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ITINERARY FOR VISIT TO THE PHILIPPINES, INDONESIA,  
SINGAPORE and THAILAND, May 7-20, 1979

| <u>DATE</u> | <u>TIME</u> | <u>GMT</u> |  | <u>REMARKS</u>                    |
|-------------|-------------|------------|--|-----------------------------------|
| May 7       | 1730        | 2130       | Depart Washington--Dulles  | TW-063 L10 11                     |
| Mon.        | 2010        | 0310       | Arrive San Francisco   |                                   |
|             | 2230        | 0530       | Depart San Francisco   | PR-107 DC10<br>Honolulu 0035/0150 |
| May 9       |             |            |  |                                   |
| Wed.        | 0725        | 2325       | Arrive Manila  | Manila Hotel                      |
| May 10      | 0900-1000   |            | Meet w/President Marcos  |                                   |
| Thurs.      | a.m.        |            | Address UNCTAD   |                                   |
|             |             |            | Lunch w/Mr. Virata   |                                   |
|             |             |            | Meet with Professor Widjojo  |                                   |
|             |             |            | Meet with Prime Minister Fraser (?)  |                                   |
|             | 1715        | 0915       | Depart Manila  | PR-535 DC8 nonstop                |
|             | 1945        | 1245       | Arrive Jakarta   | Borobudur Hotel                   |
| May 11      |             |            |  |                                   |
| Fri.        | 0900        |            | Meet w/Ministers of Agriculture, Transmigration<br>and Public Works  |                                   |
|             | 1100        |            | Meet w/Political and Security Ministers  |                                   |
|             | 1230        |            | Visit to RSI   |                                   |
|             | 1330-1415   |            | Lunch  |                                   |
|             | 1430-1630   |            | Meet w/Minister Coordinator for Social Affairs and<br>Social Sector Ministers (Education), Health & Family<br>Planning, Women, Social Affairs  |                                   |
|             | 1630-1830   |            | Meet w/Ministers of Mining and Energy, Transport,<br>Research and Industry   |                                   |
|             | 2000        |            | Informal dinner w/Messrs. Soedjatmoko, Sadli<br>Seda and Sarbini   | Borobudur Hotel                   |
| May 12      | 0730-0900   |            | Jakarta-Cirebon (West Java)  | Helicopter                        |
| Sat.        | 0900-1020   |            | Briefing by Prosida on irrigation projects and<br>extension staff on agricultural extension  |                                   |
|             | 1020-1215   |            | Visit farmers' meeting w/village extension workers<br>and discussion w/farmers   | By car                            |
|             |             |            | Visit nearby tertiary irrigation system  | "                                 |
|             |             |            | Visit to Cirebon upland village  | "                                 |
|             |             |            | --Meet w/farmers to discuss upland farming   |                                   |
|             |             |            | --Nonfarm employment in the village  |                                   |
|             |             |            | --Nonfarm employment in rural areas in small-scale<br>industries   |                                   |
|             | 1215-1330   |            | Cirebon to Surabaya Juanda Airport   | Helicopter                        |
|             |             |            | Welcome by East Java Governor, Sunandar Priosudharmo   |                                   |
|             | 1340-1430   |            | Surabaya Juanda to Sumberrejo  | Helicopter                        |
|             |             |            | Visit villages of Sumberrejo and Prayungan including<br>feeding center, home gardening, food storage and<br>health family center               |                                   |
|             | 1530-1620   |            | Sumberrejo to Surabaya Perak Airport   | Helicopter                        |
|             |             |            | Welcome by Mayor Muhadji Widjaja, and Chairman<br>of City Council Eddy Sutrisno  |                                   |
|             | 1625-1630   |            | Surabaya Airport to Kampung Perak Timu   | Minibus                           |
|             |             |            | Visit recently improved kampung--briefing presenting<br>KIP assisted under Bank 2nd Urban project by KIP<br>Unit Manager Mr. Gunadinya; snacks |                                   |
|             |             |            | Walk through Kampung new road, footpaths, drainage<br>canal and water supply/sanitation facilities. Talk<br>w/inhabitants (80% port workers).  |                                   |

| <u>DATE</u>     | <u>TIME</u>      | <u>GMT</u> |  | <u>REMARKS</u>                     |
|-----------------|------------------|------------|--|------------------------------------|
| May 12          | 1700-1710        |            | Kampung Perak Timur to Kampung Pegirian<br>Visit unimproved Kampung earmarked for Urban III<br>Walk through narrow alleys along very poor houses<br>w/high population density to traditional wells and<br>canal (toilets); talk to urban poor  | Minibus                            |
|                 | 1730-1740        |            | Kampung Pegirian to Perak Airport  | Minibus                            |
|                 | 1740-1750        |            | Perak Airport to Juanda Surabaya Civil Airport   | Helicopter                         |
|                 | 1800-1845        |            | Surabaya to Denpasar Airport   | Plane                              |
|                 | 1915             |            | Arrive Bali  | Pertamina cottages                 |
|                 | 2000-2130        |            | Dinner and cultural show   |                                    |
| May 13<br>Sun.  | 0730-0830        |            | Denpasar--visit Family Planning Program project:<br>BKKBN Provincial Office, briefing by Dr. Astama<br>followed by 15-min. film on objectives, methods<br>achievements<br>BKKBP Provincial Training Center (PTC), inspection<br>of Center for field workers and training, plus<br>mobile unit financed under Cr. 300-IND |                                    |
|                 | 0830-1000        |            | Depart Denpasar for Bedugul area<br>Visit vegetable cultivation  | Car                                |
|                 | 1030-1130        |            | Bedugul to Ubud area<br>Visit Bandjar family planning at work<br>Visit painting gallery  | Car                                |
|                 | 1230-1245        |            | Ubud to elephant cave<br>Lunch   | Car                                |
|                 | 1415-1530        |            | Elephant cave to Besakih<br>Visit Tampaksiring and Besakih Temple  | Car                                |
|                 | 1600-1730        |            | Besakih to Denpasar Airport  | Car                                |
|                 | 1800<br>ca. 2030 |            | Depart for Jakarta<br>Private dinner w/Prof. Soedjatmoko   | Plane<br>Soedjatmoko Home<br>Plane |
| May 14<br>Mon.  | 0700             |            | Depart Jakarta   |                                    |
|                 | 0730             |            | Arrive Tanjung Karang (Sumatra)  |                                    |
|                 | 0745             |            | Depart Tanjung Karang  | Helicopter                         |
|                 | 0815             |            | Arrive PNP X<br>Visit coconut seed garden  |                                    |
|                 | 0915             |            | Depart PNP X   | Helicopter                         |
|                 | 1015             |            | Arrive Baturaja<br>Visit Transmigration I--meet w/settlers, visit cattle<br>(holding ground), seed farm, health post and school<br>Lunch   |                                    |
|                 | 1330             |            | Depart Baturaja  | Helicopter                         |
|                 | 1405             |            | Arrive Pematang Panjang<br>Visit P.P. settlement--meet settlers, see demonstra-<br>tion animal-drawn implements  |                                    |
|                 | 1515             |            | Depart Pematang Panjang  | Helicopter                         |
|                 | 1600             |            | Arrive Palembang   |                                    |
|                 | 1630             |            | Depart Palembang   | Plane                              |
|                 | 1730             |            | Arrive Jakarta   |                                    |
| May 15<br>Tues. | 0730             |            | Breakfast w/University Professor   |                                    |
|                 | 0900             |            | Meet w/Vice President  |                                    |
|                 | 1030             |            | Meet w/President   |                                    |
|                 | 1200             |            | Round-up meeting and lunch   |                                    |
|                 | 1500             | 0800       | Depart Jakarta   | GA-986 DC9                         |
|                 | 1700             | 0930       | Arrive Singapore<br>Dinner w/Prime Minister Lee Kwan Yew   | Marco Polo Hotel                   |

| <u>DATE</u> | <u>TIME</u> | <u>GMT</u> |   | <u>REMARKS</u>         |
|-------------|-------------|------------|---|------------------------|
| May 16      | 0805        | 0035       | Depart Singapore  | TG-402 Airbus nonstop  |
| We          | 0945        | 0245       | Arrive Bangkok  | Oriental Hotel         |
|             | 1010        |            | Depart for Chainat to irrigation and land consolidation schemes   | Helicopter             |
|             | 1100        |            | Arrive Chainat  |                        |
|             | 1200        |            | Lunch   |                        |
|             | 1300        |            | Depart Chainat for EGAT headquarters  |                        |
|             | 1400        |            | Arrive EGAT for discussion w/Chairman EGAT Mr. Kasame   |                        |
|             | 1430        |            | Depart EGAT for Oriental Hotel  | Boat                   |
|             | 1515        |            | Arrive Oriental Hotel   |                        |
|             | 1615        |            | Briefing by Regional Mission staff  | Oriental Hotel         |
|             | 1700        |            | Depart Hotel  |                        |
|             | 1745        |            | Arrive Government House--meet w/Prime Minister and Ministers of Finance, Industry, Agriculture & Cooperatives, and Public Health; Governor Bank of Thailand; Sec'y-General NESDB; Director, Bureau of the Budget; Under-Secretary of State for Finance; Acting Under-Secretary of State for Agriculture |                        |
|             | 1900        |            | Dinner w/Prime Minister, Ministers and senior government officials  | Government House       |
|             | 2130        |            | Depart for Oriental Hotel   |                        |
|             | 2200        |            | Arrive Oriental Hotel   |                        |
| May 17      |             |            |   |                        |
| Thurs.      | 0615        |            | Depart Hotel for Don Muang Airport  |                        |
|             | 0700        |            | Depart Don Muang Airport  |                        |
|             | 0830        |            | Arrive Ubol Airport   |                        |
|             | 0845        |            | Depart Ubol Airport   | Helicopter             |
|             | 0900        |            | Arrive Tha Kok Hare Agricultural Extension--Pump Irrigation Village   |                        |
|             | 1000        |            | Depart Tha Kok Hare   | Helicopter             |
|             | 1025        |            | Arrive Ban Kuang Kam--Accelerated Rural Development Water Well and Sericulture Village  |                        |
|             | 1125        |            | Depart Ban Kuang Kam  | Helicopter             |
|             | 1155        |            | Arrive Ban Muang Phai--PEA Electrified Village  |                        |
|             | 1225        |            | Depart Ban Muang Phai   | Helicopter             |
|             | 1240        |            | Arrive Yan Talad--Ministry of Education<br>Lunch at Yan Talad   |                        |
|             | 1400        |            | Diversified Secondary School Kalasin District   |                        |
|             | 1440        |            | Upland Crop Research Station, Kalasin District  |                        |
|             | 1515        |            | Depart Yang Talad   | Helicopter             |
|             | 1530        |            | Arrive Livestock Village, Ban Kaeng Noi   |                        |
|             | 1620        |            | Depart Ban Kaeng Noi  | Helicopter             |
|             | 1645        |            | Arrive Khon Kaen Airport  |                        |
|             | 1650        |            | Depart Khon Kaen  |                        |
|             | 1800        |            | Arrive Don Muang Airport, Bangkok   |                        |
|             | 1845        |            | Arrive Oriental Hotel   |                        |
|             | 2000        |            | Dinner at Gen. Kriangsak's residence  | informal--sports shirt |

| <u>DATE</u> | <u>TIME</u> | <u>GMT</u> |  | <u>REMARKS</u>         |
|-------------|-------------|------------|--|------------------------|
| May 18      | 0615        |            | Depart Hotel for Don Muang Airport   |                        |
| Fri.        | 0700        |            | Depart Don Muang Airport for Hat Yai   |                        |
|             | 0915        |            | Arrive Hat Yai Airport   |                        |
|             | 1000        |            | Arrive Small Family Rubber Holding at Nam Noi, Hat Yai District, Songkhla Province, including visit to Group Rubber Marketing Organization |                        |
|             | 1200        |            | Depart for Prince of Songkhla University<br>Lunch and general discussions w/professors and student leaders on role of education in south   |                        |
|             | 1330        |            | Depart for Family Planning and Rural Health Center and Child Nutrition Center at Ban Prik Village, Sadao District                          | Helicopter             |
|             | 1350        |            | Arrive Ban Prik Village  |                        |
|             | 1500        |            | Depart for Hat Yai Airport   | Helicopter             |
|             | 1530        |            | Depart Hat Yai Airport for Hua Hin Airport   |                        |
|             | 1730        |            | Arrive Hua Hin Airport   |                        |
|             | 1745        |            | Arrive Railway Hotel   |                        |
|             | 1800-1920   |            | Free   |                        |
|             | 1930        |            | Audience with Their Majesties The King and Queen   |                        |
|             | 2000        |            | Dinner hosted by Their Majesties The King and Queen  |                        |
| May 19      | 0700        |            | Depart Hua Hin Airport   |                        |
| Sat.        | 0730        |            | Arrive Don Muang Airport   |                        |
|             | 0810        |            | Arrive Oriental Hotel  |                        |
|             | 0830        |            | Breakfast w/representatives from business, banking and academic communities  | Oriental Hotel         |
|             | 0945        |            | Depart Hotel for Bank of Thailand  | Boat                   |
|             | 1015        |            | Arrive Bank of Thailand--discussion w/Dr. Snoh Unakul  |                        |
|             | 1115        |            | Depart Bank of Thailand  |                        |
|             | 1200        |            | Lunch hosted by Minister of Finance  | Government House       |
|             | 1430        |            | Meet w/Prime Minister  | Government House       |
|             | 1845        | 1145       | Depart Bangkok   | TG-602 AB300 nonstop   |
|             | 2220        | 1420       | Arrive Hong Kong   | Peninsula Hotel        |
| May 20      |             |            |  |                        |
| Sun.        | 1345        | 0545       | Depart Hong Kong   | PA-006 B747S0 non-stop |
|             | 1055        | 1755       | Arrive San Francisco   |                        |
|             | 1245        | 1945       | Depart San Francisco   | TW-054 B707 nonstop    |
|             | 2050        | 0050       | Arrive Philadelphia  |                        |
|             | 2200        | 0200       | Depart Philadelphia  | TW-203 B707            |
|             | 2300        | 0300       | Arrive Washington--Dulles  |                        |

CKW May 7, 1979

69-73 478  
74-78 1876  
79-83 4186  
77 440  
78 505  
79 810  
80 731  
84 1145

Indonesia: Airport Arrival Statement

I am very pleased to be in Indonesia for the third time, especially because this is the first developing country I visited after I became President of the World Bank in 1968.

Indonesia is the fourth largest borrower of the World Bank. In a little more than a decade, we have approved over two and a half billion dollars for development projects in your country. Your nation has committed some \$15 billion from your own treasury. Thus the commitment to development is largely your effort, as it should be. Because of your commitment, a considerable number of the Indonesian people are better off today than they were a decade ago. Yet as your government has recognized, much remains to be done; for example, at least 50% of all Indonesian households have incomes below the poverty line.

We share your government's concern for spreading the benefits of development to all segments of the population, the majority of whom live in rural areas. We have therefore, since the beginning of our association, been working closely with your government for the improvement of the agricultural sector. Our first operation in Indonesia was to assist the rehabilitation of irrigation systems for aiding rice production. Over one third of our total lending to your country has been for agriculture and rural development. We intend to continue our efforts in this area including support for transmigration.

We have been active in almost every sector of development in Indonesia and have been associated with some noteworthy undertakings, including population planning and urban development. Your population planning program has proved to be one of the most successful in the developing world and has already led to a perceptible decline in fertility. In urban development, the World Bank has worked with your government on one of the most imaginative programs for slum improvement anywhere in the developing countries.

Besides these programs, the Bank has been assisting Indonesia in such varied fields as education and nutrition; fertilizer production and development finance institutions; telecommunications, tourism, and water supply. We have also provided technical assistance to strengthen your institutions and to assist a natural resource survey and mapping project. We have also made a loan for a small enterprise development project. This project, the first of its kind in the country, is designed to help small farmers and businessmen.

The overall development of Indonesia during the last decade is to be applauded. But as the government's new five-year plan acknowledges, difficult problems of population increase, poverty, food deficit, and joblessness still remain formidable. It is to confer with the leaders of your nation how best the World Bank can contribute its resources--both financial and technical -- to help meet the great challenge posed by these problems that I have come to your country.

# background NOTES

## Indonesia

department of state \* june 1978

OFFICIAL NAME: Republic of Indonesia

### PEOPLE

With more than 135 million people Indonesia is the world's fifth most populous nation. Java is one of the most densely populated areas in the world, with over 85 million people living in an area the size of New York State.

Indonesians are predominantly of Malay stock and include many related but distinct cultural and linguistic groups. Since independence the national language, Indonesian (a form of Malay), has spread throughout the archipelago and has become not only the lingua franca between ethnic subgroups but the language of all written communication, education, govern-

ment, and business. Today Indonesian is understood in all but the most remote villages, although local languages are still important in many areas. English is the most widely spoken foreign language and is taught in the schools.

Some 60 percent of the population is literate; the rate is about 70 percent in the 6-16 age group. Theoretically, education is free and compulsory for children between the ages of 6 and 12, but this goal has not yet been reached. About 80 percent of eligible children attend primary school. About 15 percent of secondary school-age children attend classes.

Freedom of religion is guaranteed by the Constitution, and the govern-



ment has acted to protect the rights of religious minorities when they have occasionally come under attack. About 90 percent of the Indonesians are Muslim, the largest Muslim group in any one country. Some 5 percent of

### PROFILE

#### People

**POPULATION:** 135 million (1976 est.). **ANNUAL GROWTH RATE:** 2.3%. **DENSITY:** 184 per sq. mi. (71 per sq. km.); Java 1,690 per sq. mi. (650 per sq. km.). **ETHNIC GROUPS:** Malay, Chinese. **RELIGIONS:** Muslim 90%, Hindu 3%, Christian 5%. **LANGUAGES:** Indonesian (official), English. **EXPENDITURES ON EDUCATION:** 2.5% of GNP (1971). **LITERACY:** 60%. **INFANT MORTALITY RATE:** 115 per 1,000 (US: 18/1,000) 1975 est. **LIFE EXPECTANCY:** 43 yrs. (1973).

#### Geography

**AREA:** 736,000 sq. mi. (1,906,230 sq. km.); over 13,000 islands spread across 3,000 mi. (4,828 km.); slightly smaller than Alaska and California combined. **CAPITAL:** Jakarta (pop. 6 million). **OTHER CITIES:** Medan (1 million), Surabaya (2.5 million), Bandung (2 million), Yogyakarta (500,000).

#### Government

**TYPE:** Independent Republic. **INDEPENDENCE:** August 17, 1945. **DATE OF CONSTITUTION:** 1945.

**BRANCHES:** *Executive*—President (Head of Government and Chief of State). *Legislative*—Parliament (460 Members), People's Consultative Assembly (920 Members). *Judicial*—Supreme Court.

**POLITICAL PARTIES:** GOLKAR (functional groups), Indonesia Democracy Party, Unity Development Party. **SUFFRAGE:** Universal over 21. **POLITICAL SUBDIVISIONS:** 27 Provinces, 281 regencies. **DEFENSE SPENDING:** about 3.6% of GNP (1976 est.).

**FLAG:** Divided horizontally; top half red, bottom half white.

#### Economy

**GNP:** \$36 billion (1976). **ANNUAL GROWTH RATE:** 7%. **PER CAPITA GNP:** \$240 (1976). **PER CAPITA GROWTH RATE:** 2-3%.

**AGRICULTURE:** Land 11%. Labor 61%. *Products*—rice, cassava, soybeans, copra, rubber, coffee, palm oil, tea.

**INDUSTRY:** Labor 6%. *Products*—textiles, food and beverages, light manufactures, cement, fertilizer.

**NATURAL RESOURCES:** Oil, timber, nickel, natural gas, tin, bauxite, copper.

**TRADE:** *Exports*—\$11 billion (1977): oil, timber, rubber, tin. *Partners*—Japan, US, Malaysia/Singapore. *Imports*—\$9 billion (1977): food, chemicals, textiles. *Partners*—Japan, US, FRG.

**OFFICIAL EXCHANGE RATE:** Rupiah 415=US\$1.

**ECONOMIC AID RECEIVED:** *Total*—\$1.2 billion (1977-78). *US only*—\$1.75 billion (1962-77); \$156 million FY 1977.

**MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS:** Association of Southeast Asian Nations (ASEAN), UN and its specialized agencies, Asian Development Bank (ADB), IMF, IBRD, International Atomic Energy Agency (IAEA), INTELSAT.





the people are Christians. The island of Bali has retained its Buddhist-Hindu heritage which, with its distinctive art and dance dramas, together with the island's striking natural beauty, has made Bali famous throughout the world.

## HISTORY

When Columbus sailed from Spain in 1492 he was seeking a new route to the Spice Islands of Indonesia, where an advanced civilization had already existed for almost 1,000 years on the islands of Java and Sumatra. On two occasions this civilization produced major empires with influence throughout Southeast Asia.

During the 7th-12th centuries, the Buddhist kingdom of Sriwijaya was centered on Sumatra, and in the 14th century the Hindu kingdom of Majapahit had its capital in eastern Java. The latter kingdom and earlier Javanese states left Indonesia a legacy of temples and other structures that rank among the world's finest examples of ancient art.

Islam was introduced in Indonesia in the 12th century and gradually replaced Hinduism in all of the principal islands except Bali. Concurrently, the once-powerful kingdoms broke into smaller states which were unable to resist Western colonialist infiltration. The Portuguese arrived in the 16th century and established trading posts but were soon outnumbered by

the Dutch who, beginning in 1602, slowly established themselves as rulers of all the islands comprising present-day Indonesia, except for the eastern half of the island of Timor. It was annexed by Indonesia in 1976 following Portugal's abandonment of the territory. During the 300 years of Dutch rule (interrupted only by a brief British interregnum during the Napoleonic period), the Netherlands East Indies were developed into one of the world's richest colonial possessions.

The Indonesian independence movement began during the first decade of the 20th century and expanded rapidly during the period between the two World Wars. Its leaders were drawn from a small group of young professional men and students, some of whom had been educated in the Netherlands. A number of them, including Indonesia's first President, Sukarno, were imprisoned for long periods because of their political activities.

The Japanese occupied Indonesia for 3 years during World War II and, for their own purposes, encouraged a nationalist movement. Many Indonesians were appointed to positions in the civil administration which had been closed to them under the Dutch. On August 17, 1945, 3 days after the Japanese surrender, a small group of Indonesians led by Sukarno proclaimed independence and established the Republic of Indonesia under a Constitution that provided for

a strong executive. The new Republic resisted Dutch efforts to reestablish complete control; after 4 years of warfare and negotiations, a settlement was finally achieved in the autumn of 1949. The following year Indonesia became the 60th member of the United Nations.

Shortly after hostilities with the Dutch ended, Indonesia adopted a new Constitution that provided for a parliamentary system of government in which the executive was chosen by and made responsible to Parliament. Parliament, however, was badly divided among numerous political parties before and after the country's first nationwide election in 1955, and stable governmental coalitions were difficult to attain. A long succession of short-lived national governments and unsuccessful rebellions in Sumatra, Sulawesi, and other islands in 1957 discredited the parliamentary system to such a degree that President Sukarno met little opposition when, by personal decree in 1959, he reinstated the 1945 Constitution which had provided for an independent executive.

During the early 1960's President Sukarno moved rapidly to impose an authoritarian regime under the label of "Guided Democracy." Concurrently, he aligned Indonesia's foreign policy with that of Asian Communist states and increasingly favored the Indonesian Communist Party (PKI) in domestic affairs.

By 1965 the PKI effectively controlled the mass organizations which Sukarno had established to mobilize support for his regime and, with Sukarno's acquiescence, embarked on a campaign to establish a "Fifth Armed Force" which would permit the PKI to arm its supporters. This campaign was actively resisted by the army leaders, the last significant institution capable of standing up to Communist pressures. On October 1, 1965, an attempt was made by left-wing forces with PKI support to seize power. Leftist military units occupied key locations in Jakarta, and six senior generals were kidnapped and murdered by PKI activists.

Although quick action by the army defeated the coup attempt within a few days, its impact produced a shock throughout Indonesia. In Java and Bali particularly, where the PKI was strongest, Indonesians retaliated against the Communists in rural areas, killing several hundred thousand persons. The emotions created by this severe crisis have persisted to the present day.

In succeeding months President Sukarno attempted to restore the political position of the Communist Party and shift the country back to its pre-October 1965 position. As a result of these efforts and growing public evidence of mismanagement and misconduct during his regime, Sukarno's popular support eroded rapidly. Though remaining President, Sukarno was forced in March 1966 to transfer key political and military powers to General Suharto, the officer who had rallied the country to defeat the Communist coup attempt and who in the succeeding months had won the respect and admiration of the nation.

In March 1967 the People's Consultative Assembly voted Sukarno out of power completely and named General Suharto as Indonesia's Acting President. Sukarno ceased to be an effective political force and lived quietly in retirement in Java until his death in June 1970.

In 1968 the assembly elected Suharto to a full 5-year term as President, and he was reelected to additional 5-year terms in 1973 and 1978.

The events initiated by the Communist coup attempt in Indonesia in 1965 produced one of the most dra-

matic changes in recent Asian history. The "New Order" led by President Suharto turned its back on ideological extremes and set economic rehabilitation and improvement of the living standards of the people as its top priority goals. The national elections of 1971 and 1977 gave a heavy majority to the "New Order's" political embodiment, GOLKAR.

## GEOGRAPHY

The Republic of Indonesia is an archipelago nation of more than 13,500 islands extending for 3,000 miles (4,800 km.) along the Equator from the mainland of Southeast Asia to Australia. The archipelago forms a natural barrier between the Indian and Pacific Oceans, a formation which has made the straits between the islands strategically important throughout history. Consisting of the territory of the former Netherlands East Indies and Portuguese Timor, Indonesia's main islands are Sumatra, Java, Sulawesi (formerly Celebes), and the southern part of Kalimantan (Borneo). The Republic shares land borders with Malaysia and Papua New Guinea.

Although Indonesia has a tropical climate, it is mountainous and volcanic, and the upland areas on the principal islands provide a temperate contrast to the constant heat of the lowlands.

## GOVERNMENT & POLITICAL CONDITIONS

The present government is based on the 1945 Constitution, a short, broadly phrased document drafted when Indonesia proclaimed its independence. The Constitution provides for a highly centralized state whose principal components are the President, the Parliament, and the People's Consultative Assembly.

The President, who is elected by the Assembly, occupies the most powerful position in the government. The Cabinet, appointed by and responsible to the President, includes both military and civilian members. A number of the civilian ministers are recognized experts in their fields, drawn largely from university faculties and known collectively as "the technocrats." Cabinet Ministers have sub-

## TRAVEL NOTES

*Climate*—Indonesia is hot and humid throughout the year, with an average temperature range of 90°F (32°C) and average humidity during the rainy season (November to April) of 83%. During the rest of the year it is about 75%.

*Clothing*—Lightweight cotton and synthetic clothes are worn year round, with two changes per day frequently required.

*Telecommunications*—Although local phone service is poor, international service by satellite to the U.S. is generally good.

*Transportation*—Taxis are usually available; bus service is generally overcrowded; and pedicabs, while picturesque, can be dangerous. There is interurban rail service. Garuda Indonesian Airways, as well as several local airlines, provide domestic service between major cities. Several international airlines also serve Jakarta.

*Health*—The general level of sanitation and health standards is low. Tuberculosis, malaria, hepatitis, typhoid fever, cholera, and parasites are prevalent. Immunization against smallpox and cholera is required. Travelers arriving from or en route to Africa, India, Pakistan, or Bangladesh should also have yellow fever inoculations. *Health requirements change. Visitors should check the latest information.* American brands of non-prescription drugstore items are scarce, but a few European equivalents are available.

stantial responsibility for running their respective departments, although decisions on national policy are customarily made by the President, assisted by his advisers, rather than at the Cabinet level.

Although the executive is the predominant branch, the other two components also play an active role in the process of government. Parliament is the basic legislative body. The People's Consultative Assembly is a larger body composed of all Members of Parliament plus an equal number of persons representing other groups. It is responsible for electing the President and for setting broad guidelines of national policy.

Since 1971, most of the Members of Parliament have been chosen by election (for a dozen years prior to

## READING LIST

These titles are provided as a general indication of the material currently being published on this country. The Department of State does not endorse unofficial publications.

- American University. *Area Handbook for Indonesia*. Washington, D.C.: U.S. Government Printing Office, 1975.
- Brackman, Arnold C. *The Communist Collapse in Indonesia*. New York: Norton, 1969.
- Geertz, Clifford. *The Religion of Java*. Urbana, Ill.: Glencoe Press, 1964.
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- McVey, Ruth, ed. *Indonesia*. New York: Human Relations Areas Files, 1963.
- Neill, Wilfred T. *Twentieth Century Indonesia*. New York: Columbia University Press, 1973.
- Roeder, O.G. *The Smiling General: President Soeharto of Indonesia*. Jakarta: Gunung Agung, 1969.

1971 all Members of both Parliament and the Assembly were appointed). In elections in July 1971 and May 1977, the voters elected a majority of the membership of representative bodies at both the national and regional levels (100 of the 460 seats in Parliament and one-third of the 920 seats in the Assembly are appointed from the military and other specialized groups). The Assembly elected President Suharto to new 5-year terms in March 1973 and March 1978.

The highest court in Indonesia's judicial system is the Supreme Court, whose members are appointed by the President. It is essentially a court of review and does not rehear cases or pass on the constitutionality of laws.

Indonesia is divided into 27 Provinces which are subdivided into

281 regencies. The governors and regents of these areas are appointed by the central government from nominees submitted by the regional legislatures.

The government-backed quasiparty, GOLKAR, is a coalition of functional groups uniting labor, youth, cooperatives, and other organizations which are not affiliated with the traditional political parties.

In both the 1971 and 1977 parliamentary elections GOLKAR won more than 60 percent of the popular vote and nearly two-thirds of the 360 contested seats. Following the 1971 election, the nine traditional political parties which contested that election against GOLKAR and which had represented either narrow special interest or ideological groups were regrouped under government direction into two new parties—the Unity Development Party (uniting several Moslem parties) and the Indonesia Democracy Party (including the former nationalist and Christian parties). These two new parties and GOLKAR contested the 1977 election and make up the present political spectrum in Indonesia.

### Principal Government Officials

President—General Suharto  
 Vice President—Adam Malik  
 Foreign Minister—Dr. Mochtar Kusumaatmadja, SH  
 Coordinating Minister for Politics and Security—Gen. Maraden Panggabean

Coordinating Minister for Economics, Finance, and Industry—Dr. Widjojo Nitisastro

Coordinating Minister for Public Welfare—Gen. Surono

Minister of Finance—Dr. Ali Wardhana  
 Minister of Trade and Cooperatives—Dr. Radius Prawiro

Ambassador to the U.S.—Ashari Danudirdjo

Ambassador to the U.N.—Anwar Sani

Indonesia maintains an Embassy in the United States at 2020 Massachusetts Avenue NW., Washington, D.C. 20036 (tel. 202-293-1745). Consulates general are also in New York and San Francisco.

### ECONOMY

Indonesia's size, soil, and natural resources give it the potential for

self-sustaining economic development. The islands contain vast timber resources and rich deposits of petroleum, gas, tin, bauxite, nickel, copper, and iron ore. Extraordinarily rich volcanic soils, though concentrated in densely populated Java, Bali, and South Sumatra, are still capable, with modern techniques, of expanded production. Indonesia's relatively slow economic progress to date has resulted from complex social, historical, and geographic factors carried over from the colonial period and the struggle for independence. Perhaps the most important of these has been lack of education and training and a long period of mismanagement and neglect of the economy in the 1950's and 1960's.

Indonesian gross national product is among the world's lowest, although it has recently gained steadily at about 7 percent annually. Since 1966 the Government of Indonesia has had very substantial success in reversing the earlier decline in the economic fortunes of the country. There had been hyperinflation, with prices rising 635 percent in that year. Infrastructure had deteriorated significantly.

An inadequate rate of savings and investment and a critical shortage of skilled technicians, managers, and businessmen also slowed the rate of development. In addition, a foreign debt burden of more than \$2 billion had seriously impaired international credit. Expropriation of most foreign firms and estates had cut off sources of private investment capital.

To help get the economy moving again, the Suharto government after 1966 requested and obtained the assistance of a group of creditor and aid donor nations, including the United States, Japan, Australia, and several West European nations. A rescheduling of Indonesia's international debts and the availability of financial assistance made it possible to institute a stabilization program in cooperation with the International Monetary Fund (IMF).

To decrease the inflation rate and to reestablish sound internal and external price relationships, the government employed fiscal and credit restraints, introduced free market conditions, rescheduled internal debts, sought new economic assistance from

abroad, returned uncompensated expropriated properties, and promulgated a liberalized investment law to attract foreign investors. In the early 1970's substantial foreign investment flowed in, but the level has slackened recently due in great measure to depressed world economic conditions.

Progress since 1966 has been encouraging. By bringing the budget into balance, encouraging savings, and restricting growth of the money supply, the government has succeeded in reducing the inflation rate to world levels or less. A crisis concerning overextended Pertamina (Indonesian State Oil Company) debts was successfully surmounted in 1975-76, and financial confidence has been restored. Exports have grown rapidly and in 1977 reached about \$11 billion (as compared with only \$754 million as recently as 1968), largely reflecting the rapid increase in world oil prices as well as increased petroleum production. The petroleum sector operates with substantial foreign participation, including a number of U.S. companies which produce about 80 percent of Indonesia's oil in contractual relationships with Pertamina. Net exports of oil in 1977-78 were approximately \$6 billion. Timber became Indonesia's second largest export in 1972—exports in 1976 surpassed \$800 million. Further export growth will result from multimillion dollar investments in natural gas, nickel, and bauxite. Import growth, financed to a substantial degree by foreign aid, has also been rapid, with imports totaling \$9 billion in 1977.

In 1974 Indonesia initiated its second 5-year development plan. The emphasis was shifted from stabilization and infrastructure to rural development. The plan gives priority to agriculture, education, and labor-intensive industries, and this emphasis is expected to continue in the third 5-year plan (1979-84).

Indonesia's economic outlook is reasonably good, despite the magnitude of its continuing problems. Donor nations are cooperating in providing assistance for stabilization and development objectives. The International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), the U.N.

Development Program (UNDP), and other international organizations are lending their expertise and financial resources to Indonesia's efforts. Foreign businessmen have demonstrated their confidence in Indonesia's future by continuing their investments, particularly in petroleum and other extractive industries.

However, Indonesia recognizes that future economic growth and progress depends upon resolution of the complex food/population/employment problems in the overpopulated islands of Java, Bali, and Madura. Despite strenuous efforts and large investment in agriculture and rural development, rice production has not kept up with population growth, and large food imports are required. Providing useful employment and improved living standards for the more than 30 million people who live at or below the level of subsistence is a monumental challenge facing Indonesia and those nations and organizations seeking to assist in its economic development.

#### Economic and Military Assistance

Although U.S. economic assistance to Indonesia was moderately large in the 1950's, it was phased out in the mid-1960's as the policies of the government in power at that time made cooperative working relationships increasingly difficult.

Today, however, the United States is playing an important role in supporting Indonesia's effort to begin moving toward self-sustaining development. Beginning in 1966, the United States, Japan, the Netherlands, Belgium, France, Australia, the Federal Republic of Germany, Italy, and the United Kingdom began meeting with Indonesia and representatives of the major international lending institutions to discuss the requirements for and utilization of new foreign assistance. This group, with the subsequent addition of Canada, New Zealand, and Switzerland has come to be known as the Inter-Governmental Group on Indonesia (IGGI), and certain international economic organizations as well as observers from other governments now also participate.

In Indonesian fiscal year 1976-77 (April 1, 1976 to March 31, 1977), the IGGI countries committed about \$1.2 billion in foreign assistance, and in

Indonesian fiscal year 1977-78, the IGGI aid objective is again about \$1.1 billion. Aid including PL 480 food assistance from the United States was about \$156 million in the U.S. FY 1977. The U.S. assistance emphasizes agricultural and population programs.

A modest military assistance program focuses on developing Indonesia's internal defense capability, training in management skills, and providing limited assistance in modernization of obsolete equipment, including communications equipment, aircraft, and vehicles. Foreign military sales credits and grant military assistance have totaled slightly over \$200 million since military assistance was resumed in 1968.

#### Economic Relations With the United States

The United States traditionally has taken between 20 and 30 percent of Indonesia's exports and has supplied 10 to 20 percent of Indonesia's imports. In 1977 U.S. exports to Indonesia (primarily rice, cotton, chemicals, machinery, and transport equipment) totaled \$800 million, while U.S. imports from Indonesia totaled \$3.5 billion (mainly crude oil—70 percent—rubber, coffee, spices, and tin).

The U.S. Government offers insurance and guarantees from the Export-Import Bank for shipments to Indonesia. In addition, the Overseas Private Investment Corporation (OPIC) offers specific risk and extended risk guarantees for U.S. investment in Indonesia.

A number of American banks have branches in Jakarta. Other U.S. investments in addition to petroleum exploration and production are in mining, pharmaceuticals, electronics, and forestry. Potential U.S. investors

#### FOREIGN BUSINESS INFORMATION

For information on foreign economic trends, commercial development, production, trade regulations, and tariff rates, contact the Bureau of International Commerce, U.S. Department of Commerce, Washington, D.C. 20230. This information is also available from any of the Department of Commerce district offices located throughout the U.S.

should check with the American Embassy in Jakarta or with the Departments of State and Commerce in Washington regarding investment guidelines and procedures of the Investment Board.

## FOREIGN RELATIONS

During its first years as a new nation, Indonesia espoused an "active and independent" foreign policy, seeking to play a prominent role in Asian affairs commensurate with its size and location but avoiding involvement in conflicts among major powers.

In the early 1960's, President Sukarno led Indonesia away from this policy into an increasingly close affiliation with the Communist nations and a growing antagonism to the Western democracies. Following the creation of Malaysia in 1962, Sukarno denounced the new country as a "neo-colonialist puppet" and declared a policy of hostile military and political "confrontation" against it. Concurrently, an informal "Jakarta-Hanoi-Peking-Pyongyang axis" was proclaimed to fight imperialism. The United States was subsequently cited as the nation's "number one enemy," and U.S.-Indonesian relations moved close to the breaking point. The climax of this policy came in January 1965 when Sukarno withdrew Indonesia from the United Nations, apparently with the intention of establishing a rival international body.

Upon supplanting Sukarno, the Suharto government reversed the trend toward radicalism and assertiveness. Rejecting the ideological base of Sukarno's policies, Indonesia's "New Order" has revived the nation's original "free and active" foreign policy, carefully preserving a position of non-alignment, which has led to constructive and responsible relationships on the world scene. It maintains correct diplomatic relations with the Soviet Union and a number of other Com-

munist countries. It suspended relations with the P.R.C. in October 1967, however, as a result of the latter's hostility toward Indonesia. Indonesia concurrently reestablished close relations with the United States, Western Europe, and Japan, from which it now receives the bulk of the assistance needed for its economic recovery. In September 1966, Indonesia rejoined the United Nations, where it has resumed active participation in all specialized agencies to which it formerly belonged.

In sharp contrast to the hostile posturing of the Sukarno era, the "New Order" has placed particular emphasis on cooperation with its neighbors. In 1967 Indonesia became one of the founding members of the Association of Southeast Asian Nations (ASEAN), in which it joined Thailand, the Philippines, Malaysia, and Singapore in an effort to promote regional economic, social, and cultural advancement.

Beyond Asia, Indonesia is a leader in international economic organizations including the Group of 77 and the Organization of Petroleum Exporting Countries (OPEC).

Indonesia has also contributed units to international peacekeeping efforts, initially in the Congo, later in Vietnam under the ICCS, and currently in the Middle East under UNEF.

## U.S.-INDONESIA RELATIONS

The United States was an early supporter of Indonesian independence, and for many years the two nations enjoyed good relations. However, the change in Indonesia's international position from nonalignment to outspoken opposition to the policies of the United States and its allies adversely affected Indonesian-American relations from 1963 until 1965. Serious difficulties resulted also from Indonesian actions against both public and private U.S. interests in Indonesia.

That era is now history. U.S. trade and investment have increased substantially, and the United States is one of the major participants in economic assistance to the Indonesian Government.

The United States and Indonesia also share a variety of common political and economic goals in international affairs. When differences do exist, they are resolved amicably and without polemics.

There are no security treaty ties between the two nations, but Indonesia's commitment to build a stable and economically progressive society responsible to the will of its people holds promise of enhancing security in the area in a fundamental way. It is believed that U.S.-Indonesia relations will continue to be close and cooperative.

The United States seeks a politically stable Indonesia which enjoys full independence under a government responsive to the needs of its people and which plays a responsible and constructive role in Southeast Asia and the world. These objectives are shared by the majority of Indonesians. The United States also supports Indonesia's energetic efforts to develop its economy more fully and disseminate economic benefits more widely to its people.

### Principal U.S. Officials

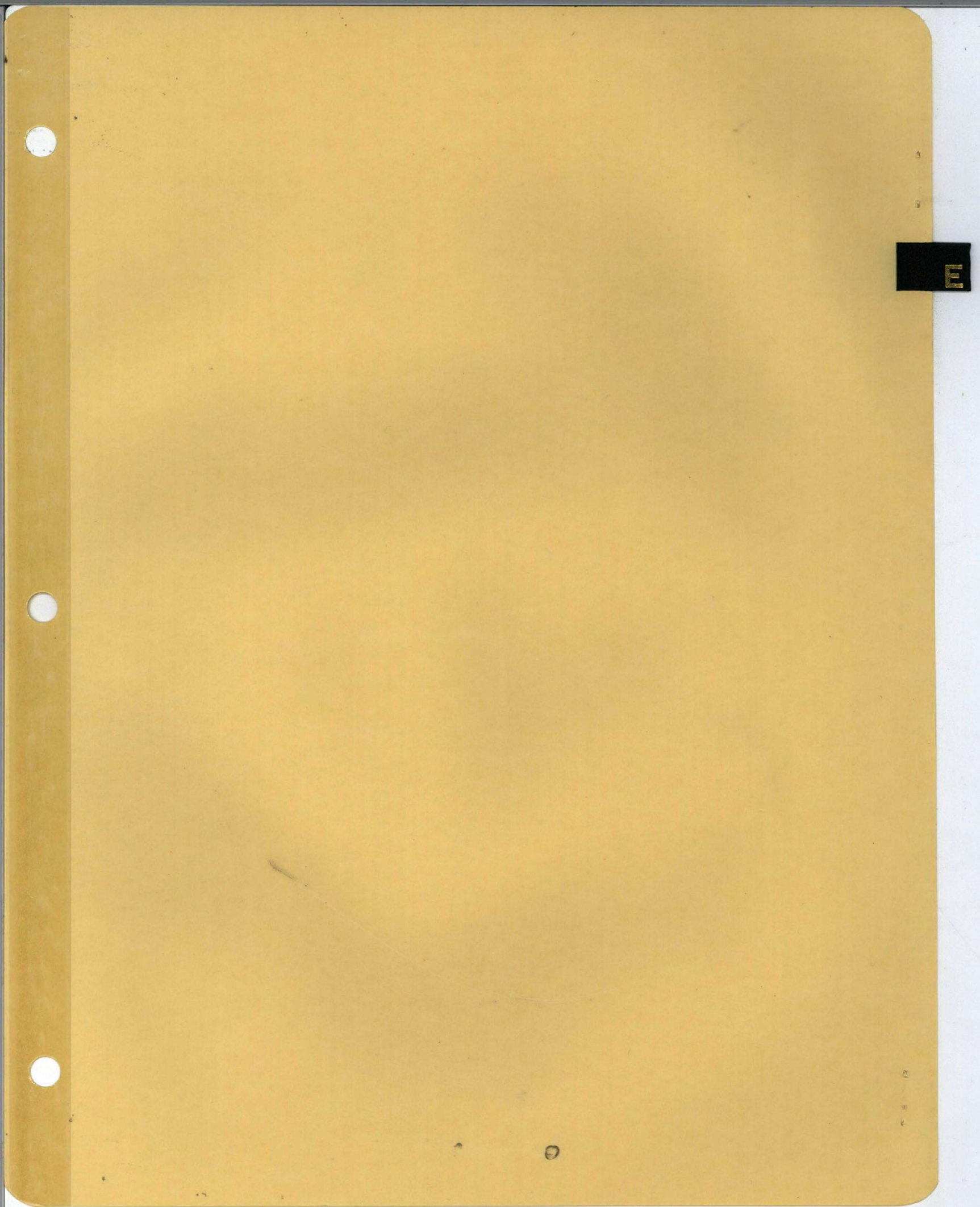
Ambassador—Edward E. Masters  
Deputy Chief of Mission—Paul F. Gardner  
Political Counselor—Harriet Isom  
Economic/Commercial Counselor—Henry Bardach  
A.I.D. Director—Thomas C. Niblock  
Defense Attache—Col. Joseph W. Uttinger  
Public Affairs Officer (ICA)—Bernard J. Lavin

The U.S. Embassy in Indonesia is located at Medan Merdeka Selatan 5, Jakarta. Consulates are also at Medan and Surabaya.

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F I N A LMEETING OF THE INTER-GOVERNMENTAL GROUP ON INDONESIAAMSTERDAM, 3 - 5 April 1979PRESS COMMUNIQUE

The Inter-Governmental Group on Indonesia convened in Amsterdam from 3 - 5 April 1979 to consider the recent performance of the Indonesian economy, to review its development prospects and to discuss Indonesia's external financing requirements for the fiscal year 1979/80.

Delegations from Australia, Austria, Belgium, Canada, France, the Federal Republic of Germany, Indonesia, Italy, Japan, the Netherlands, New Zealand, Switzerland, the United Kingdom and the United States of America attended this twenty-second meeting of the Group. Representatives of the World Bank, the International Monetary Fund, the Asian Development Bank, and the United Nations Development Programme participated in the discussion. Observers from the Organization for Economic Co-operation and Development, the European Economic Community, the United Nations Children's Fund, Denmark, Norway and Spain also attended. It was unanimously decided that at its request Finland would be admitted to the next meeting of the Group as an observer.

The Indonesian delegation explained the features of the development strategy envisaged in the Third Development Plan which started on 1 April 1979. The basic goals of the Plan are to raise the standards of living of the Indonesian people as well as to lay a strong foundation for the next stage of development. The triple objective of the Government's development policy is equity, growth and stability in that order.

It is expected that the economy will grow at an annual rate of around 6.5% in real terms during the next five years. New employment opportunities will be generated for at least the estimated increase in the total labour force of around 6.4 million people during the plan period, through appropriate investment, fiscal, monetary and regional development policies. The Plan furthermore provides for significant increases in investments and savings. About 79% of total savings will be mobilized domestically while foreign savings will constitute about 21% during the next five years. Non-oil exports are projected to increase by 16.5% per annum compared to an expected increase of net oil and LNG exports of 6.4%. By the end of 1981/82 the value of non-oil exports is expected to exceed the net export value of oil and LNG.

The Indonesian delegation stated that the performance of the economy in 1978 was satisfactory. Particularly the production of rice showed a substantial increase and achieved a record level of 17.5 million tons in the past year, an increase of more than 10%. The rate of inflation, reduced in 1977 to 12%, declined further to an annual rate of 6% in 1978. Yet there were certain developments which - if not corrected - could hamper the achievement of the goals of the Third Five Year Plan. It was against this background that the devaluation of the Rupiah took place to restore Indonesia's competitive position especially in the critical employment generating sectors.

The representative of the World Bank commented favourably on Indonesia's progress over the past decade. The Government's programme had gained momentum in this period since there had been a sustained growth of 8% in domestic production. Both savings and investments had been high. Consumption levels of all income groups had been improved. Furthermore the Government had invested heavily in social services such as education and



health. There was no evidence that income and wealth disparities had narrowed, however, absolute poverty appeared to have declined significantly. With regard to the future, the Bank concluded that certain structural economic changes were needed to maintain a high rate of employment growth while at the same time achieving rising wages and rising productivity through skill improvements. Although the short term prospects for the balance of payments had improved somewhat, mainly as a result of the devaluation and the recent OPEC pricing decision, the need for structural economic changes and greater domestic resource mobilization efforts remained.

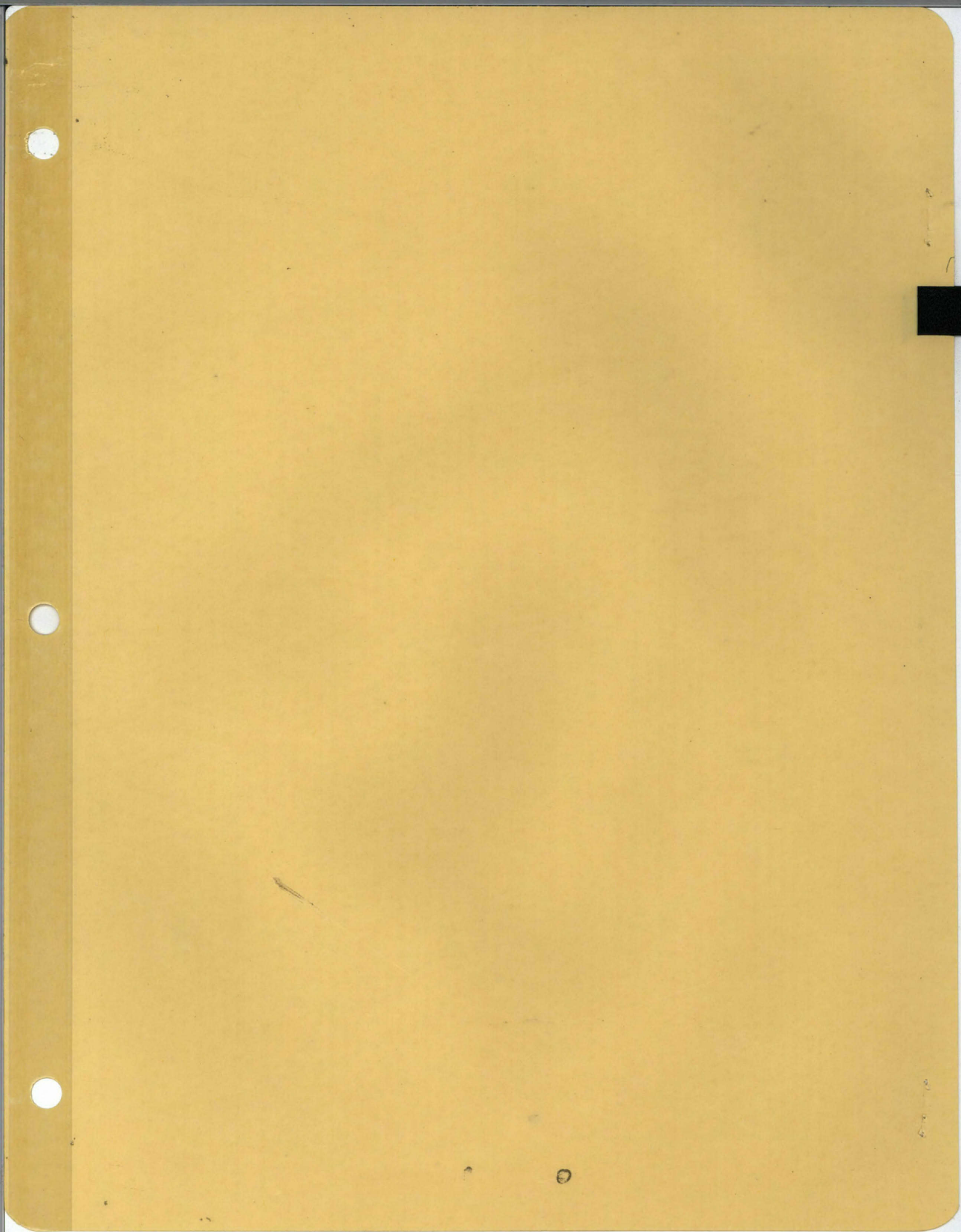
The IMF representative reviewed recent economic developments including the conditions cited by the Indonesian authorities as having prompted the devaluation of the rupiah in November. The important impact of the devaluation in stimulating non-oil exports and slowing the growth of general imports was stressed. In addition, the representative emphasized the substantial incentives created by the shift in relative prices brought about by the devaluation and the implications of these price changes for employment creation in the critical small- and medium-scale export oriented and import competing sectors. Developments since the devaluation were reviewed, especially the necessary price adjustments which seem to be occurring. Looking forward to next year, the representative noted the possibility of continued surplus in the balance of payments and the more than usually difficult task the authorities face in adjusting credit and budgetary policies to ensure conditions conducive to full exploitation of the benefits of devaluation.

The major focus of discussion for the Group this year was the Third Five Year Plan for 1979 - 1984 and members commented most favourably on important aspects of the Government's development plans. The meeting complimented Indonesia on its performance in Repelita II which has laid a firm basis for a successful accomplishment of the objectives of Repelita III.

The Group endorsed in general the analysis made by the Bank with respect to agricultural and rural development. In this respect special attention and support was given to the policy goal of the Government to increase employment opportunities in the rural sector and to increase the production and consumption of secondary crops, while at the same time continuing to devote attention to increasing rice production. It was noted that the magnitude of development programmes calls for strengthening of the organizational capacity to overcome constraints. The Group endorsed the Government's intention to accelerate investment in labour-intensive and export oriented industries, as well as other measures to overcome obstacles to expanded industrial production and exports, with special emphasis on small and medium-sized manufacturing industries.

The Group endorsed the recommendations of the World Bank that Official Development Assistance to Indonesia should reach at least \$ 2.3 billion per annum during the years 1979 - 1983. It was the consensus of the Group that for 1979 - the first year of the new Plan period - the minimum requirement of total external financing commitments should be \$ 2,775 million of which \$ 1,925 million in the form of Official Development Assistance. Of this amount \$ 950 million in the form of concessional loans and grants should be provided by bilateral members of IGGI. The remainder of the concessional funds, approximately \$ 1.0 billion, was expected to be provided by multilateral financial institutions and sources outside the IGGI. Indications were given that new commitments for 1979/80 would achieve the aid target recommended by the World Bank.

The Group decided to convene again in the beginning of May 1980.





# Record Removal Notice

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**Correspondents / Participants**

To: Robert S. McNamara  
 Through: Ernest Stern  
 From: S. Shahid Husain

**Subject / Title**

Indonesia - Organization of the Bank's Work

**Exception No(s).**

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Trudy Huskamp Peterson

Date  
Apr 11, 2013



INDONESIA

Topics for Discussion with Political and Security Affairs Ministers  
(No Name Has Been Provided, Possibly with General M. Panggabean,  
Coordinator Minister for Politics, Security and Defense;  
General Amir Machmud, Minister of Home Affairs;  
General M. Joesoef, Minister of Defense and Security;  
and Admiral Sudomo, Commander of OSTIB/1)

1. You may focus upon corruption, and ask about the success of the Government's efforts to deal with the problem. You may ask the views of those present, (who, we hope, will include Sudomo), about their plans to build upon OSTIB's success in reducing exactions, in order to create permanent mechanisms for ensuring that public servants do not derive undue private profit from their position. You may also refer in this respect to the President's admonition against "commercialization of functions".

2. We suggest you refer to the Bank's increasing contacts with the Ministry of Interior, to get them and regional authorities involved in development projects. To improve project conception and implementation, we are looking forward to even closer cooperation, particularly in fields such as urban projects, rural development, water supply. We realize that Government wishes to decentralize decision making in these fields, and we are determined to adapt our procedures so that they should not hinder these attempts at decentralization, which we welcome.

3. We suggest you also ask about the political implications of transmigration. Which are the areas where the influx of migrants, heavily assisted by the Government, may provoke tensions with the local populations, what economic actions (e.g., development projects oriented towards local people) can relieve these tensions? How do the ministers view the problems of identifying land suitable for settlement, with no private or clan claims against it, and the possibility of compensating people with traditional claims, notably on alang-alang land./2

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/1 Operasi OSTIB: a well publicized drive, led by Admiral Sudomo to control and end illegal financial practices and exactions. Started almost two years ago, when the President called for the end of "the commercialization of functions". It is still continuing. It has achieved marked success in reducing exactions by low and middle-level functionaries, such as illegal levies on road traffic. It has not tackled high level corruption yet.

/2 A noxious course weed, establishing itself after forests have been slashed and burned.

## INDONESIA

Topics for Discussion with  
Professor Widjojo, Coordinating Minister for Economy, Industry and Finance  
and the Macroeconomic Managers;  
Ali Wardhana, Minister of Finance;  
Rachmet Salah, Governor of Bank Indonesia; and  
Radius Prawiro, Minister of Trade

### Introduction

1. Your visit comes at a critical time for Indonesia. In many respects the country is now at a crucial cross road in its development. The brief on the economic situation (Part 3 of Section E) records the achievements of the past decade. While these were impressive and commendable by any standards, progress was aided by certain factors which will not reoccur, e.g. the dramatic increase in oil revenues and the completion of relatively "easy" rehabilitation programs which had inherently high rate of returns. If, in the future, the Government is to maintain or even approach past rates of growth and to achieve its equity targets, firm action on a number of fronts will be needed. The planned restructuring process requires a series of hard and difficult political decisions, for example, more taxes will have to be levied on the higher income groups, substantial oil subsidies will have to be progressively reduced, some capital intensive projects will have to be eliminated while others are deferred and numerous government administrative and procedural constraints and controls will have to be alleviated or abolished.

### Number of Factors

2. While the restructuring process will not be easy, it is feasible. The country has an immense natural resources basis still to be exploited, it has a large pool of low cost labor (the cheapest in South East Asia) and the Government is genuinely committed to development. It has also shown its capacity to take difficult decisions. This was most recently evidenced by the November 15, 1978 devaluation. While we did not counsel for this move at this stage (Annex III, of the Brief on Economic Situation in Part 3 of Section E), it is clearly an important part of the planned restructuring process. It was both a strategic and courageous decision on the part of the economic managers, particularly when it is considered that they were under no pressure to make this move for balance of payments reasons and that its adverse impact is more likely to affect the higher rather than the lower income groups. We suggest that you should congratulate Professor Widjojo and the other economic managers for their foresight and courage in taking this first step in the restructuring program. You should stress, however, the need for complementary actions on the points outlined below if the restructuring process is to succeed and the Government's growth and equity objectives are to be attained.

### Employment and Equity

3. The Basic Economic Report concludes that while income gaps widened during the 1972-76 period, the poorest income groups received significant trickle-down benefits from the country's overall GDP growth. Since real wages remained relatively stable during the above period these gains are explained primarily by increased labor force participation rates, particularly in the agricultural and tertiary sectors. While the Government can take some comfort from these conclusions, more deliberate and comprehensive employment and equity policies than in the past are now necessary. Elements of such a policy will inter alia include: (a) greater emphasis on the outer islands; (b) a comprehensive food policy; and (c) the development of an industrial strategy.

#### (a) Outer Islands, Regional Development and Transmigration

Government has been successful in reducing the growth rate of population from 2.6% in the early 1970s to about 2% in 1978. Efforts to extend implementation of this program to areas outside Java and Bali are now necessary because the growth rate in the outer islands (2.4%) is now significantly larger than for Java (1.8%) (para. 48, of the Economic Situation Brief in Section E). We stand ready to help; for example the Third Population Project (FY80) will focus on the outer islands. However, even if the government acts expeditiously, a significant divergence in labor force growth rates between Java and the outer islands will now inevitably occur. There is therefore an increasing need to focus on the initiation of employment oriented development programs in these regions including transmigration. Issues in connection with the latter are discussed in Mr. Husain's January 1979 statement to the Board (Part 7, Section G).

#### (b) Food Policy

This is discussed in the Brief for the agriculture rural development Ministers (Part 2, Section F). The articulation of a comprehensive food policy including the development of a set of programs and policies designed to encourage the development of secondary crops is critical for balance of payment reasons (para. 43 of the Economic Situation Brief in Section E). Increased emphasis on secondary food crops is also essential on equity grounds as these commodities are primarily consumed by the lower income groups. The macroeconomic managers accept the need to diversify food production and consumption. Recognizing past slowness in translating this intent into action, the Government has recently asked Sir John Crawford to prepare a food plan for secondary crops. He is reviewing the problem, and the Bank is prepared to support him in any way requested by the Government, including both direct staff support and projects. Some of the technical problems the Government faces in implementing such a strategy will be formidable. For example, fresh cassava deteriorates quickly, and marketing and storage arrangements are therefore critical. The Bank stands ready to help in overcoming these problems; we have inter alia included a cassava marketing study in the FY80/81 economic and sector work program.



(c) Industrial Development

- (i) This is probably the most critical policy area facing Indonesian planners today. Since the agricultural sector cannot absorb the growing labor force (45% of employment is already off-farm on Java), the need for the development of a coherent industrial development strategy - both public and private - is urgent. The Basic Economic Report recommends a labor-intensive, export-oriented manufacturing strategy. Not only is such a strategy essential on employment and equity grounds but it is also necessary if the balance of payments is not to again emerge as a critical constraint in the medium term. The export orientation is also necessary because the present domestic market is too small to support the high manufacturing growth rates that are needed. The Basic Economic Report concludes that with the right policies, an annual growth rate of 15% in industrial value added is both feasible and necessary and that on manufacturing exports will have to grow at 20% p.a. from an almost non-existent base. The draft Five-Year Plan document contains a more modest target of 11% p.a. growth in industrial value added. As noted above, the recent devaluation is a major and courageous step in the right direction. However, it is a necessary but not a sufficient condition. For example, action to review and deregulate the plethora of regulations which adversely affect investment is needed; the banking system requires considerable expansion and deepening and the role of the private sector has to be clarified.
- (ii) The economic planners are conscious of the need to move in this direction but they clearly face real political constraints as numerous vested interests are involved. You may wish to ask Professor Widjojo how they plan to take the required measures. It is important that we continue to stress the urgency for action on these fronts and our willingness to help. For example, we intend to devote a considerable portion of our economic work program to the industrial sector and the proposed Apex loan (paras. 57 & 58, Section G(3) of this brief) will provide a further opportunity to address these issues.

The magnitude of the task facing the Government in its reorientation effort is tremendous especially when it is considered that manufacturing employment grew by only 50,000 per year during the early seventies.

Management of the Impact of the Devaluation

4. This issue is discussed in more detail in para. 5, Annex III to the Brief on the Economic Situation in Section E. While recognizing the need for a careful transition, we have expressed our concern to the authorities that the

short-term management of the economy following the devaluation has been resulting in too many price controls, export quotas and other directives. To the extent that these have threatened to become permanent, they have jeopardized the purpose of devaluation. In recent months, most of the price controls have been lifted, but some export quotas remain. It is unclear whether immediate action should be taken on the elimination of such export quotas. The economic managers recognize the problems inherent in such controls, but are under considerable political pressure, particularly from the military, to limit price rises. Indeed the security authorities have taken an active role in defining and administering these controls. It is important that we give our support to the technocrats in their efforts to make the transition. You may wish to underline our concerns in this area. The situation is obviously still in a state of flux and it may be useful to start off a conversation on this subject with an inquiry about the latest developments and current plans.

#### Domestic Resource Mobilization

5. The Economic Brief (paras. 21-25) in Section E describes the domestic resources picture. The improvement brought about by the devaluation and consequent increase in the rupiah value of oil revenues is more apparent than real. It certainly should not slow down the search for additional domestic revenues.

6. Without going into technicalities, you may wish to underline again the importance we attach to the Government's efforts to reduce subsidies on domestic sales of petroleum products. The increase in domestic oil prices on April 5 by a weighted average of 32% is welcome but falls short of the 50% average increase implied in the budget for the current fiscal year, which was aimed at bringing product prices back to where they were, in dollar terms, before devaluation. As a result, additional subsidies of about \$325 million in excess of the \$350 million budgeted will be required. This means that at present prices, \$675 million, or 20% of domestic tax revenues, is used for explicit petroleum subsidies. Assuming international oil price developments as forecast by DPS, domestic oil prices would have to be raised by about 110% over the next four years merely to eliminate this explicit budget subsidy. The implicit subsidy is much higher still, because PERTAMINA is still getting a large part of its needs as "pro rata crude" at low cost.

7. We suggest you say that you are aware of the political and social obstacles to raising prices, including opposition by the urban lower-middle class, but also underline that only a small percentage of subsidy benefits the bottom 40%. Kerosene, the price of which was not raised in April, is the most important product for this group. However, even for kerosene, the bottom 40% income earners only account for 20% of total consumption. These issues have been discussed at length in our recent Basic Economic Report and they have also been discussed with Professor Widjojo and several of his senior associates by Mr. S.S. Husain on previous occasions.

8. The equity function of taxation should also be underlined. Increased taxation of land, particularly of non-agricultural land, but perhaps also of rural land not directly exploited by the owner, would be an excellent means both of increasing revenue and of making a highly visible contribution to equity. In pursuance of this aim, the Urban III loan includes a covenant that real estate taxes in the provincial towns, assisted by the loan, will be raised by 30% per annum in the next five years.

9. In the context of resource mobilization, you may also refer to the need for improved management and accountability of public sector corporations. For instance, even after several years of efforts to improve PERTAMINA, its total operating costs other than oil purchases, including the net cost of its non-oil operations, appear to amount to \$10 per barrel of oil distributed, which seems very high. PERTAMINA still has no properly audited accounts although Price Waterhouse are assisting in a massive effort to reconstruct the past so as to start with a firm set of data and accounts upon which to base future management. Other public sector corporations also contribute little to government resources, including both budget funds proper and monetary financing. Better general returns from the public sector corporations, and improved accountability by their managements, are an essential part of resource mobilization.

#### Foreign Borrowing and Capital-Intensive Investments

10. At the last CPP review, it was agreed that foreign borrowing on hard terms, public sector investment in large capital-intensive projects, and domestic resource mobilization efforts would be monitored closely. The first two are closely related, inasmuch as each such project is feasible only if it receives foreign financing which would account for a sizeable share of the total that can be borrowed prudently. Following the PERTAMINA crisis, the Bank's 1976 Economic Report indicated that borrowing on commercial terms should not exceed \$2 billion in 1976 (most of it to finance projects already under way), as against \$2.5 billion in 1975. In 1977 and 1978 "ceilings" of \$650 million and \$750 million were indicated in the Economic Reports. However, the Bintan alumina project, the Dumai hydro-cracker, the Aceh olefin project, the new Jakarta (Cengkareng) airport, would each require well over \$0.5 billion, and the planned expansion of Krakatau steel would absorb much more.

11. The officially stated intention of the Government is still to carry out these projects. However, progress towards implementation has been slow, essentially because of the difficulty of accommodating their financing under the borrowing ceiling. Over the past year, there appears to have been a change in Government policy. Various project authorities have been allowed to conduct conversations with potential financial sources, and they have tried to work out arrangements which could be excluded from the amounts committed under the borrowing ceilings. Among the arrangements discussed were hire-purchase and leasing, borrowing by public sector entities without formal government guarantee, and private investment combined with some sort of firm government purchase contract. At first blush, such arrangements would have the advantage of not affecting the debt-service ratio, as it is usually calculated. Naturally, in terms of the true balance of payments impact, it is the substance rather than the form that counts.

12. We have stressed that if new types of financial arrangements were devised in order to avoid affecting the usual indicators, the indicators would have to be modified accordingly so as also to reflect these arrangements. Hitherto, the message seems to have been heard. However, the guardians of financial prudence are under great pressure.

13. You may wish to refer to the large projects and to efforts to arrange for their financing. You could say that we support Indonesia's

effort to reorient its program towards smaller investments. This will in turn imply the need to drop or more carefully phase some of the proposed capital intensive projects. In this connection the Government's apparent decision to indefinitely postpone the Bintan aluminum project, which has questionable returns, is most welcome. However, even within this overall framework there will still be room for capital-intensive projects, particularly if they contribute to exports or to import substitution. However, such projects are precisely those for which the Government should reserve a reasonable share of the total amount it can prudently borrow.

### C. Implementation Problems

#### The Machinery of Government

14. The continuing tendency to centralize economic management and decision making has become a severe constraint to effective plan implementation. Such centralization was perhaps sensible in the early years of Repelita I (1969-73) when firm action was essential to rectify the chaos of the past. Such central control was also practically feasible as, in the pre-oil boom era, the development budget was relatively small and could be managed by a few key people. However, although the development budget is now of the order of \$6 billion, BAPPENAS organization has not expanded to accommodate this change. The result has been that its decisions are slow; increasingly related to nuts and bolts, e.g., contract approval and their capacity to analyze and formulate sound and consistent policies leaves much to be desired. In addition, budgetary procedures are exceedingly complicated and rigid; this in turn is a major contributory factor to implementation delays. This matter is very sensitive. The economic managers are clearly reluctant to decentralize for fear of encouraging corruption. They also feel the need to run a "tight ship" in light of their vulnerable position vis-a-vis the military (paras. 30 and 31, Section E(2) "Political Situation"). However, we should continue to express our concerns over this situation. In the last six months or so we have sent two missions to advise on budgetary procedures and we are willing to do more. After long delays and reminders, the Government is finally beginning to show an interest in the Bank's reports on these issues. We stand ready to help if we receive a specific request.

#### Implementation of Bank Projects

15. Although overall project implementation performance for Indonesia is about average for the Region, we have in recent months become particularly concerned about the declining trend of disbursements. During the last 12 months, average monthly disbursement have been about \$16 million; in FY76 and FY77 monthly averages were around \$20 million. Given that some \$1.4 billion is currently outstanding, compared to about \$0.5 billion at the end of FY76, this trend is very worrisome. Some of these difficulties relate to project design and specific problems but most relate to the problems discussed under para. 14 above. Principally, they relate to overly centralized

*We cannot afford looking if they  
a. Waste resources on capital projects  
b. Fail to accelerate implementation of BK projects*

decision making, complex and rigid budgeting procedures and time-consuming clearances for contract documents, letters of credit, etc. We have made several efforts to improve performance. Special missions have been sent to address specific project problems; we have assigned a disbursement officer to our Resident mission in Jakarta and we have sent the two missions referred to in para. 14 above. In a further effort we have recently agreed on a project implementation review to be attended by key core ministry staff, sectoral and implementing agencies and the Bank. The first formal review will be in June, however, a review of some of the most difficult projects was held in March 1979. This recent review was taken seriously by the Government and produced concrete proposals inter alia to streamline procurement procedures. At the IGGI Meeting in April 1979, the Government announced measures to simplify complicated budgetary and financial procedures affecting the implementation of all projects. These actions represent a direct response by the Government to some of the more pervasive problems. However, the Bank will need to continue to direct attention and assistance to this area.

16. A copy of a letter dated February 15, 1979 from Mr. Husain to Professor Widjojo is attached. You may wish to take the opportunity to again relay our concerns over implementation performance and note that without improvements, it will be difficult to justify maintaining the lending program at the current level.

Attachment

## INDONESIA

### Topics for Discussion During Meeting with the Minister of Agriculture, Professor Sudarsono Hadisaputro; and the Minister of Transmigration and Manpower, Mr. Harun A. Zain

#### General

1. Needless to say, the role of the agriculture and rural sector is vital. Even though the suggested industrial strategy is an indispensable component of long-term development, in the short and medium term success or failure in agriculture will weigh much more heavily on employment and the balance of payments. While we have no major disagreements with the Government on overall priorities in the rural sector, we remain concerned about the Government's ability and capacity to articulate the necessary policies and to translate them into action.

#### Planning

2. At present the Ministry of Agriculture is not very strong either in macro or micro planning. This weakness is particularly worrisome given the inability of BAPPENAS to fulfill this role (para. 14 of Brief on Discussions with Professor Widjojo). We stand ready to assist the Ministry to strengthen its planning capacity and in particular have indicated our willingness to assist them in the preparation of a food plan. We have also secured the services of Sir John Crawford to conduct an overall dialogue on agricultural policy. Unfortunately his contribution was delayed owing to his family circumstances, but he is now resuming work. We have had some reservations, however, whether the Government seriously wishes to enter into such a dialogue. For example our ability to assist them depends to some extent on a free exchange of information between us; there have been some recent instances where this exchange has not taken place. This attitude may be improving, however, as indicated by the Government's request in the recent IGGI Meeting that Sir John Crawford assist and advise them in generating a plan for the development of secondary crops.

#### Food Policy

3. Despite impressive achievements in rice production during the past decade there has been a continuing increase in Indonesia's food deficit (para. 41-47, Brief on Economic Situation in Section E). Even with expanded Government investment in the food crop subsector, it is likely that Indonesia will continue to face a basic food deficit up to 1990 and beyond. For example, even under fairly optimistic growth assumptions for food output, the rice deficit could still be about 2 million tons in 1990. Indonesian rice imports in a bad year can represent as much as one third of world trade and exposure to risks of price and quantity fluctuations in that market are already high. The need to develop a comprehensive food production and consumption strategy has become urgent. Such a strategy would include emphasis on improving implementation performance of the Government's irrigation program, special attention to secondary crops (see below), and due emphasis to pricing policies. Past

price levels have been relatively good for producers but in the wake of devaluation, this has to be kept under close review. Reflecting some of the weaknesses discussed in para. 2 above, we are concerned that the Government is not doing enough to develop a comprehensive and integrated detailed food policy.

#### Secondary Food Crops

4. Secondary food crops require special attention. The long-term growth rate of rice production has, as a result of Government support programs, been maintained at a respectable 3.5% per annum over the past 10 years or so. By contrast, secondary food crops, which have only grown at about 1.7% per annum over the same period, have been relatively neglected. In addition to its balance of payments effects, a food policy, which gives due emphasis to secondary crops, will also have positive equity effects as these commodities are generally consumed by the lower income groups. Such a policy should take the form of demand management, i.e. shifting consumer subsidies from rice to secondary crops, and development of programs for the production, storage and marketing of secondary crops. While the Government's economic managers agree with the need to shift emphasis they have done little to identify the practical measures that are needed. For example extension and research has been biased in favor of rice, and in contrast to rice, marketing of secondary crops has been neglected. The solution of these problems is especially important because we now perceive the transmigration program as being connected with progress in these areas. Again we stand ready to help: the proposed FY80 Agricultural Research II project will emphasize secondary crops and a cassava marketing study is included in our FY80 Economic and Sector work program. Though we are still uncertain as to the seriousness with which the Government intends to take this effort, their request for Sir John Crawford's assistance in developing a plan for secondary food crop development (para. 2) is an encouraging sign.

#### Absorptive Capacity and Project Implementation

5. These problems are discussed in Section F (paras. 14 and 15) for topics for discussions with Professor Widjojo. They apply with particular force to the agricultural sector. While some of the implementation difficulties can only be solved in the longer term (e.g. problems relating to skilled manpower constraints), others could be addressed in the more immediate future. For example, the lack of interministerial coordination under the transmigration program has seriously impaired performance. In another example, coordination problems between various Directorate Generals of the Ministry of Agriculture have slowed the development of a coherent extension program. The Presidential Decree of August 1978 has gone some way to clarify these issues with respect to transmigration but constant vigilance in this area is essential. Even more worrisome are those implementation problems and delays associated with inadequate budget procedures and contract approval which are discussed (in Part (1) of Section F of topics for discussion with Professor Widjojo, for example, delays associated with prefinancing problems have seriously affected implementation of our irrigation projects. The need to address these problems assumes added urgency as the Government embarks on Repelita III. The relatively "easier" rehabilitation projects are now over. Furthermore, the "people" oriented development programs, implied by the

equity objectives of the Third Plan are inherently more complex and difficult to implement than the relatively straightforward projects of the past. The timely delivery and coordination of agricultural support services, including extension, input supplies, marketing and storage, will, for example, become increasingly critical. These functions have been relatively neglected in the past and we are not convinced that the Government is addressing these issues with the required dispatch. We are also worried that the Government's problems in attracting agricultural managers to remote field locations, e.g., transmigration, will also adversely affect implementation performance. It should be stressed that the Government's ability to implement rural projects, rather than Bank staff or funds, will limit our involvement in these operations. It would be useful to ask the Ministers how they intend to address these problems in Repelita III.

#### The Price of Agricultural Commodities

6. Before devaluation, agricultural commodity prices were roughly in line with those prevailing in similar countries. In pure currency terms, the devaluation drastically changed this by reducing the dollar price of Indonesian agricultural commodities by 30%. You may wish to indicate that the adequacy of support prices and the agricultural terms of trade need to be kept under close review, both from the point of view of production incentives and from that of the equitable distribution on incomes. There are also financial implications (see paras. 21-27 of the Brief on Economic Situation in Section E inasmuch as rice, wheat flour, sugar and coconut oil are imported, they must now be subsidized. While the financial costs of these subsidies are dwarfed by the subsidy on domestic petroleum products, one must also note that if the world price is used as reference, the producers of rice and sugar are providing a large cross subsidy to the consumers, who are on average much higher on the income scale.

#### Transmigration

7. Mr. Husain's January 1979 statement to the Board on Transmigration which is included in Section G(7), gives the background to recent developments; it underlies our commitment but also expresses our concerns which we suggest should be again highlighted during your discussions.

#### Environmental Affairs

8. In May 1978 the Government created a new State Ministry for Development Supervision and Environment. Mr. Emil Salim is the Minister. The Minister requested Bank assistance to strengthen the organization of his Ministry and to integrate environmental concern into economic development. A Bank mission was recently sent to review the details of the needs. The Bank is now coordinating with other aid organizations the best way of meeting the identified needs. The Bank will also be the Executing Agency for a UNDP financed project designed to strengthening the organization of the Ministry. There is no issue to be discussed, but Minister Salim may refer to this effort.



## INDONESIA

### Topics for Discussions with the Minister of Education and Culture, Mr. Daoed Joesoef; Minister of Public Works, Mr. Purnomosidi; Minister of Health, Dr. Soewardjono Surjaningrat on Social Sector Projects

#### General

1. Given the Government's increased concern for equity objectives, particularly as evidenced in the Third Five-Year Plan, we have no major policy issues with the Government in the social sectors. The problems are primarily those of translating objectives into action. In this respect the Government is still in the early stages.

#### Education and Culture

2. The Government has made impressive achievements in the education sector (see Education Strategy Brief, Section G). The success has been greatest for primary, secondary and non-formal education. However, tertiary level education still suffers particularly from internal inefficiency, poor quality and inadequate planning and administration. As shortages of professionally trained manpower are seriously constraining Government's development efforts the problems of the tertiary level institutions require close attention. Given the weight we attach to industrial development, it is especially important that the quality and efficiency of higher technical training be improved. Our lending is addressing these issues - a Polytechnic Project was approved on December 19, 1978 and a Higher Education Project is scheduled for approval in FY80.

3. We should also emphasize the need for training regional government staff and project managers. Shortages of such personnel are already seriously affecting the implementation of the Government's rural programs, including projects financed by the Bank, and can be expected to emerge as even more serious constraints during the Third Plan.

#### Urban Development

4. Implementation of the Government's urban programs which emphasize kampung improvement has gone well. The three ongoing projects financed by the Bank are expected to provide minimum basic services to about 4.5 million persons in several major urban centers. The Bank stands ready to finance in the future similar projects to expand the scope of Indonesia's urban development program. Establishment of effective urban service centers and the development of the administrative and financial planning capabilities of the municipal authorities constitute major objectives of these operations. To

date we have done little for employment under our urban operations preferring instead to address these issues under industrial operations, e.g., the FY77 small enterprise project. These problems can, however, only be effectively addressed if and when the Government develops a comprehensive industrial strategy (para. 3(c), Section F, "Topics for Discussion with the Macro-economic Ministers").

### Water Supply

5. Compared to other sectors, development in the water supply sector during the past years has not been significant. Present estimates indicate that only 23% of the urban population and 4% of the rural villages have access to piped water supply. Furthermore, existing institutions are weak and coordination among the agencies concerned needs to be strengthened. The Third Five-Year Plan (1979-83) will emphasize distribution of the benefits of the Government-financed water works to large segments of the population - primarily construction of public standpipes rather than costly house connections. Based on this objective, which we support, the Government has adopted an urban water supply development strategy under which, during the Third Plan period, a minimum level of 60 liters of drinking water per day per capita is expected to be provided to 60% of the population in about 190 medium-sized and small towns. Installation of public standpipes versus house connection and low cost standardized packages will be emphasized. We reviewed this new strategy with government officials during the negotiations of the Second Water Supply project in early April 1979 and found the Government's proposals sensible. Some issues still remain unresolved. For example, possible conflict between the Government's desire for low, affordable water rates and the financial viability of municipal water enterprises will need to be examined. Our future operations are expected to be based on the Government's new strategy for the development of the sector and will include provisions to address the remaining sector issues.

6. Government agencies are also developing, with WHO assistance, alternative schemes for rural water supply. If requested, the Bank will be glad to associate itself with these operations.

### Health

7. The Ministry of Health has been playing a commendable role in the successful implementation of the National Family Planning Program which the Bank is supporting. We should reconfirm our willingness to continue our association with the program and to extend it to the outer islands where population issues are now becoming increasingly critical (para. 3(a), Section E, Topics for Discussion with the Macro-economic Ministers).

8. The Government's health programs are in general well conceived. Due weight to the supply of medical services to the bulk of the population through paramedics has been given and the temptation to build large city hospitals has been avoided. However, utilization of the 3,000 rural health

centers built in the past years remains low (see para. 14 of the Brief on the economic situation). The Ministry officials have explored the possibility of Bank financing for a health project which would provide for the purchase of medical equipment, provision of technical assistance and institution-building. A basis for cooperation exists. Our reply awaits a management decision on whether the Bank will finance such discrete health projects.

## INDONESIA

### Topics for Discussion

With the Minister of Industry, Mr. Soehoed;  
Minister of Mining and Energy, Mr. Soebroto;  
Minister of Communications, Mr. Roesmin Nurjadin  
Minister of Research and Technology, Mr. Habibie

### Industry

1. The major conclusion of the (February 1979) Basic Economic Report is that over the next 10 to 15 years, the economic development of Indonesia will critically depend on the formulation and effective implementation of a comprehensive and coherent industrial development strategy designed to be both employment and export oriented. (Details are contained in the brief the economy (paras. 33-40 of Part 3 of Section E) and in para. 3 of the Brief on topics for discussion with Professor Widjojo. The need for and issues associated with this proposed strategy could be further explored during this meeting.
2. Although officially the promotion of labor-intensive industries is a generally accepted high priority goal, the Minister of Industry appears more interested and more concerned with what he calls the promotion of "strategic" industries; for example, he has continued to devote much time to the Asahan Aluminum Smelter in Sumatra. The Minister justifies his interest in them by referring to the need to create "strategic" industries and to exploit and process the country's natural resources. You may wish to ask Minister Soehoed and his colleagues how they see the strategic role being played by these industries, and more generally, the justification for devoting financial and high-level managerial resources to the promotion of such projects. How, through what mechanism, and when will these industries start making a major contribution to the promotion of employment?
3. You may wish to again congratulate the ministers for the courageous decision to devalue the Rupiah and note its importance in the development of a comprehensive labor-intensive industrial strategy. You may wish to note, however, that this decision was only a first step and inquire about what other actions to overcome the problems standing in the way of the development of labor-intensive industries are contemplated. There is little evidence that the needs of labor-intensive industrial production and exports are receiving the sort of concentrated high level attention that has been devoted to several of the high technology projects. You may want to suggest that such concentrated attention should be devoted to the development of labor-intensive and export-oriented policies and projects and note that we stand ready to assist the Government in this connection.
4. Although this touches on politically sensitive ground, you may wish to add that the various administrative obstacles are probably the main impediment to faster industrial development. There are clearly vested interests in maintaining at least some of these obstacles. One major official justification for restrictions is opposition to additional economic power being acquired by non-pribumi, i.e. Chinese businessmen. However, one may query whether the aim of better ethnic balance could not be better served by more positive promotion of non-Chinese business.

Mining and Energy

5. Energy. So far the Government has not developed an overall energy policy. We consider movement on this front essential since many critical questions can only be addressed in the framework of a comprehensive long-term strategy designed to utilize optimally the vast and diverse domestic sources of energy. These include fuel diversification, setting of fuel prices to reflect their economic cost (a critical issue which is highlighted in para. 24 of the Economic Brief in Section E), incentive systems to guide energy suppliers and consumers towards an evolving national least-cost system, rural electrification and conservation measures. The Bank is cooperating with the Government in several studies that will address some of these problems. Power tariffs are a major issue. They have fallen considerably behind economic costs in the last two years. This was a major issue during the Power VIII negotiations which were concluded mid-April. The Government has however indicated its intention to raise tariffs by over 50 percent as soon as possible, but not later than March 31, 1980. The timing of the increase is, of course, politically sensitive and depends in large part on reaction to the recent fuel price increases. We do not suggest you raise this matter.

6. Fuel Diversification. One element of an emerging energy sector strategy is the Government decision to use coal as fuel for domestic electricity generation. Currently, however, 80% of the electricity produced in Indonesia is based on oil-fired facilities. The prospects of declining oil exports as a result of stagnating oil production and rapidly increasing domestic consumption give added urgency to the need for a fuel diversification strategy. We are willing to assist in its formulation and implementation, for example, the proposed FY81 Bukit Assam coal mining and transport project.

Transport

7. The transport sector is a major consumer of public investment and Government policy has tended to emphasize low transport pricing on grounds of national integration, equity and security. In our dialogue with the Government, we have emphasized transport policy issues as an integral part of our project lending and sector planning. In this connection a broad transport policy statement was agreed during the recent (February 1979) negotiations for a Fifth Highway loan. The statement stresses the need to raise additional revenues from the sector to reduce subsidies, to rationalize tariffs, to improve transport coordination and to emphasize maintenance and support services. It would be useful to reinforce some of these concerns and to emphasize that the Bank considers it essential to its lending to the sector that the Government make progress in developing this framework and in taking specific actions to implement it.

8. We suggest you should highlight the special importance we attach to resource mobilization in this sector. At present, most of the transport system operates without full cost recovery from transport users. The total tax contribution of the transport sector is modest and the sector is a net

user of Government resources. We should re-emphasize that the Government consider policy options that would raise prices and charges to users, increase efficiency, reduce costs, reduce subsidies, and increase taxation on various parts of the transport system, e.g. particularly the trucking sector. Not only does the latter not seem to be paying its way but it is a considerable potential source of tax revenue. The railway provides another example since its major patrons, such as the public enterprises for oil, cement, coal and fertilizers are not paying the railway anywhere near what it costs to carry their traffic. You could also emphasize our concern over problems relating to the coordination of investment plans between the Ministries of Communications (responsible for railways, ports, shipping and airways) and Public Works (roads). For example, immediate attention needs to be given to coordinating transport investment plans affecting the Jakarta area, especially between a proposed expensive urban toll road system (proposed by Public Works) and a lower cost traffic management proposal favored by the Ministry of Communications.

#### Railways

9. While we suggest you do not raise the issue of railways performance under Railways I project, the Minister could raise the issue of further Bank support to this sector. This project has encountered several problems during implementation and financial performance of the railway continues to deteriorate due mainly to inadequate tariffs for major freight commodities, operational inefficiencies, and unclear Government position regarding the role and objectives of the railways. Presently no basis exists for further lending. We have emphasized the need to develop a clear framework for the Railways which should include, inter alia, a definition of objectives and priorities, and an action program to address these priorities and improve operational efficiencies. The Government has agreed to clarify its position and formulate such a framework. Upon review of government proposals, the Bank will establish a position regarding further assistance to the railways.

#### Research and Technology

10. You may recall your meeting with Minister Habibie on December 6, 1978 (minutes are included in Section G(7), "Memoranda of Conversations.") He is concerned with developing a long-term strategy to build a local technological research capability within Indonesia. Research areas of interest include: development of natural resources, diversification of energy sources, appropriate technology and labor-intensive industrialization, rural industry development, development of aircraft, automotive and shipping industries and research on food systems and delivery of basic needs. These programs remain tentative and are in their formative stages. However, the Minister is keen to seek cooperation and assistance from international organizations and research institutions to further formulate these broad programs. The Bank is assisting the Minister in launching a set of policy studies in the energy sector. You may express Bank interest in helping the Indonesians formulate research programs that reflect overall economic priorities; at present, the proposed programs are primarily determined by a desire for technical excellence rather than the economic priorities facing Indonesia.

INDONESIA

Transmigration, Irrigation, and Highways

Given his urban and water supply responsibilities Mr. Purnomosidi, Minister of Public Works, may be present during this meeting. His Ministry is responsible for an important element of the Transmigration program (land clearance and infrastructure), irrigation and highways. The opportunity to discuss some of the issues raised in the Brief for the discussions with the Ministers of Agriculture, Transmigration and Communications may therefore arise.

INDONESIALENDING PROGRAM  
(as of April 1979)Sectoral Distribution  
(IDA and IBRD - in US\$ million)

|                       | FY79             | FY80             | FY81             | FY82             | FY83             | Total              | % of total   |
|-----------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------|
| Agriculture and Rural | 296.0(4)         | 355.0(6)         | 425.0(5)         | 450.0(6)         | 310.0(5)         | 1,836.0(26)        | 43.3         |
| Power                 | 175.0(1)         | 172.0(1)         | 120.0(1)         | -                | 100.0(1)         | 567.0(4)           | 13.4         |
| DFC and Industry      | 50.0(1)          | 110.0(1)         | -                | 60.0(1)          | 320.0(4)         | 540.0(7)           | 12.7         |
| Transport             | 130.0(1)         | -                | 75.0(2)          | 140.0(2)         | 60.0(1)          | 405.0(6)           | 9.5          |
| Education             | 91.0(2)          | 75.0(1)          | 90.0(2)          | 85.0(2)          | 50.0(1)          | 391.0(8)           | 9.2          |
| Urban                 | 54.0(1)          | -                | -                | 70.0(1)          | 80.0(1)          | 204.0(3)           | 4.8          |
| Water Supply          | 36.0(1)          | -                | -                | 50.0(1)          | 50.0(1)          | 136.0(3)           | 3.2          |
| Mining                | -                | -                | 123.0(1)         | -                | -                | 123.0(1)           | 2.9          |
| Population            | -                | 35.0(1)          | -                | -                | -                | 35.0(1)            | 0.8          |
| Technical Assistance  | 10.0(1)          | -                | -                | -                | -                | 10.0(1)            | 0.2          |
| <u>Total</u>          | <u>842.0(12)</u> | <u>747.0(10)</u> | <u>833.0(11)</u> | <u>855.0(13)</u> | <u>970.0(14)</u> | <u>4,247.0(60)</u> | <u>100.0</u> |



INDONESIALENDING PROGRAM  
(as of April 1979)

|   | <u>Amount</u> |              | Next critical step    | Tentative Board date |
|---|---------------|--------------|-----------------------|----------------------|
|   | <u>IBRD</u>   | <u>IDA</u>   |                       |                      |
| <u>FY79: 12 Projects -</u>  |               |              |                       |                      |
| <u>\$810 Million</u>  |               |              |                       |                      |
| Polytechnic Education   |               | 49.0         | Approved              | Dec 19, 78           |
| Irrigation XII  | 77.0          |              | Approved              | Dec 21, 78           |
| BAPINDO IV  | 50.0          |              | Board consideration   | May 29, 79           |
| Lower Cimanuk Basin<br>Flood Control<br>(Irrigation XIII)                     | 50.0          |              | Board consideration   | Apr 24, 79           |
| Yogyakarta Rural<br>Development I   |               | 12.0         | Board consideration   | May 15, 79           |
| Urban Development III   | 54.0          |              | Approved              | Jan 16, 79           |
| Power VIII  | 175.0         |              | Board consideration   | May 29, 79           |
| Technical Assistance V<br>Second Agricultural<br>Training<br>(Education VIII) | 42.0          | 10.0         | Approved              | Apr 24, 79           |
| Highways V  | 130.0         |              | Board consideration   | Mar 15, 79           |
| Water Supply II   | 36.0          |              | Board consideration   | Jun 19, 79           |
| Transmigration II   | 90.0          | 67.0         | Board consideration   | May 29, 79           |
|   | <u>704.0</u>  | <u>138.0</u> |                       |                      |
| <u>FY80: 10 Projects -</u>  |               |              |                       |                      |
| <u>\$768 Million</u>  |               |              |                       |                      |
| Nucleus Estates III   | 96.0          |              | Documents to L.C.     | May 22, 79           |
| Irrigation XIV  | 100.0         |              | Departure appraisal   | Feb 80               |
| Agri. Extension II  |               | 40.0         | Departure appraisal   | Jan 80               |
| Watershed Development   |               | 37.0         | Departure appraisal   | Mar 80/1             |
| Agri. Research II   | 23.0          | 27.0         | Departure appraisal   | Dec 79               |
| Population III  |               | 35.0         | Departure appraisal   | Mar 80               |
| Education IX - Higher<br>Education  | 75.0          |              | Departure appraisal   | Mar 80               |
| Power IX - Suralaya<br>Thermal  | 172.0         |              | Departure appraisal   | Mar 80               |
| DFC Apex  | 110.0         |              | Departure appraisal   | Sep 79               |
| Rubber Replanting I   |               | 32.0         | Departure reappraisal | May 79               |
|   | <u>576.0</u>  | <u>171.0</u> |                       |                      |

/1 This project will now shift to FY81.

|                                      | Amount       |              |
|--------------------------------------|--------------|--------------|
|                                      | IBRD         | IDA          |
| <u>FY81: 11 Projects -</u>           |              |              |
| <u>\$800 Million</u>                 |              |              |
| Irrigation XV<br>(FY80 standby)      | 75.0         |              |
| Transmigration III<br>(FY80 standby) | 120.0        |              |
| North Sumatera Transport             | 35.0         |              |
| Transmigration IV                    | 100.0        |              |
| Nucleus Estates IV                   | 68.0         | 22.0         |
| Seeds II                             |              | 40.0         |
| Mining and Transport                 | 123.0        |              |
| Secondary Education                  | 55.0         |              |
| Non-Formal Education                 |              | 35.0         |
| Power X                              | 120.0        |              |
| Rural Roads I                        |              | 40.0         |
|                                      | <u>696.0</u> | <u>137.0</u> |
| <u>FY82: 13 Projects -</u>           |              |              |
| <u>\$855 Million</u>                 |              |              |
| Agricultural Credit                  | 50.0         |              |
| Transmigration V                     | 120.0        |              |
| Nucleus Estates                      | 51.0         | 49.0         |
| Irrigation XVI                       | 80.0         |              |
| Coconut Replanting                   | 30.0         |              |
| Village Development                  | 70.0         |              |
| Small-Scale Enterprises              | 60.0         |              |
| Education XII                        | 50.0         |              |
| Education XIII                       | 35.0         |              |
| Highways VI                          | 100.0        |              |
| Posts II                             | 40.0         |              |
| Urban Development V                  | 70.0         |              |
| Water Supply III                     |              | 50.0         |
|                                      | <u>756.0</u> | <u>99.0</u>  |

|  | Amount       |              |
|--|--------------|--------------|
|  | IBRD         | IDA          |
| <hr/>                                      |              |              |
| <u>FY83: 14 Projects -</u>                 |              |              |
| <u>\$970 Million</u>                       |              |              |
| Rural Credit III                           | 60.0         |              |
| Watershed Development II                   | 71.0         | 9.0          |
| Irrigation XVIITransport                   | 80.0         |              |
| Rubber Replanting II                       | 40.0         |              |
| District & Area Development                | 68.0         | 50.0         |
| DFC - Apex II                              | 100.0        |              |
| Small-Scale Industry<br>and Extensionation | 20.0         |              |
| Education XIV                              |              | 50.0         |
| Engineering Industry                       | 100.0        |              |
| Forest Industry                            | 100.0        |              |
| Power XI                                   | 100.0        |              |
| Rural Roads II                             | 60.0         |              |
| Urban Development VI                       | 80.0         |              |
| Water Supply IV                            | 50.0         |              |
|  | <u>861.0</u> | <u>109.0</u> |

THE STATUS OF BANK GROUP OPERATIONS IN INDONESIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of February 28, 1979)

| Loan/<br>Credit<br>Number                      | Fiscal<br>Year | Purpose   | US\$ million                   |       |             |
|--|----------------|---|--------------------------------|-------|-------------|
|  |                |   | Amount<br>(less cancellations) |       |             |
|  |                |   | Bank                           | IDA   | Undisbursed |
| One Loan and seventeen Credits fully disbursed |                |   | 50.0                           | 228.1 | -           |
| 220  | 1971           | Third Irrigation Rehabilitation                         |                                |       |             |
| 259  | 1971           | Tea   | 14.5                           |       | 0.2         |
| 260  | 1971           | Second Highway  | 15.0                           |       | 0.7         |
| 289  | 1972           | Fourth Irrigation Rehabilitation                        | 34.0                           |       | 0.2         |
| 300  | 1972           | Population  | 12.5                           |       | 0.2         |
| 318  | 1972           | Inter-Island Fleet Rehabilitation                       | 13.2                           |       | 3.2         |
| 319  | 1972           | Fourth Agricultural Estates                             | 8.5                            |       | 2.0         |
| 355  | 1973           | Beef Cattle Development                                 | 11.0                           |       | 2.0         |
| 358  | 1973           | North Sumatra Smallholder Development                   | 3.6                            |       | 0.2         |
| 387  | 1973           | Third Education   | 5.0                            |       | 0.8         |
| 388  | 1973           | Third Highway   | 13.5                           |       | 4.7         |
| 399  | 1973           | West Java Thermal Power                                 | 14.0                           |       | 0.1         |
| 400  | 1973           | Smallholder and Private Estate Tea                      | 46.0                           |       | 4.8         |
| 405  | 1973           | Sugar Industry Rehabilitation                           | 7.8                            |       | 6.3         |
| 428  | 1974           | Pulo Gadung Industrial Estate                           | 50.0                           |       | 0.8         |
| 436  | 1974           | Private Development Finance Co. of<br>Indonesia (PDFCI) | 16.5                           |       | 10.1        |
| 451  | 1974           | Fourth Technical Assistance                             | 10.0                           |       | 0.7         |
| 479  | 1974           | Bali Tourism  | 5.0                            |       | 1.9         |
| 480  | 1974           | Fisheries Credit  | 16.0                           |       | 10.7        |
| 514  | 1975           | Jatiluhur Irrigation Extension                          | 6.5                            |       | 2.1         |
| 785  | 1978           | Small Enterprise Development Project                    | 30.0                           |       | 22.4        |
| 827  | 1978           | Rural Credit  | 40.0                           |       | 35.9        |
| 869  | 1979           | Polytechnic /a  | 30.0                           |       | 30.0        |
|  |                |   | 49.0                           |       | 49.0        |
| 1005   | 1974           | Railway   |                                |       |             |
| 1040   | 1975           | Jakarta Urban Development                               | 48.0                           |       | 3.9         |
| 1049   | 1975           | Five Cities Water Supply                                | 25.0                           |       | 2.5         |
| 1089   | 1975           | Second Fertilizer Expansion                             | 14.5                           |       | 8.5         |
| 1100   | 1975           | Sixth Irrigation  | 115.0                          |       | 1.6         |
| 1127   | 1975           | Fourth Power  | 65.0                           |       | 49.8        |
| 1139   | 1976           | Fertilizer Distribution                                 | 41.0                           |       | 4.7         |
| 1179   | 1976           | Agricultural Research & Extension                       | 68.0                           |       | 1.5         |
| 1197   | 1976           | National Resource Survey & Mapping                      | 21.5                           |       | 19.2        |
| 1236   | 1976           | Fourth Highway  | 13.0                           |       | 8.5         |
|  |                |   | 130.0                          |       | 100.2       |

/a Not yet effective.

| Loan/<br>Credit<br>Number         | Fiscal<br>Year | Purpose  | US\$ million                   |              |                |
|-----------------------------------|----------------|--|--------------------------------|--------------|----------------|
|                                   |                |  | Amount<br>(less cancellations) |              |                |
|                                   |                |  | Bank                           | IDA          | Undisbursed    |
| 1237                              | 1976           | Fourth Education   |                                |              |                |
| 1250                              | 1976           | Second Shipping  | 37.0                           |              | 31.2           |
| 1254                              | 1976           | Third Fertilizer Expansion   | 54.0                           |              | 46.7           |
| 1259                              | 1976           | Fifth Power  | 70.0                           |              | 14.3           |
| 1267                              | 1976           | National Food Crops Extension  | 90.0                           |              | 76.7           |
| 1268                              | 1976           | Seventh Irrigation   | 22.0                           |              | 15.8           |
| 1318                              | 1977           | Transmigration and Rural<br>Development                              | 33.0                           |              | 21.5           |
| 1336                              | 1977           | Second Urban Development   | 30.0                           |              | 23.2           |
| 1337                              | 1977           | Tanjung Priok Port   | 52.5                           |              | 22.0           |
| 1363                              | 1977           | Second Private Development<br>Finance Co. of Indonesia<br>(PDFCI-II) | 32.0                           |              | 23.9           |
| 1365                              | 1977           | Sixth Power  | 15.0                           |              | 12.5           |
| 1373                              | 1977           | Nutrition Development  | 116.0                          |              | 86.9           |
| 1433                              | 1977           | Teacher Training-Fifth Education                                     | 13.0                           |              | 12.9           |
| 1434                              | 1977           | Eighth Irrigation  | 19.0                           |              | 17.8           |
| 1435                              | 1977           | Ninth Irrigation   | 63.0                           |              | 61.1           |
| 1437                              | 1977           | Development Finance Co.<br>(BAPINDO III)                             | 35.0                           |              | 31.2           |
| 1472                              | 1977           | Second Population  | 40.0                           |              | 26.6           |
| 1486                              | 1978           | Non-Formal Education   | 24.5                           |              | 23.9           |
| 1499                              | 1978           | Nucleus Estates and Smallholders I                                   | 15.0                           |              | 14.4           |
| 1513                              | 1978           | Seventh Power  | 65.0                           |              | 61.7           |
| S 009                             | 1978           | Bukit Asam Coal Mining and Transport<br>Engineering                  | 109.0                          |              | 108.4          |
| 1578                              | 1978           | Tenth Irrigation   | 10.0                           |              | 9.1            |
| 1579                              | 1978           | Eleventh Irrigation  | 140.0                          |              | 139.7          |
| 1604                              | 1978           | Nucleus Estates and Smallholders II                                  | 31.0                           |              | 29.0           |
| 1645                              | 1979           | Irrigation XII /a  | 65.0                           |              | 65.0           |
| 1653                              | 1979           | Third Urban Development /a   | 77.0                           |              | 77.0           |
|                                   |                |  | 54.0                           |              | 54.0           |
| Total                             |                |  | <u>1,903.0</u>                 | <u>679.7</u> | <u>1,495.9</u> |
| of which has been repaid          |                |  | 13.8                           | 0.0          |                |
| Total now outstanding             |                |  | <u>1,889.2</u>                 | <u>679.7</u> |                |
| Amount sold                       |                |  | 28.1                           | 0.0          |                |
| Total now held by Bank and IDA /b |                |  | <u>1,861.1</u>                 | <u>679.7</u> |                |
| Total undisbursed                 |                |  | <u>1,306.9</u>                 | <u>189.0</u> | <u>1,495.9</u> |

/a Not yet effective.

/b Prior to exchange adjustment.

B. STATEMENT OF IFC INVESTMENTS (as of February 28, 1979)

| Fiscal<br>Year                                | Obligor                              | Type of<br>business | US\$ million |             |             |
|---|--------------------------------------|---------------------|--------------|-------------|-------------|
|   |                                      |                     | Loan         | Equity      | Total       |
| 1971  | P.T. Semen Cibinong                  | Cement              | 10.6         | 2.5         | 13.1        |
| 1971  | P.T. Unitex                          | Textiles            | 2.5          | 0.8         | 3.3         |
| 1971  | P.T. Primatexco<br>Indonesia         | Textiles            | 2.0          | 0.5         | 2.5         |
| 1971  | P.T. Kabel Indonesia                 | Cable               | 2.8          | 0.4         | 3.2         |
| 1972  | P.T. Daralon Textile<br>Manuf. Corp. | Textiles            | 4.5          | 1.5         | 6.0         |
| 1973  | P.T. Jakarta Int. Hotel              | Tourism             | 11.0         | -           | 11.0        |
| 1973  | P.T. Semen Cibinong                  | Cement              | 5.4          | 0.7         | 6.1         |
| 1974  | P.T. Primatexco<br>Indonesia         | Textiles            | 2.0          | 0.3         | 2.3         |
| 1974  | P.T. Monsanto Pan                    | Electronics         | 0.9          | -           | 0.9         |
| 1974  | P.T. PDFCI                           | Devel. Fin. Co.     | -            | 0.5         | 0.5         |
| 1974  | P.T. Kamaltex                        | Textiles            | 2.4          | 0.6         | 3.0         |
| 1976  | P.T. Semen Cibinong                  | Cement              | 5.0          | 1.5         | 6.5         |
| 1976  | P.T. Semen Cibinong                  | Cement              | -            | 1.1         | 1.1         |
| 1977  | P.T. Daralon Textile<br>Manuf. Corp. | Textiles            | 0.3          | -           | 0.3         |
| 1977  | P.T. Kamaltex                        | Textiles            | 1.4          | 0.1         | 1.5         |
| Total   |                                      |                     | <u>50.8</u>  | <u>10.5</u> | <u>61.3</u> |
| Less: sold or repaid and cancelled            |                                      |                     | <u>29.2</u>  | <u>1.8</u>  | <u>31.0</u> |
| Total held by IFC                             |                                      |                     | <u>21.6</u>  | <u>8.7</u>  | <u>30.3</u> |
| Undisbursed (including participant's portion) |                                      |                     | <u>-</u>     | <u>-</u>    | <u>-</u>    |

INDONESIAFIELD TRIP BRIEFVisit to Cirebon Irrigation System, West Java

The Bank is assisting the rehabilitation and improvement of irrigation systems serving about 89,000 ha in the Cirebon Subproject under rehabilitation of about 120 headworks and weirs and 450 km of primary and secondary canals, and construction of tertiary and quarternary irrigation and drainage systems over the entire service area. These systems, which are being constructed at relatively low cost, would further upgrade the existing primary and secondary systems through the establishment of good water control, timely and equitable water distribution and optimal utilization of available water supplies. Rehabilitation of the primary and secondary systems is expected to be completed by early 1982, and construction of the tertiary and quarternary systems by early 1983. To maximize benefits from the improved irrigation systems, the Bank is upgrading agricultural extension services in the area under the same project (Loan 1100-IND). Further strengthening is being provided under the National Food Crops Extension Project (Loan 1267-IND). (In Cirebon, Mr. McNamara will be given a briefing by Mr. Suyono, Director General of Water Resources Development, on Irrigation Development in the Cirebon area, with particular emphasis on tertiary development (15 minutes). He will then be taken to a Saung meeting where a PPL would be passing on extension advice on current problems to a group of about 15 key farmers. He may interview the farmers if he wishes. From the Saung meeting he will be conducted to a tertiary irrigation system not more than 100 m away. He will then be escorted back to his helicopter.)

INDONESIA

FIELD TRIP BRIEF

Visit to Surabaya Kampung Improvement Program (KIP)

1. The Kampung Improvement Program in Surabaya has been supported by two Bank loans - the Second and Third Urban Development projects. The second project (total cost \$104.8 million) which supported kampung improvement in Jakarta and Surabaya, included \$9.8 million for the Surabaya component. The project supported the first three years (1976-79) of a long-term program of kampung improvement. A total of 18 kampungs were upgraded covering an area of about 400 ha and a population of about 250,000 low-income persons. The services provided under the program include: roads, footpaths, water supply, sanitation, drainage, primary schools and health clinics. The project in Surabaya is about 75% complete. The Third Urban Development project (total cost \$96.0 million) provides support for an expanded kampung improvement program in Surabaya (in addition to four other cities) over three years (1979-82). It would provide infrastructure services in an additional 27 kampungs covering an area of 580 ha and a population of about 275,000 persons. The cost of the Surabaya KIP under this project is estimated to be about \$13.0 million. The project also includes investments in drainage (\$6.6 million) and solid wastes management (\$4.0 million) for Surabaya. Implementation of works under the third project were to be initiated in April of this year.

2. Project performance to date has been most satisfactory. The Surabaya kampung improvement program exemplifies how starting from a small scale, a long-term program of upgrading all low-income unserved areas in a city can be developed. It is anticipated that by the end of the implementation period of the third project, Surabaya would have provided minimum basic services to about 35% of its population living in unserved slum areas. There are no outstanding issues in Surabaya. The basic concepts of the project - low per capita cost, emphasis on only the minimum basic standards, community participation and need to mobilize financial resources to develop a long-term replicable program of slum upgrading - are fully accepted by the municipal, provincial and national authorities.



INDONESIAFIELD TRIP BRIEFVisit to Bojonegoro Nutrition Project

1. Apart from the institution-building aspect, the main purpose of the project is to develop, through field level action programs and their evaluation, nationally replicable and cost-effective measures to improve the nutritional status of malnourished target groups.
2. The field level action programs include the NIPP (Nutrition Intervention Pilot Project) activities, the establishment of home/village gardens, and establishment of small-scale village storage and processing units.
3. The Nutrition Intervention Pilot Project (NIPP): The objective of the NIPP component is to improve the nutritional status of children under the age of three, pregnant women and lactating mothers in about 180 villages distributed in 7 kabupatens. (The Bojonegoro kabupaten is the first selected for this activity.) The component finances: the immunization of 100,000 children against infectious diseases; supplementary feeding of 30,000 potentially severe and moderately malnourished children under the age of three and of 17,000 pregnant and lactating women; the nutrition education of about 100,000 families; supply of iodized salt, vitamin A and iron supplements to the target population at risk; salaries of staff to train village volunteers and supervise them; evaluation of the effectiveness of the combined package of these measures and technical assistance to plan and implement these activities. The villages included in this component would also benefit from home/village garden programs and improvements of village storage and processing.
4. In each NIPP village, about one volunteer per 50 households is chosen from among primarily female extension workers, teachers and social workers to: (a) identify moderate and severe PCM cases among children and pregnant and lactating women; (b) provide simple means of nutrition education; (c) ensure efficient delivery of food supplements; and (d) check monthly weight of children. Baseline data are collected in the NIPP areas under the technical supervision of the Center for Research Development in Nutrition (CRDN) which is funded by the project.
5. Bojonegoro - Project Implementation Status: Progress with NIPP is good in Bojonegoro. All children under three have been registered and data collected for their weight, height and arm circumference. Based on the weight/height ratio compared with Indonesian standards, a nutritional status classification determined those children under five years of age and pregnant and lactating women who would receive supplementary food. Village maps have been prepared identifying each household having a malnourished child. Monthly weighing is being undertaken to monitor the supplementary feeding. In each NIPP village, one or more nutrition centers (taman gizi) have been established with community support far exceeding the modest funds provided. Sumberrejo village is about to open its fourth nutrition center, so that a center will be

within easy reach of every mother. In addition to supplementary feeding and nutrition education, health care is provided. It includes immunization, deworming, iron therapy for nutritional anemia and the provision of vitamin A capsules, if required.

6. In Punypungan, one of the NIPP villages, the headman has started a village health insurance scheme. The fees due to the health center exceeded the family payments received, because of a heavy demand for initial treatment. The headman has guaranteed the payments, and he is confident the scheme will be viable over the long term.

7. The Bupati, Bojonegoro, intends to expand the NIPP activities to 38 other villages during FY79/80. The project itself covers only nine villages. This expansion will be funded from local sources, with the maximum involvement of women's organizations. The supervisory staff will have an increased responsibility, but this unexpected spinoff is very welcome.

8. The Food Technology Development Center, financed under the project is presently establishing 48 demonstration storage units in 12 villages in Bojonegoro.

9. The home gardens subcomponent has started well, but agricultural staff in the field hope for even better results. In each NIPP village, a community seed garden has been established on land belonging to the community or donated by a benefactor. Good quality seed has been supplied by the Department of Agriculture. The size and quality of home gardens varies widely, but much new production has taken place, and the produce is being consumed by the families. The response has been so encouraging that in the next FY, the Director-General of Food Crops plans to introduce home gardens, on the NIPP model, in 240 subdistricts as against 60 subdistricts envisaged at time of appraisal.

INDONESIA

FIELD TRIP BRIEF

Visit to Hybrid Coconut Seed Garden  
Rejosari Estate PNP X - South Sumatra

1. The 154 ha seed garden was established over the period 1974-1976, to supply annually 2.7 million hybrid (tall and dwarf) coconut seeds, from 1982 onwards. In 1978 about 200,000 nuts were produced and output will increase over the next four years, peaking in 1982.
2. The dwarf mother palms (175-180 trees/ha) comprise a mixture of NIAS Indonesia yellow (56 ha); Malayan yellow (44 ha); Malayan red (54 ha).
3. At present pollen requirements (200 kg/annum) are imported from the IRHO (Institut des Recherches Huiles et Oleagineux) station in the Ivory Coast and this will continue until 1982 by which time the tall male coconut garden at PNP X Bergen Estate - about 40 km away from this seed garden site - will come into production.
4. The Bergen Estate garden (42 ha) was established between 1976 and 1978 and comprises a mixture of selected tall palms of West African; Tahiti, Rennell, Bali and Jepara origin. The nuts of the first three types were imported from IRHO in the Ivory Coast and the Bali and Jepara were selected from Beji Estate (PTP XVIII) based on IRHO recommendation./1
5. In 1976 PNP X also established a hybrid coconut demonstration plant (54 ha) at Bergen Estate and this will come into bearing in 1980 building up to a peak copra production of about 6 tons/ha around 1986.

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/1 Consultancy and import of planting material financed by the Bank Group under Credit 319-IND.

## INDONESIA

### FIELD TRIP BRIEF

#### Visit to Transmigration and Rural Development Project Baturaja

##### The Project

1. The project comprises: (a) establishment of a land settlement scheme at Baturaja for 4,500 families with all requisite agricultural, physical and social infrastructure and services; (b) up-grading of infrastructure and services in an existing scheme at Way Abung with 12,500 families; and (c) studies and preparation of future settlement schemes.

##### Achievements at Baturaja Settlement

2. At the end of 1978, only 1,300 families had been settled in the three villages constructed, 40% of appraisal estimate. The target for 1979 is to settle a further 1,832 families in five villages which will have settlers houses, water supply, schools, health posts, community centers and roads. The total settled would then be 70% of appraisal estimate. Designs for the final four villages should be ready by May and contracts awarded this year.

##### Rubber

3. At Baturaja 1,255 ha (81% of target), has been planted and the standard of work is very satisfactory. In 1979/80, a further 1,600 ha will be planted at Baturaja.

##### Cattle

4. About 1,200 cattle procured from Java/Sulawesi, or imported from Australia, are being distributed to transmigrants. 160 ha of pasture has been developed in Baturaja - sufficient to meet the needs of cattle. Pasture establishment by individuals has not been very satisfactory and it has been decided to establish communal pastures on the basis of 30 ha per 100 cattle. International bids for the supply of a further 1,000 cattle have recently been invited.

##### Seed Farm

5. A 150 ha seed farm is scheduled to be developed at Baturaja of which 40 ha have been planted during this season. The balance of 110 ha would be established in 1979.

##### Cropping System Trials

6. The Crop Research Institute Agraria (CRIA) has been conducting trials since 1976-77. The trials have already indicated some suitable cropping patterns, particularly with respect to (a) maize interplanted with upland rice, followed by groundnuts; and (b) maize interplanted with soybean followed by sweet potato.

### Disbursements

7. Disbursements as of December 1978 are US\$5.38 million, about 40% of appraisal estimate. However, the tempo of the project has been stepped up in recent months, with substantial contracts awarded for equipment, machinery and civil works; it is anticipated that by the end of 1979 disbursements may reach US\$15.0 million - still one year behind appraisal estimate.

### General

8. The project is one year behind schedule due to administrative and financial problems, such as: (a) delay in appointment of staff, (b) absence of resident senior staff at project site, (c) inadequate and untimely finance. At Baturaja senior staff are now resident at site; at Way Abung a resident site manager has still to be appointed; PMU in Jakarta is short of three senior assistants. In spite of these difficulties the project is now showing positive signs of getting underway and the next twelve months should see a marked improvement in the number of settlers brought into the scheme, better organization and quality of farm input distribution with the resultant improvement in farm incomes.

### 9. Major Project Components

#### (a) Baturaja

- (i) Construction of 12 village centers with about 4,500 settler houses, including equipping and staffing health posts, schools and mosques in each village.
- (ii) Construction of 15 km of all-weather access roads, 100 km of village roads and 280 km of farm tracks.
- (iii) Provision of water supply and sanitation.
- (iv) Block planting 4,500 ha of rubber.
- (v) Distributing 4,500 head of cattle fertilizer and seeds to support food production on 2,250 ha (1/2 ha per farm).
- (vii) Distribution of food and other essentials during the first year of settlement.
- (viii) Establishment of extension, credit and cooperative services.

#### (b) Way Abung

- (i) Construction of 50 km of all-weather road, 50 km of village roads and upgrading of a further 50 km of roads.
- (ii) Construction of 4 secondary schools, 2 health centers, 22 village health posts.

- (iii) Block planting 2,500 ha of rubber for distribution between 5,000 settlers.
  - (iv) Distribution of 5,000 cattle to settlers.
  - (v) Expansion of extension, credit and cooperatives.
  - (vi) Carrying out feasibility studies and preparing detailed plans for irrigation facilities.
- (c) In addition, monitoring and evaluation studies would assess the success of new settlement plans, agricultural techniques and health systems employed in these schemes. Studies would also be made of alternative farm management systems, the role of livestock and the scope for mechanization.
- (d) Program support under the project would aim at:
- (i) expanding DGT's planning capability.
  - (ii) Testing viable cropping patterns for the red/yellow podzolic soils.
  - (iii) Establish holding grounds for cattle to serve future settlement schemes.

INDONESIA

FIELD TRIP BRIEF

Visit to Pematang Panjgang Transmigration Project Area

1. The features to be seen at Pematang Panjgang are:
  - (a) A pilot project for large scale settlement in a rainfed area planned with technical assistance from FAO.
  - (b) A FAO project for the development of appropriate animal drawn implements suitable for rainfed agriculture.
2. The Pematang Pangjang Transmigration Project Area is located in the province of South Sumatra. The total area of this project site is about 75,000 ha of upland/rainfed land characterized by soils with nutrients. A large proportion of this site was formerly under forest cover which had been subjected to timber extraction and a limited amount of shifting cultivation.
3. So far, approximately 20,000 ha have been taken up for development and about 3,500 transmigration families have been settled. According to the plan for this project, each settler farmer has been given 5 ha of land consisting of 3 units: houseplot of 0.25 ha; an adjacent area of 0.75 ha allotment to be developed in two stages. In the first stage, lasting for five years, 2.5 ha will be cultivated, with the remainder developed during the second phase. The proposed crops include both food and perennial. However, an option has been provided for development of mixed farming, comprising food crops and cattle, as an alternative to perennial crop development. Recently FAO has prepared a physical plan for the development of the remaining part of this project site which could accommodate an additional 6,500 families.

## INDONESIA

### FIELD TRIP BRIEF

#### POPULATION/FAMILY PLANNING PROGRAM

1. Derived from the 1976 Intercensal Population Survey, the population of Indonesia, the fifth most populous nation in the world, was estimated at 130 million, of which 82 million (63%) were living in Java. A low overall population density of about 70 per square kilometer, which is less than the average for Asia, contrasts strongly with a density in Java of over 600 per square kilometer, significantly higher than that of Bangladesh (510 per square kilometer). The annual population growth rate in 1976 was 2.0%. Indonesia's population is characterized by a high proportion (42.1% aged 0-14 years) of persons in the younger age groups. According to projections recently prepared by the Bank, the population of Indonesia, under assumption of a rapid decline in mortality and fertility, will be about 221 million by the year 2001. Given the considerable potential for further mortality decline it is unlikely that the annual growth rate will fall below 2.0% during this period.

2. The national family planning program started in 1969 in Java and Bali and was extended to 10 provinces in the Other Islands in 1974. Since April this year, the program has been further extended to cover the whole country. The program was started following the visit of a UN, WHO, IBRD mission in 1969 to assist in drawing up an operational program. A National Family Planning Coordinating Board (NFPCB) /1 was established in 1970 to assist the President with family planning formulation, coordination of the planning and implementation of family planning activities, and use of external and domestic financial resources for the national program.

3. The NFPCB was reorganized in November 1978, to widen its mandate to cover population policies and research and to restructure the Board. The Chairman, Dr. Suwardjono Surjaningrat, has been concurrently Minister of Health since March 1978. Day-to-day responsibilities now vest in a Vice Chairman assisted by four Deputy Chairmen. The Chairman reports directly to the President and is assisted by a consultative committee of senior members of various government departments which are involved in the national program. The names of senior staff you may meet are given in the Annex.

#### Program Strategy

4. The Government's approach to family planning is to integrate the national family planning program, which receives strong Presidential support, with other national development programs. The goal of reducing the country's fertility by 50% by the year 2000 has been officially adopted by the Government. Family planning services are provided through some 4,122 outlets operated by the Ministry of Health, the Armed Forces, other government agencies and private organizations. Static and mobile facilities are complemented in Java and Bali by some 7,000 family planning fieldworkers who motivate eligible

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/1 The Bahasa Indonesia acronym, BKKBN, is used in Indonesia and frequently outside Indonesia as well.



couples, organize meetings to discuss the benefits of family planning and distribute contraceptives. Performance is closely monitored through service statistics received in Jakarta from, on a monthly average, 95% of the clinics in Java and Bali and 80% of those in the Other Islands. Data are analyzed and the results fed back to the field units, usually within one month. To ensure adequate supplies of contraceptives, some 27,000 village contraceptive distribution centers (VCDCs) have been established in Java and Bali. Organized by local communities, local volunteers are enlisted to recruit and reassure new acceptors and to distribute pills and condoms. Research and evaluation studies on knowledge, attitude and practice of family planning, contraceptive continuation rates, current users and projections of demand for contraceptives by method are wisely used to help to improve programming and implementation.

#### Achievements

5. The Indonesia family planning program has been extremely successful. Between 1971 and 1976 the total fertility rate declined by 33% in Bali (or from 5.8 children to 3.8 children per woman) by 17% in Central Java and Jakarta, and by 15% in East Java. By 1976 the proportion of women of child-bearing age (15-44) estimated to be currently using contraceptives ranged from 17% in West Java to 39% in Bali and 43% in Yogyakarta. The Government aimed to recruit 9 million new acceptors before the end of the Second Plan in March 1979. By March 1978 more than 11 million had been recruited, of whom over 4.5 million, or 42% were active users. Continuation rates were 64% among pill users and 90% among IUD users. The 1976 World Fertility Survey showed that 30% of eligible couples in Java and Bali were current users of contraceptives. The survey also showed that the birth rate had declined from 43-44 per 1,000 population in 1971 to 34-36 per 1,000 population in 1976 - a decline of 18-21%. Of this decline, about 30-40% may be attributed to delays in the age of marriage and the remaining 60% to 70% to changes in marital fertility - largely attributable to the increased use of program methods. In consequence, the overall annual rate of population growth had fallen to 2.0% during this period.

#### Contraceptive Methods

6. Nationally, the pill is by far the most popular method, accounting for 67% of new acceptors. Next in importance is the IUD, which is used by 18% of the new acceptors. The condom is used by 13% of new acceptors. The rest of the new acceptors use other methods, including Depo-Provera injections and sterilization. Previously confined to the hospital postpartum program, sterilization is now also available on demand at certain hospitals and clinics. The growth in demand for sterilization, primarily tubectomy, during the period 1969-77 is shown below:

| Year          | 1969 | 1970 | 1971  | 1972  | 1973-74 | 1974-75 | 1975-76 | 1976-77 |
|---------------|------|------|-------|-------|---------|---------|---------|---------|
| New acceptors | 124  | 358  | 1,987 | 2,284 | 4,080   | 5,250   | 10,665  | 15,910  |

Source: NFPCB: Bureau of Reporting and Documentation.

Due to existing politico-religious sensitivities, this method is not formally recognized as part of the program's services, but is provided in low key on an ostensibly experimental basis. Five centers are being set up to train doctors in sterilization skills. Depo-Provera is not widely used. The Government, has, however, sent a delegation to Thailand to study its operation in that country and is interested in extending its use.

#### The Family Planning Program in East Java

7. One of the most successful program areas is East Java. With a population 29 million, East Java is the most populous province in Indonesia. But the province ranks second among all the provinces in the proportion of women using modern contraceptives. The proportion rose from almost nil in 1970 to 33% of eligible women in 1977. Some 3 million women were recruited as new acceptors during this period, and 1.5 million of these are estimated to be currently using contraceptives supplied by the program. This tremendous success has been attributed to the effectiveness of the local bureaucracy, stretching from the governor's office to village level, which has been exploited by the NFPCB to mobilize community acceptance of birth control. East Java clinics are open longer, fieldworkers make more home visits, and group meetings are held more frequently than anywhere else.

#### The Family Planning Program in Bali

8. The success of the program in Bali has been most spectacular. Before the program got underway in 1971 Bali's marital fertility was the highest of the six provinces - six children per woman. By 1976, the World Fertility Survey found that 39% of Balinese women of child-bearing age were using contraceptives and that the total fertility rate had fallen by 35%. In 1977 the NFPCB estimated that the proportion of eligible couples using modern contraceptive methods supplied by the program had risen to 48%. Several factors were responsible for Bali's impressive success; namely: (a) a highly developed clinical infrastructure; (b) a high latent demand for contraceptive services; (c) the predominance of Hinduism which facilitated the use of IUD, as opposed to Islam which limits its acceptability; (d) a high capacity to harness the authority of strong community structures for promotion of family planning; (e) a tradition of women's employment outside the home; and (f) delayed marriages. Of all the above factors, community participation through the "Banjar" system played the most crucial role. A "Banjar" is a traditional governing body of a community comprising all adult males which meets monthly. There are 564 villages in Bali with a total population of 2.4 million and 3,725 "Banjars." Training has been of fundamental importance in the use of "Banjar" system for family planning. By 1978 more than 2,000 community leaders had been trained in family planning motivation techniques at the Bali Family Planning Training Center. Family planning fieldworkers and group leaders, as well as young people and agricultural extension workers, are also trained at the Center to support community family planning activities. Doctors meet at the Training Center regularly to discuss family planning and to train midwives. Provincial, sub-district and regency teams visit communities

regularly to provide advice and supervisory support. The system assures sustained motivation, efficient contraceptive distribution, and community support.

#### World Bank Group Operations

9. The Indonesian family planning program reached a turning point when the Indonesian Government invited a mission consisting of experts from the United Nations, the World Health Organization and the World Bank to visit Indonesia in 1969. Following the submission of the mission's report, the first population project was developed, financed by the United Nations Fund for Population Activities (UNFPA), the International Development Association (IDA) and the Government of Indonesia, effective November 1972. IDA contributed \$13.2 million of the total \$33.0 million project cost and UNFPA made a matching grant of \$13.2 million. The components of the project included the construction and equipment of a headquarters office building for the NFPCB, 9 paramedical training schools, 95 maternal child health/family planning (MCH/FP) clinics in East Java, 6 NFPCB provincial offices, 6 provincial and 10 subprovincial family planning training centers and 5 auxiliary nurse midwife training schools. The project also supported the salaries of 7,000 non-medical fieldworkers as well as research and evaluation activities covering technical assistance, fellowships, seminars, and a demonstration field postpartum program (Mojokerto study in Surabaya). Further, the project provided for the construction and equipment of one central and six provincial NFPCB administrative centers, the provision of transport for staff involved in MCH/FP services and motivation activities, support for an extension of the hospital postpartum program, the provision of 115 mobile information units as well as technical assistance, fellowships and studies for information and communication activities, support for a population education program, and technical assistance and fellowship support for program management and project implementation. The project is scheduled to be completed by the end of 1979.

10. Whilst it is difficult to measure the precise impact of a project which is an integral part of the national program, and is not yet complete, it has helped to: (a) improve the program's managerial capability; (b) provide a sound basis for the extension program; (c) provide much needed mobility for family planning workers; (d) successfully introduce population education through the country's educational system; (e) extend demand creation activities; and (f) establish a successful family planning education and training program to support the delivery of services.

11. Meanwhile, the Government of Indonesia developed a medium-term program to coincide with the third national plan period ending in 1984. A second project was developed to support the major thrusts of the program - extend the capacity for family planning training, improve mobility and expand population education in Java, Bali and 10 provinces in the Other Islands. The project provides for 274 equipped, four-wheel drive vehicles, 1,661 motorcycles, 8 small boats, and IUD and public health nurse kits. It also includes construction and equipment of facilities for the NFPCB Bureau of Education

and Training in Jakarta training centers and NFPCB offices in ten provinces in the Other Islands. In addition, the project provides funds for education materials, seminars, workshops and technical assistance for integration of population education into formal school curricula and non-formal education programs. Finally the project provides for a community incentive scheme in Java, Bali, North Sumatra and South Sulawesi designed to promote family planning in 14 of the most economically underdeveloped districts, and technical assistance, fellowships and special equipment for a study of the feasibility of providing raw materials for local oral contraceptive production from botanical materials available in Indonesia. The total cost of the project is \$60.0 million, of which the Bank loan is financing 24.5 million. The balance is financed by the Government of Indonesia.

12. Progress is satisfactory, the major problems relating to budgeted funds which, because of price increases resulting from the recent devaluation, are now inadequate to cover the required facilities and equipment. Among the components financed by the Bank under the first and second projects are the Provincial Training Center and the NFPCB office in Surabaya, an auxiliary nurse midwife school in Tuban, 7 MCH/FP clinics in Ponogoro, 4 MCH/FP clinics in Tuban, 3 MCH/FP clinics in Lamongan, and 5 MCH/FP clinics in Bojonegoro; all in East Java. In Denpasar, Bali, the NFPCB office, Family Planning Training Center and ANM School have been built with assistance under the first project.

#### Some Current Issues

13. The Government of Indonesia is in the process of formulating proposals for a third population project within the framework of those parts of the Third Five-Year Plan which relate to the program covering maternal child health and family planning in the Other Islands. Detailed proposals are expected to be received by the Bank in June 1979. A Bank preparation mission is scheduled for July 9-27 to review the proposals with the Government and an appraisal mission is likely to be mounted in November/December 1979. One of the major preparation issues concerns the proposed establishment of a cadre of Community Health Workers by the Ministry of Health. Details of the terms of employment of the volunteer workers, their training and organization have not yet been spelled out, but there is possibility that their functions will be in conflict with those of family planning workers at the village level where activities are being expanded into the basic health and nutrition fields. This issue remains to be resolved.

14. Performance during the current program year has given some grounds for apprehension in that it has not reflected the momentum built up since the start of the program in 1970. During the first 8 months of the current program year from April through November 1978, the family planning program achieved only 43.5% of the increase in the number of current users targeted for that year. The proportion of married women in the reproductive ages (15-44) using a program contraceptive remained almost constant and was below target; the current user rates had actually declined in West Java, Yogyakarta and Jakarta. Since then monthly returns indicate that the number of new

acceptors for December 1978 and January 1979 were considerably lower than those for November 1978. The figures for Bali, however, show a sharp increase. Forecasts based on January 1979 figures show that 69% of the target will be achieved in the Other Islands and 99% in Java and Bali combined during the current fiscal year. Taking East Java and Bali separately, the target achievement is forecast to be 149% and 108% respectively. The reasons for the loss of momentum are not easy to define, but probably include uncertainty and lack of effective leadership, resulting from the long period during which reorganization was awaited and the preoccupation of the Chairman of the NFPCB with his new ministerial responsibilities. It will take at least one year for the new leadership to make an effective impact and the situation requires close monitoring.

INDONESIA

SENIOR OFFICIALS OF THE NATIONAL FAMILY  
PLANNING COORDINATING BOARD

|                             |   |   |
|-----------------------------|---|---|
| Dr. Suwardjono Surjaningrat | - | Chairman                                    |
| Dr. Sarnanto                | - | Vice-Chairman                               |
| Dr. Ida Sukaman             | - | Executive Secretary                         |
| Dr. Soegeng Soepari         | - | Deputy Chairman for Supervision and Control |
| Dr. Henry Pardoko           | - | Deputy Chairman for Population              |
| Dr. Peter Sumbung           | - | Deputy Chairman for General Affairs         |
| Dr. Haryono Suyono          | - | Deputy Chairman for Family Planning         |

INDONESIA

FIELD TRIP BRIEF

Visit to Bali Tourism Project

Project Description and Objectives

1. The project provides infrastructure to support tourism development in Bali, including a 310 ha tourism estate at Nusa Dua (capable of accommodating hotels with about 2,500 rooms), facilities for hotel training, an access road from the airport, road improvement outside Nusa Dua to serve both tourism and other economic needs, a program to develop production and marketing of agricultural products, and technical assistance for implementing the project and the tourism master plan for Bali. Components of particular interest for site inspection include the hotel training school, which is in operation; construction on the Nusa Dua estate, including construction of water supply, sewage systems, access roads and a nursery for landscaping purposes; construction of the Denpasar bypass road from the airport to the estate; and access roads to link the estate to the existing tourist area. The objectives of the project are: (a) to strengthen the tourism industry on Bali by establishing an integrated tourism estate at Nusa Dua, which would contribute significantly to Indonesia's economy through foreign exchange earnings, employment and income generation and regional development, and (b) to minimize the environmental and cultural damage to Bali resulting from uncontrolled tourism development.

2. The project was estimated to cost US\$36 million equivalent of which the Association provides a credit of US\$16 million, covering about 90% of the foreign exchange component. In 1978, some savings (up to US\$2.5 million) appeared likely and the Association agreed to change the project description to include financing of a first hotel at Nusa Dua.

3. BTDC (Bali Tourism Development Corporation) is the agency responsible for coordinating the project's implementation, assisted by Bina Marga for roads, PLN for power facilities and PERUMTEL for telecommunications. BTDB (Bali Tourism Development Board) is responsible for preparation and implementation of the tourism master plan for Bali.

History of Implementation

4. The Development Credit Agreement was signed on June 14, 1974, and became effective on December 4, 1974. The hotel school has been completed and training of students started in March 1978 with technical assistance provided by the ILO. Implementation of the infrastructure at Nusa Dua is proceeding satisfactorily with completion estimated for spring 1979. The construction of buildings (community facilities, and amenity core), however, is delayed partly due to the late appointment of architectural consultants.

The design of the community facilities, including a fire station, first-aid station and security office, has been completed and reviewed by the Association. Tendering for the works is in progress. Construction of the amenity core is estimated to begin in June 1979 with completion by August 1980. Delays are also being experienced in the implementation of the Nusa Dua access and Denpasar bypass roads, and the replacement of bridges on multipurpose roads. Both components are being executed by Bina Marga. Road construction has started in October 1978 and is scheduled for completion by January 1979, and construction is estimated to be completed by December 1980. Because of the delays in project implementation, it appears likely that the closing date will have to be extended by about two years, to June 31, 1981.

#### Current Issues and Recommended Actions

5. A serious problem concerning this project has been the marked lack, until recently, of investor interest in building hotels on the Nusa Dua Estate. Over the last year, the Association has repeatedly raised the hotel investment problem with the Government of Indonesia. The following measures which might relieve the problem were discussed:

- (a) Mobilization of long-term credit: At the Government of Indonesia's request, IDA approved the reallocation of funds saved from the credit to finance a first hotel project at Nusa Dua. This reallocation of funds should help mobilize both public and private capital for hotel construction at Nusa Dua.
- (b) Further liberalization of air policy with regard to access of foreign carriers to Bali: The Government of Indonesia has already taken some steps in this direction and indicated it would continue to do so.
- (c) Relaxation of customs duties on items required for hotel operation and simplification of customs clearance procedures. The current tariff structures for hotels are being reviewed. Closer contact between tourism and customs authorities in Bali will be established, to achieve simplification of customs procedures.
- (d) Restriction of hotel development in Bali outside Nusa Dua: The Government of Indonesia has kept its commitments to limit hotel construction outside Nusa Dua to 1,600 rooms as stipulated in the Credit Agreement.
- (e) Commissioning of a tourism market and hotel investment study for Nusa Dua: A study by Horwath and Horwath (UK) indicates that the market prospects for the further development of tourism to Bali are good and that additional hotels of international standard with a total of 750 rooms will be required by 1982.



6. The current prospects for the development of tourism to Bali are good. With improvement of air access, tourist traffic to Bali has shown a marked increase in the last two years and the capacity of existing hotels in Bali has been insufficient to accommodate the growing number of tourists to the island. A number of private investors have shown renewed interest in hotel investment in the project area and in a major development an agreement to establish a joint venture company for a 450-room hotel at Nusa Dua has been signed between Amherst Financial Group, Hongkong, and BTDC. About \$1.2 million from the credit may be applied to this investment as a BTDC equity contribution. Negotiations between Club Méditerranée, France, and BTDC for a 300-room hotel are underway and a final agreement for a long-term lease is expected to be reached in 1979. Garuda is planning to invest in a 350-room hotel at the project site. IFC is also considering participation in the financing of a hotel at Nusa Dua.

INDONESIA

FIELD TRIP BRIEF

Visit to Vegetable Production Component of Bali Tourism Project

The Bank is assisting the establishment of an agricultural station for fruits and vegetables by funding the services of a Technical Advisor who would guide the production and marketing efforts during the first three years of operation. This project component is designed to introduce fruits and vegetables that are not produced but are in great demand in Bali, and to improve the quality and stabilize the supply of those that are already being grown in Bali. This is being done by introducing cultivars of new crops and improved varieties known for their high yield, disease resistance, good taste and heat and drought tolerance. Trials on these new varieties have been, and are still being carried out. These trials have shown that certain varieties of sweet corn, head cabbage, tomatoes, papaya, etc. would be acceptable to the international hotels. A demand survey and projection is currently being carried out to determine the extent of commercial production the market can support. In anticipation of this commercial production, a suitable training program for extension workers who would someday give the growers advice on cultural practices and techniques is already under consideration.

## INDONESIA

### FIELD TRIP BRIEF

#### Visit With a Traditional Balinese Irrigation Society

1. Traditional Balinese irrigation societies (or subak) are generally smaller, more autonomous and more effective than their government-supported Javanese counterparts. For this reason the subak has been cited as evidence for the claim that locally-managed and technologically simple irrigation systems are more stable and effective than those which involve more technological complexity and a higher degree of integration within the state.

#### Subak Functions and Organization

2. The subak is an association of Balinese farmers who have farm plots irrigated from a single water source. It concerns itself with the construction and maintenance of waterworks and the equitable division of water. Given the fragmentation of arable land in Bali, a subak may consist of farmers from several villages and conversely one farmer may belong to several subaks. In Bali, unlike Java, there is little overlap between village administration and water association management.

3. Extension and maintenance of waterworks is undertaken with the consent of subak members and each family contributes both materials and labor once it has been agreed that these activities are to be undertaken. Failure to meet one's obligations may result in a fine or curtailment of water. Contrary to the impression that traditional social institutions are more informally structured than modern ones, the precise accounting of labor and other inputs is one of the most striking features of the subak society.

4. With an increase in population and expansion of the year-round cultivation of hybrid-variety rices, the demand for irrigation water has become critical in Bali. Under these circumstances water control has become the subaks' most important function. During the wet season water is apportioned according to acreage under cultivation, but during the dry season or in periods of water-shortage, water is rotated both among farmers within a single subak, and between subaks. Procedures for doing this are couched in an elaborate system of rules and regulations sanctioned, in part, by customary law. When disputes arise within a subak they are referred to the subak head; when they concern more than one irrigation society they are referred to a senior irrigation official who mediates between all those subaks which draw water from a single primary source. While most subak heads are paid for their services by annual contributions of rice from subak members, in most areas of Bali the senior irrigation official is now a civil servant.

A Comparison of Traditional and  
Non-Traditional Systems of Irrigation

5. In much of Bali today, as in the past, irrigation systems can be no larger than the face-to-face relationships upon which they are based. Consensus about the nature of participation is made at the lowest level and is therefore flexible and situation specific. Decisions once taken are enforced by social pressure. Irrigation officials still tend to be senior statesmen who can re-establish consensus in the face of dispute. The system works well while small, but even the subaks fall short of expectations when incorporated into irrigation networks of larger scale and greater technological complexity.

6. In the large scale government sponsored irrigation systems of Java and Bali the response of communities in developing and maintaining waterworks and distributing water equitably and effectively frequently has been disappointing. The reasons for this are relatively clear. As the size of the irrigation system increases the only social institution of comparable scale in which it can be lodged is a government bureaucracy. Bureaucratized decisions are less informed, flexible and situation specific than those taken in the villages. They are conceived and imposed from the top, and because consensus has not been taken at the local level, decisions cannot be enforced there. Unlike traditional irrigation systems, however, these systems do not disappear when they work poorly. High investment cost leads to increasing government intervention to maintain the system and what is seen as increasing village "dependency."

7. In response to this dilemma, two general strategies have emerged in Indonesia today; one has been adopted in projects supported by USAID, a slightly different one in projects supported by the Bank. Broadly stated the USAID approach has been to tailor the technical system - in so far as possible - to the capacity of traditional irrigation societies. The Bank, convinced that substantial increases in production now require investments in irrigation systems of far larger size, has attempted to combine the scale of the new technology with the flexibility and effectiveness of the subak or its Javanese equivalent. To this end, the Bank has supported Government efforts to increase the authority and degree of integration of local-level water associations. A major obstacle to this effort is the under-development of village-level institutions in general and the consequent difficulties of providing effective institutional linkages at the local level.