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CDSS REPORT

INDONESIA  
JANUARY 1984

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INTRODUCTION

The FY 85 CDSS, approved in 1983, analyzes development problems and prospects in Indonesia and describes the Mission's program strategy for the remainder of the 1980s. The strategy focuses on three major development goals: 1) expanding productive off-farm employment, 2) increasing and diversifying food production and strengthening related resource management; and 3) improving primary health care and completing development of the family planning program. The strategy also outlines the Mission's plans to support human resource development in fields related to the three areas of focus noted above.

To work toward these goals, the Mission's top priority is institution building, particularly the development of management and technical skills. Other priorities are improvements in policy analysis through support for research and experimental projects, and expanded discussion with government; introduction and adaptation of technology through training, technical assistance, and field trials; and, in a modest way, the development of opportunities for the private sector with a view to expanding off-farm employment. The Mission's target group continues to be the rural poor--small farm owners and the landless, with consideration for women's roles. In the late 1980s, however, the Mission anticipates the possibility of a gradual shift of focus to town and urban centers, areas which are expected to grow rapidly during the

decade and which must become a location for substantial off-farm employment. The Mission will begin to assess possibilities in FY 84 and FY 85. During the CDSS period, although a substantial part of the Mission's program will be found in Java, the Mission will maintain a strong presence in selected outer island provinces.

Although the strategy outlined in the FY 85 CDSS remains valid, the Mission is continuing to refine its program in selected areas. In FY 84, for example, attention will be given to strengthening sections dealing with employment and enterprise development, project evaluation, and irrigation.

The CDSS report is divided into three sections. The first presents a macro-economic update. The second reviews progress for major program areas as well as for the Mission's efforts to strengthen policy analysis, develop decentralized capacity, and integrate PL 480 more fully with the program. A final section covers management issues and presents general work plans for FY 84 and FY 85.

## I. Macro-Economic Update

### I.A. Economic Downturn and Policy Changes

1983 was the second year of a significant economic downturn, marking the beginning of a transition of the

Indonesian economy from the high, oil-based growth rates of the late 1970s and early 1980s to more conventional growth dependent on non-oil exports. The distinguishing feature of the year was not the continued economic downturn, however, but rather the excellent policy measures that were introduced to reverse the rapidly deteriorating external situation, and to set the stage for restructuring the oil-dependent economy.

As anticipated in the CDSS, real GDP growth dramatically slowed, from 7.9 percent in FY 1981/82 to an estimated 2.2 percent in FY 1982/83, while the balance of payments current account deficit grew from \$2.9 billion to \$6.9 billion. Despite actions taken by the government to contain the 1982/83 and the 1983/84 budgets at 1981/82 levels in real terms, which included a substantial reduction of fuel subsidies, and to maintain consumer price index increases below 9 percent, the current account deficit substantially worsened in 1982/83, largely because of declining oil export revenues. As a result, net official reserves fell by more than \$3.3 billion to less than half of the previous level. The acceleration of private capital flight during early 1983 coupled with the OPEC decision to reduce oil prices in mid-March, culminated in a 27.6 percent devaluation of the rupiah against the dollar on March 30, 1983.

The devaluation was quickly followed by a number of policy changes designed to prevent erosion of the real effective

exchange rate (which occurred following the 1978 devaluation). First, a managed float was introduced requiring that exchange rates be reviewed and set daily on the basis of a new basket of currencies that better reflected the importance of major trading partners and competitors. Second, determined to hold down inflation, the government took steps to ensure adequate supplies of basic consumer food items, to restrain excessive credit expansion in the banking community, and to avoid domestic financing of a budgetary deficit. Third, selected public sector investments worth approximately \$21 billion, including a \$10 billion import content, were deferred indefinitely to reduce the import bill.

In addition to the above policies, measures were introduced in 1983 to begin restructuring the oil-dependent Indonesian economy. In line with general Fourth Plan objectives to promote employment and non-oil exports, and to mobilize domestic resources/savings, the government undertook major reform of monetary/banking policy and tax legislation, and initiated a priority review of regulatory and licensing requirements imposed on the private sector by government agencies.

The set of policy measures taken in 1983 helped correct both the price of capital and the price of foreign exchange. If these measures can be sustained they should lead to significantly greater allocative efficiency, including the direct stimulation of the private sector, employment,

labor-intensive investment, and non-oil exports. The mobilization of domestic savings for both public and private sector investment should also receive a much needed boost. These policy actions have been uniformly commended by international observers for their effectiveness, internal consistency, and their generally corrective, as opposed to suppressive or stop-gap, nature. They represented tough decisions and the government deserves high praise for their timeliness. Figures I and II in Annex A show the major policy actions taken in 1982 and 1983.

While the policy changes introduced in 1983 are correct and impressive, it is important to note that Indonesia is only at the beginning of a two to three year adjustment period to bring its external current account balance into sustainable alignment. Moreover, it will take time to strengthen Indonesia's institutional capacity to implement some of the reforms, for example the tax reforms. In addition, much more remains to be done on industrial and trade policies. There are also uncertainties that can affect the economy such as the possibility of a decline in oil prices, recession in the world economy, poor weather that would undermine agriculture, and questions about the speed and quality of actual policy implementation. Further, it is relatively easy for early results in the external accounts to be skewed by one-time adjustments or deficiencies in accounting and reporting. Finally, success in achieving macro adjustment/balance

objectives, even if attained, should not obscure real concerns about the apparent failure of policies up to 1983 to address adequately pressing employment and distributive issues.

I.B. Current Economic Status

The Indonesian economy continued its downward trend for the third year in a row, roughly paralleling the general world-wide recession. Growth in real GDP, after peaking at 9.9 percent in 1980/81, fell to 7.9 percent in 1981/82 and to an estimated 2.2 percent in 1982/83 and will probably not be much above 2.0 percent in 1983/84. This figure is slightly below population growth estimates and therefore suggests stagnating per capita income. The balance of payments current account followed a similar trend, peaking with a \$2.0 billion surplus in both 1979/80 and 1980/81, and thereafter incurring deficits of \$2.9 billion in 1981/82, \$6.9 billion in 1982/83 and, perhaps, \$5.0-\$5.5 billion in 1983/84. As a consequence of the trend in the balance of payments current account, public sector external debt increased from \$14.9 billion in 1980/81 to \$21.2 billion in 1982/83 and is expected to increase to \$27.0 billion by the end of 1983/84. Over the same period the debt service/net export earnings ratio steadily increased from 13.3 percent to an estimated 22.3 percent in 1983/84.

Although the downturn in real GDP growth rates in 1982 and 1983 was led by a fall in the petroleum sector, declines in the

agricultural sector (contributing 25 percent of GDP and employing 55 percent of the labor force) were also an important factor. After averaging a 4.4 percent real growth rate from 1977 to 1981, agricultural GDP grew by only 1.8 percent in 1982 and is not expected to do much better in 1983, despite rising prices for certain agricultural exports. The basic problem for both years was the drought during the second half of 1982 that seriously affected dry season crops and considerably delayed rice planting. Rice production, the single most important agricultural crop, which increased on average 9 percent in the late 1970s, grew by 4 percent in 1982, and will probably increase less than 0.5 percent in 1983.

The impact of the 1982 drought and the 1980-82 world economic recession on the rural economy is believed to be considerable. Non-oil exports, primarily of agricultural origin, fell from a high of \$6.2 billion in 1979/80 to \$3.9 billion in 1982/83, before rebounding to an estimated \$4.7 billion in 1983/84. This represents a decline in nominal terms of approximately 37.1 percent between 1979/80 - 1982/83 and 24.2 percent between 1979/80 - 1983/84. The decline in real per capita terms could be much higher, possibly 50 percent in both 1982/83 and 1983/84 (using a GDP deflator).

Most of this impact fell on rural areas outside of Java and much of that fell on small holders. Nominal export earnings from rubber and coffee show a decline of 43.8 percent and 41.3 percent respectively in the period of 1979/80 - 1982/83, and

these earnings primarily accrue to small holders. Forestry products, accounting for over one-third of 1979/80 non-oil/LNG exports were the biggest loser, falling 58.5 percent in nominal value through 1982/3, although this was due largely to government's policy to restrict log exports.

The impact of substantially lower growth rates in rice production was probably most severe in Java. Off-farm employment and non-agricultural incomes in rural areas appear to have suffered, reflecting a slowdown in the increase of rice procurement prices and the decline in non-oil/LNG exports, and indirectly because of the fall in oil export earnings, which affected the national budget and construction program. At the same time, there is no evidence that the employment situation has improved. Most analysts still agree that agriculture is not absorbing new entrants to the labor force and that unemployment is steadily increasing, as reported in the CDSS.

A complete assessment of the impact of the recent policy changes on incomes remains to be done, but the initial impacts would seem to fall heaviest on the urban middle to upper income groups and probably least on the rural poor. The devaluation is suspected to have helped small holders who export rubber and coffee and to have restricted imports for middle and upper income groups; the tax reform is progressive and will affect in theory middle and upper income families; changes in the banking laws, particularly those permitting interest rates to move to

market levels, should help mobilize savings and provide more rural credit to small borrowers.

Certain aspects of the current economic situation give rise to cautious optimism for the short- to medium-term outlook. First, the government was successful in reversing capital flight and restoring confidence in the international banking community with its devaluation adjustment package. Second, as noted, key elements of a longer-term structural adjustment package were put into place. Third, the external economic environment appears to be improving as the U.S. and OECD countries continue their recovery. Fourth, rice production demonstrated surprising resilience by increasing slightly in the face of adverse weather conditions.

In addition, there are signs that the new policies are taking effect. Net foreign assets of the banking system, after declining by \$3.2 billion in the 12 months preceding the devaluation, grew by \$1.8 billion in the following 7 months. Net official reserves (which are included in the above) changed by almost identical amounts, decreasing from \$6.3 billion to \$3.0 billion in the 12 months preceding the devaluation and rising to \$4.8 billion by December. Total commodity exports for the first six months following the devaluation were up by approximately 2.7 percent over the comparable period a year earlier, with substantial gains in the non-oil export sector of around 21.9 percent.

Even oil export revenues were up 2.4 percent over the comparable period in the preceding year, despite the \$5/pbl OPEC price cut in March 1983. Although less data is available for commodity imports, the first four months following the devaluation show a 4.0 percent decline, with the surplus on the commodity trade balance improving by 20.0 percent over the preceding year. Finally, there is evidence that longer-term international confidence is being restored, both in the form of a continued willingness to make long-term loans to Indonesia at favorable rates and in the apparent resumption of interest in joint-venture investment.

In the eight months following the devaluation, expansion of both the money supply (9.7%) and bank credit (9.8%) were held far below their historic levels. The urban consumer price index (17 cities/up to 150 items) increased only 6.9 percent during the same period. The rural consumer price index (9 essential commodities) actually decreased by 2.6 percent for Java and Madura (1st 5 months) and by 1.4 percent for rural markets outside Java (1st 4 months). Consistent with these trends, the average price of medium quality rice in urban areas appeared to rise 10-12 percent on average, but fell 7.2 percent in rural Java/Madura and 1.4 percent in rural markets outside Java.

In addition to containing consumer price increases successfully, the government allowed the rupiah to float against a new basket of currencies following the devaluation,

resulting in a depreciation of 4.4 percent against the Japanese yen and 2.6 percent against the U.S. dollar by year-end. Coupled with the relatively low rate of inflation implied by consumer price indexes noted above, the effective real rate of exchange established at devaluation appears to have been essentially maintained through 1983. Wholesale price information lags substantially behind consumer price information and early results are less favorable. The general index, excluding exports, increased 11.7 percent in the first five months following devaluation. Nonetheless, the bulk of wholesale price increases (65%) appears to have occurred in the first month following devaluation, with price increases thereafter falling to an approximate 6 percent annual rate by July/August 1983.

Finally, there is evidence that the financial and monetary reforms are taking hold in terms of impact on resource mobilization. Following the deregulation of State Bank deposit interest rates in June and their subsequent rise to the 18 percent range, time deposits with State Banks more than doubled, rising from Rp.911.8 billion (5/31/83) to Rp.2,0315.5 billion (11/7/83). Certificates of deposit, held by both domestic and foreign banks, increased from Rp. 196 billion to Rp. 425 billion over the same time period. Although concern has been expressed by observers about the preference for short maturities, the response overall has been gratifying to policy makers.

I.C. The Future

The Indonesian economy is expected to resume moderate real growth of 3-4 percent in 1984-85 and the current account deficit is expected to decline to possibly \$3-3.5 billion. On the basis of the favorable wet season to date, agriculture, particularly rice production, is expected to improve. Rural incomes should also be favorably affected by continued growth in non-oil/LNG exports because of the recovery of OECD economies.

The government is continuing its austere budgetary policies in 1984/85, including further cuts in petroleum product subsidies and complete elimination of food subsidies. The development budget maintained its relative share of the overall budget although falling an estimated 4 percent in real terms. The routine budget was up an estimated 1.5 percent in real terms, while the total budget probably declined by 1-2 percent in real terms. In an important concession to political requirements, the government increased the net pay of 2.7 million civil service and military personnel following a two year period of frozen wages.

The government can be expected to continue its tight monetary/financial policies in 1984/85 to minimize inflation. This will be assisted by new monetary policy instruments, which include two types of discount window facilities plus a new

Bank of Indonesia debt certificate, expected to be introduced in early spring 1984. These additional policy instruments will help to eliminate the current concern among economic observers about the high levels of excess liquidity in the banking system. Nevertheless, prices may rise slightly faster in 1984/85 as the full effects of the devaluation work their way through the economy and as economic activity picks up. Although considerable concern has been expressed in the press over probable inflationary pressures resulting from the average weighted 45 percent increase in domestic petroleum prices and the 15 percent increase in civil service wages, past experience with similar petroleum price increases (although on smaller bases) suggests relatively small consumer price index increases of 7.1 percent in 1981, 9.7 percent in 1982, and 11.6 percent in 1983. The pay increase for civil service and military personnel, although important, covers less than 5 percent of the total labor force.

In the coming year, the major question affecting economic recovery will be petroleum/LNG export earnings, particularly in view of soft world markets, increasingly economically-strapped oil exporters, and the ever-volatile Middle-East.

For the medium-term the outlook is far more complex and uncertain. The IBRD and the IMF have projected slightly different scenarios in which the Indonesian economy can achieve a 5-6 percent growth rate and can stabilize the current account

deficit at 2.5 - 3.0 percent of GDP by 1985/86. These scenarios require (i) moderate economic growth in the industrial world, (ii) modest increases in oil export revenues and more rapid growth of non-oil exports, and (iii) continued, though smaller, increases in agricultural production. The IMF emphasizes that government budget austerity and monetary/financial discipline must be maintained over the next several years as the policy reforms are implemented, and policies for trade and investment are initiated.

Clearly many things can affect these scenarios. Indonesia has no control over the world oil market, OECD economic growth, or the weather. It is not yet certain that the government will be able to introduce and implement effective reforms to encourage private sector enterprise and improve trade policy. These reforms face formidable obstacles from special interest groups. Even under the best of circumstances certain reforms (e.g. the new tax reform) will take several years to produce substantial effects. In the meantime, the government must defend the effective real exchange rate established in the March 1983 devaluation, because it forms an integral part of the intended policy restructuring package. Government economic policy makers are acutely aware of these limitations but are equally aware of the urgent need to restructure the economy and reduce its dependance on the oil sector.

Current government thinking, although obviously preoccupied with establishing a stable financial and monetary environment,

appears to favor the type of macro-policy framework needed to promote employment. Sensitive to criticism of its inability to provide adequate employment and to spread gains from economic growth more evenly, the government is attempting to promote real per capita GDP growth through both allocative efficiency and domestic resource mobilization measures. Both types of measures, but particularly the increases in the price of capital, foreign exchange, and energy, are necessary ingredients of a comprehensive long-term employment policy. The government has also acknowledged the need for increasing the role of the private sector in the economy, which, if accomplished, should have important implications for employment.

Other than the question of whether the private sector can ~~be deregulated~~, the most worrisome aspect of the current policy environment is the unresolved debate between the proponents of non-oil export promotion and import substitution. Complicating the debate, but probably more closely aligned with the import substitution supporters, are the high technology advocates. The outcome of this policy struggle may well determine the industrial-trade policy of Indonesia for the next two or three planning cycles and may determine whether Indonesia eventually joins the ranks of Asian success stories.

In summary, during 1983 a number of important policy measures were introduced to address the financial and monetary crisis and to set the stage for restructuring the economy with

the objective of reducing dependence on oil. These measures include a substantial reduction in fuel and food subsidies, a devaluation, an austere budget, changes in banking regulations, deferment of large capital projects, and a tax reform. The impact of these measures is encouraging: non-oil exports increased and imports declined, the balance of payments deficit declined, capital outflows were reversed and reserves increased, inflation was contained, and the country exhibited a small increase in GDP. Assuming the world economy continues to grow and oil prices are at least stable, Indonesia's short-term prospects seem relatively bright, although GDP growth rates will be considerably lower than those of the 1970s.

Additional policy reforms, however, are necessary, including further deregulation of the private sector, adjustments of trade policy, and increased attention to employment. Longer-term prospects are more difficult to forecast given a number of uncertainties: government ability to effectively implement major policies such as tax and trade reform and private sector deregulation; the economy's capacity to absorb two million new labor force entrants a year; the alternative selected for industrial policy; the country's ability to compete effectively in non-oil export markets at a time when labor quality is relatively low and technical manpower is high-priced; and the uncertainties of the world oil markets. Despite these uncertainties and challenges, it is the Mission's view that the policy measures introduced in 1983 were

essential. The next few years will provide the evidence whether they are being implemented effectively and whether in fact economic restructuring is being achieved.

Present economic conditions also suggest that the Mission's focus on food production, employment and enterprise development and family planning and health, and its attention to human resource development are still relevant.

## II. Progress Report

### II. A. Progress in the Four Major Areas

The FY 85 CDSS established four broad goals as focal points for the Mission's program. In 1983 the Mission took a number of steps toward these goals, including the redesign of some projects, the introduction of new projects, the elimination and closure of projects, and increased involvement in policy discussion with government.

#### II. A.1. Strengthening Food Production and Related Resource Management.

The first major goal noted in the CDSS is to help increase food production with increased attention to diversification. With this goal in view, the Mission is concentrating on three objectives: first, assisting the development of selected national institutions to undertake

agricultural research including upland farming systems, second, strengthening capacity for agricultural policy formulation and planning, and third, developing improved small-scale irrigation systems.

(1) Assisting the development of the agricultural research networks.

(a) a comprehensive mid-term evaluation of the Applied Agricultural Research project took place in early FY 84, giving direction to the implementation of the rest of the project. The Mission plans to consolidate support for agricultural research in one project in FY 1985.

(b) three studies were completed under the Sumatra<sup>1</sup> Agriculture Research Project:

- a manpower study of eight research stations in Sumatra which will help the Mission in planning the consolidated project noted above.

- the first study on agro-ecological zones in Sumatra.

- an initial research plan for upland rice and other upland crops in Sumatra.

(c) a assessment of problems and possibilities for upland farming systems research and experimentation was completed and is being used both for the design of the Upland Agriculture and Conservation project and the modification of Citanduy II in order to improve technical and management components. This report outlines major policy issues--subsidies, credit, decentralized budgeting and organization which Mission staff are now discussing with government.

(d) a PID was approved for the Upland Agriculture and Conservation and the preparation of the Project Paper is underway.

(e) considerable progress was made in the construction of research facilities.

(2) Developing a broader-based, stronger and more coordinated agricultural policy and planning system:

(a) an evaluation of the Agriculture Development Planning and Administration project was completed for

use in designing the Agriculture Planning II project. A PID was approved for AP II and the PP will be completed in February 1984. The project will strengthen capacity at central and provincial levels.

(b) an analysis of how agricultural planning occurs at the national, provincial, and district levels was undertaken to provide baseline material for provincial level planning under the new project. It suggests that agricultural policy and planning involves a network of institutions that require stronger capacity and coordination, and that more decentralized planning is advisable.

(c) an analysis of the "Annual Agricultural Survey Data with Regard to Food Crops" was planned and is now being funded under the Mission's Development Studies Project.

(3) Strengthening water resources management:

(a) the Sederhana II project was revised to include the development of water-users associations in some areas, and a monitoring system for the experiment was established and base line data are being collected.

(b) the Luwu project was completed in December 1983. Based on the August evaluation and continued monitoring of the irrigation systems, it was agreed with government that Title I proceeds will be used for O & M of these systems in 1984/85.

(c) an assessment of the Sederhana irrigation program was designed in 1983 and is underway, which will provide input into the formulation of the FY 85 Small Scale Irrigation project planned by the Mission as well as to Mission discussions with government and donors about irrigation policy.

(d) to improve existing project implementation and to prepare for new projects in small scale irrigation, the Ministry of Public Works and USAID have reinstated periodic portfolio review and planning sessions.

(e) a Mission team was established to prepare a small-scale irrigation strategy paper.

(4) One project, Land Mapping and Titling was discontinued, and the following projects were brought to a close: Luwu Area and Transmigration I; Jagorawi Highway; Aceh Roads.

II. A.2. Increasing Off-Farm Employment. This is a complex and relatively new area for the Mission. During the first phase of a two-phase strategy described in the CDSS, the Mission plans support for 1) studies of constraints to enterprise development; 2) projects related to developing rural financial institutions; 3) development of management training capacity, 4) experimentation with measures to improve foreign investment opportunities, and 5) efforts to improve the export potential of selected commodities which are good foreign exchange earners and require substantial labor input.

Following a review planned for FY 86, the Mission will move to a second phase during which resources will be more sharply focused, concentrating on broadening and institutionalizing selected activities mentioned above.

Efforts thus far have focused primarily on initiatives related to the private sector:

(1) An Office for Employment and Enterprise Development was established and staffed in the Mission.

(2) A private sector development project was launched to test methods of strengthening the Indonesian private sector through training and measures to link Indonesian business opportunities with U.S. investment. It provides a loan to the Investment Coordinating Board to finance three local consulting firms affiliated with U.S. firms to identify business opportunities in Indonesia, prepare investment profiles, and facilitate joint ventures between U.S. and Indonesian companies. Since the preparation of the CDSS three consulting firms have been selected to enter into negotiations, which are almost finished. The loan also finances staff training. Work has been started on studies in Lhok Seumawe, an area in Sumatra where major foreign investment is occurring, to

explore industrial linkages, manpower development and technical training, and community planning which will permit greater participation by the local community. It is anticipated that experience in Lhok Seumawe can serve as a model for other industrial areas of the country. The interim report of these studies will be submitted to USAID in February. The project also provides funds to the Ministry of Finance for the study of constraints on private sector activities, and assists the Ministry in arranging short-term training and internships in the United States for mid-and senior-level Indonesian business people.

(3) The Mission is completing design of a rural credit project aimed at assisting those first affected by employment pressures--landless laborers and women--to improve their opportunities to enter trading and small scale production. The project will help develop a rural credit and savings program, and strengthen the policies and support required from the country's banking system. A PID was approved in 1983 and the project will be signed in FY 84.

(4) Design work is being completed on the Central Java Enterprise Project, a project which will help identify and address constraints affecting small and medium enterprises in a province with a high rate of under employment. It will be signed in FY 84. An advisor was placed in the field, funded under the Asia Bureau's Off-farm Employment project. ~~The project~~ will experiment with training and technical assistance to improve the production of shrimp processing (labor intensive) as well as other selected commodities, and, through support to PVO's concerned with enterprise development, strengthen services to household enterprises.

(5) Final design is in process for a management project to strengthen the capacity of a private management training institution enabling it to provide consulting, research support, case studies, and stronger management to small and medium enterprises as well as to other institutions involved in private sector management development. The project will be obligated in FY 84.

(6) The Mission worked with PRE on a range of initiatives including venture capital and co-financing for small and medium-sized industries in agro-business and light manufacturing. It also arranged missions for the Joint Agricultural Consultative Corporation and the Young President's Organization to spur joint venture investment in areas with development impact.

(7) The Mission began work on an employment strategy paper with a view to strengthening the CDSS and is working with the Ministry of Finance and the State Planning Board on defining several studies relating to private sector development.

II. A.3. Improving Primary Health Care and Completing the Institutionalization of Family Planning. Major objectives for the Mission are first to assist in reducing morbidity and mortality for infants, children under five, and women of reproductive age; and second, to 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 this decade. The Mission gives priority 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 the testing and evaluation of a USAID-supported integrated family planning/nutrition program, and improving data on nutrition and nutrition interventions generally. The Mission's objectives in family planning are to: 1) help establish effective approaches to urban family planning; 2) strengthen BKKBN's management capacity at the center and in the provinces, and develop closer ties between health and family planning agencies, and 3) assist in overcoming specific problems with village family planning in selected densely populated provinces. By category, activities of the past year are as follows:

(1) Helping design cost effective systems to reduce diarrheal diseases and related morbidity and mortality, and to immunize children against selected diseases.

(a) the Health Training Research and Development (HTR&D) project was redesigned and a \$1.7 million component was added for diarrheal disease and control.

(b) a review by the MOH, USAID, and other donors of the status of Indonesia's diarrheal disease program was undertaken and will be used as a baseline for the efforts under HTR&D and a Mission diarrheal disease control project for FY 85.

(c) under the Comprehensive Health Improvement Program - Province Specific (CHIPPS), all consultants were recruited; sample surveys of diarrheal related morbidity and mortality were followed by training of medical workers in the use of oral rehydration techniques in one province.

(d) as a result of the Expanded Program for Immunization evaluation in early FY 84, negotiations are underway to modify the project to include greater emphasis on surveillance and the integration of the immunization program with MCH/FP activities. National policy on tetanus immunization was also strengthened.

(2) Improving health care management:

(a) under HTR&D, technical assistance support and training are being shifted from the central level to the provincial level in support of decentralizing the MOH, and technical assistance is being recruited.

(b) with the placement of CHIPPS technical assistance in Aceh, a variety of technical and management analyses have been undertaken by provincial level personnel--this is unique within the health sector in Indonesia.

(3) Completing the testing and evaluation of USAID supported integrated family planning/nutrition programs and improving data on nutrition and nutrition interventions generally:

(a) a two year effort for data collection on nutrition interventions in East Java, Lombok, and Bali is being designed following a national workshop.

(b) the nutrition surveillance sub-project developed an early warning system to identify nutritional deficiencies for use in NTB/Lombok, Central Java and Bali.

(c) a study on the "Nutrition Socio-cultural Determinants of Protein Energy Malnutrition in Indonesia" is being funded under the Development Studies Project.

(d) the integration of the family planning program with the MOH immunization and diarrheal control programs is beginning in 2292 communities in Bali and expanding to 790 villages in East Java and 100 in NTB/Lombok.

(4) Helping establish effective approaches to urban family planning.

(a) a private sector non-profit foundation (Yayasan Kusuma Buana) is working with BKKBN to increase the delivery of family planning information and services in Jakarta and 5 other major urban centers.

(b) contraceptive prevalence surveys were undertaken in 5 urban centers by Westinghouse, the Faculty of Public Health, and BKKBN.

(c) BKKBN is continuing to promote the increase of urban family services from both the public and private sectors through project-funded workshops, seminars, and a continuing dialogue with staff at central and provincial BKKBN offices, universities, private sector organizations/institutions, and other GOI departments.

(5) Strengthening BKKBN's management capacity, and developing closer ties between health and family planning agencies:

(a) work under the FPD&S II and Expanded Program for Immunization Projects has begun which would enable established family planning networks at the village level to be used for immunization and oral rehydration therapy. This is a significant policy change which USAID staff have been working on for some time.

(b) over the last six months, 3 consultants have worked with BKKBN to develop a Management Information System. A 5 month in-depth needs assessment of management information systems and hardware/software requirements resulted in a 5 year plan to upgrade central and provincial office management procedures and to promote the integration of health and family planning services.

(c) procedures were established by the Mission and BKKBN to allow BKKBN to handle directly the selection, placement, funding, and continued administration of all U.S. or in-country long term participants under

BKKBN auspices. These procedures will be adapted for use by other projects within the Mission, and represent Mission policy to shift responsibility for implementation of training programs to the government.

(6) Assistance in overcoming specific problems with village family planning in selected densely-populated provinces:

(a) project funding to 10-13 provinces is being selectively applied depending upon level of development in delivering family planning services. Where program efforts have been slow to develop, funds have been provided in support of basic family planning activities, resulting generally in increased acceptor rates. Where routine family planning services are sustainable by the provinces themselves, efforts are being focused on specific provincial programs such as sterilization and urban family planning.

(7) The following projects were closed: Rural Sanitation and Manpower Development; Surakarta Potable Water, Malaria Control.

II. A.4. Accelerating Human Resource Development. The fourth priority area of the CDSS concerns the weakness of Indonesian development institutions and inadequate in-country capacity to train people for them. In order to assist in training manpower, in-country and overseas, to meet immediate requirements in selected fields, and to help develop in-country training capacity, the Mission's objectives are to: 1) assist the Ministry of Education to develop further capacity for policy research and planning for the national education and training system; 2) support higher education agriculture faculties that provide training related to the Mission's program; and 3) through participant training provide graduate-level and short-term training for managers and technicians who implement development activities. Progress to date is set out below:

(1) Assist the Ministry of Education to develop further capacity for policy research and planning for the national education and training system.

(a) the PID for Education Policy and Planning was prepared and approved in January 1984. This project will strengthen policy research and planning capacity and will be approved in FY 84.

(2) Support Agriculture faculties that provide training related to the Mission's program:

(a) a scope of work was completed to assess Agricultural Faculties with a view to developing a project focused on selected faculties for FY 85.

(b) Approximately 20 long-term participants were sent for training under the Western Universities project.

(c) The Western Universities Project is now being evaluated.

(e) following a March 1983 evaluation, LGT II was redesigned to be more responsive to local needs and to the Mission's CDSS. The goal is the improvement in planning capabilities of provincial and lower level officials so that decentralized management can be effectively implemented. The redesign emphasizes building institutional capacity to continue training after AID support is concluded.

(3) Provide graduate-level and short-term training for managers and technicians who implement development activities:

(a) a contractor will soon be selected to help establish an overseas training unit within the Government in connection with the new General Participant Training project approved in FY 83.

(b) since June 1983, a total of 281 participants have undertaken training programs in the United States (66 LT; 215 ST).

(4) Other activities:

(a) a revised statement of Mission participant training strategy and related English language training was completed.

(b) the Environmental Centers Project was brought to a close, and preparations started to close out three projects in 1984.

## II. B. Continuing Work on Strategy Development

In addition to the above goals, the CDSS noted several common approaches. These include policy analysis, institution building, science and technology, the private sector, women in development, and PL 480.

During 1983, the Mission continued to refine Mission strategies for policy analysis, institutional development, and PL 480, and the following section provides interim reports on these areas. In 1984 the Mission plans to review its science and technology activities.

II. B.1. Policy Analysis. As noted in the FY 85 CDSS, strengthening policy analysis and formulation in selected problem areas is integral to the Mission's strategy. More specifically, the Mission's objectives are to: 1) expand and improve information relevant to development policy issues noted in the CDSS, and 2) provide support to strengthen capacity for analysis and planning in Indonesian institutions concerned with these issues.

Increased attention to policy analysis at this juncture in Indonesia's development is particularly timely. The sharp downturn in the economy has encouraged an openness to policy

alternatives which has already resulted in a number of important policy decisions, as noted. Receptivity to policy analysis and debate was also heightened by the appointment of a new Cabinet in April, 1983, which was given the mandate by President Suharto to find ways to promote development, increase efficiency, and mobilize resources at a time of declining government revenues.

Although macro-economic policy issues are not excluded from the Mission's area of concern, these issues are generally well addressed by government with help from the IMF, the World Bank, European and U.S. financial houses, and long-time resident U.S. advisers. Therefore, the Mission's focus rests more on middle-level sectoral policy questions, primarily in the substantive areas in which the Mission has staff competence, experience, contacts and a program interest. Issues identified in the CDSS include internal resource mobilization, particularly the mobilization of savings; regulatory and other constraints to private sector growth including credit; employment; the impact of industrial enclaves, water resource management, and policy measures to reduce morbidity and mortality.

During the first years of the CDSS it was anticipated that two benchmarks would be reached: first, the Mission would establish the organization and mechanisms needed to support policy analysis and strengthen discussions with government;

second, that a number of studies and consultations would be initiated. Since the preparation of the CDSS, a number of steps have been taken toward these benchmarks.

(1) The Mission's Development Studies Committee, established last year to help establish priorities for policy analysis and to review proposals for policy studies and consultancies, was strengthened and given formal status. Under a JCC arrangement, a Development Policy Adviser was recruited by the Mission in mid-1983 to work with the Committee and to manage the Development Studies Project. The Committee has prepared a broad statement of priority policy issues, and meets regularly to review proposals for funding.

(2) A \$4 million Development Studies Project was approved in 1983, enabling the Mission to finance development policy studies, consultancies, and dialogue. The government steering committee recently approved support for two studies: trends in agricultural production and wages; traditional beliefs and practices affecting nutrition, with six other proposals to be reviewed by the Committee in early February.

(3) In two of the substantive areas that form the focus of the CDSS, namely food production and human resource development, projects were planned which aim at strengthening the analytical and planning capacities in the key agencies responsible for policy planning. PIDs have been approved for the Agricultural Planning Project (Ministry of Agriculture) and for the Center for Education Research and Planning (Ministry of Education).

Both will support staff development for policy analysis at central and provincial levels, provide technical assistance, develop information systems, strengthen links with universities, and fund studies and experiments.

(4) In 1983, a number of meetings were organized with Mission staff and senior Indonesian policy makers to review selected policy questions. The watershed assessment reviewed possibilities and constraints for developing ecologically stabilizing farming systems that would improve opportunities and incomes in poor, densely populated upland areas of Java. Major policy issues, such as subsidies, credit systems, and decentralized management and funding alternatives were discussed as part of a Mission/Government effort to design an experimental project.

A rural credit study provided evidence of the effectiveness of selected non-banking financial institutions in extending rural credit for small manufacturing and trading, and served as a basis for discussions of credit policy. The study found that it was possible to charge interest rates high enough to cover costs and risk without threatening credit demand, that credit schemes can result in additional employment, and that village-based operations have the potential to mobilize rural savings. The findings of this study, along with the advice of a USAID-supported consultant, were reviewed by government in the deliberations that led to the decision in June 1983 to eliminate interest rate ceilings and encourage rural savings.

In line with the CDSS objective of reducing child morbidity and mortality, Mission staff have been encouraging Government to use the village infrastructure established originally for family planning for other development activities. After considerable discussion, a policy decision was taken by Government to add immunization and oral rehydration to help combat neo-natal tetanus and diarrhea, both of which are major causes of child morbidity and mortality. In January 1984, the Ambassador and USAID Director met with the President and Minister of Health to express support for this policy change. This is a major policy breakthrough which should lead to a stronger, more integrated health and family planning program.

In addition to these reviews, a number of policy studies were completed during the year. These included an assessment of management development in Indonesia conducted with the World Bank and other donors and a review of mortality data. Also, a number of project evaluations were undertaken which suggested policy implications, including Luwu, HTR&D, and nutrition surveillance.

Finally, implementation of a number of projects is producing data relevant for policy changes, such as the Provincial Development Planning Project which is addressing decentralized planning, and the Private Enterprise Development Project, which is testing measures to strengthen investment in Indonesia.

With mechanisms in place, the Mission's focus in 1984 and beyond will be on implementation. In addition to regular project activities, it is anticipated that approximately \$1 million worth of DSP-funded studies will be commissioned, including a state-of-the-art review of employment, a workshop to examine long-term development trends and possibilities, a study of the incidence and severity of malnutrition in rural areas in Indonesia, and an analysis of agricultural production statistics as a guide to production and employment.

In 1984 the Mission will focus on significantly strengthening the monitoring and evaluation of projects, an area of weakness in the past. One of the values of information about project implementation is its relevance to broad policy analysis. Project implementation should in part test the validity of broad policies or approaches to development problems. In turn, policies and approaches should guide project design and implementation. Without a reliable monitoring and evaluation system, providing accurate, complete and timely information to Mission staff, it is difficult to make the link between policy, design and implementation. It is essential to develop the Mission's capacity to learn from its experience of project implementation, and to root its policy discussions in empirical data.

To improve the monitoring and evaluation efforts of the Mission, a Mission Evaluation Officer was recruited in 1983.

All new project proposals will specify evaluation and policy questions that will be addressed by the project, and will provide details on plans and procedures to collect the data relevant to those issues. Major evaluations are planned in 1984 for projects such as Sederhana Irrigation and PDP. The results of those evaluations will affect Mission policies concerning irrigation and decentralized program management.

#### II. B.2. Institutional Development--Decentralization.

Virtually all Mission projects are concerned in some way with institution building. One issue that the Mission has been struggling with is decentralized management, that is, encouraging and supporting shifts in authority and responsibility for planning, implementation and resource mobilization from central to local levels of government, and where appropriate to non-governmental organizations. The rationale for this interest is that in a country as large and diverse as Indonesia many development programs, if they are to be effective, must be managed by local organizations.

As noted in the CDSS, Indonesia has developed a strong centralized government based in part on 1) a concern for achieving a sense of nationhood among a diverse and geographically divided people; 2) the availability of substantial central revenues from national oil and forest resources which enable the central financing of a large portion

of development activity; and 3) the value which parts of Indonesian society place on order and hierarchy. This centralized system has produced significant gains in some areas, such as rice production and education. But an important cost has been a dependence on standardized initiatives that are only partially responsive to diverse local needs and conditions.

Increasingly, there appears to be the view in Indonesia that development, national unity, and regional equity must be achieved within a policy and institutional framework which encourages local initiative to mobilize local resources and to shape local development actions in ways responsive to local needs and priorities. The decline in oil revenues has encouraged this line of thinking. Although this view is by no means universal, there are senior government officials committed to it, and the basic direction has been established to an extent by policy commitments to strengthening the role of province and sub-provincial levels as decentralized administrative units responsible for local development planning and coordination.

Both the line agencies of central government and the various levels of local government have important roles to play in support of decentralized management. The line agencies have substantial technical resources beyond the capacity of any province or sub-provincial office. Improvements at decentralized levels will depend to an extent on access to

these resources to supplement locally-available technical knowledge. These agencies also provide a unifying national policy perspective. Local governments, on the other hand, provide a unifying territorial perspective. Their strength lies in their potential to define needs for external resources more accurately, and make the necessary claims on the national system.

The Mission's strategy on decentralized development includes three types of project activity: (1) testing and demonstrating approaches to development based on local control and initiative, while simultaneously building institutional capacities to apply these approaches on a larger scale, such as PDP I and II and the Comprehensive Health Improvement Provincial Project; (2) policy research and discussion, such as the Agricultural Planning and Policy Project now being designed, and (3) development of training capacities to strengthen managerial and technical capacities at decentralized levels, as in the Local Government Training Project. In addition, the Mission supports a number of indigenous PVO's to strengthen their capacities to work at local levels.

II. B.3. PL 480 Title I & II. In the past year a number of steps have been taken to integrate PL 480 Title I and Title II with the Mission's overall development program.

(a) Title I. USAID and the government's long-run objective in the Title I program is food self-sufficiency, as noted in the CDSS. Although Indonesia has in recent years achieved one of the highest growth rates in rice production in Southeast Asia, averaging more than 4 percent per annum since the mid-70s, the country has still not achieved self-sufficiency in food grain production. Recent drought coupled with pest damage, and reports in some areas that rice yields are beginning to reach ceilings with present technologies, have resulted in a decline in the rate of growth of rice production--a recent report suggests that production may have been 23.3 million tons in 1983 compared to 23.2 million in 1982. In 1984, it is estimated that government will import 2 million tons of food grains. The shortfalls suggest that national food grain production levels, relative to consumption requirements, are still sensitive to circumstances such as pest outbreak and weather, and that food stability has yet to be achieved. The need for food purchases occurs at a time when Indonesia is experiencing serious budget and balance of payments problems.

In addition to providing developmental resources, Title I gives USAID access to BULOG, a key actor in agricultural policy and planning. One of the policy issues the Mission has struggled with is the diversification of food crop production, that is, lessening dependence on

rice. The Mission obtained government agreement for a secondary crops project, and is now developing another project in FY 84 to strengthen agricultural policy formulation and planning. Both have required considerable discussion and negotiation with government; such discussions have been facilitated by the existence of a Title I program.

The Government has demonstrated that it can make good developmental use of PL 480 proceeds in a manner which reinforces the CDSS and DA program. BULOG is a relatively well-developed organization and has its own R&D unit, but is responsive to USAID's suggestions for proceeds use. For the first time in negotiating self-help requirements (FY83), BULOG agreed to set aside 10 percent of the proceeds, or \$2.4 million, to support the role of Indonesian and U.S. PVOs engaged in rural development activities. As required by the Title I Sales Agreement of April 16, 1983, the government has provided USAID the formal guidelines and criteria for administering those programs for promoting the role of PVOs in rural development activities. Establishment of a mechanism for release of the funds to qualified PVOs is underway. Both local and U.S. PVOs are submitting proposals directly to the Department of Social Services.

In FY 84, USAID, in consultation with BULOG and other government agencies, identified two USAID-related projects for inclusion under self-help activities, Luwu Area Development and Rural Electrification. US\$900 thousand will be used to cover selected costs in the maintenance of 178 kilometers of road and construction of bridges in Luwu Province. These funds will complement the US\$16.61 million loan and US\$2.09 million grant which USAID already provided to this activity. US\$5.4 million will be provided to three rural cooperatives (Luwu, Lombok, and Lampung) to cover the costs of 14 generation units which will increase coverage by 50,000 customers. The Title I funds will supplement the US\$11 million grant and US\$30 million loan provided by USAID for this activity. The balance of the proceeds has been earmarked to expand and improve the productivity of rural women with a view to raising farm productivity and increasing family income and welfare; to establish cooperative collection points to improve the marketing and distribution infrastructure for farm commodities; to establish cooperative distribution kiosks to improve small farmer access to agricultural inputs, and to cover the costs of rehabilitating existing irrigation canals in Central and East Java.

In view of the country's balance of payments problems and food uncertainties, and the improvement in the use of proceeds for development purposes, the Mission strongly endorses a continued Title I program at current levels.

(b) Title II. The objectives of the Title II Program are to promote economic development in food-deficit rural areas, improve nutrition and health for vulnerable groups, and ensure that basic human needs are met at times of catastrophe.

Malnutrition is a national problem in Indonesia. The Ministry of Health reports that 35 percent of children age 0-5 suffer from protein calorie malnutrition; 40 percent of this same age group suffer from iron deficiencies and even a greater number from vitamin A deficiency. In the densely populated areas of East and Central Java, a focus of Title II activities, the nutritional status of the population is even more serious with daily caloric intake averaging only a little more than 1550 grams per person. In view of the increasing incidence of rural unemployment and budget constraints following the downturn in the economy, there is a continuing need for Title II assistance to Indonesia. Title II is also important because it encourages PVO activity at a time when it is clear that government cannot afford to provide and finance all development activities. The government has recognized the need for Title II assistance and has provided increasing budget support for these programs, including, as noted, proceeds from Title I.

In 1982 the Mission completed an evaluation of the MCH program to assess its effectiveness as a development instrument. The evaluation concluded that the program was

having positive nutritional impact on the most severely malnourished group of children but that the nutritional education component of the program as well as its targeting activities were deficient, and that the feeding activities were not integrated with other health services or community development activities. As a consequence of the evaluation, Catholic Relief Services (CRS)--the main executing agency for both the MCH and FFW activities--initiated efforts to revamp and strengthen its MCH program.

In October of 1983, the Mission, working closely with CRS, fielded a second evaluation team to examine on-going Title II activities and to develop a plan of action. In addition to reviewing CRS's revised strategy for improving the effectiveness of the MCH component, the assessment also examined the FFW activity. The final report of the evaluation team has not yet been submitted to the Mission, however, the early drafts provide a general picture of the current status of activities as well as the proposed recommendations for strengthening the Title II Program. After the final report is submitted, the Mission will work with CRS to develop plans for implementing the specific recommendations.

The MCH program is closely integrated with the national nutrition program, the UPGK. Approximately 75 percent of the centers supported through the MCH program

are UPGK centers operated by the appropriate government agencies. The component of the MCH supported centers that distinguish them from the national program is the distribution of Title II food. An important benefit of the food distribution is the significant impact upon participation of the villages. Participation rates for the national program are averaging about 40 percent. In the MCH-assisted centers this rate increases to 98 percent thus ensuring that the poorest families, which are typically the hardest to reach, are being covered.

Title II foods are not part of the traditional diet of most of these communities. To have maximum nutritional impact their distribution must be accompanied by information on their appropriate uses. The development of this information has been constrained by the frequent changes in the foods distributed. The assessment recommends that to the degree possible CRS should seek to establish consistency in the commodities provided. Equally important is that CRS work more closely with its local counterparts in the selection of these commodities and provide them ample time and assistance for the development of the accompanying information.

A major criticism of the MCH program pointed out in the 1982 evaluation was the lack of a village phase-out strategy. In response to this criticism, CRS has proposed

adding an income-generating component to this MCH activity. The purposes of this component are to improve the income earning capacity of participating families and to create a mechanism for financing the program on a continuing basis. The team recommends that this activity proceed but on an experimental basis and with a more detailed design and implementation strategy.

(c) Food For Work. The two objectives of the FFW program are to provide employment for the rural poor and to upgrade the physical infrastructure which supports the productive activities of this group. The 1983 assessment concludes that although the impact of FFW activities measured in terms of physical outputs is impressive, substantial changes will have to occur within the program in order to achieve these two objectives.

Employment relief for the rural poor is only partially being obtained within the existing program. Achievement of this objective is constrained by the method of labor organization utilized to implement this program, which requires that all village households provide labor and tools for the subproject. Not only does this prevent the program from targeting the underemployed and unemployed villagers but it also keeps the returns for labor and other inputs very low. (The standard food allotment is 2.5 kilos of grain per day or about Rp. 250. The average daily rate for unskilled wage labor is Rp. 750).

(d) Commodity Levels and Budgets. Based on the assessment of the current status of the Title II Program, the team recommends that the size of the overall program remain the same. It also recommends that recipient levels for the MCH and FFW activities remain at their current levels, 75,000 and 110,000 recipients respectively. Finally the team recommends that the planned budget for commodities for 18,750 new FFW recipients be monetized in order to finance institution building efforts within CRS and its local counterpart organizations. The Mission concurs with these recommendations.

CRS is presently preparing a proposal based on the above recommendations which the Mission expects to review during early FY 1984.

## II. C. Management Plans

To improve the quality and efficiency of program management, a number of actions are planned for FY 84 and FY 85.

1. Trimming the portfolio. The target is a portfolio of 30-35 projects. Projects which do not fall within the framework of the CDSS, such as large infrastructure projects, will not be continued. The Land Mapping and Titling project was recently terminated because of general disinterest in the

project by the GOI. New project starts will be kept to around five or less per year. Since late 1981, the number of projects has steadily declined reaching 52 in 1982 and 42 in 1983. It is anticipated that the number will fall to 37 by late 1984 and to the lower thirties in FY 85. Given Mission budget and staff resources, this level is manageable and will enable implementation of the CDSS.

2. Maintaining a low mortgage rate. By the end of FY 83, the Mission was able to reduce its forward funding commitment (mortgage) to about one-half of one year's obligations. This low level of commitment permits budget flexibility to introduce new initiatives in FY 84 and FY 85 linked to the CDSS. The Mission plans to continue to keep mortgage levels below the value of one year's obligation.

3. Implementation. The Mission's management has given priority attention to resolving project implementation problems. There has been significant progress with projects like PDP, Sederhana, Rural Electrification, HTR&D, and LGT II. The PACD extensions this past year are partly accounted for by the Mission's attempt to provide sufficient time to increase the effectiveness of ongoing programs and to bring them to an orderly and successful conclusion. In FY 84, attention will be given to resolving implementation problems with the Eastern Islands Agricultural Education Project and CHIPPS.

4. Management processes. In FY 83, the Mission introduced a number of procedures to improve funds control and project management: 1) a uniform, Mission-wide approach to project development which includes inter-office project committees, a stronger role for the Director's office, and more appropriately paced interaction with Indonesian officials; 2) quarterly implementation reviews of all projects in a format that satisfies Mission and AID/W requirements and permits more regular contact between Mission management and project officers; 3) a revised statement regarding delegation of authority and clearance procedures which clearly indicate when and under what circumstances clearance is required by the Program and Controller offices, the Legal Advisor, and Director's office; 4) strengthened fund control procedures; 5) reintroduction of PILs to regularize documentation; 6) a number of other measures to improve project management, including the development of office workplans and their review with management; the preparation and distribution of guidelines for waivers, PACD extensions, and deobligations; and the introduction of a tracking system to ensure that conditions precedent are met. Basic management systems are now in place and are beginning to work well. In FY 84 the Mission plans to refine these procedures further, streamline them to reduce paperwork, and provide training in design and implementation to FSN and USDH staff. Plans for training are now being designed.

5. Organization. In FY 84 the Mission's planned organizational changes will be completed. These include a

strengthened Program Office, and a reduction and consolidation of technical offices. Steps already taken in this regard include the merger of the Offices of Population and Health, and the creation of a new Office for Employment and Enterprise Development. The most significant remaining step will be the merger of the Offices of Agriculture and Rural Development, scheduled for summer 1984. Another organizational change includes the management of the Development Studies Project (DSP) which supports policy studies. Project officers from various technical offices serve on the Mission's Policy Committee on a rotating basis to review project proposals.

Finally, an approach is being developed for management of grants to private voluntary organizations in order to fully integrate this activity into the Mission's programming process. As with the DSP, the Mission's technical offices are being asked to give greater attention to the role of PVO's in relation to their office strategies. Proposals will be funded through the Mission's Office of Voluntary and Humanitarian Programs, with the technical offices assuming an expanded technical role in the management of these projects.

### III. Strategic Work Plans

#### A. General Strategy

The Action Plan presented here for FY 84 and FY 85 describes in more detail the Mission's objectives related to

the program goals set forth in the CDSS, outlines proposed projects to meet these objectives, and establishes benchmark program and management activities which the Mission is planning to undertake during the next two fiscal years. The links between the proposed projects and the Mission's CDSS, the Asia Bureau Strategy, and Agency policies are described in Annex B.

B. Substantive Program Focus

1. Strengthening Food Production and Related Resource Management

- a. Evaluate agricultural research portfolio in FY84 and incorporate appropriate elements in new comprehensive Agriculture Sector Research Project.
- b. Phase out Agriculture Planning I project, and conduct final evaluation. Complete design of Agriculture Planning II Project by mid-FY84.
- c. Complete the Citanduy I Project in FY84, tighten management of Citanduy II to speed implementation, and begin Upland Agriculture Project in FY84, focusing particular attention on the development of workable institutional and budget procedures to deal with implementation of watershed activities.
- d. Phase out Luwu Project in FY84, complete evaluation. Explore possible use of Title I proceeds for a project to strengthen O&M of water management systems. Closely monitor water users associations experiment under Sederhana II during FY 84. Design new Small Scale Irrigation Operations and Maintenance Project in FY 84.
- e. Complete contracting in FY84 for Secondary Crops Project and begin start up.
- f. Review East Timor Agricultural Development Project.
- g. Organize at least two agricultural policy studies under Development Studies Project.

2. Increasing Off-Farm Employment

- a. Complete design for Central Java Enterprises Project and contract by late 1984.
- b. Complete feasibility work and design of Private Sector Management Training Project by mid 1984.
- c. Evaluate progress on Private Sector Project in early FY85 to determine parameters for late FY 1985 extension.
- d. Redesign Title II Food for Work project to maximize employment impact.
- e. Conduct at least two policy studies under the Development Studies Project related to Off-farm Employment.
- f. Phase out Rural Works II Project.
- g. Design in early 1984 a Financial Institutions Development project which provides credit at unsubsidized interest rates.
- h. Review Mission's overall efforts to increase off-farm employment in FY86, with a view to adjusting CDSS and preparing a more focused second phase.

3. Improving primary health care and completing the institutionalization of family planning.

- a. Complete procurement and training under the Expanded Program in Immunization, and evaluate impact of this effort on target area.
- b. Sharpen focus of Title II MCH program and restructure in FY84.
- c. Complete provision of oral contraceptives to Indonesian Family Planning Program by end of FY85.
- d. Start FP activities in urban areas and increase possibility that greater amount of FP services will be self-financing by conducting experiments in this area.
- e. Based on output of diarrheal component of HTR&D Project, design an appropriate intervention for diarrheal disease control to be implemented in FY85.
- f. Conduct an in-depth evaluation of FP interventions in late FY 84 or early FY 85.

g. Prepare evaluation of impact of FP/MCH nutrition project.

4. Accelerating human resource development.

a. Conduct an assessment in FY84 of options for agricultural faculty development.

b. Implement change in focus of LGT II Project with objective of institutionalizing effort concurrent with maintaining training output. Assess progress in late FY85.

c. Complete PP for Policy Research and Education Planning by early FY84. Have TA in place by late FY84.

d. Set up an overseas training unit under the GPT II Project which will be functioning by the end of FY85.

e. Phase out the current Eastern Islands Project, the Self-Instructional Learning Project, and the Education Communications Development Project.

f. Dispatch 325 LT and 625 ST participants under GPT II and other projects by late FY85.

g. Assess the PRD-I, II and In-Country Management Development projects to discern whether the approaches being followed are being institutionalized. Complete training under the former two projects.

h. Evaluate Western Universities Agricultural Education Project.

i. Conduct an assessment of the needs of the public health faculties and identify areas where assistance needed.

j. Examine possibilities for apprentice technical training program as a follow-up to Lhok Seumawe industrial manpower study.

5. Other Program Plans

a. Policy Analysis.

(1) Proceed with implementation of Development Studies Project into final studies, technical assistance, and workshops for agenda which will include:

- employment generating options
- small-scale irrigation strategies, including O&M

- revised regulations to encourage rural savings mobilization
  - support a workshop on long-term growth and development strategies for Indonesia
  - decentralization of development planning and management
  - health/FP policies that integrate immunization and oral rehydration
- (2) Encourage staff review of policy potential of all new USAID projects, as well as ongoing projects.
  - (3) Continue periodic implementation reviews of Mission portfolio with BAPPENAS for policy implications.

b. The Private Sector.

- (1) In addition to activities included under the Employment Generation Section, above, work with Ministry of Finance on agenda for studies and technical assistance to improve capital market activity to be agreed upon in first quarter of FY 84.
- (2) Pursue PRE initiatives: venture capital, YPO, JACC, and IESC.
- (3) Complete strategy reviews of employment and management for CDSS.
- (4) Prepare quarterly reports to Congress, PRE and Asia Bureau on the status of private sector initiatives: due June 30, September 30, December 30, March 30.
- (5) Meet on a regular basis with the AmCham Advisory Committee on USAID to review AID projects and developments affecting AID's private sector activities.
- (6) Coordinate with other donors active in private sector development and with universities and institutions involved in research or training relating to the private sector.
- (7) Work with the Commercial Interests Working Group on private sector activities.
- (8) Work with other USAID offices in analyzing the role that the private sector can play in areas such as education and manpower development, agriculture and rural development, health and family planning.

- (9) Work with other USAID offices in reviewing aspects of projects which concern areas in which the office may be developing expertise-- management, credit.

c. Technology Transfer and Adaptation.

This goal is reflected in support for technical assistance, research, implementation projects and training, that characterizes the portfolio. A review of current programs and future plans for S&T for the Mission will be conducted.

d. Decentralization.

- (1) Work on an operational definition of participation, and develop a clearer Mission policy statement.
- (2) Review the projects in the Mission which are directed at decentralization and broader participation, such as PDP II, the FY85 small-scale irrigation project, the HTR&D project as redesigned in late FY83, and Agricultural Planning Project II to develop strategy further.

e. PVOs.

- (1) Prepare Mission strategy paper for PVO support.
- (2) Expand support to Indonesian PVOs in FY84 and FY85.
- (3) Strengthen Indonesian PVO intermediaries which service smaller indigenous PVOs.
- (4) Broaden the mandate of the Mission's Voluntary and Humanitarian Program Office to include private development organizations such as ADC, Population Council, and PIACT, which are concerned with training, research and development.

f. Disaster Preparedness and Relief

- (1) Request OFDA/W to assist in identifying source of funding required to assist in development of Vulcanology Survey of Indonesia (VSI).
- (2) Support government efforts through Washington funding to establish a disaster

manpower/management training institute in Indonesia. A study of a proposal is presently underway which will lead a feasibility report.

- (3) Continue to respond to specific GOI requests for disaster relief.

Figure I

Major GOI Policy Actions 1982

1. Containment of 1982/83 budget 1/82
  - current budgetary expenses held constant in nominal terms; total budget held roughly constant in real terms:
    - freeze on government salaries
    - 60% rise domestic petroleum prices
  
2. Export promotion measures 1/82
  - simplification of export procedures and regulations:
    - export surrender requirement scheme abolished
    - requirement to open export letters of credit abolished
    - instructions issued to promote improvement of customs procedures and simplify export document processing
  - increased financial incentives:
    - low interest rate export credit facilities made available through State Banks
    - new export insurance facility established
  
3. Credit policy tightened
  - marked slowdown in liquidity expansion
  - access to rediscount facility substantially curtailed
  
4. Greater flexibility introduced in exchange rate policy
  - rupiah progressively depreciated 7-8%

Figure II

Major GOI Policy Actions 1983

1. Introduction of Austere 1983/84 Budget 1/83
  - current budgetary expenditure essentially held constant in nominal terms, total budget constant/falling in real terms:
    - continued government wage freeze
    - 50% rise in domestic petroleum and fertilizer prices
    - certain food subsidies abolished
    - pesticide subsidies reduced
2. Devaluation of Rupiah 27.6% vs U.S.\$ 3/83
  - adoption of new basket of currencies reflecting major trading partners and competitors
  - adoption of managed float policy with intent to maintain competitiveness of real effective exchange rate
3. Rephasing of Public Sector Investment 5/83
  - estimated \$3.0 billion FX saving 1983/84
  - estimated \$7.4 billion FX saving subsequent years
  - stated intent to reallocate associated domestic project savings to new labor intensive projects
4. Reform of Monetary/Banking Policy 6/83
  - State Banks free to set deposit and most lending rates
  - detailed rediscount mechanism simplified so as to restrict access to only the highest priority sectors
  - quantitative ceilings on individual bank's credit expansions abolished
5. Review of Regulations Affecting Private Sector Initiated 7/83
  - Priority given by the cabinet to simplifying investment licensing, regulatory and administrative procedures
  - Program begun to overhaul and simplify export procedures; single-commodity export review teams established
6. Reform of Tax Legislation 12/83
  - major revision and simplification of personal and corporate income tax laws
  - replacement of sales taxes with value added tax plus luxury sales tax
  - revision and simplification of tax administration and procedures

Figure III

Consumer Prices

	<u>3/83</u>	<u>11/83</u>	<u>8 months</u> <u>% change</u>
Consumer Price Index (17 cities)	206.0	220.2	6.9%
food stuffs (7.2% CY 83)	189.7	209.7	10.5%
housing	228.8	238.0	4.0%
clothing	204.6	213.7	4.4%
miscellaneous	210.6	221.4	5.1%
Consumer Price Index (Jakarta)	189.8	200.1	5.4%
food stuffs	167.9	184.6	9.9%
housing	219.6	225.4	2.6%
clothing	189.2	189.5	-
miscellaneous	192.1	201.0	4.6%
Avg. Price Medium Quality Rice (Rp/kg)			
Jakarta	261.3	288.4	10.4%
Bandung	243.7	315.0	29.3%
Semarang	267.3	289.1	8.2%
Surabaya	273.1	275.0	0.7%
Medan	280.0	315.0	12.5%
Palembang	297.2	335.0	12.7%
Pontianak	294.2	300.0	2.0%
Ujung Pandang	276.1	275.0	- 0.4%
Manado	300.0	320.0	6.7%
Mataram	283.2	325.0	14.8%

Figure IV

Selected External Account Data  
(\$ Million)

	<u>April - Sept</u> <u>1982</u>	<u>1983</u>	<u>6 months</u> <u>% change</u>
Total Commodity Exports	9351.4	9605.3	+ 2.7%
Oil	6092.7	6240.1	+ 2.4%
LNG	1327.9	1011.5	- 23.8%
Non-oil/LNG	1930.7	2353.7	+ 21.9%

	<u>April - July</u> <u>1982</u>	<u>1983</u>	<u>4 months</u> <u>% change</u>
Total Commodity Imports	5,322	5,111	- 4.0%
Balance of Trade	1,346	1,615	+ 20.0%

	1 9 8 3				
	<u>Jan.</u>	<u>March</u>	<u>June</u>	<u>Sept</u>	<u>Nov</u>
Net Int'l Reserves (\$ Million)	4,032.4	3,074.4	3,753.5	4,528.1	4,700

	Rupiahs Per Unit		
	<u>3/31/83</u>	<u>12/21/83</u>	<u>Rupiah</u> <u>Depreciation</u>
Exchange rate (buying)			
Yen (100)	402.4	420.9	4.4%
Sin \$	463.4	465.4	-
U.S. \$	970	993	2.4%

GOI State Budgets 1980/81 - 1984/85  
(Billions Rupiah)

	<u>1980/81</u> <u>Actual</u>	<u>1981/82</u> <u>Actual</u>	<u>1982/83</u> <u>Actual</u>	<u>1983/84</u> <u>Budget</u>	<u>1984/84</u> <u>Revised Est.</u>	<u>1984/85</u> <u>Draft Budget</u>
<u>Revenues</u>						
Domestic Receipts	10,227	12,213	12,418	13,823		16,149
Direct Taxes	8,230	10,100	10,010	11,033		12,818
Indirect Taxes	1,681	1,776	1,973	2,288		2,716
Non-tax Receipts	316	337	435	502		615
Development Receipts	<u>1,494</u>	<u>1,709</u>	<u>1,940</u>	<u>2,742</u>		<u>4,411</u>
Total Revenues	11,721	13,922	14,358	16,565		20,560
<u>Expenditures</u>						
Routine Budget	5,800	6,978	6,996	7,725		10,101
Personnel Expenditure	2,023	2,277	2,418	2,597		3,189
Goods Procurement	671	923	1,041	1,149		1,264
Subsidies to Regions	976	1,029	1,315	1,388		1,785
Debt Service	785	931	1,225	1,417		2,686
Other (Oil-fuel Subsidy)	1,345	1,638	997	724		1,177
Development Budget	5,916	6,940	7,360	9,290		10,459
Rupiah Financing	4,503	5,523	5,435	6,553		6,088
Project AID	<u>1,413</u>	<u>1,417</u>	<u>1,925</u>	<u>2,737</u>		<u>4,371</u>
Total Expenditures	11,716	13,918	14,356	16,565		20,560

Source. Statistik Ekonomi - Keuangan Indonesia, 1984/85 Draft Budget and IMF estimates.

Relationship of New Project to CDSS, Regional Strategy, and Agency Policy Papers

<u>PROJECTS</u>	<u>CDSS</u>	<u>REGIONAL STRATEGY</u>	<u>POLICY PAPER</u>
Upland Agriculture and Conser- vation 497-0311	Directly linked to major focus of CDSS strengthen- ing food production and natural resource management Institution building project will provide TA and training to address the institutional and human resource dimensions of the problem Technology Transfer project will provide T.A. to address the major technical dimensions of the problem, and support demonstration project Project noted in CDSS	Directly supportive of regional effort to address watershed/upland farming issues as well as the regional focus on community management of local resources. Complements regional goal of increasing the output of basic foods. Parallels regional strategy for joint research efforts in management, economics and sociology of watershed problems and using this as a vehicle for a more sophisticated policy dialogue on the relevant issues.	In general terms, the project directly supports Administration emphases on technology transfer, institution building and policy dialogue. In more specific terms, the project will pursue the two main objectives outlined in the Food and Agricultural Development Policy Paper increased food availability and improved food con- sumption.  Technical assistance in the form of training and technical advisors will comprise a major mode of support.

PROJECTS

CDSS

REGIONAL STRATEGY

POLICY PAPER

Agricultural Planning II 497-0342

Central component of Mission's primary focus on institution building which has as its principal objective strengthening management and technical skills in the Ministry of Agriculture. Project noted in CDSS.

A central element of the regional strategy related to agriculture and rural development is to place increased emphasis on developing the institutional and manpower resources necessary for countries to plan development efforts by providing high payoff scientific and technical assistance. This focus is the principal objective of this project.

Directly related to Administration emphasis on institution building, policy dialogue and technology transfer.

As outlined in the Food and Agriculture Development Policy Paper, project activities will be integrated with efforts targeted at improving country policies in areas affecting food and agriculture production, marketing and consumption

Critical component of Mission-wide effort to engage in a more fruitful policy dialogue with the GOI and, more specifically to strengthen agriculture policy planning.

PROJECTS

Education and Policy Planning 497-0344

CDSS

The project is a major component of Mission's primary focus on institution building and also incorporates technology transfer and policy dialogue concerns. It is directly linked to Mission strategy of accelerating human resource development by helping to establish strong planning and R&D capability

REGIONAL STRATEGY

In accordance with the regional strategy the project will seek to establish a stronger policy dialogue with MOE in order to improve capacity to collect and analyze data, plan education and training, develop research and experimentation, and improve internal efficiency.

POLICY PAPER

The project responds to Administration emphasis on policy dialogue and institution building In line with the Education Policy Paper the project will seek to identify inadequacies in the existing education system. It will directly address organization and management constraints as well as technology constraints.

PROJECTS

CDSS

REGIONAL STRATEGY

POLICY PAPER

Diarrhea Mort./Morb. Reduction 497-0346

Project is directly related to Mission strategy to improve primary health care. It directly addresses issues associated with establishing cost-effective systems to reduce consequences of diarrheal disease. It reflects Mission's primary focus on institution building and is a part of the technology transfer effort.

The long term objective of the regional health strategy is mortality reduction. This project focuses directly on this problem as well as improvements in cost-effective primary health care systems, the principal strategic objective of the Bureau's health program.

Project reflects Health Policy Paper concern over promoting economically viable health programs as well as its emphasis on increasing bio-medical research and field testing in support of health care systems.

PROJECTS

CDSS

REGIONAL STRATEGY

POLICY PAPER

Small Scale  
Irrigation  
O&M  
497-0347

Directly responsive  
to Mission's twin themes  
of productivity and  
participation

Linked to CDSS strategy  
to strengthen food  
production and resource  
management as well as  
efforts to establish open  
and flexible decision-  
making procedures. In  
addition, it complements  
Mission institution-  
building priorities through  
strengthening decentralized  
organizations. The project  
will address legislative and  
regulatory constraints  
affecting implementation.

Project noted in CDSS

Complements regional goal  
of increasing the output  
of basic foods and is  
directly linked to Bureau  
objective of concentrating  
on irrigation and water  
management.

In accordance with Bureau  
strategy related to these  
issues, the project will  
engage the GOI in a policy  
dialogue involving a  
range of problems concerning  
the economics and management  
of Small Scale Irrigation  
systems.

The project corresponds to  
three of the major Adminis-  
tration emphases institution  
building, policy dialogue and  
technology transfer. It  
follows the guidelines set  
out in the Food and Agri-  
cultural Development and  
Policies in Food and Agri-  
culture Policy Papers with  
their emphases on increased  
food availability and  
improved food consumption  
as well as the policies  
affecting food production.  
It addresses the concerns  
outlined in the Recurrent  
Cost Policy Paper and has  
O&M as a major project  
initiative.

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PROJECTS

CDSS

REGIONAL STRATEGY

POLICY PAPER

Faculties  
of Public  
Health  
497-0348

Directly related to overall Mission strategy of improving primary health care, in this instance, via improvements in health system training and management.

Also complements Mission primary objective related to institution building.

Project noted in CDSS.

Reflects Bureau emphasis on providing technical skills and training health manpower to strengthen the management of cost effective and self-sustaining health care systems. Complements Bureau concern with identifying the most appropriate health care interventions, that is those which are both technically proven and administratively feasible.

Project directly responds to the Health Policy Paper emphasis on the management & administration of health care systems. It utilizes all three mechanisms proposed in the policy paper for dealing with these problems technical assistance to strengthen administration, training programs for mid-level managers, and training trainers.

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PROJECTS

CDSS

REGIONAL STRATEGY

POLICY PAPER

Agriculture  
Sector  
Research  
497-0349

Critical component of Mission's primary focus on food production and on institution building with respect to both the strengthening of management and technical skills and strengthening decentralized operations of organizations.

Continued support for agricultural research through the decade noted in CDSS.

A specific goal of the Bureau is to support and build Asian capacity to sustain agricultural production growth. Strengthening and expansion of the agricultural research system is central to this effort. This objective is the primary focus of the proposed project and in accordance with the regional strategy will provide some small amount of capital assistance with major emphasis on technical assistance and training.

The project addresses two major administration concerns. institution building and technology transfer. Also in accordance with the Food and Agriculture Policy Paper it will attempt to strengthen counterpart capacity to address and solve their own food and agricultural development problems and emphasize the Agency's science and technology capabilities. Technical assistance in the form of training and technical advisors will comprise major mode of assistance.

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IY 84 - 89 ILLUSTRATIVE PROGRAM - FY APLA OI CONCLUSION  
(In \$ Millions)

<u>CYTOR</u>	<u>IY 84</u>	<u>IY 85</u>	<u>IY 86</u>	<u>IY 87-89</u>	<u>Total</u>					
1 Increasing Production & Off-Farm Employment	20 05	31 3	15.45	23 0	10 00	13.9%	45 00	18 8	90 50	20 4
2 Strengthening Food Prod. and Resource Mgt	18 81	29.4	30.50	45 5	40 20	55 8%	120 00	50 0	209 51	47 3
3 Improve Primary Health Care and Completing Work in IP	12.35	19.3	10 10	15 1	9 85	13.7	30 00	12 5	62 30	14 1
4 Improve Mgt of Jhu and Training System	7.65	12 0	9 95	14.9	7 25	10.1	30 00	12.5	54 85	12 4
5 Cross Sectoral	5 147	8.0	1 00	1.5	4.70	6 5	15 00	6 2	25 847	5 8
<u>Total DA</u>	<u>64 007</u>	<u>100</u>	<u>67 00</u>	<u>100</u>	<u>72 00</u>	<u>100</u>	<u>240 00</u>	<u>100</u>	<u>443 007</u>	<u>100</u>

TABLE B

IY 84 - IY 89 ILLUSTRATIVE PROGRAM - BY APPROPRIATION ACCOUNT  
(In \$ Millions)

<u>SICITION</u>	<u>FY 84</u>	<u>IY 84</u>	<u>IY 85</u>	<u>IY 86</u>	<u>IY 87-89</u>	<u>Total</u>				
103 AG & RD	37 86	37.9	56 7	50 20	69 7	165 00	52 0	291.01	65 7	
104 FOP	9 50	1 50	2 2	2 00	2 8	5 00	6.3	18 00	4 1	
104 HLALHI	2 85	15 10	22 5	7.85	10 9	25 00	10.4	50 80	11 5	
105 LHR	8 65	6 4	9 6	7.25	10 1	30 00	25 0	52 35	11 8	
106 SJA	5 147	6 00	9 0	4.70	6 5	15 00	6.3	30 847	6 9	
<u>Total</u>	<u>64 007</u>	<u>100</u>	<u>67 00</u>	<u>100</u>	<u>72 00</u>	<u>100</u>	<u>240 00</u>	<u>100</u>	<u>443.007</u>	<u>100</u>

PI, 4FO

Table I	30 00	30.0							*
Table JI	8 50	9 9							*
<u>Total</u>	<u>30 50</u>	<u>39 9</u>							<u>39.9</u>

\* To be determined