$6.1 million would cover 4 months of imports.

Indonesia is financing the deficit for FY 82/83 through a fall in imports, increased syndicated borrowings, and a further drawdown of reserves. For FY 83/84, concessional commitments from donors, which now amount to about \$1.75-2 billion per year, may increase slightly. Additional financing for 1983/84 may be available from suppliers' credits, foreign investment, and the IMF.

Should Indonesia turn to more foreign borrowing, however, capacity to absorb debt will begin to diminish. Total outstanding public and publicly-guaranteed foreign debt is currently estimated between \$18 and \$19 billion. The debt service ratio as a percentage of exports may approach 25% by the end of 1982/83. Although this percentage is not high by present international standards, it does represent a significant change from Indonesia's past situation and is one factor causing policy makers to reconsider import priorities.

For FY 83/84 and beyond, the government and the World Bank agree that current balance of payment deficit levels, around 7% of GDP, cannot be sustained, and that Indonesia's dependence on the uncertainties of the oil market must be reduced for the long-run health and stability of the economy. There is increasing acceptance within government that structural adjustments are required. The Ministry of Finance is making an aggressive effort to increase revenue collection, and subsidies already have been substantially reduced. In January, 1982, fuel prices were increased by 60%, fertilizer prices grew by 50% in November, and in January, 1983, fuel prices were again raised 40%, sharply reducing budget

subsidies. Other measures currently under consideration in different parts of the GOI are import and currency controls, a formal devaluation (to acknowledge the rupiah's present depreciation at an annualized rate of about 30% in late 1982 and early 1983), credit restrictions, and increased interest rates and reserve requirements to curb capital outflows. At the same time, programs already launched to promote exports and foreign investment (including improving export quality) are receiving attention. Finally, the Ministry of Finance has announced that there will be no increase in real terms in the FY 83/84 budget.

The present situation, though clearly serious, appears manageable, at least for now. Indonesia is nearly self-sufficient in rice and fuel, and some of its imports can be curtailed without losing economic momentum. What is of more concern to government and donors is the possible impact of a substantial oil price slide. If prices fall to \$23 a barrel, or export demand shrinks from around 900,000 to 700,000 barrels a day, in theory no funds would be available for the development budget. If this were to occur, revenues would only just cover the routine budget requirements. Although the analysis is not complete, this scenario would add to unemployment (construction would decline sharply) and would produce negative GDP growth and a decline in real per capita income.

As the government has already recognized, considerable attention must be given to non-oil exports. Oil revenues may not soon regain their 1979 and 1980 levels, and it is unlikely that gas revenues will replace them. By 1990 LNG earnings are projected to reach only one-third of current oil earnings. Furthermore, by the

1990s it is anticipated that domestic energy consumption will require most of the country's oil production. The potential for non-oil exports, however, is unclear. Marine product and plywood production and export suggest a strategy of exporting semi-processed goods, but other products are not easily identified. Moreover, there are serious quality control problems which will require stronger institutional capacity to be overcome. There is little published work available to identify additional appropriate products and help formulate a non-oil export strategy. Such a strategy would require stronger institutional discipline, a firm commitment to a market economy, and some deregulation. The relaxation of regulations that this would entail might well be in conflict with broader policies aimed at maintaining economic control and national stability, as previously described.

To conclude, if present oil prices and production levels are maintained, the following appears likely for the next few years: a modest budget decline in real terms; near stagnation in per capita income; increasing debt service; and some degree of government policy adjustment and institutional change -- improved taxation, increased interest rates and tighter credit, possibly import and exchange controls, increased attention to efficiency and non-oil exports, and possibly a continuing decline in the value of the rupiah. If oil prices or sales drop sharply, it can be expected that there will be serious declines in income and employment, possibly a substantial devaluation, larger cutbacks in development expenditures, and more aggressive pursuit of some of the policy changes noted above. In brief, it appears that Indonesia's growth

will be considerably curtailed, at least for the next few years, and that development resources will decline in real terms.

B. Domestic Conditions -- Selected Development Areas

This section examines the changes that have occurred in recent years as well as current conditions in selected areas and the policy, resource, and institutional constraints to further development. The analysis underscores the importance of enhancing individual and institutional productivity in the 1980s.

1. Food Production. Indonesia is approaching self-sufficiency in rice production, following annual harvest increases averaging 6% from 1978 to 1982. Average yields are around 3.4 metric tons per hectare, a high level in Southeast Asia. Fertilizer use, which doubled in the last five years, its effective distribution, investments in irrigation and research, and favorable conditions of soil, climate and water, essentially on Java, have been major causes of rural and, indirectly, urban growth.

Although data are scarce, steady increases in rice yields and prices have undoubtedly raised farm incomes and contributed to substantial increases in effective demand for goods and services. This, in turn, has expanded off-farm employment opportunities. The dynamics of this process and its sensitivity to rice price changes is an extremely important issue for further study. Because domestic rice prices have risen to international market levels, and the government now confronts budget restrictions following the decline in oil revenues, it is unclear whether there will be continuing room for prices increases.

Government confidence about further rice production increases and self-sufficiency, however, is tempered by (1) weather, exemplified by the drought and decline in rice production in 1982 (it is expected that Indonesia will import at least 1.5 million tons of rice in 1983), (2) continuing increases in demand resulting from population growth, and (3) the vulnerability of new varieties to pests and disease because of widespread year-round cultivation (75% of the rice area in Java is planted with IR-36). Another source of concern is the impact of agricultural growth on control of rural assets such as land ownership, tenure arrangements, labor practices and credit patterns. Survey evidence suggests that while production has increased, control has progressively shifted to fewer hands.

If present trends continue between now and 1990, the demand for rice will rise from 24 to 34 million tons per year, an annual growth rate of 5% per year. In view of present high yields, it is difficult to foresee how such a high growth rate can be maintained. A recent World Bank analysis indicates that production increases will largely depend on improving agronomic practices and irrigation efficiency, as well as on new irrigation projects. Because most sites for large-scale projects have been exploited, future irrigation investments will be of a smaller scale requiring greater than usual participation by water users in all phases of system development and management.

With government attention focused mainly on rice, most other food crops have been neglected, and production has stagnated. Because of the location of poverty and limited additional lands in densely populated areas, a major challenge will be to increase crop

production in areas less favored with natural resources: the uplands of Java and the outer islands which are characterized by more fragile soils. To meet this challenge, the national agricultural research agency has identified a number of problems and priorities for future research: upland and hybrid rice, water and watershed management, rice-based farming systems and research management. Overcoming constraints to the increased production of other food crops, requiring for example suitable varieties, as well as attention to processing, storage and marketing, is likely to pose a far greater challenge than for rice.

A further constraint to food production appears to be weak planning and policy analysis needed to define more clearly agricultural development priorities and policies. Major policy decisions affecting crop prices and fertilizer subsidies are made by several agencies including the Ministries of Agriculture and Finance, the National Planning Agency, the Food Logistics Agency, and Public Works. The capability for analyzing investment options is relatively weak. At the provincial level, agricultural planning is primarily a budgeting process for allocating funds on a project-by-project basis, yet the size of the population in several provinces, the variability in soils, cropping patterns, and prices, all indicate that agricultural planning should be handled to a much larger extent by the provinces.

2. Resources and the Environment. The population of Java and Bali has trebled since 1930 and now stands at 90 million, or 720 persons per square kilometer. The population density on agricultural lands in Java and Madura is two-thirds higher than that

for similar land in Bangladesh. The government's long-standing commitment to transmigration cannot be expected to affect measurably the demographic situation, and therefore population pressures on lowlands and the upland basins will continue to grow.

With a scarcity of land on Java, the burgeoning population of farmers is forced increasingly to cultivate the steep mountain slopes. Traditional farming practices unsuited to upland conditions are causing soil erosion. On Java, it is estimated that slopes greater than 50 percent lose an average of 3.7 millimeters of soil per year. On critically degraded watersheds soil loss reaches upwards of nine millimeters per year. At these rates some areas have already been depleted, and others are threatened. Fully thirty percent of Java's land area is said to fall in this latter category. Soil depletion jeopardizes agriculture production, farm incomes and employment. Downstream sedimentation shortens the useful life of costly infrastructure, such as check dams, irrigation systems and hydroelectric facilities, and exacerbates flooding.

Uneven population distribution has resulted in widely varying pressure on forest resources resulting in wasteful exploitation in some areas and unfulfilled need in other areas. Under the transmigration program extensive areas of forest have been converted to cropland. Mismanagement of many logging concessions, intensification of slash and burn agriculture and expansion of estate crops have also contributed significantly to the reduction of forest resources. Only very limited areas of natural forest have been set aside for watershed protection, national parks, and nature reserves. It is estimated that the net loss of forest area over the

past five years has averaged 550,000 hectares per year or approximately 0.5% of the total forest area; this rate is expected to increase to 600,000 hectares annually.

The previous decade of investment in Indonesia's water resources has been primarily directed at rehabilitating the long-neglected irrigation systems built by the Dutch. Despite the success of this effort in terms of increased rice production, Indonesia is likely to confront serious problems in allocating water among competing uses. According to a UN study, by the year 2000, Java, Madura, Bali, and the dry eastern provinces will face severe water shortages. By then, these areas will be supporting more than 70% of the Indonesian population, nearly 140 million people.

Although there has certainly been progress in recent years, Indonesia does not yet have the national capacity to deal effectively with these issues at the provincial and district level. The responsibilities for allocating water, planning water use, and developing water projects are divided among several ministries, none able to provide overall perspective and control. In addition, Indonesian water laws, an amalgam of state, Islamic and customary law, are often inconsistent. Furthermore, no university in Indonesia is currently capable of training the required manpower.

Another issue of serious concern is the marine environment. Many fishermen are among the poorest Indonesians. Environmental degradation caused by poor coastal zone management and inappropriate fishing practices threatens the livelihood of these fishermen and national income generation from fishery exports, and reduces the potential of seafood as a supplement to the food supply. The

government recognizes the importance of the marine environment and has taken initial steps to strengthen its ability in this area. A national marine policy committee has been established; several universities have been selected as sites for the development of fishery, marine and coastal zone programs; and fisherman training centers have been established. While general policy is in order, lack of technical expertise is likely to hinder their efforts.

3. Employment and Wages. The Indonesian labor force is growing rapidly and is expected to increase by 2 million annually through the 1980s. During the past decade, the economy has been unable to absorb all new entrants. There is evidence that despite agriculture's notable growth, the size of the labor force employed directly by that sector may have remained constant due to increased mechanization. In general, employment opportunities for women have decreased substantially because of the shift to more modern agricultural practices. Under the most optimistic assumptions, it is doubtful that agriculture will absorb more than a fraction of new labor force entrants in the future.

Employment patterns are changing because of shifts in the structure of demand, changes in agriculture technologies, and population growth. Between 1973 and 1980 the number of farm families increased from 14 million to 17 million on Java. Those families living on less than one half hectare of rice land nearly doubled from 6.6 million to 11 million, accounting today for 43% of all farm families. Rural households working land for others increased from 3.2% in 1971 to 14.9% in 1980. More and more rural families are existing on progressively smaller farms or are being

forced out of agriculture altogether. At present, non-agriculture activities provide partial income to 45% and full income to 25% of all rural families.

While agriculture remains the primary source of employment and income, most of the increase in rural jobs must come from off-farm employment, especially on Java, as it becomes increasingly difficult and costly to intensify rice production. Modern large-scale and medium-scale industry, however, has offered little relief. In spite of large gains in output between 1970 and 1980 the size of the labor force in this modern sector remained constant, at around 900,000 workers. Given Indonesia's small manufacturing base and large internal market there appears to be a potential for smaller enterprises, provided numerous credit, skill and regulatory constraints can be overcome. Services and trade may offer other opportunities. Rural works programs have provided short-term employment but these are mainly seasonal, stop-gap measures. Creating productive and sustainable off-farm employment is one of the country's principal development problems in the 1980s.

A World Bank study states that job-creating policies and programs have generally failed to perform to expectation, and that the size of the unemployment problem has probably been underestimated. Current open urban unemployment for males may be as high as 25%.

There are large variations in wages between Java and the labor-scarce outer islands. In general, wages on Java, though possibly somewhat higher in recent years, remain low at around \$1.00 per day for agricultural and industrial labor and, in many cases,

lower. All studies suggest that women receive substantially less pay than men, and that they occupy low status jobs with low productivity and little prospect for advancement or training. Low wages in both the formal and informal sectors on Java appear to reflect not only excess supply but also traditional patron-client relationships.

While wages are generally low for unskilled labor, they are high for scarce skilled and semi-skilled labor in comparison with other ASEAN countries. This factor, in turn, may be discouraging foreign and domestic investment.

4. Industrial Development. Oil earnings enabled the government to give priority to large capital projects in the late 1970s. However, the present recession, the massive costs of these projects and their limited employment potential are encouraging the government to give greater priority to an employment strategy as part of industrial planning for the Fourth Plan.

At present, Indonesia's manufacturing sector is one of the smallest in Asia, representing only 9% of GDP, half of India's. The present small size of the manufacturing sector suggests that it will be several years before this sector will be able to employ large numbers of workers, assuming present rates of growth in manufacturing continue.

The structure of manufacturing is rapidly changing. Modern industries in areas such as textiles, soft drinks, and kitchenware are depressing traditional ones which have in the past provided substantial employment to the rural population. These traditional industries were a particularly important source of employment for

women. Several of these large industries depend on oil, and therefore have been encouraged by fuel price subsidies.

Some government officials recognize the importance of enterprise development as a means for expanding employment opportunities, but there are inconsistencies in government policies regarding private sector growth. The government provides tax incentives and has no exchange controls, but at the same time imposes difficult licensing and other regulations. Moreover, state enterprises as well as foreign firms are protected and subsidized, often at the expense of indigenous private businesses. This policy imposes important social costs on the economy. The regulations protecting Krakatau Steel, for example, force downstream fabricating firms to pay a high cost.

Senior government planning officials acknowledge that there should be a shift in emphasis from state-owned enterprises towards the private sector. A continuing constraint, however, is likely to be a general concern about the Chinese community and its domination of the private sector. While only 3% of Indonesia's population is ethnic Chinese, it is estimated that this group controls most of the country's private manufacturing and commerce. There are, however, some hopeful signs. Credit has recently become more plentiful for private firms instead of being pre-empted by state corporations; more attention is being given to finding ways to help train more managers in the private sector; and, there is more openness to discussion of policies and regulations.

5. Health and Family Planning. Despite the rapid expansion of health services in rural areas over the past decade, Indonesia

still ranks at or near the bottom of most health indicators when compared with other ASEAN countries. Infant mortality is around 95-100 per thousand live births, and there is only one doctor per 12,500 population, significantly below levels for India and other ASEAN countries. Morbidity is reported to be high, affecting productivity. Public health services reach only 20-30% of the population, and effectiveness of coverage is poor. Only 12% of the population has access to potable water, compared with more than 20% in India. Fewer than 20% of children and pregnant women are immunized against preventable diseases. Cholera, hemorrhagic dengue fever, typhoid, and diphtheria are endemic and epidemic and contribute to mortality. There is almost no malaria control other than passive case treatment in the outer islands, and malaria is showing signs of resurgence and resistance to DDT in Java where it was brought under control in the mid-1970s.

Although malnutrition is thought to be widespread in some provinces, its national extent in the 1980s has not been surveyed. It appears to be largely a problem of distribution, reflecting poverty and deleterious food consumption beliefs and practices coupled with chronic and repeated acute infectious diseases. These problems are compounded by an increasing dependence on a single major staple food, rice, which now supplies 72% of staple calorie intake, up from 68% in 1970-75. The Indonesian government's nutrition commitment primarily focuses on a National Family Nutrition Improvement Program for the delivery of nutrition services at the village level through use of locally trained women. The program has already been implemented in over 23,000 villages. Data

on Vitamin A blindness and xerophthalmia are clearer than those for malnutrition and suggest that up to 50% of children under age five suffer biochemical Vitamin A deficiency at some time and that 43,000 children develop corneal disease each year.

Indonesia has one of the most effective family planning programs in the developing world. Population growth rates declined from 2.7% in 1970 to about 1.9% in 1982, and government plans call for a reduction to 1.3% by 1990. The national average for contraceptive use is 40%, with a high of more than 65% in East Java. In contrast, urban rates are lower, around 30%. Despite overall success, the total size of the population, now 153 million, is expected to reach 194 to 200 million by the year 2000. To continue declines in fertility the government is planning to strengthen the urban program and improve services in those densely populated areas that are lagging. The government's target is a crude birth rate of 22 per 1,000 by 1990.

Though there has been progress, the Ministry of Health is still relatively weak. Institutions and programs are poorly staffed and productivity is low. Poor performance may be one of the reasons why health until recently received a relatively low budget priority, at less than 2%. There have been advances, such as establishing training institutions, but output is far below requirements. By the year 2,000, it is estimated that an additional 24,000 doctors and 157,000 nurses will be needed compared with 12,000 and 17,000 currently in place. A recent study finds that only 13% of the country's professional staff time is devoted to patient contact. There is no national program for diarrheal disease and oral

rehydration, and a childhood immunization program has only recently begun.

To strengthen health care, the Ministry is projecting by the year 2000 a full-time staff of well over half a million, and an equal number of volunteers who will require support and supervision -- a five-fold increase in less than 20 years. This will require new sources of finance and improved management including increased decentralization.

6. Education and Training. The scarcity of technicians, managers and teachers at the end of the Dutch period is well-documented. Since independence, Indonesia has created a nation-wide educational system. In 1970 68% of children entered primary school, compared with about 90% today. Approximately 30% of the age group are in secondary schools and 3.7% in universities, compared with only 15% and 2% in 1970. These ratios, however, are still disappointing when compared with those for other ASEAN countries and India. Scientific and technical manpower is scarce. It is estimated that there are only 35,000 engineers in the country, or 23 per 100,000 people, probably half the current ratio in India. In 1982/83, education received the single largest allocation in the development budget, indicating government's concern for this sector. Despite these achievements, the gap between supply and demand for skilled workers may be wider now than at independence. In the industrial work force, only 12% have more than a primary school education; fewer than 5% of the civil service have completed a four-year university education; and only 15% of state university faculty have graduate degrees. While there has been progress in

expanding educational opportunities, there are quality problems at all levels, reflecting inadequate numbers of trained staff, insufficient materials and weak incentives for teaching and research. At present 40 to 50% of the children who enter school drop out before grade 6, suggesting that school productivity is low. At the same time there are increasing pressures for places in secondary schools and universities. Some enrollment figures project a four-fold increase of secondary students by 1990, which means that teachers and space will have to be provided for 15 million more students. This will be an enormous task requiring attention to several issues: mobilizing new resources, increasing education productivity, and strengthening and increasingly decentralizing education management.

7. Urbanization. Increasing numbers of poor people are moving to urban areas, creating pressure on space, public services, and jobs. Jakarta alone is expected to grow from 7 to 15 million people in the next 20 years. By the year 2000, about 35% of the total population (more than double the present number) will be urban. The majority of these urban dwellers will be poor and vulnerable to any downturn in public revenues and expenditures because their primary employment will be in the informal service sector. The World Bank, UNICEF and UNDP are working with government on urban planning and development.

8. Energy. In contrast to most LDCs, Indonesia is well-off in energy resources -- oil, LNG and coal. Because of present low levels of energy consumption per capita, only slightly above

India's, and the country's small industrial base, the potential for increased consumption is large. One projection, for example, indicates that by the early 1990s Indonesia could become an oil importer. It is not surprising, therefore, that the government is attempting to improve the efficiency of domestic consumption, conserve oil for export, and substitute coal, gas and other alternatives. These efforts are strongly supported by the World Bank.

Surveys indicate that about 85% of energy used in rural households is derived from biomass and that, contrary to conventional wisdom, it is composed primarily of rice straw and twigs and has not contributed substantially to forest degradation.

Rural electrification is not widespread, reaching only 10% of rural households (compared with more than 20% in India) and providing less than 1% of rural industry's needs. Major constraints are policies for tariffs and productive uses, capacity to plan and manage generation and distribution systems at central and local levels, and shortage of funds.

The World Bank and ADB are concerned with these energy issues and constraints and are planning investments of about \$1.8 billion by the end of the decade. In their view, a balanced program of extending electrification (including mini-hydro systems), providing fast growing trees, and developing alternatives to kerosene, oil and wood (e.g., coal and bottled gas for industrial and household use) will help avoid the energy problems that currently beset most other countries.

C. A Further Look at Centralized Control

Although there are continuing problems such as those discussed above, development gains in the past decade have been impressive. It can be said that the emphasis on centralized control and the commitment of the government to development programs have contributed to this record. At the same time there have been costs. A number of low-productivity state enterprises were established, the private sector was tightly regulated, the participation of beneficiaries in program design and management was sometimes overlooked. Groups that were thought to represent potentially dissident points of view such as university and religious groups were controlled, and insufficient attention was probably given to Indonesia's diversity in planning development programs.

Aware of these costs, the government in the mid-1970s began to decentralize and to encourage an enlarged although limited role for the private sector. Some responsibility for development planning was transferred to provincial and sub-provincial levels. Inducements were provided for foreign investment, and credit was rapidly expanded.

While these were significant steps, there are practical constraints on government's ability to decentralize quickly and extensively. Despite the large and increasing numbers of civil servants and the expansion of the education system, skilled manpower remains scarce. The capacity to undertake planning and implementation of even relatively unsophisticated projects remains limited at lower levels of government, a limitation that is particularly acute in the outer islands. Development of quality

planning and effective implementation, therefore, requires that agencies at the central level continue to play a major role.

In addition, given the imbalance between the provinces which yield the vast majority of the government's revenues from gas, oil and timber, and the poorer ones on Java which consume the greatest share of public resources, the government necessarily places emphasis on central planning and control to ensure equitable distribution of national resources.

Another cost of centralization relates to political processes. Decentralization of authority must be distinguished from liberalization of the political process which allows for greater participation. The government's concept of the 'floating mass' restricts popular participation. Political parties are forbidden to form political organizations below the sub-district level; the population is to 'float' free from the distractions of political argument and efforts at political mobilization. One implication is that Indonesia now has a generation of young people who have relatively little experience with political activity. This is accompanied by a lack of institutional experience with the conflicting political and social pressures of a large and diverse nation.

The government inevitably will face the challenge of responding to new social forces created by development and population growth. These cannot be contained in the long-run within a framework of highly centralized authority and control of the development process. New generations of increasingly well-educated Indonesians are bound to be more vocal and organized and impose greater pressures and demands on government. Although government

has helped create a more prosperous society, the extent to which this effort has encouraged class inequalities has not been adequately studied. More widespread access to the benefits of development does not necessarily mean more social equality, and this may produce significant stress in the future.

#### IV. Conclusions -- Challenges in the 1980s

The preceding comments and analysis suggest a number of conclusions about Indonesian development. The first is that despite progress during the 1970s, Indonesia is still in several important respects a low-income country. Per capita income is the lowest in the ASEAN region. The incidence of diarrheal disease, infant mortality, primary school drop-out, access to university education, unemployment and underemployment, availability of trained manpower, industrial output, and the low productivity of institutions and labor are typical of a low-income LDC. More important is the recognition that although Indonesia has made rapid strides, it has not yet established a firm basis, including the necessary institutions and policy framework, for sustained economic development.

Second, the recent decline in oil revenues and the dangers of continued reliance on this source for the development budget suggest that the transition to middle-income LDC status will be neither quick nor easy. At present, the country's longer-range growth options are unclear. Because oil revenues are stagnating and may decline and the prospects for non-oil exports are uncertain, the high rates of growth experienced in the 1970s cannot be expected to continue during the mid-1980s.

Third, the dynamism found in the rural economy appears to have been stimulated largely by increased incomes resulting from favorable rice prices and increased yields, as well as by the circulation of oil revenues in rural areas through construction and rural works projects, increased salaries of government civil servants, and the like. This, in turn, has generated considerable off-farm employment in rural trades, services and industries. Because of the decline in oil revenues, resulting budget limitations and increased input costs, the difficulties of obtaining further substantial increases in rice yields, which are already high, and probably the limitations on raising rice prices further, rural growth and employment may enter a period of stagnation until other ways are found to increase agricultural incomes and effective demand.

Fourth, because of the remarkable progress in rice production and also because of population pressures on limited land resources, the location and character of rural poverty in Indonesia is changing. In the past the poor were thought to be located on small farms primarily devoted to rice production. However, population growth has resulted in increasingly smaller farm holdings, greater land fragmentation and growing landlessness. Millions of farm families depend increasingly on off-farm employment to supplement inadequate farm incomes, and the future will see even greater pressure to leave agriculture. Productively employing this new and growing population constitutes a major challenge for the government's development policies.

A fifth conclusion concerns the embryonic and relatively fragile nature of Indonesian institutions. Both public and private

institutions lack the capacity to deal adequately with many aspects of the nation's development. This is particularly true at provincial and sub-provincial levels. The absence of skilled manpower, particularly managerial and technical manpower, is a major constraint to development progress and is one indicator of limited institutional capacity. Low productivity and inefficiencies in both the public and private sectors are another indicator. The government recognizes these limitations and acknowledges their importance in making the transition to sustained national development.

The importance of historical, cultural and financial reasons for the establishment of a centrally controlled political and economic system is a sixth general conclusion from the preceding analysis. While experiments with devolution and decentralization are occurring and the government is attempting to strengthen the capacity of provincial and sub-provincial agencies, the domination of central government agencies remains a fact of Indonesian development.

Finally, the extraordinary diversity of the country in terms of agro-climatic zones, ethnic and religious groups, resources and levels of development is clearly important in development planning. The bulk of Indonesia's population and skilled manpower are found on the inner islands, such as Java, where natural resources are limited. The inner islands are also where the greater numbers of poor people are found and where development problems may be the most urgent. In contrast, the outer islands, which are endowed with natural resources and are sparsely populated, have little trained

manpower and enjoy limited infrastructure. This poses difficult choices for the allocation of scarce development funds and expertise.

A. Development Challenges -- Productivity and Participation

In light of the problems and conditions outlined above, it would seem desirable for the government to broaden and interpret present national goals of stability, growth and equity to include a stronger commitment to individual and institutional productivity and wider participation.

Attention to aggregate macroeconomic growth is certainly important but cannot provide the only guide for future allocations because it may overlook inefficient resource use and widespread unemployment. It seems necessary, therefore, to complement macroeconomic concerns with policies and programs that specifically strengthen individual and institutional productivity. For example, investments in health and education can increase individual productivity; improved management and technical support can increase institutional productivity; and a vigorous private sector in appropriate circumstances can enhance national productivity. At a time of resource constraint it would seem appropriate to focus on increasing the productivity of existing resources.

Closely linked to productivity is participation. While poverty analysis and attention to equity can indicate the extent to which benefits of development are shared, they do not necessarily address the question of who actually participates in generating resources, planning their use, and implementing resulting programs.

A broader concern with participation and its potential contribution to productivity will entail some significant changes in the way development problems are currently approached. For example, the present rice intensification program depends upon a single nationally determined package of modern agricultural inputs. While this program has had some success, it is now recognized that this package is not sufficiently responsive to local needs and conditions. Consequently, inputs are frequently not well utilized, and the record of credit repayment is poor. To redress this problem the government has established a more flexible program, allowing individual farmers to select the agricultural inputs and credit which are appropriate to their circumstance, thereby improving the use of these resources. Similarly, national small-scale irrigation programs, in part supported by USAID through the Sederhana II program, have not given sufficient attention to the importance of individual farmers and water users associations, with the consequence that irrigation systems are frequently not productive or properly maintained. These experiences suggest that agencies at lower levels and non-governmental bodies need to be left to develop and implement specific programs in ways which are relevant and useful to local needs and conditions.

Keeping in mind the two general themes of productivity and participation, the Mission has concluded that Indonesia will confront four major challenges during the mid-1980s:

1. Creating productive employment. Establishing the conditions that will result in 20 million new jobs over the 1980's and at the same time addressing existing unemployment and underemployment will require tremendous commitment and effort. After three decades of development experience around the world, it

is clear that there are no quick or simple solutions, and many policy and program options will need to be explored. The private sector in particular may have a major contribution to make in this regard. Although the government's view of the private sector remains somewhat ambiguous, there is a cautious willingness to encourage its development.

2. Maintaining the momentum of social development programs. The quality and productivity of existing social development programs need to be strengthened to provide a minimum living standard. This need is recognized by the government, and priority is being given to programs concerned with food production, health and family planning, and education. Such efforts help create the basis for a productive labor force able to take advantage of employment opportunities.

3. Establishing more open and flexible decision-making and implementation processes. There is a need for a flexible system allowing greater participation in decision-making and implementation processes. This would entail increased devolution of authority to provincial and sub-provincial agencies; recognition of the limitations of public intervention; and acceptance of the importance of the private sector and non-governmental agencies.

4. Mobilizing and managing domestic resources more efficiently. Meeting the first three challenges outlined above will require resources, both financial and natural. The surge in oil revenues in the 1970s may have deflected attention from the need to mobilize internal financial resources and to make careful use of natural resources. Savings and tax rates are low, and tax administration and discipline are weak. These deficiencies will need to be overcome if the country is to move away from dependence on oil revenues. Similarly, the exploitation of natural resources has often been characterized by depletion rather than conservation. The government is aware of these problems and will be addressing them during the decade.

## V. USAID Strategy

A. A Longer-Term Perspective. In view of the seriousness and complexity of the problems Indonesia now confronts -- unemployment, dependence on oil for resources, extremely limited institutional capacity, low productivity, and relatively limited participation -- it is important for USAID to view Indonesia's

development within a longer-term perspective, possibly 15 years and to plan its assistance program accordingly.

This perspective might be seen in three phases. The first involves supporting Indonesian efforts to continue the development of basic institutions and policies required for overcoming poverty, increasing productivity and sustaining growth. The second is a transition phase which involves the completion of basic institutions, with particular attention to local training capacity, and increases in support for institutions, policies and programs related to middle-income problems, for example, the rapid growth of cities and towns and the development of scientific research related to industry. A final phase would involve an orderly graduation from U.S. development assistance to a cooperative program based more on scientific exchanges, and mutual trade and investment interests. While indicators of progress toward this transition and their relative importance are difficult to determine, the Mission needs to consider criteria for determining when AID development assistance is no longer required. Criteria might include, for example, the achievement of a certain level of sustained growth that allows for adequate savings, investment and employment; lower levels of infant mortality and fertility; self-reliance in staple foods; adequate supply of trained manpower from education and training institutions; and policies that provide an attractive climate for business and trade.

In view of present conditions in Indonesia, the CDSS presented here represents a later period in the first phase with emphasis on basic institutions and policies. Assuming the economy regains

momentum, certain elements of the second phase might be pursued toward the end of the decade late in this CDSS period. These phases are, of course, tentative, and there is no reason why some efforts cannot be directed to all phases at once. At the same time, USAID's constraints -- money, staff and on-going programs that must be brought to a successful conclusion -- require the establishment of program priorities. Given these factors, the nature of constraints affecting Indonesia's development and government's plans, it is the Mission's judgment that the perspective outlined above provides some reasonable longer-range goals and a general time-frame for planning USAID's assistance program.

B. The CDSS.

The challenges described earlier have helped to shape the CDSS. Because the Mission's present project portfolio is large and diffuse relative to staff and budgets, the Mission is narrowing its focus to a manageable number of problem areas related to these challenges, and, as noted later, a smaller number of projects.

The analysis highlighted several development problems and constraints, any of which could be focal points for the Mission's CDSS in the 1980s. To choose from them, the Mission applied several criteria:

1. Whether the problem is urgent and viewed as a national priority by the government and USAID.
2. Whether the time seems right for action, that is, whether government and private sector interests are strong, and financial and institutional resources are likely to be sufficiently available to make a difference.

3. Whether overcoming problems and constraints would lead to increased productivity and participation.
4. Whether other donors are already effectively assisting the government to deal with the problem.
5. Whether USAID has something distinctive and significant to offer, recognizing USAID's strengths and weaknesses.
6. Whether problem areas are consistent with the Administration's major initiatives: institution building, policy analysis and adjustment, technology transfer, the development of a vigorous private sector, and more effective developmental use of PL 480.

C. Major Goals and Objectives

To assist Indonesia in achieving sustained growth and increased employment and income, the Mission will give top priority to institution building, particularly to strengthening management and technical skills needed to increase productivity. Special attention will be given to strengthening decentralized organizations and in a very modest way to improving opportunities for the private sector, including both commercial enterprises and PVOs. Policy analysis and demonstration projects will also be priorities.

Initially, the target group will continue to be the rural poor--small farm owners and the landless, with consideration to women's roles. However, late in the CDSS period and during the next CDSS as resources become free for other activities, the Mission anticipates a gradual shift of focus to town and urban areas which are expected to grow rapidly during the decade and which must become a location for substantial off-farm employment.

In terms of substantive problems, the Mission proposes to concentrate on four related objectives and, within each, on only a few constraints. These four areas are briefly introduced below and then strategies to address them are elaborated.

1. Expanding, productive off-farm employment. Unemployment and underemployment are critical and will probably worsen as the country's economic downturn continues. The government is deeply concerned about this problem. The capacity of the agricultural sector to absorb surplus labor is limited, and therefore opportunities for off-farm employment must increase. Such opportunities can be created through public and private programs, but the limitations on the growth of government resources, among other reasons, suggest that efforts to improve opportunities in the private sector may be more fruitful in the long-run. Because of the complexity of the problem and its newness for the Mission, USAID's contribution will be largely exploratory in the early years of the CDSS period. If initial interventions appear effective, this program area is expected to become a top priority for the Mission in the late 1980s and 1990s.

2. Increasing food production and strengthening resource management. Indonesia is not yet self-reliant in rice and in non-rice food crops. The institutional underpinnings and policies to deal with these problems are not yet firmly in place, and there are serious problems of resource management. A large part of the Mission's current program, reflecting government priority, is directed to these areas, and they will require continuing effort to be completed successfully. It is anticipated that support for most activities in this areas will be concluded by the end of the decade.

3. Improving primary health care and completing work in family planning. Further work remains to ensure an efficient and durable national program. As the size of USAID's financial commitment to family planning declines during the decade (in part because the GOI is assuming financial responsibility for major contraceptive procurement, increasingly from in-country production) USAID's funding for health is expected to increase in relative terms given the high level of infant mortality and weak primary health care system.

4. Improving human resources development. As the analysis suggests, weak institutions represent an enormous constraint to the country's development. One factor contributing to this is limited in-country training capacity and low quality education. Although education and training will receive government priority in the coming development plan, the difference between the demand for skilled manpower and the country's capacity to produce it is likely to be substantial for many years to come. Education is seen as a modernizing force, contributing both to health and nutrition and to lower fertility, to the transfer of technology, and to fostering new thinking and practices in government, business and industry. Work in this area, particularly in science and technology, will continue into the 1990s.

By focusing on these four areas, the Mission will leave behind a number of program areas that characterized its program in past

years: road building, major irrigation systems, large integrated area development programs, rural electrification and energy. These continue to be important problems, but will be addressed by other donors such as the ADB and the World Bank. The Mission's proposed focus also excludes a number of other areas: urban development, heavy industry planning, trade, mining, and communications. These are currently lower priority areas for the Mission given AID's limited resources and in some cases the involvement of other donors. Finally, the Mission is sharpening its geographic focus, concentrating primarily on poor, densely populated areas on main islands where the Mission already has project experience.

D. AID Program Strategies

1. Increasing Off-Farm Employment. The Mission's primary objective is to help develop policies and programs to create off-farm employment, increase productivity, and, albeit modestly, to reduce dependence on oil revenues as the principal force for economic growth. In general, the main aim will be to assist in expanding opportunities for the Indonesian private sector, bearing in mind difficult constraints such as the pribumi-Chinese issue. The Mission plans to focus on small and medium scale enterprise development in sectors capable of generating growth and employment opportunities, such as light manufacturing and some parts of agribusiness. A secondary objective is to work with the government and selected larger U.S. companies interested in investing in Indonesia to stimulate local enterprise development, and to leverage private funds for support programs such as training and credit.

A two-phase strategy is proposed. During an initial two to three year exploratory period the Mission will support a number of policy studies and experimental projects. During the second phase the Mission's resources will concentrate on broadening and institutionalizing those activities found to be effective. The Mission is proposing this modest approach for several reasons: USAID still has little skill and experience in this field and expectations must be kept realistic; the results of public programs throughout the world aimed at employment generation have been mixed, suggesting caution; there are relatively little data on the private sector in Indonesia, and efforts to encourage private enterprise development will need to be handled carefully in view of government regulations and concerns about Chinese and foreign control; and finally, the effects of the economic downturn on private sector regulations and the climate for private sector development are not yet clear.

The Mission proposes the following:

a. Policy studies and pilot projects. Because the dynamics of the private sector and the implications for employment generation are not well understood, and empirical data are at present scarce, the Mission will initially give emphasis to studies and pilot efforts designed to assist in identifying constraints affecting the growth of off-farm enterprise and employment. The Ministry of Finance, as well as other Ministries, has requested support in this area. The strategy is one of providing both the government and USAID with information to formulate policies and initiate broader programs. Issues to be addressed include major constraints such as

technical skills, capital, management, markets, and consumer demand. Analyses examining the impact of selected regulatory policies and ways to increase foreign investment and non-oil exports will also be undertaken. The Private Sector Development Project and the planned Development Studies Project will support policy studies, and the Central Java Enterprise Project will identify constraints to small and medium scale enterprise development and, in a possible late phase, may experiment with a private enterprise development center to reduce some of these constraints.

b. Brokering and information exchanges to encourage investment. Lack of information and support services are often cited as two reasons why Indonesia fails to attract more non-oil foreign investment. To test this assumption the Mission is funding under the Private Initiative Development Project 1) the preparation of a number of investment profiles in sectors with growth and employment potential; 2) technical assistance to streamline the work of the Investment Coordinating Board; and 3) an experiment to encourage U.S.- Indonesian consulting firms to provide market, legal and joint venture partner advice to potential U.S. investors with a view to linking them with Indonesian entrepreneurs seeking equity capital. This is a high risk endeavor but may offer substantial potential. If successful, further activity might be supported during the CDSS period.

c. Improving management training. A recent study of management training supply and demand identified serious shortages of skilled managers in both the private and public sectors. These shortages are likely to become more acute as the private sector

grows. In addition, there are problems of quality in existing management performance. These problems are reported to restrict productivity and enterprise development. In the short-run, the Mission expects to concentrate on building capacity of selected Indonesian organizations to provide management training for business people in relatively small-scale enterprises. Such training would focus on specific problems such as cash flow analysis, inventory control, and accounting. The Mission's plans are as follows: 1) discussions have begun with LPPM (a private management institute) to explore ways in which USAID might help strengthen this institute; 2) USAID and LPPM are exploring the possibility of providing management assistance and training to small enterprises through intermediaries, such as banks and suppliers, which have a financial stake in their clients; 3) the Mission is also considering working with Indonesian business groups to organize a series of short-term, in-service workshops on specific management problems.

These in-country training programs will be complemented by assistance for overseas training. In FY 83 the Mission will help the Ministry of Finance to establish a management training placement system with support from the Private Sector Development Project. The Ministry will provide loans to private sector managers for which repayment will be scheduled on a graduated scale reflecting the ability of firms to pay.

In the longer run the Mission plans to assist in the establishment of an advanced management institute, possibly similar to AIM in the Philippines, which would provide the research and teaching skills, consulting capacity, and leadership required to support a management training system.

d. Strengthening financial institutions. USAID's experience and a major World Bank review of existing credit programs suggest that inefficient intermediation and capital misallocations are constraints to enterprise development and subsequently to employment generation. A recent evaluation of USAID's experimental rural credit activity under the Provincial Development Project indicates that it is possible to overcome these constraints in ways that provide opportunities for the rural poor.

The Mission's objective will be to experiment further and institutionalize self-financing rural credit and savings schemes, building upon past experience. Credit experiments show that successful schemes are those with interest rates reflecting the cost of capital and administration, interest rates that encourage savings, a self supporting equity base, and transactions conducted at the village level. The Mission's strategy will be to 1) provide technical expertise and seed capital to develop and support demonstration projects; and 2) assist in studies of banking policy changes that would be required to encourage the growth of these institutions. The overall aim is to translate accepted principles of financial management into institutionalized lending, accounting and management information procedures. The program would assist traders (many of them women), and small and medium scale producers and manufacturers. An important element would be to strengthen institutional savings to mobilize private resources.

Concentration on non-farm credit programs will be complemented by assistance for capital market development. Indonesia's underdeveloped capital market for small and medium scale

entrepreneurs who seek equity financing stands in sharp contrast to its neighboring ASEAN countries. The World Bank and the IFC cite this problem as one reason why the country's manufacturing sector is one of the smallest in Asia. With assistance from PRE, the Mission will provide 1) technical assistance to the Ministry of Finance to review overall capital market needs; 2) financial and legal assistance to help develop selected capital market instruments; and 3) explore in FY 85 or later the possibility of support for a capital market entity, such as a venture capital firm for small and medium-scale enterprises.

e. Improving selected non-oil exports. The Mission has been requested by the Ministries of Planning and Finance to finance studies of constraints to non-oil exports and to provide assistance to overcome these constraints. Certain exports such as fish and plywood appear to have employment potential, but quality control is a major problem impeding access to export markets. In early FY 83 the Mission and the World Bank invited a USDA team to examine marine product standards and grading procedures. The next step will be to translate recommendations into a program of policy and procedural adjustments. During the CDSS period, the Mission will consider similar support for a few other labor intensive export products.

f. Industrial Estates. The last component of the Mission's strategy is to help find ways to maximize the impact of foreign investment in selected industrial areas on local business and employment. This would represent a very small part of the Mission's experimental strategy. The Mission has selected Aceh for its

initial effort in view of the sizable U.S. investment planned for an industrial area in this province. The Mission will be working with the government and a few U.S. companies on feasibility studies of the potential for downstream industries and services and the necessary support programs which might later be financed by these companies. At the same time the Mission plans to review the role of TDP in its program.

Given the exploratory nature of the Mission's strategy for off-farm employment, a review of activities will be conducted in late 1985 with a view to tightening focus and adjusting the strategy.

## 2. Strengthening Food Production and Resource Management.

The Mission's overall goal is to help increase food production and employment opportunities in agriculture. Efforts directed toward these goals have raised a number of difficult issues and problems. These include diversifying food production, the relative roles of the state, cooperative and private sectors in the distribution and marketing of agricultural inputs and products, appropriate pricing and subsidy policies, land tenure and agricultural labor practices, and the development of new production technologies appropriate to different areas of the country. In addressing these problems and issues, the Mission sees two broad constraints: (1) institutional and manpower constraints at the national level which limit capacity to carry out agricultural research, establish policies and plan for widely diverse agro-climatic zones, land use and demographic conditions; and, (2) limited capacity at local levels to design and test agricultural and natural resources management programs and systems responsive to local conditions.

With these constraints in mind, the Mission will concentrate on two objectives: first, assisting the development of selected national institutions to undertake agricultural research and to formulate policies and plans based on that research; second, supporting demonstration programs which will serve as a focus for research activity and to test technologies and organizational approaches to improve productivity and production. These activities are in line with government priorities.

a. Developing institutional capacity.

(1) Agricultural research and education. The government has placed major emphasis on rice and has successfully stimulated production. In the future it will be necessary to sustain this development and to develop a broader food base, including non-rice crops, in areas less favored with natural resources. These areas include the uplands of Java and the outer islands, characterized by fragile ecosystems. To meet this objective, the Mission will continue to support, probably until late in the decade, the development of a network of agricultural research stations. These stations are designed to develop and test diversified food crop systems and provide the empirical base for policies supportive of these different agro-climatic zones. Most of these stations have just been established with USAID support and will require further assistance to become fully effective.

The inadequate number of trained and experienced agricultural researchers and technicians remains a major constraint in developing institutional capacities. The Mission's strategy will be to 1) train senior staff in agriculture agencies in programs funded from

different projects; 2) encourage sabbatical study for senior scientists; 3) support training for administrators to improve research management; and 4) strengthen in-country training by resolving present problems with the Eastern Island Agricultural Education Project and, if this is successful, continue to support the development of agricultural faculties in the Eastern as well as Western islands.

(2) Agricultural policy and planning. Increased capacity for quality agricultural research is of little significance if it is not linked to agricultural planning and policy formulation. In the past the government's commitment to increased rice production has provided the political incentive to ensure that such linkages have been established. As the government shifts its emphasis from rice production in Java to secondary crops under widely varying agro-climatic conditions, it will be necessary to look for ways to foster these institutional ties. With this aim in mind, the Mission will help 1) strengthen the Ministry of Agriculture's capacity for planning and possibly that of other policy-making agencies (the Ministry of Public Works and the National Food Logistics Agency) whose activities directly impinge upon increased agricultural productivity; and 2) develop planning and policy formulation capacities in selected provinces. Putting in place effective planning and monitoring systems is likely to become increasingly complex as the government promotes non-rice crops, encourages foreign investment for agricultural exports, struggles with competing rights to land and water, and copes with more entrants into the labor force.

A more comprehensive approach to developing agricultural planning, and one that recognizes how planning is in fact accomplished in Indonesia, is required. This should incorporate agencies of the government responsible for land use (Home Affairs) and water resources allocation (Public Works) as well as the appropriate research and planning bodies within the Ministry of Agriculture itself. Since 1977, USAID efforts have narrowly concentrated on strengthening the Ministry of Agriculture's Bureau of Planning through training, a computer center and technical assistance. The Mission is currently assessing this program and exploring alternatives as a basis for advancing a different strategy designed to encourage a more broadly based approach.

In addition the Mission is reviewing the possibility of assisting the Ministry of Public Works and other agencies in formulating a national water resources plan, strengthening organizations concerned with water management, and developing in-country training, for example, at the environmental centers and the universities.

b. Experimental program development.

To balance USAID's nationally focused effort, the Mission plans to support field-based, decentralized programs which test technologies and social organizations to improve food production. These projects are seen as one avenue for policy change.

During the CDSS period the Mission plans to support experimental field programs in three areas of concern to the government and USAID: secondary crops development, water management in small scale irrigation, and water and soil management in selected watersheds on Java.

As previously noted secondary food crop production has stagnated. Yet these crops are important for employment, income and nutrition. The major constraints are a weak technological base, an unorganized system of marketing, and a general consumer bias in favor of rice. USAID is planning to finance in FY 1983 a four-province pilot program with research, extension, processing and market development components.

Second, the Mission plans to experiment with participatory approaches to water management at the village level to improve farm productivity and efficiency of water use. Experience with irrigation system construction and management in Indonesia without involvement of the community, including projects supported by USAID, shows that physical infrastructure is often not properly sited and maintained, water is wasted, and production gains are limited. It is possible that community organization will be one of the major constraints to increasing yields of rice beyond current levels which are already high. The Mission will support a pilot program involving water users in the design, construction and management of small-scale irrigation systems. During the first two years of the CDSS, the Mission will concentrate on a pilot project supported with funds from the Sederhana II Project. If successful, a second phase will be designed to assist the development of provincial and sub-provincial agencies which would be able to organize farmer groups and establish simple irrigation systems.

The third area of emphasis will be water and soil management and conservation, particularly on Java where watershed degradation is advanced. Although the government has committed substantial

resources (\$140 to 150 million annually) in support of its forestry-oriented greening program, it has only recently addressed the need to develop environmentally stable and profitable upland farm technology appropriate to Java's watersheds where sedentary agriculture has replaced natural forest cover. In addition to questions of technology, the complex institutional issues associated with effective management of upland agricultural and conservation programs have not yet been resolved. The Mission will collaborate with the World Bank in an initial phase to improve and expand watershed programs on Java, building partly on experience from the Citanduy II Project. There will be two major objectives in this effort: 1) further development of the empirical base (agronomic, economic and social) for the creation of farming systems technology which would be environmentally stable and profitable; and 2) establishment of the institutional structures and management systems, both at the center and in the watersheds, required to carry out such programs.

In view of the CDSS focus on food crop research, planning, and water resource management, the Mission plans to bring to a close projects in fisheries, large scale irrigation, transmigration, outer island area development programs, rural works, and land mapping. Most of these projects will be completed before the end of calendar year 1984.

3. Improving Primary Health Care and Completing Activities to Fully Institutionalize Family Planning. Following consultations with the government, the Mission's major objectives here will be to 1) assist in reducing morbidity and mortality for infants, children

under five, and women of reproductive age; and 2) assist the government in achieving its national goal of lowering the crude birth rate from 32 to 22 per 1,000 population by the end of the decade.

a. Health. The Mission will focus its resources on strengthening primary health care by 1) helping design cost-effective systems to reduce diarrheal disease morbidity and mortality, and to immunize children against selected diseases; 2) improving health program management; and 3) completing and evaluating a USAID supported Village Family Planning/Mother-Child Welfare Program based on the National Family Nutrition Improvement Program Model, and improving data and information on nutrition and nutrition interventions generally.

Programs for the reduction of mortality and morbidity from diarrheal diseases seem to have stagnated. They require review and encouragement, probably similar to USAID's involvement in immunization. It is anticipated that five to ten years of support will be required for epidemiologic investigation and reporting, field trials and evaluations of oral rehydration delivery systems, and program management and training.

The unsolved technical issues in the immunization program are few, and therefore the Mission will concentrate on system organization and management, coordination and integration with other health activities, and improving analysis and utilization of epidemiologic data. USAID will provide technical assistance and training support to develop a management system that will enable the government to manage an expanded immunization program. This system should be complete within two to three years.

To improve health system management, the Mission will continue to provide technical assistance and training to the Ministry of Health, as well as to a few provinces committed to experimenting with decentralized health planning and management. Technical assistance would focus on health manpower planning, personnel management and training. At the same time, studies will be undertaken of potential constraints to effective management and primary health care delivery, such as allocation of professional staff time, incentives, drug purchase and use, cost and finance, and the potential for cost recovery. Research support will focus on operations and applied research, as opposed to basic science research which Indonesia cannot yet sustain. Inappropriate use of data and a poor appreciation of the need for epidemiologic analysis are pervasive weaknesses in health management. USAID proposes to expand support for training in epidemiologic approaches for routine management and special purpose studies.

In view of the limited data available on the extent of malnutrition and the impact of existing interventions, the Mission will give priority to applied and program research and evaluation, the development of monitoring systems at local, provincial and central levels, and the completion and evaluation of the current family planning-nutrition experimental project supported by USAID. At the same time the Mission will provide modest support for efforts to integrate nutrition concerns in food and agricultural policy planning and in other projects, such as health and family planning. After two years or so the Mission will review research and evaluation findings to determine whether nutrition problems are

serious enough to warrant further USAID support. If so, further activity might include, for example, institution building (operations research, nutrition program management and planning) and experimenting with nutrition interventions (village production of weaning foods, micro-nutrient deficiencies, and urban nutrition programs).

The three health objectives noted above were selected because they have a direct bearing on mortality and morbidity as well as on the performance of primary health care, appear manageable given anticipated government resources, offer potential for relatively quick return, should lead to increased efficiency at a time when resources are likely to decline, build on strong parts of the Mission's present portfolio, and are relatively untouched by other donors (though UNICEF is active in nutrition).

The Mission anticipates involvement in health through the end of the decade. Approximately halfway through the CDSS period, the Mission plans to review its health activities and determine whether other problems, such as low-birth weight, respiratory disease, and malnutrition-infection problems should be addressed. These are deferred for now primarily because they require complex interventions which the government in the foreseeable future would probably be unable to manage.

The Mission is setting aside further work in sanitation, malaria control, and potable water supply. Eleven schools for sanitation technicians have been completed, the malaria program in Timor should be well along by the beginning of the CDSS period, and other donors are involved in village water supply. This strategy also excludes the development of medical schools and hospitals.

b. Family planning. The Mission is proposing that family planning receive a smaller portion of the Mission's budget in coming years and that USAID's major program assistance draw to a close by the end of the decade. This trend reflects the growing strength of the government's service program, including its ability to produce and purchase contraceptives and the interest of other donors, especially the World Bank. Local support for expansion of family planning services is now largely in place in four densely populated provinces, and in these areas contraceptive prevalence has reached levels of 50 to 65 percent of eligible couples. The government and other donors are providing funds for information, education, and communications programs.

In the past, USAID's strategy was to assist the government develop and rapidly expand the rural family planning program. In view of developments in recent years, USAID's objectives in the future will be to help to 1) establish an effective urban family planning model; 2) develop closer ties between health and family planning programs, for example, encouraging the use of family planning groups for immunization and oral rehydration; and 3) improve the rural family planning program in selected provinces which are critical to the achievement of the national fertility reduction goal and where rates of contraceptive use are relatively low. The Mission will assist in introducing new contraceptive technologies, including voluntary sterilization; strengthening the government's institutional capacity to manage, implement and evaluate family planning programs at central and provincial levels; strengthening in-country capacity for training and research; and

improving family planning program efficiency, including experiments for self-financing schemes.

Because of the importance of the family planning program for Indonesia's development, the Mission is mindful of the risks that could adversely affect the program's further development. Although political support for the program is expected to remain strong, there may be changes in the leadership of the National Family Planning Coordinating Board after the Presidential election in March 1983, and these could have an impact on program quality and expansion. Budget constraints may threaten continued extension of family planning services; for the first time, the family planning budget (1983/1984) will not increase. Should present economic problems undermine the growth and effectiveness of the program, USAID should be prepared to help on an emergency basis, possibly by deferring funding for other projects.

4. Accelerating Human Resources Development. The Mission has identified this area as a priority because of the weak level of Indonesian development institutions and inadequate in-country capacity to train people for them. The Mission's objectives are to (1) assist the Ministry of Education build capacity for planning and policy formulation for the national education and training system; (2) support selected higher education institutions which can provide skills related to the Mission's other three program areas, and (3) provide graduate-level and short-term training in the U.S. for managers and technicians who implement development activities, including in-country training programs. The Mission anticipates activities through the end of the decade.

a. Strengthening policy analysis and planning capacity. In the 1980s, education administrators at national and local levels must deal with a number of key issues that will affect the quality and quantity of Indonesian manpower: mobilizing resources for a tremendous secondary school expansion, reducing unit costs, appropriately locating new technical training institutions, redesigning regulations affecting private education, increasing school productivity by reducing the incidence of school drop-out, ensuring equal access to secondary schooling, introducing appropriate incentives to ensure that the quality of university education is sufficiently high to foster the development of science and technology. At present there are little data on many of these issues and limited capacity to study them.

Since the administrative system for education at all levels is controlled by the central government, contributions to improving planning and policy for education must focus there, at least initially. Responding to a request from the Ministry of Education, the Mission is planning over a 5 to 7 year period to 1) strengthen the Ministry's Planning and Research Agency and experiment with provincial and sub-provincial planning; 2) develop links between this Agency and units within the Ministry, other ministries, and the universities; 3) and assist in conducting policy studies. At the same time, support will be provided to encourage more university involvement in policy research given recent government policy to establish a separately budgeted research grants program for the universities. The Mission's strategy is to ensure that policy analysis takes place within the Ministry responsible for managing

education and training and also within more independent university institutions.

Initially, the focus will be in Jakarta, but later in the CDSS period USAID may support the development of provincial and sub-provincial planning. Also, at a later date it is anticipated that specific projects to strengthen education productivity will emerge from policy studies: systems to mobilize more private finance including loan schemes and resources to improve university management and efficiency.

b. Developing education and training institutions related to the Mission's program focus. Because of scientific and technological skill requirements in areas in which the Mission's program is concentrated and the weakness of existing training capacity, the Mission proposes to strengthen selected institutions in agriculture, the environment, management and health. There is a need, for example, to develop quality training institutions to produce staff for the agricultural research networks currently supported by USAID. Later in the decade when budget and staff availability permit, USAID may add other areas, including the natural sciences, communications, and advanced engineering, fields that will be important as Indonesia moves towards middle income status. During the CDSS period, however, the Mission's major objective will be to complete the development of the agricultural faculties in Sumatra and the Eastern Islands which produce graduates for the research institutes, the extension service, other departments in the Ministry and the private sector. The Eastern Islands Agricultural Education project has encountered problems, and

it is hoped that an independent review scheduled for FY 83 will lead to their resolution. Assuming performance improves, further USAID support is anticipated in the mid-1980s to complete the task. USAID also plans to assist in improving epidemiology and public health programs at selected universities. The establishment of from four to seven schools of public health is currently under consideration, and USAID anticipates recommending support for them in FY 85 for advisory services, training, and field experimentation. Finally, USAID, as noted, is reviewing the possibility of developing a management training institute, possibly along the lines of AIM in the Philippines. (Private sector management training has already been discussed, so will not be covered here.)

A second objective during the early years of the CDSS will be to complete the development of in-country capacity for training civil servants in central ministries. It is possible that this will be accomplished before the beginning of the CDSS period.

c. Accelerating participant training. Related to the training institution objectives noted above is the need to train quickly key staff for a variety of development related institutions. Indonesia cannot wait until its educational institutions develop adequate quality. With strong support from the Planning Agency, the Mission will re-introduce a general participant training program. The Mission's specific aims are to 1) provide U.S. training in selected skill areas; 2) assist the Indonesians to develop capacity for operating a national participant training program; and 3) help develop an English language program to provide short-term instruction to candidates for participant training. The

Mission's longer-run objective is to gradually shift responsibility for participant training to the Indonesians, using a contractor in an intermediate stage to help build local management capacity.

To conclude, the Mission's education and training program aims to support efforts to address problems in agriculture, off-farm employment, and health and family planning, and, at the same time, to improve the efficiency and quality of selected training institutions. The program covers selected parts of the education sector that are relevant to other Mission concerns. There are education areas for which major assistance will be discontinued. The Mission has supported experimentation with non-traditional instructional methodologies and communication technologies that give promise of improving the quality of education and its accessibility. USAID projects in these areas will be completed by the beginning of the CDSS period. Because of the importance of these new techniques in other countries, the Mission intends to monitor further developments. Support for pre-service civil service training institutions will also come to a close. Several other areas in the field of education will not be addressed: improving the quality of English language teaching in the school system, developing curriculum centers, teacher training institutes, secondary schools, and inspection and testing services. These areas are important, but other donors, such as the World Bank and ADB, are actively supporting them.

E. Common Approaches and Themes.

To work toward objectives outlined in the four program areas, USAID's strategy includes a number of common approaches and themes.

Without duplicating information presented in AID/W's policy papers and sections of this paper, major plans for each are described below.

1. Institution Building. As noted, this is top priority. Although support for national institutions will be necessary, major attention will be given to supporting efforts to increase devolution of authority and responsibility to lower levels of government and to private organizations. This is in line with the Mission's concern for participation and will take several forms. First, the Mission will support initiatives to strengthen the capacities of local government development agencies to service and be more responsive to local needs. Weaknesses in local government must be overcome in Indonesia before the national government can be expected to have the confidence to devolve greater responsibility to local government than at present, for example with regard to revenue raising authority and ability. The Local Government Training II project is assisting with the establishment of a network of training centers to upgrade the skills and capacities of district level planning and service bodies. The objective is to enable these agencies to ensure that local needs and conditions are recognized and adequately addressed and to coordinate sectoral programs more effectively. Similarly, during the final stage of the Provincial Development Program (PDP) emphasis will shift from provincial planning bodies to district planning bodies. The objective will be to encourage the articulation of development needs at the village level and the transforming of these expressions of need into project plans with local participation. USAID will provide flexible funding to support the implementation of project plans, thereby offering an opportunity

to determine what works at the village level. At the same time, USAID support for PDP aims to put in place the institutional capacity for replication. It is planned that support for this activity will end in the late 1980s.

Second, in specific sectors of Mission activity, such as health and family planning, there will be an effort to focus on relevant provincial and lower level agencies. In agricultural research and planning, for example, the Mission will continue its efforts to strengthen a regional focus and to create centers of expertise outside national agencies based in Jakarta. The family planning program will continue to be based on village women's groups.

The Mission will also encourage through its support programs the active participation of non-governmental institutions in the design and implementation of development projects. PVOs have shown themselves to be willing and able innovators. This has been particularly true in the case of a number of indigenous organizations. The Mission now works directly with these groups and through them to further stimulate community based programs. For this reason program grants to a broad range of Indonesian voluntary agencies are expected to grow. Support for U.S. PVOs will continue, but these agencies will be increasingly in competition with Indonesian PVOs for funds. U.S. PVOs that are engaged in institution building and demonstration projects will receive priority. The Mission will also use private Indonesian consulting firms, foundations and universities to help design and implement specific activities.

The development of community organization through intermediaries is another important dimension. The training and fielding of community organizers to work with water users associations, under the Sederhana Pilot Project, is aimed at helping local communities to assume responsibility for the management of local resources and assets. The Mission will need to give more attention to ways to link local government resources and support services with community organizations. This will be essential for a number of large Mission projects, such as watershed, PDP, and rural credit.

2. Policy Analysis. The Mission's goal is to 1) deepen and extend policy discussion of development issues with counterparts and senior government officials; and 2) provide modest support to Indonesian institutions to encourage policy studies and debate. The purpose is to address issues in the spirit of collegiality, relying on the professional credibility of USAID staff and outside consultants to suggest change. In light of Indonesia's present unemployment and resource problems, priority will be given to topics that relate to these areas. Specific topics selected for attention will be drawn primarily from areas in which the Mission has a program interest and therefore contacts and experience. Although macro-economic issues would not be excluded, it is the Mission's view that generally the government handles these issues with considerable ability and has access to solid expertise from the World Bank, IMF, European and U.S. financial houses, and long-time resident U.S. advisors.

The Mission anticipates addressing the following topics during the CDSS period: regulatory and market constraints to private sector growth and employment; the employment impact of industrial enclaves and agricultural mechanization policies; efficiency issues relating to the quality of school graduates, school dropout rates; pharmaceutical purchases; and water and basin resource management. Studies related to resource mobilization will stress savings institutions, capital markets and charges for public goods and services.

The Mission has 1) established a policy committee to prepare and manage a project that would provide grant funds enabling a quick response to government and private sector requests for policy studies, workshops and publications; 2) established a Mission policy to build in funds for studies into new major projects (the Private Sector Initiative Project is an example); 3) included in PID reviews identification and discussion of possible policy implications of new projects; and 4) organized periodic meetings between the Mission and senior Indonesians to review selected policy questions. For example, an informal meeting on policy issues related to watershed development is scheduled for February. The policy project, planned for approval in FY 83, will provide \$1 million in grant funds each year, and the Mission plans to extend it through the CDSS period.

3. Science and Technology: It is evident that transfer and adaptation of science and technology is an objective of virtually all Mission activity -- through technical assistance, scientific exchanges, and demonstration projects, and more indirectly through institution building and the strengthening of in-country training.

During this CDSS period, S&T will focus primarily on the Mission's four program fields. Particular attention will be given to diversified crop production, local organization and management, and the identification of labor intensive, and capital and energy conserving techniques and organizations that will increase productive employment and efficiency. At the same time, modest funds will be allocated to encourage periodic scientific exchanges related to industrialization and more advanced forms of technology.

4. The Private Sector. The Mission's goals are to 1) identify ways in which the private sector can play an expanded role in national development; and 2) experiment with a few policy measures and programs which might assist in opening further opportunities in the private sector and the development of a market economy.

The Mission's interest in the private sector reflects more a philosophy linked to other program areas rather than a distinct program area in its own right. With the help of an American Chamber of Commerce advisory committee established by the Mission in 1982, an Embassy working group, and a number of Indonesian private and government organizations, the Mission has developed a strategy to contribute modestly to strengthening the private sector and off-farm employment opportunities, as noted previously. In addition, the Mission plans to examine further the potential role of the private sector in other areas of concentration within the CDSS. The manufacture and distribution of oral rehydration packets and fee-based voluntary sterilization are examples.

There are, however, several constraints that will restrict the Mission's contribution. Some of these were noted previously. Others include the following: although there may be some relaxation, the economy will continue to be regulated, and the present recession is likely to continue to retard business growth; funds available from USAID and PRE even when supplemented by matching government or private funds, though important, are small.

5. Women in Development. The Mission is planning to give explicit attention to women's roles in development as part of its concern for participation. Other donors are already addressing health and education, time use, and the improvement of working conditions and environment of women factory workers. The Mission will concentrate primarily on women's roles, mainly in rural areas where 15 to 20 percent of households are headed by women. Continued success of the USAID supported family planning program frees women to participate in broader development programs. The Mission is planning to support 1) studies of constraints on women's opportunities for access to resources and on women's productivity; 2) technical and management training for women; and 3) demonstration projects, such as credit and homestead production. Although a separate project for women is not anticipated, all new projects in the Mission will be examined at the PID stage for their potential effect on women.

6. PL 480. The development rationale for PL 480 will weaken if rice production continues to improve and present foreign exchange problems are resolved. However, the Mission is reluctant to give a firm indication of need until it is clearer if the current drop in

rice production is merely a minor setback due to weather, and if the downturn in the economy, causing a large drain on foreign exchange reserves, is short-term. In the meantime, the Mission will continue to work with BULOG on effective use of PL 480 sales proceeds. Having said this, the Mission's principal contribution will be to support efforts that would help the government direct food and agricultural policies to encourage employment expansion.

If Title II commodities are scarce, the Mission would have no objection to a phase-out of Title II toward the end of the CDSS period, because of the relative nutritional well-being of the Indonesian population, the high cost of ensuring that imported foods reach the poor, and the relatively low priority the Mission places on Title II as a claimant on staff and grant resources. If commodities are ample, the Mission proposes 1) that Title II programs focus on Food For Work, which entails less Mission staff cost; and 2) that MCH in general be curtailed and terminated by the beginning of FY 85. Exceptional MCH projects, such as those which lead to institution building, clearly service areas of need, and put forward a graduation plan, may be considered, though developing and implementing these projects may require a level of staff and consultant cost that PVOs, AID, and the government may not be prepared to support. The Mission does not plan to accept new applicants for Title II during this CDSS period.

#### V. Structure of the Mission's Portfolio

This CDSS reflects resource levels approved in the AAPL and as presented in Tables A and B. These levels represent small nominal increases, but declines in real terms. The planned distribution of

funds reflects priorities established in this CDSS. Off-farm employment will absorb nearly 20%, compared to almost none in previous periods; food production will receive around 32% and less in future years as USAID's institution building efforts in this sector draw to a close. Family planning will decline sharply in this CDSS period compared with the early 1980s as activities conclude, and the health budget will increase. In view of the large need for institutional development and skilled manpower, education, training and management will account for almost 20%, up from 14% in the previous six year period. The ability to alter the distribution of funds to accord with CDSS priorities reflects the Mission's small mortgage, which amounts to \$46.7 million at present. There is approximately \$391 million for initiatives outlined in the CDSS. When possible, the Mission plans to fully fund new projects so that future year flexibility will be retained.

In addition to keeping future year mortgages low, the Mission is reducing the number of active projects. In early 1982 the Mission had 52 projects, and by September of that year the portfolio had declined to 45. In view of new CDSS starts and the orderly completion of the large existing portfolio, the Mission anticipates slightly less than 40 projects by September 1984, and around 30 to 35 projects by 1985. At the same time, the pipeline, which has averaged about \$300 million in recent years, is expected to decline to \$240 by the mid-point in the CDSS period.

The Mission's management believes that planned resource levels for Indonesia in the 1980s and the anticipated size of the project portfolio can be managed by the USDH and FSN staff levels already agreed upon by AID/W and the Mission.

TABLE A  
FY 83-FY88 ILLUSTRATIVE PROGRAM - BY AREA OF CONCENTRATION, IN \$ MILLIONS

SECTOR	FY 83	%	FY 84	%	FY 85	%	FY 86-FY 88	%	\$ TOTAL	%
1. Increasing Production & Off-Farm Employment	9.00	13.9	14.00	21.5%	15.10	20.4%	44.10	18.8%	82.20	18.8%
2. Strengthening Food Prod. & Resource Mgt.	23.75	36.5%	24.25	37.2%	14.90	20.1%	75.30	32.2%	138.20	31.5%
3. Improve Primary Health Care and Completing Work in FP	12.60	19.4%	9.50	14.5%	17.00	23.0%	60.00	25.6%	99.10	22.6%
4. Improve Mgt. of Education & Training Systems	12.40	19.1%	10.60	16.2%	23.00	31.1%	39.00	16.7%	85.00	19.4%
5. Cross Sectoral	7.25	11.1%	6.90	10.6%	4.00	5.4%	15.60	6.7%	33.75	7.7%
Total DA:	65.00	100%	65.25	100%	74.00	100%	234.00	100%	438.25	100%

TABLE B  
FY 83-FY 88 ILLUSTRATIVE PROGRAM - BY APPROPRIATION ACCOUNT, IN \$ MILLIONS

SECTION	FY 83	%	FY 84	%	FY 85	%	FY 86-FY 88	%	\$ TOTAL	%
103 AG & RD	33.25	51.2%	38.25	58.6%	25.00	33.8%	119.40	51.0%	215.90	49.3%
104 POP	6.00	9.2%	9.50	14.6%	4.00	5.4%	14.10	6.0%	33.60	7.7%
104 HEALTH	6.60	10.2%	-	-	13.00	17.6%	26.10	11.2%	45.70	10.4%
105 EHR	11.90	18.3%	10.60	16.2%	28.00	37.8%	59.10	25.3%	109.60	25.0%
106 SDA	7.25	11.1%	6.90	10.6%	4.00	5.4%	15.30	6.5%	33.45	7.6%
TOTAL	65.00	100%	65.25	100%	74.00	100%	234.00	100%	438.25	100%

PL 480

Title I	20.00	*
Title II	9.70	*
Total	29.70	

\* To be determined