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February 15, 1979

Professor Widjojo Nitisastro  
 Coordinator/Minister of Economic,  
 Financial and Industrial Affairs  
 and Chairman of the National  
 Planning Board  
 Jakarta, Indonesia

Dear Professor Widjojo:

Re: INDONESIA - Project Implementation Difficulties

You will recall that during my recent visit I discussed with you and your colleagues the question of slow project implementation and its likely implications for our future operations in Indonesia. I have just reviewed the latest figures on disbursements which have caused me even greater concern. To illustrate the deteriorating situation I wish to draw your attention to the following table:

(In US\$ million)

	Bank fiscal year			
	FY76	FY77	FY78	FY79 (six months)
Total annual commitments	517.0	440.0	505.0	180.0 /a
Cumulative undisbursed (IBRD)	363.5	844.6	1,033.9	1,276.5 /b
Cumulative undisbursed (IDA)	202.4	125.7	88.8	195.5 /b
<u>Total undisbursed</u>	<u>565.9</u>	<u>970.3</u>	<u>1,122.7</u>	<u>1,472.0</u>
IBRD annual disbursements	124.0	176.4	181.2	80.4
IDA annual disbursements	115.1	76.3	36.4	12.2
<u>Annual total disbursements</u>	<u>239.1</u>	<u>252.7</u>	<u>217.6</u>	<u>92.8</u>
Monthly average disbursements	19.9	21.0	18.1	15.5

/a Three projects only (Polytechnic, Irrigation XII and Urban III Projects)

/b As of December 31, 1978.

This declining disbursement trend, coupled with the fact that our total commitments have increased substantially since 1976, have resulted in a total undisbursed loan/credit portfolio of \$1,472.00 million as of January 1979, compared to \$565.9 million in June 1976.

The reasons for the slow rate of disbursements are, of course, varied; often they relate to specific problems of project design or management, which can only be addressed on an ad hoc basis. However, many difficulties appear to be of a more general nature. These include:

- (a) complex and time consuming clearance procedures. For example, completion of tender documents, signing of contracts with contractors or consultants and issuance of letters of credit require clearance by many government agencies which in turn burdens key government officials;
- (b) complex and rigid budgetary procedures. This problem is compounded by the fact that many implementing agencies - especially the new ones - do not seem to fully understand the regulations.

We are also receiving some reports that implementation problems appear to have been further aggravated in the aftermath of the November 15 devaluation. It appears that some contractors are now slowing down their work because they apparently fear that the Government will keep the approved budget unchanged even though prices may increase as a result of the devaluation. It is also clear that some suppliers are holding onto stocks in the anticipation of further price rises.

As you are no doubt aware, several efforts have been made to improve project implementation and accelerate disbursements. Special Bank missions addressing specific project problems have visited Indonesia. A full-time disbursement officer has been assigned to our resident staff to assist project entities. Furthermore, you established a project monitoring unit in BAPPENAS in 1974. Mr. Heinz Vergin and Mr. Jafarey also visited Indonesia in the last six months or so and made recommendations designed to improve planning and budgeting procedures. Lastly, my staff have recently agreed with your authorities on a new joint exercise which we call "project implementation review." These periodic meetings, attended by the economic and sectoral ministries and the Bank, will systematically review problems affecting implementation of Bank-supported projects. The first full review will be held in Jakarta in early June. A review of selected projects is scheduled to begin on March 1.

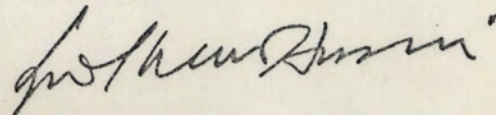
Needless to say, we remain willing to provide whatever further assistance we can in helping you to solve the implementation problems

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and thereby in achieving the desired level of resource transfer. We would be happy to follow up on the work done by Messrs. H. Vergin and Jafarey, as soon as we receive your reaction to their reports. We would also be glad to have your suggestions as to how the efficiency of project implementation reviews can be ensured.

May I once again thank you for your kind assistance and the time you took to meet me during my recent trip. I greatly valued the exchange of views.

Sincerely yours,



S. Shahid Husain  
Regional Vice President  
East Asia and Pacific Regional Office





## INDONESIA - SECTOR BRIEFS

### THE AGRICULTURAL AND RURAL SECTOR

1. Objectives. The major national objectives in the agricultural and rural sector in Indonesia are to: (a) create productive employment to raise the incomes of the rural poor, (b) increase domestic food supply to keep pace with rising demand, (c) expand agricultural exports, particularly of smallholder tree crops, and (d) ensure productive, sustainable use of Indonesia's land, water and other natural resources.

2. Role and Performance. Although agriculture's contribution to GDP and export has declined during the past 15 years (from 55% to 33% and from 55% to 23%, respectively), the rural sector remains of overwhelming importance to the vast majority of the Indonesian people in terms of employment, incomes and food production. Over the past five years, the growth rate of agricultural production has been uneven, averaging 4% p.a. while total GDP grew at 8% p.a.

3. Development Problems and Potentials. In Java, the cultivable land is almost fully utilized, and in some areas agricultural land use already exceeds ecologically safe limits. In 1976 about 82 million people lived in Java, which has 45% of the cropped area but only 7% of Indonesia's land area. About one-third of Java's rural population is landless, and a large proportion of the remainder cannot support themselves on incomes from their own farms. Outside Java there are large areas of unused cultivable land, less fertile than those in Java, and other natural resources to be exploited. While the inhabitants of these Islands do not have high standards of living, they are generally better off than most in rural Java.

#### Development Strategies

4. Employment. Perhaps the single most important challenge facing the Indonesian Government is to guide and structure the development process in such a way that the creation of new opportunities for gainful employment at least keeps pace with the growth of the labor force. The changes associated with modernization in rural Java are generally labor-saving, so that farming is increasingly becoming a part-time activity. Modern manufacturing and services have been unable to fully absorb the incremental labor force. Successful locally administered public rural works programs (INPRES) may be difficult to expand due to limited budget and implementation capacity. Future employment strategy will include stress on labor-intensive export industries and small-scale rural enterprises producing for the domestic market. There may also be potential for more productive agricultural employment through increased cropping intensity and a shift to higher value crops and livestock, including fruits and vegetables grown on house compounds.

5. Food Crops. Despite the heavy emphasis on rice production in the past, the gap between domestic production of and demand for food appears to be widening. Production of rice and the principal non-rice food crops has not kept pace with growth in aggregate demand over the past few years. To keep rice imports at some reasonable fraction of world rice trade, demand must be shifted to other domestic and imported staples, and the rate of growth of rice production should ideally approach 4% p.a., compared to an average of 3.5% p.a. over the

past decade and only 1.7% over 1974-77.<sup>/1</sup> Improved water management and agricultural supporting services are essential for increasing rice yields and production. On Java, there remains much scope for more efficient water use through construction and/or improvement of additional tertiary and quaternary canals. On the Other Islands, there is considerable potential for new irrigation systems, including tidal and swamp land development. On both Java and the Other Islands, secondary food crops also offer promising development prospects. For example, there is much room for yield improvement through intensified research and supporting services, and great scope for the expansion in harvested area if stable cropping systems can be developed. A food policy which emphasizes secondary crop production as well as rice would serve the twin goals of growth and equity, as many of the poorest parts of Java and the Other Islands are best suited to dry land farming.

6. Tree Crops. The Government has embarked on a major effort to develop smallholder tree crops outside Java as part of its transmigration and national rubber and coconut replanting programs. The objective is to improve production on existing blocks while developing large areas of new land for settlement. One of the Government's main approaches has been to use public estate companies to plant tree crops on land to be settled by local landless families and transmigrants. The estate companies provide a range of services including planting material, land clearing and planting, inputs, processing and marketing facilities for the smallholders. This approach is appropriate in view of Indonesia's scarce managerial and technical capabilities.

7. Transmigration. Transmigration offers substantial opportunities for improving social equity and the economic use of Indonesia's two main under-employed resources: Javanese labor and land on the Other Islands. Transmigration has long been hampered by unrealistic expectations about its potential contribution to regional development and the solution of Java's population problems, organizational difficulties, overambitious targets and weak, uncoordinated implementation. These problems are now being addressed, and the Bank is engaged in a wide-ranging discussion with the Government on its transmigration program and the manner in which the Bank can assist. Organizational aspects of transmigration, the design of farming systems, and the package of services which will support successful, long-term settlement are amongst the issues being examined.

8. The Role of the Government. The capacity of the Indonesian Government to plan and implement agricultural and rural development programs has generally improved over the past decade. However, future programs responsive to the Government's stated objectives will necessarily be more complex than those which the Government has followed up to now. They will require closely coordinated "packages" of research, extension, inputs,

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<sup>/1</sup> This low growth rate was the result of below average harvests caused by inadequate and untimely rainfall in many areas of Java and by pest and disease damage to high yielding varieties. Production from the 1977/78 crop is reported to be much improved.

credit, land development, transportation and marketing improvements. Multi-agency integrated area development programs on Java and land settlement schemes on the Other Islands will require stronger field organizations of Government line agencies and local governmental authorities, as well as new administrative arrangements. With the more complex organizational requirements of future programs, implementation capacity is likely to become the limiting factor in Indonesia's economic and social development. It is, therefore, of the utmost importance that the Government continue its efforts to strengthen key rural development institutions and improve coordination among the agencies concerned.

9. Bank Lending Strategy. There is general agreement between the Bank and the Government on the overall objectives and strategies proposed for the rural sector. While views sometimes differ on the relative emphasis to be given to different investments and on the technical design of some projects, such differences are not profound and are likely to be resolved with further analysis and dialogue. The Bank is devoting considerable staff time to various analyses of the rural sector (e.g., employment, irrigation development, support services, and food crop production).

10. The Bank has been, and should continue to be, involved in a broad range of agricultural and rural activities in Indonesia. Since the First Irrigation Project in 1968, the Bank has rapidly expanded its agricultural and rural lending to include support for estate and smallholder tree crops, fertilizer production and distribution, sugar estates, support services, transmigration, livestock and fisheries. An integrated rural development project has just been appraised and is expected to be negotiated in May 1979. Credits already closed and for which Project Completion Reports have been prepared (e.g. Estates I, Irrigation I) showed excellent rates of return ranging from 25% to 33%. Taking 1974 as the base year, Bank-assisted projects will contribute almost 60% of the increase in palm oil output by 1980, about 16% of incremental sugar production and 6% of incremental rice and rubber. Four continuing trends in the Bank's agricultural lending to Indonesia are: (a) a shift from rehabilitation to new development activities; (b) a shift from support of state enterprises to new development activities; (c) an increased emphasis on rainfed systems; and (d) greater emphasis on development of the Other Islands. All these trends are consistent with the Government's changing policies. In the next five years, Bank lending for the agricultural and rural sector will constitute nearly half of its total lending to Indonesia.

#### OED Evaluation

11. The Bank Group agricultural operations in Indonesia were evaluated in an OED Report dated August 9, 1978. The OED conclusions were that despite some deficiencies, Bank-financed agricultural projects have been of overall good quality and are likely to contribute substantially to increased production. Shortcomings identified in the Report were: delays in construction of tertiary and quaternary canals due to reluctance of farmers to provide labor at wage rates lower than traditionally received under the gotong royong (self help) system (a problem which has since been addressed by the inclusion of such canals in our irrigation projects); lack of adequate agricultural

support services (extension services, research, inputs); insufficient operation and maintenance funds and personnel; shortages of skilled staff in implementing agencies and heavy reliance on foreign advisors for project preparation and execution; and lack of emphasis on evaluating socio-economic aspects of the projects.

## THE POWER SECTOR

### Background

12. Over the last few years, Indonesia's overall economic growth outpaced the development of the country's public power sector, which suffered from both financial and implementation constraints. Consequently, Indonesia now consumes less electricity per capita than most other developing countries; estimates show that per capita installed capacity, excluding that of the captive market (see below), was only about 13 watts in 1975/76 and per capita sales about 30 kWh compared to about 114 kWh in India. System losses (station consumption plus transmission and distribution losses) are still high at about 25%. The distribution of energy sales among the various consumer classes has also been different from other countries; in 1974/75 sales to industrial consumers accounted for only 30% of energy sold, as compared to about 70% in Malaysia and Taiwan and about 50% in Pakistan. Absence of a reliable public power supply has forced most industrial consumers to install their own captive generating capacity, which taken together are equal in capacity to that of the public power sector. This movement towards captive power also reflects present fuel price distortions in the economy. These small captive installations constitute an inefficient use of the country's financial and energy resources, and explains why the Government, allocated a sizeable part of its budget to development of an efficient centralized public power supply system over the last few years.

### Development Strategy

13. The Government is now embarking on a new major investment program requiring total financing estimated at about \$9 billion (1978 prices) equivalent over the next nine years to enable the national power authority (Perusahaan Umum Listrik Negara = PLN) to meet about 80% of the country's electricity requirement by 1985. While there may be some scope to reduce the size of the program it will in any event be substantial.

### Future Development and Sector Issues

14. The main sector objectives at this stage are: (a) to ensure that PLN expands its sales in step with the growth of its generation, transmission and distribution facilities; (b) to obtain by system planning and a program of improvement of its operational efficiency, the lowest possible future cost of supply; and (c) the diversification of energy sources to generate power (the next power project which will be located in West Java (Suralaya) and which is proposed to be financed under the eighth power loan in FY79 will fire both coal and oil as fuel). The Government also aims at utilizing hydro

and geothermal sources to generate power. To achieve these objectives PLN is implementing a vigorous customer connection policy (sales were indeed increased by 24% in the last year), balancing its expansion program, reducing its system losses and introducing tariffs based on long-run marginal cost of supply. It is also striving to cover gradually increasing portions of its investment costs from its own sources; the level of internal cash contribution is expected to reach 30% after 1984/85. The Bank staff are providing assistance to PLN in all these areas, including the formulation of the new tariff structures, and are discussing with them how the existing captive plants should be used.

### THE URBAN SECTOR

#### General

15. Indonesia's urban population in 1976 was estimated at about 23.7 million, approximately 18.2% of the country's total population of 130 million (1976). Urban population growth is estimated at 3.7% per annum compared with the overall population growth rate of 2.1%. Following these trends, by the year 2000 urban population is expected to be 70 million-80 million and account for over 35% of the total population.

16. Indonesia's urban areas are characterized by severe deficiencies in essential urban infrastructure. Less than one third of the population has access to safe drinking water. One quarter of the 1971 urban population had no sanitation facilities available. Of the population with access to some sort of latrines, only 17% were served by safe, sanitary latrines. At present, only four cities in Indonesia have sewerage systems; in each case the system covers only a part of the city and is of limited effectiveness due to age and inadequate capacity. Approximately 40% of the urban housing supply consists of nonpermanent structures. These factors no doubt contribute to the high rate of water and filth-borne diseases in Indonesia.

17. The situation is particularly bad in the "kampung" areas - that is, in clustered, densely populated neighborhoods that house a large proportion of Indonesia's urban population. Many of these areas rely on open-drainage channels to carry off rain water, septic tank effluent and household waste. These channels deteriorate to open sewers and rubbish dumps which become blocked in the dry season and cause flooding in the rainy season. As a result, incidence of debilitating disease is particularly high in these areas. Infant mortality, already a high of 116 per thousand on average in Indonesia, reaches the alarming level of about 200 per thousand in the world of the kampungs.

#### Sector Objectives and Strategy

18. The challenges facing Indonesia's urban policy planners are many and complex. Of them, the most critical are to:

- (a) provide minimum basic urban infrastructure in the many unserved or underserved urban areas;

- (b) create productive employment opportunities in urban areas in order to combat existing urban unemployment and underemployment and to provide jobs for new rural-urban migrants;
- (c) stimulate growth in cities other than Jakarta and Surabaya in order to dilute the existing concentration of resources in these two primary cities; provide off-farm employment opportunities outside Jakarta and Surabaya for potential rural-urban migrants; build effective urban service centers for the rural population; and
- (d) develop both the administrative and financial planning capabilities of the municipal authorities as well as the fiscal base of the cities to enable them to provide the essential services.

#### Bank Strategy

19. The Bank has so far made three loans totalling \$131.5 million to help the Government meet some of these challenges. Except for a small site and services component included in the first project, the proceeds of these loans are being used to finance provision of minimum basic services to low income kampung areas of Jakarta, Surabaya and a few other urban centers, benefiting about 4.5 million persons. The five-year project specific lending program (1969-84) includes three more urban development projects. These projects are expected to further expand the scope of the Government's national urban development program along the same lines and strengthen administrative and financial planning capabilities and fiscal base of the municipal authorities and cities.

### THE WATER SUPPLY SECTOR

#### Sector Background

20. Indonesia is rich in both surface and groundwater resources, but access to water in many places presents difficulties that tend to be underestimated. The dry season lasts three or four months; many rivers and creeks dry out, and springs and shallow wells are affected. Groundwater is the most important potential source and many cities and villages could take it from springs and deep wells as a source for piped water supply. But in urban areas shallow aquifers are frequently polluted by human wastes, and the boiling of drinking water is a widespread practice.

21. About 80% (105 million persons according to the 1976 census) of Indonesia's population live in more than 50,000 rural villages; of these about 4% benefit from piped water systems, tubewells with handpumps, central rain-water collection or protected springs. Those without access to public schemes obtain water from streams, springs or wells. About 100 piped and 2,000 tubewell rural water schemes were planned for the First Development Plan period (1969-73); by the end of 1977 about 80% of these schemes had been completed. In the rural sector the Government provides grants which are earmarked for design and source development, the Government and UNICEF

contribute equipment and materials, and local authorities make cash contributions or contributions in kind.

22. WHO estimates that about 33% of Indonesia's 24 million urban population have access to piped water supply, most of which suffers from low pressure and intermittent supply, and water entering the system frequently becomes contaminated. Those who do not have access to public water supply are dependent on dug wells, streams or rivers with attendant health risks.

Government Policy Guidelines, Sector Objectives and Strategy

23. Up to the mid-1970s the central government planned, designed and built, at no cost to local governments, water source and treatment facilities, with the local governments undertaking to provide the distribution systems and service connections with their own resources. This frequently resulted in completed source and treatment systems which lacked the means for delivering water to the consumer. As a result of recommendations by a Bank mission which visited Indonesia in 1971, the Government adopted the following policy guidelines which formed the basis of the first Bank-financed water supply project (Loan 1049-IND) of 1974:

- (a) autonomous municipal water enterprises would be established to build, jointly with the Government, water systems and then to operate and maintain them;
- (b) capital funding would be by loans or a mixture of loans and equity, instead of grants previously provided; and
- (c) Government investments would be for complete systems including source, treatment and distribution.

24. One of the main objectives of the Third Plan (1979-83) is to meet the basic needs of the people, including provision of drinking water to all areas where clean water is not available and which are affected by waterborne diseases. The Plan also puts more emphasis on the provision of standpipes rather than house connections in order to increase the number of beneficiaries from the Government-financed water schemes. However, although no calculations have been made, even with this welcome policy shift, substantial investments will be needed. Despite large scale assistance provided to Indonesia by external sources, it is unlikely that the goal of the Third Plan can be met due to competing demands from other sectors.

25. Moreover, funding is not the only constraint; project implementation capacity of the agencies concerned is not strong enough to carry out and operate large investment programs. Shortages of trained and experienced personnel to plan and manage projects, lead local and national institutions, and operate facilities also are acute. The experience of the Five Cities Water Supply Project (Ln. 1049-IND) bears this out. Inter- and intra-agency communications are weak and procedures are cumbersome. Although important steps to clarify interagency responsibilities have been taken under a new Decree published the last year continuing difficulties can be expected.

### Bank Strategy

26. So far the Bank has focused exclusively on the urban component of the water supply sector but recently a WHO-Bank Cooperative Program mission visited Indonesia for the purpose of identifying rural water supply projects suitable for Bank financing. Assistance for rural water supply projects is being considered in future fiscal years. Future operations will emphasize institutional development and staff training for the agencies involved in the sector.

27. The Third Five-Year Plan (1979-83) of the Government gives highest priority to equity consideration. Government agencies are therefore willing to design water supply projects which should benefit large segments of the population. We strongly support the new equity emphasis of the new plans and have indicated to the government that we are prepared to assist them in designing such projects. The objective of developing self-supporting local water enterprises will also be pursued by the Bank. Specifics of this support were reviewed with the Government during the Second Water Supply negotiations in April 1979.

### THE EDUCATION SECTOR

#### General

28. Educational development has received high priority in the Government's development plan. This is illustrated by the high growth rate in primary school enrollment figures, which aim to reach 85% (excluding over-age students) of the age bracket (7-12 years) in 1979 compared to 60% in 1974 at the beginning of Repelita II (1974-79). This and other objectives have been made possible because of an increasing commitment of the national income to the educational sector.

29. In 1976, school census figures show that more than 18.7 million /1 pupils were enrolled in all primary schools, 2.3 million were enrolled in junior secondary schools and over 1 million were enrolled in senior secondary schools. These gross figures, including over-age and under-age students, represented approximately 84%, 23% and 12% respectively of the school age groups. In Indonesia, primary schooling consists of six grades (7-12 years), junior secondary schooling consists of three grades (13-15 years) and senior secondary schooling consists of a further three grades (16-18 years). But at present there appears to be no limit placed upon the number of over-age students in each of these levels of education.

30. The tertiary level of education has received a lower proportion of Government investment and is one subsector where major reforms are still required. Total enrollments in 1976 were about 2% of the age group 19-23 years but this percentage also includes a high proportion of over-age students. Problems of inefficiency and a high drop-out rate in the higher

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/1 This figure includes 3.2 million students in religious schools (Madrasah).



educational subsector mean that less than 10% of the total number of students who enroll in universities ever graduate. This fact alone contributes to the high cost of education per capita at tertiary level and an inadequate supply of professional manpower in certain specialties.

31. In the educational sector, as in many other sectors, the number of experienced administrators and managers, as well as the number of specialists in each profession, is severely limited and this fact alone will probably limit the rate of investment in education and other sectors in the future. This situation reflects in large degree the relatively lower emphasis that has been given to the expansion of the higher education subsector compared, for instance, to the investment programs for the basic needs of society including basic education.

32. At all levels of education, institutions have been established by the Department of Education and Culture (DEC), by other departments within the public sector and also by the private sector. The Department of Religion (AGAMA) has a completely parallel system of education to that of DEC up to general secondary level (Madrasah schools) and for teacher training, theology and other Islamic studies at university level. Many other departments operate both secondary schools and tertiary educational institutions also, but with a much smaller overall enrollment.

#### Sector Issues and Strategy

33. Despite the achievements noted above, challenges facing the education sector remain formidable and because of the rapid economic development in Indonesia, the Government now has to face a number of problems during the next Repelita (1979-83) and inadequate human resources have become a prime constraint to national economic development. Implementation of Repelita III and IV will be impeded by insufficient training and experience of national and regional administrators/managers, shortages of third level technical manpower, a lack of teachers and inadequate quality of second and third level agricultural personnel. More subtly, implementation will be impeded by insufficient basic education of the general population - farmers, homemakers, craftsmen, entrepreneurs and laborers. To overcome inadequacy in the quality and quantity of skilled personnel, the Government will need to launch a program to train regional managers, expand enrollments in post secondary technical and teacher training institutions, and upgrade the agricultural training system. Government's attention must shift: within the primary education subsystem from school construction to a program to improve the quality of schooling (achievement of higher school participation rates is now more a matter of keeping children in school than in providing them with access to first grade); and at lower secondary and nonformal education levels, expansion of educational opportunities is needed.

#### Previous Bank Group-Financed Education Projects

34. To date, the Bank Group has extended assistance totaling \$193.4 million for seven projects in the education sector in Indonesia. Investments have pursued the main objectives of meeting critical manpower requirements, improving quality and increasing equity.

### Future Operations

35. Future Bank lending to the education sector is designed to increase assistance to the Government's efforts to remove the obstacles to development imposed by inadequate human resources. The lending program for FY79 includes two projects (the polytechnic project and the second agricultural training project) aimed at providing second and third level technical skills critical to development. The polytechnic project was approved by the Executive Directors in December 1978. The Second Agricultural training project is scheduled to be presented to the Board of Executive Directors in late April. For the period FY80-83 six more projects are planned. Two of these (the second textbook and teacher training projects) are designed to improve the quality of basic education (and thereby decrease dropouts) in the formal school system. One (training of regional administrators) would assist the Government to manage (inter alia) its rural development, agriculture and transmigration programs, and one (higher education) would provide third level technical personnel necessary to construct and maintain the physical infrastructure for such programs. The remaining two (the secondary school project and the second nonformal education project) would expand educational opportunities to teenagers and young adults as part of a longer range program to raise the general level of basic education of the labor force. All of these projects would emphasize institution building.

### THE POPULATION SECTOR

#### Background and Government Strategy

36. In 1976, the National Family Planning Coordination Board (NFPCP) developed medium-term plans for strengthening and expanding the national program through the end of the national third five-year plan (1983/84). The objective of the plan is to bring fertility down to a level at which the crude birth rate would be 34 per 1,000 at the end of that period. This would mean that 20.3 million new acceptors would have to be recruited during that period. The target is high but, in view of the Government's serious commitment and past program performance, it is not unrealistic.

37. To achieve its targets, the NFPCB plans to transfer to the community and to the individual, the sense of urgent commitment to family planning which exists at the higher levels of Government. This will be accomplished by improving the range and efficiency of motivational and contraceptive delivery services, improving program management, supervision and professional skills through better quality training and insuring the greater involvement of provincial and community leaders. In support of these activities, the Government will develop a local capability for contraceptive production.

38. To do this, the Government has expressed its intention to expand social services, especially in the islands outside Java, and to improve and expand family planning services, including basic health and nutrition in Kabupatens that have been or will be foci for settlement of transmigrants. An expansion of the community incentive program tested under the second project financed by the Bank is being contemplated.

### Bank Strategy

39. The Bank is essentially in agreement with these objectives, but feels that the details of the Government proposals have to be worked out more clearly. The Bank's future population activities in Indonesia will likely emphasize support for health/family planning activities. The objectives of the Bank's operations would be: to improve basic health/family planning delivery services, in order to reduce population growth/fertility in areas where it is high to reduce infant and maternal mortality, leading eventually to better acceptance of the small family norm and to improve health services in kabupatens likely to be the focus of transmigration schemes. Each selected Kabupaten would have specific, quantitative demographic and program objectives. Thus, the proposed third population project (FY80) would strengthen the health/family planning infrastructural base in the other islands on which the success of the village family welfare/family planning program must depend (see para. 3(a) of Section E of the Brief on the topics for discussion with the Macro-Economic Ministers). Once the results from the pilot community incentive scheme of the second project have become available, a fourth project might be developed on the basis of such a scheme to strengthen the village family welfare program.

40. The Bank is also looking into the possibility of supporting the Government in the development of an integrated local manufacturing capability for contraceptives.

### THE TRANSPORT SECTOR

#### General

41. The improvement of transportation is an indispensable part of Indonesia's national development effort. It is needed to strengthen the national ties among a widely diverse population scattered over an archipelago as large as the United States.

42. Transportation has played a major part in Indonesia's economic recovery over the past decade. Transport investments have grown quickly along with growth of overall investment. Transport represented between 10% and 15% of public investment (public investment represents the bulk of investment in Indonesia) and an even larger share of private investment (to finance most of the fleets for highways and interisland shipping). The quickening pace of economic life has resulted in even more rapid progress in transportation services. The geographic coverage of services has expanded, their frequency has increased and their quality, particularly transit time, has greatly improved.

43. The developments of the past decade have changed the size and structure of the transport sector. Total volume of motor transport rose sharply as the motor vehicle fleet grew between 10% and 20% yearly over the past 10 years and the number of roads in fair to good condition increased rapidly as well. A similar trend occurred in aviation. On the other hand, railways and shipping are becoming carriers of bulk commodities as Indonesia

is expanding plantation crops, such as palm oil, and is building large new industries, such as fertilizer and cement. The modes thus are becoming more specialized and highways are developing into the predominant mode in most areas. The Government's transport programs have reflected the preponderant position of highways as has the Bank Group's lending for transport in Indonesia.

#### Sector Issues and Development Strategy

44. Despite the progress noted above severe deficiencies remain. The backlog of investments has only partly been made up and additional transport capacity required by economic expansion needs to be built, especially on Java. Many remote regions still are underserved, as well as the rural parts of Java itself. Maintenance needs further improvement.
45. While the Government has formulated a series of overall objectives for Indonesia's transport system, it has also sought to create institutions and mechanisms which would fully articulate and coordinate these objectives in transport and planning. Also, while transport planning and coordination has been strengthened, more improvements are needed in these areas.
46. The draft Third Five-Year Plan which begins on April 1, 1979, provides for continued emphasis on expanding services to all regions of the country, on removing bottlenecks to agricultural and industrial production and to exports and on improving the use of resources in the transport sector. In addition, there will be a new stress on providing services to disadvantaged groups, particularly in the rural areas. Although this new emphasis is welcome, the shift has come rather late in the planning process and as a result insufficient attention has to be paid to implementation mechanisms. For example, little detailed thought has been given to the need to strengthen the provincial road departments on which much of the implementation responsibility will fall.
47. The resource and foreign exchange constraints, which are expected to grow increasingly critical over Indonesia's medium-term future, will become especially noticeable in the transport sector. Traditionally the Government has favored cheaply priced transportation by maintaining transport rates of publicly owned transport enterprises (railways, shipping, ports, buses) at levels which do not cover full costs, by providing cash subsidies or free goods to these enterprises, by furnishing major inputs to the transport sector, particularly capital and fuel, below economic cost, and by maintaining lower taxes on transportation (railways, ports and commercial road transport pay almost no taxes).
48. A recent study financed under the Fourth Highway Project has indicated that although road user charges as a whole were and at least equal to expenditures on roads, some users, particularly commercial vehicles, do not pay dues sufficient to cover Government's expenditures. These results are particularly significant as the road sector is much less heavily taxed than in most other countries and thus represents an unexploited tax potential for Indonesia.

49. This policy will have to be moderated to encourage restraint in the use of resources and to generate revenues for investment. The Bank has obtained during the negotiations (February 1979) for the Fifth Highway Project a formal expression of intention by the Government regarding improved cost recovery and resource mobilization in the transport sector; however, the implementation of this intent will be politically difficult and maintained properly.

#### Bank Strategy

50. The Bank Group has assisted transport development through a series of credits and loans for transportation aggregating US\$416.5 million equivalent. These included \$206 million equivalent, both for rehabilitation and upgrading of roads, under four highway projects; US\$48 million equivalent to rehabilitate railways; US\$32 million equivalent to expand Indonesia's most important port of Tanjung Priok (Jakarta); US\$62.5 million equivalent for rehabilitation and expansion of Indonesia's domestic marine fleet; and US\$68 million equivalent to rationalize and expand fertilizer distribution. The fifth highway project for which a loan of \$130 million is proposed will provide for further road betterment, bridge replacement and institutional improvement. The Bank's assistance initially concentrated on rehabilitation but gradually shifted to betterment and expansion projects; it was designed to cover all principal modes of transport and to foster an intermodal approach to transportation which is particularly appropriate to the geographic configuration of Indonesia.

51. The Bank will continue its support for Indonesia's transport programs. While the largest share will be for roads, the Bank's assistance will maintain a broad sectoral approach and include an increased stress on social concerns. For example, the draft Third Five Year Plan calls for increased attention to be paid to the betterment of secondary roads. We have welcomed this change and in fact have considerably modified the proposed fifth highway project (negotiated in February 1979) to reflect these new objectives as noted in para. 48 above. However, we will have to pay special attention to potential implementation problems.

### THE INDUSTRIAL SECTOR

#### Past Performance

52. Industrial priorities during the First Five Year Plan (1969-74) related primarily to sectors supporting agriculture, such as fertilizers, agricultural machinery and process of agricultural products. While the bulk of capital formation took place in the traditional branches of industries (such a food and textiles), significant amount of capital was also channelled to the resource-based industries, including petroleum. The Second Five-Year Plan (1974-1979) continued the broad strategies of Repelita I. Within the industrial sector heavy emphasis was given to import substituting industries, protected by import controls, high tariffs, and the investment licensing

system. In general, the industrial strategy favored large-scale capital-intensive projects which were highly dependent on foreign capital and technology and related to (a) the processing of natural resources for exports (e.g., mineral ore smelter, liquid natural gas, etc.); (b) the domestic production of intermediate products (e.g., steel, cement, fertilizer, chemicals, pulp and paper); and (c) factory produced consumption goods. The majority of public sector and foreign investment went to the first two categories of industries and a substantial part of private investment to the last category of industries.

53. The main policy instruments used for promoting industrial development were: investment incentives; protective measures and policies related to industrial cooperation between foreign and national companies. The main elements of the investment incentive system included tax holidays, reduction or exemption of import levies and accelerated depreciation allowances. These policies and incentives while resulting in rapid manufacturing sector growth (about 12% per annum) also lowered the price of capital relative to labor and hence encouraged the adoption of more capital-intensive technologies with lower labor absorption potential. This is reflected by the fact that during Repelita II only half of the industrial sector employment target (600,000 jobs over 5 years as against the target of 1.2 million jobs) was achieved.

#### Major Sector Issues

54. Because of these policies and practices, the present industrial structure shows a high degree of dualism. On the one hand there exists modern, large-scale, capital-intensive, resource-based and export-oriented industry sector being highly dependent upon foreign capital and technology. This modern sector has little impact on industrial employment and few linkages with the general manufacturing sector which in itself remains dependent upon imported capital goods, spare parts and raw materials. On the other hand, there exists the traditional indigenous small-scale industry which employs more than 4 million persons and artisans but has been unaffected by developments in the modern sector.

55. On the eve of the Third Five-Year Plan (Repelita III: April 1979-March 1984) government planners and policy makers appear to be reassessing the past performance and future role of the manufacturing sector. They seem to be concerned, as the Bank staff do, with the relatively (a) small (10%) share of manufacturing in total employment and slow growth in industrial employment; (b) low share of manufactured goods in merchandise exports (2-3%) and the sector's heavy orientation to the domestic markets; (c) predominance of consumer goods subsectors; (d) overconcentration of manufacturing activities in Java and urban centers like Jakarta; (e) underdeveloped processing sector primarily located in Outer Islands; (f) conspicuous dualism between the traditional small-scale and the large modern manufacturing sector and the lack of linkages between the two; (g) high dependency on imported capital goods and raw material of domestic manufacturing industries.

56. Despite these concerns, the Government has still to formulate a sound and coherent industrial development strategy. The Basic Economic Report recommends that an export oriented and labor intensive industrial strategy based on Indonesia's cheap labor (wages are presently the lowest in South East Asia) should be formulated. The Basic Economic Report concludes that a growth rate of 15% per annum in industrial value added and of 20% a year in industrial exports is feasible. Furthermore such a strategy is essential if the anticipated growth in the labor force is to be absorbed and if the balance of payments is not to again become a dominant constraint during the next decade. While the devaluation which was announced on November 15, 1978 is a necessary condition for such a strategy, action on many key policy variables is also essential if the suggested industrial development strategy is to become a reality. For example, industrial licensing, trading regulations, incentives for foreign investments, credit policies, customs regulations and procedures all need overhaul. Since powerful political vested interests are involved, the Government's ability to act in these areas may be constrained. The continuing temptation to go for costly capital intensive projects has also to be avoided.

#### Bank Involvement and Strategy

57. In the absence of a comprehensive sector strategy, Bank Group assistance to the industrial sector in Indonesia has been primarily for urgently needed fertilizer production (PUSRI), five DFC operations an industrial estate development in order to assist medium size enterprises and for a small enterprise development project to support Government's ongoing program for some small-scale industries. Following the Fourth BAPINDO loan which was negotiated in April 1979, future DFC operations will be based on an apex/DFC approach, with Bank Indonesia acting as an umbrella institution and passing the funds of the Bank DFC loans to BAPINDO, PDFCI, IDFC and the regional development banks (RDB). Because of the strong influence of Bank Indonesia on fiscal and economic policy decisions in Indonesia, this apex/DFC operation will provide us an opportunity to address some critical sector issues, particularly those pertaining to credit.

58. On the assumption that the Government will accept the policy recommendations of the Basic Economic Report, we are now trying to formulate our own strategy for assistance to this sector. The proposed Apex loan, provided it is accompanied by an appropriate policy package, will be an important step in this direction but much more remains to be done. A small scale industry sector mission has just returned from Indonesia and the industrial sector will provide a major focus for our economic work during the next two fiscal years. In particular we plan to examine the experience of Indonesia's more successful neighbors in an attempt to devise appropriate policy recommendations. The lending program which emerges will in part depend on the outcome of this work but it is also expected to include, inter alia, projects designed to assist forest based industries, light engineering and support for export based consumer durables.

April 20, 1979





FY80 ECONOMIC AND SECTOR WORK PROGRAMCountry Summary IndonesiaCountry Objectives

1. The Basic Economic Report which will be finalized around the end of CY1978 together with the preparation of Indonesia's Third Five-Year Plan due to commence in March 1979, have provided an opportunity to critically review the focus and direction of Indonesia's development program and the relevance of our own lending and economic work. The central theme of both these documents will be the need to articulate a long-term employment oriented development strategy designed to address the fundamental problems of a labor surplus economy.

2. Within this overall framework, the Basic economic mission has focussed on the following critical policy areas where progress is essential if the long-term targets are to be met. These are (i) the need for a major resource mobilization effort, both public and private; (ii) the need to achieve a much higher level of industrial investment and to shift its pattern to more labor-intensive activity; (iii) the formulation of an agricultural strategy, particularly one which gives appropriate weight to non-rice crops which have been up to now relatively neglected; and (iv) the need to take specific measures to stimulate non-oil export growth. In order to achieve these objectives it will be also necessary to identify appropriate prescriptions designed to address critical institutional and procedural constraints within the machinery of government which are adversely affecting both public and private sector programs. These latter problems and the need for remedial action have become particularly apparent in our operational work.

3. A policy dialogue focussing on some of the critical policy areas has already been initiated. As part of this effort, a round of high level discussions was held in July 1978. A second round will be held in December 1978/January 1979 when the draft BER is reviewed with government. Thereafter, the focus of our economic work will be on the specifics of the problems identified. It is therefore important that we ensure that our economic and sector work has operational relevance both for the government and our own programs.

4. The Bank will continue to provide economic services to the Inter-governmental Group for Indonesia which meets once each year. It is intended that the discussions at these meetings should increasingly focus on critical development policies and issues.

Major Tasks

5. The proposed economic and sector work program for FY80 addresses these issues and builds on the work initiated in FY78 and 79. It should be recognized however that the program detailed below does not give a complete picture as much of the relevant work will be carried out within the context

of our lending work, e.g. some of the issues relating to government planning and budgeting procedures are being addressed in the technical assistance project. It should also be noted that the total size of the program will decline quite sharply as the work on the Basic Economic Report comes to an end. The major tasks proposed for FY80 are as follows:

6. Coal and non-ferrous metals. Indonesia is endowed with considerable mineral riches; however, over the last two or three years a number of specific as well as general issues relating to Indonesia's mining sector have surfaced. The specific issues relate to the development of coal resources. With much dimmer prospects of a substantial increase in oil production but with rapidly growing domestic consumption of oil products, export earnings and public revenues from oil over the coming years are expected to rise only modestly. The Government is therefore actively searching for ways and means for developing coal as well as other energy sources to replace, or at least significantly supplement, oil in domestic consumption. Particularly in the generation of electricity, coal can be expected to play a growing and important role. The Bank is already financing an engineering study of the Bukit Assam Coal project.

7. The study proposed here should examine the feasibility for replacing the domestic use of oil for coal and should attempt to sketch a time horizon over which it should or could occur. For non-ferrous metals, the study should update our information on the investment requirements and export potential of individual products. Given the rather distinct features of coal and other mineral development, we might consider splitting the study into two: one dealing with coal development issues, and the other dealing with the prospects of development for non-ferrous metals.

8. Review of Public Sector Enterprises. The role of these enterprises is not well understood; however, they constitute a major claim on Indonesian public resources and account for a major proportion of hidden consumption subsidies. The railways, for which we have a problem project, is a particular case in point. In order to develop a better understanding of these problems, we have tried on previous occasions to initiate such a study but without success. The problems are basically two: (a) the natural sensitivity of the Government of Indonesia to a study of a subject of this kind, especially since most large public enterprises in Indonesia do not enjoy a high reputation of financial management; and (b) the central Government authorities themselves have little control over these enterprises and find it difficult to get information on their operations (an extreme example of this being the inability of Bank Indonesia, Department of Finance or Directorate of Oil and Gas to know from Pertamina its exact financial liabilities and investment program).

9. The subject is nevertheless of sufficient importance that we should risk exciting the sensibilities of the Government, especially since this would not be the first occasion we would be raising this issue. We intend to start devising a workable approach to studying this sector. Perhaps, we could start by examining the investment plans and financing arrangements of the largest and, therefore, well-known enterprises.

10. Labor-intensive industry promotion. One of the major areas of concern identified by the Basic Economic Mission is the slackening role of Indonesia's private sector in recent years. Given the sheer magnitude of the problem as well as the tendency of public sector investments to be highly capital-intensive and slow maturing, the future growth of income and employment in Indonesia will really depend on the performance of the private sector, consisting mostly of medium- and small-scale enterprises. The proposed study should focus on the constraints on the private sector generally and identify measures needed to stimulate labor-intensive industry and export of light manufacturers. The study would add a critically needed policy dimension to our industrial sector lending operations and form an essential input to the development of a coherent Bank industrial lending strategy. This mission may, however, take place in FY79.

11. Transmigration Program Review. The Bank has made a commitment to the GOI to assist in the financing of the transmigration program. The Government's plans are immense and, although Bank staff have become familiar with some aspects of the program, very little is known about the nature, location, scope, and cost of the total range of activities being planned. It is proposed that, in collaboration with the GOI, we undertake a comprehensive review of all aspects of the program. The review will draw on the substantial amount of work which has already been done by various agencies and will examine regional development aspects, as well as the resource and organizational requirements of future transmigration proposals. The review will also include an analysis of sociological factors which are likely to affect the success of migration of people from and to different location and ethnic environments. Finally, the review will draw conclusions and make recommendations with respect to the transmigration program and suggest ways in which the Bank could assist the GOI in reaching its objectives.

12. Cassava Demand and Supply Prospects Study. This is a new proposal. Very little work has been undertaken in the past on the demand and supply prospects of non-rice food crops in Indonesia. Cassava is the most important commodity in this category. Its potential for production expansion is enormous and it might also be exported. The study would cover agronomic aspects, production, processing and trading aspects, domestic demand, export demand and institutional support. The study has assumed critical importance for the lending program. For example, the proposed settlement areas under the Transmigration projects have considerable potential for cassava but until the potential markets prospects and marketing problems can be addressed, cassava investments under these projects are being held in abeyance. This study could be combined at a later stage, with the Marketing of Secondary Food Crops study to be undertaken in FY81. BER has identified the need to develop secondary food crops. The marketing constraints facing these crops are both critical and not well understood. This study will address these issues.

13. Dialogue on Agricultural Policy. This is a continuation of the work begun during the July 1978 high level policy dialogue (above). It is expected that during FY80 the dialogue will concentrate on critical investment, institutional, and policy measures required to evolve a more coherent agricultural strategy for Indonesia. Various small studies on particular issues are likely to be commissioned. This will be an ongoing activity with continuing relevance for our lending program. Sir John Crawford has agreed to lead this dialogue.

14. Land Tenure Study. Land tenure problems are becoming increasingly critical in Indonesia. These issues relate to the distribution of benefits under the GOI's agricultural development programs as well as the potential for a rapid increase in agricultural mechanization with its potential labor displacement effects. However, the data base is thin and the issue is highly sensitive. RSI is currently preparing an issues paper which will attempt to identify strategy for further studies. Pending the outcome of this work the manpower allocation is tentative. Mr. Yudelman has indicated his willingness to visit Indonesia early CY1979 to explore how best to set up such a study.

15. Rubber Industry Review. Rubber was omitted from the FY79 Tree Crop Review and in view of its importance as a labor-intensive smallholder crop and as an export crop, will be the subject of a subsector review. We would have preferred to undertake it in FY80. However, due to constraints on agricultural staff, we plan to undertake it in early FY81. We are also about to embark on a series of smallholder rubber replanting projects and this study is seen as a critical input towards the development of a coherent sector involvement. Complementary studies are expected to take place under the first smallholder rubber replanting project which will go to the Board in early CY1979.

16. Employment and Poverty Issues. This is a probable carry over from FY79.

17. Fertility Behavior Study. The population staff of DPS will continue further analysis of the long-term implications of the recent changes in fertility patterns in Indonesia.

18. Budget Management and Planning Mechanisms. Critical institutional constraints particularly those relating to the budgeting procedures management, etc. are becoming increasingly critical to the achievement of development targets (above). These constraints have been apparent in several Bank-supported projects. This study will continue work on Planning and Budgeting begun in FY79.

19. Review of Agricultural Training Requirements. The review will assess the training requirements for high level agricultural man-power needed to implement the country's agricultural development program.

INDONESIA: ECONOMIC AND SECTOR WORK PROGRAM, FY79-81 /a

Subject	Type of work	Remarks and audience	Resp. Dept.	Total man-weeks required		
				FY79	FY80	FY81
1. Monitoring	Annual assessment of recent developments, performance and prospects. (Includes maintenance of country economic model.)	Main audience is Bank management, the Board (through President's Report), the Government and the IGGI.	AEA	40	40	
2. In-depth analysis	Larger basic missions concerned with longer-term prospects. Takes place every 3-4 years.	Same.	AEA	60	-	-
3. Incomes & Employment	Analysis of impact of development on incomes, employment and poverty since 1970.	Bank management and Government.	DED	64	25	
4. Basic Needs	Analyzes shortcomings in basic needs and suggests possible course of action. Particular attention is paid to fertility, education and water supply; see below.	Possible project identification.	AEA	45		60
5. Regional Development Issues	(i) Java overall strategy;	Bank management and Government. Also possible project identification.	AEA	10		
	(ii) Kalimantan development issues;		AEP			44
	(iii) Transmigration program review.		AEP		80	50
6. Public Sector Review	(i) Analysis of investment plans & financing arrangements of the largest public sector enterprises.	Bank management and Government.	AEA	60		
	(ii) Review of critical institutional constraints & how these relate to budget management and the planning mechanism.		AEA	10		
7. Agriculture: General	(i) Sector review & policy dialogue (ii) Land tenure review.	Same	AEP	31	50	50
			AEA		5	
8. Agriculture: Food & Fisheries	Cassava and other food crops: analysis of demand and supply, agronomic aspects, processing, marketing, and institutional support.	Same	AEP		50	60
9. Agriculture: Tree Crops (rubber)	Review of production prospects, investment requirements, processing, marketing, institutional support and demand (domestic and foreign).	Same as above, possible project identification.	AEP			50
10. Industry	Sector review, production of small-scale, labor-intensive industries; and subsector review (coal and non-ferrous metals).	As above.	AEP	95	80	34
11. Energy Policies		Bank management and Government.	AEP	31		
12. Transportation	Sector review and investment strategy.	Same as above.	AEP	50	25	60
13. Urban	Urban Development Study.	Same as above.	AEP	33		
14. Education	(i) Sector studies.	Same as above.	AEP	30		30
	(ii) Review of agricultural training requirements.					50
15. Fertility	Analysis of independent variables and policy options.	Same as above.	DED	25		
<u>Total</u>				<u>449</u>	<u>500</u>	<u>478</u>

/a Inputs in CPPs and other economic and sector work are not included here.



INDONESIA - 1979 BRIEFING PAPER

Prospective Operations

FY79 Projects

Second Agricultural Training Project (FY79 - \$42.0 million - Bank)

1. The proposed project constitutes the second phase of a program to improve the quality and supply of middle-level agricultural manpower. The first phase was assisted previously under Cr. 288-IND. The proposed project would: (a) upgrade 13 existing agricultural development schools (ADS) and three existing in-service training centers; and (b) establish five new agricultural development schools and six new in-service training centers. The majority of these schools and centers would be located in provinces outside Java. In addition the project will introduce courses in animal health and rural home improvement in all agricultural development schools and training centers. The project will also develop and introduce an agricultural management training program and provide for technical assistance in management, training, procurement, preparation of future education projects, agricultural manpower survey, tracer study and for fellowships. The main benefit of the project would be to help ease the shortage of qualified middle-level agricultural manpower. No unusual risks are foreseen given the positive outcome of the first project (Cr. 288-IND).

2. The total cost of the project is estimated at \$70.1 million of which \$35.6 would be in foreign exchange. The proposed loan of \$42 million would cover 100% of the foreign exchange cost and 18% of the local cost or 64% of the total cost, excluding taxes and cost of vehicles which the Government wished to procure locally and finance from its own funds. The project was negotiated in March 1979 and is scheduled to be presented to the Board of Executive Directors in late April 1979.

Second Water Supply Project (FY79 - \$36.0 million - Bank)

3. The physical component of the project is for the construction of urban water supply facilities in seven beneficiary cities. This would benefit 850,000 persons who now have very poor and unsafe water supplies. In addition the project would help develop six semi-autonomous water enterprises and train staff in management, accounting and operation; strengthen the project implementation capacity of government agencies responsible for the sector; improve training institutions for engineers, skilled and semi-skilled workers and administrative personnel; and foster the concepts of cost recovery and efficiency pricing in the public sector.

4. The total cost of the project is estimated at about \$64 million of which \$36 million would be in foreign exchange. The proposed loan of \$36 million would finance the foreign exchange component of the project and the Government would cover the remaining cost.

5. The project was negotiated in early April 1979 and is scheduled for consideration by the Board of Executive Directors in late May 1979.

Eighth Power Project (FY79 - \$175.0 million - Bank)

6. The project provides for the installation of a 400 MW thermal generating unit capable of burning either coal or oil. The power station will be located at Suralaya in West Java and the project will constitute the first unit of the first stage two unit stage of the Suralaya station which will ultimately have a capacity of 3,200 MW. The first 400 MW unit will be financed in FY79 by the proposed loan, and it is proposed to make another loan in FY80 for the second. The associated extra-high-voltage transmission facilities are expected to be financed by ADB in its FY79 program and by financiers other than IBRD.

7. The project is the next step in the least cost program of system development in Java. It also represents the first major step in the implementation of the Government's policy of diversifying energy resources, including the use of coal for electricity generation. The power station will use coal from the Bukit Asam coal mine in Sumatra. A \$10 million engineering loan (S-9) is financing consultancy services required to prepare the coal mining project with its associated rail and sea transportation facilities. The consultants have already indicated that the recoverable coal reserves at Bukit Asam are of acceptable quality and adequate quality for the first stage of Suralaya (800 MW). It is anticipated that the cost of coal delivered at the power station is likely to be substantially below the equivalent cost of oil at 1979 international oil price levels and therefore, in anticipation of this, the government is justified in incurring the additional investment of about \$6.0 million for facilitating coal firing of the first unit.

8. The total cost of the first unit is estimated at \$371.2 million of which \$204.1 million would be in foreign exchange; the second unit would cost about \$251.4 million of which \$196.1 million would be in foreign exchange.

9. The Bank will provide \$175 million in FY79 for the first unit (Power VIII project) and no more than \$172 million in FY80 for the second unit (Power IX project). The reason for not increasing the Bank financing to cover the whole foreign exchange component of both projects is to encourage co-financing and to maintain the balance of the lending programs. These projects are particularly suitable for co-financing. The gaps in the foreign exchange costs of the projects should be filled by the Government either through co-financing arrangements or from its own funds. The Yellow Cover SAR was distributed on February 9, 1979. Negotiations are expected to start in mid-April 1979, and Board Presentation is scheduled for late May 1979.



Rubber Replanting I Project (FY79 - \$32 Million IDA Credit)

10. The objective of the project is to expand and improve the Government's smallholder rubber development program. The project constitutes part of the first phase of the program and covers areas in two provinces in Sumatra (Riau and South Sumatra) and one province in Kalimantan (West Kalimantan). Major components of the project are: (a) establishing and staffing a National Rubber Replanting Unit; (b) improving and expanding nurseries; (c) replanting and maintaining about 38,500 ha of smallholder rubber, and maintaining an additional 2,000 ha replanted during 1975-78; (d) constructing roads and buildings; and (e) training, consultancy services, studies and preparation of future smallholder rubber projects.

11. The project would benefit about 20,000 farm families (about 100,000 persons) whose average per capita income would increase at full development from \$100 to \$180 p.a. Incremental foreign exchange earnings over the life of the project would be about \$500 million.

12. The proposed credit was negotiated in December 1978. Subsequent discussions in Jakarta were necessitated by lack of a consensus among concerned GOI agencies on the financing arrangements prepared for the project, sharing of the risk on the credit component and the role of Bank Rakyat Indonesia (BRI) in making credit available to the smallholders. During these discussions the Government raised fundamental questions regarding the organization and financing of the project which have necessitated its reappraisal as an FY80 project.

Yogyakarta Rural Development (FY79 - \$12 million IDA Credit)

13. The project which was appraised in June and October/November 1978 constitutes a first five year phase of a longer term development program in the Special Province of Yogyakarta designed to increase income and to improve rural living conditions. The project focuses on those problems which represent prime bottlenecks to development. For upland agriculture the most fundamental of these in the two regencies involved is soil erosion and low productivity, and thus the project's agricultural actions focus first on stabilizing the land base, and then on developing new technology packages for agricultural production. The project also supports development of the most promising immediate income-producing activities in the area: fisheries, livestock production, vocational skill training and small-scale enterprise. It addresses a key infrastructural bottleneck: all weather rural roads. Finally, it attempts to tackle the most pressing needs in the social sphere, paucity of health personnel, and shortage of drinking water in selected critical areas.

14. The project is scheduled to be negotiated mid-March and considered by the E.D.s in early June.

Technical Assistance V (FY79 - \$10 million IDA Credit)

15. The proposed credit will finance a five-year technical assistance program to meet 85% of the cost of studies for the identification and preparation of sufficiently well-formulated projects for potential financing by the Bank Group and other aid agencies, and to make available to the GOI various advisory services. The credit is essentially a follow-on operation to the previous four IDA technical assistance credits. The proposed subprojects are expected to have a significant impact on Indonesia's socioeconomic problems, with particular emphasis on employment creation, fulfillment of basic human needs and alleviation of poverty.

16. Negotiations were held in Jakarta in March and the proposed credit will be considered by the Executive Directors in late April 1979.

Transmigration II (FY79 - \$90 Million (Bank), \$67 Million (IDA) and \$5.5 Million (EEC Special Action Credit))

17. The project would launch a land development program along the Trans-Sumatra highway by resettling about 30,000 families from impoverished and ecologically threatened areas of Java and Bali on five sites in the province of Jambi in Sumatra. It would also upgrade the conditions and services provided to 4,000 transmigrant families who were recently settled in a neighboring area. For each settlement site, the project would provide physical infrastructure, land clearing, agricultural inputs and services, and community facilities and schools, health centers, places of worship and other public buildings. Technical assistance would be provided to assist the Government in implementing the project, and developing its overall transmigration program.

18. Each transmigrant family would be given 3.5 ha of land, of which 2 ha would be suitable for food-cropping and 1.5 ha suitable for tree crops and other agricultural development. The project would clear 1.25 ha per family of the food cropping land, leaving 2.25 ha per family for the transmigrant to develop. At full agriculture development the projected per capita farm income is estimated at \$175, as compared with present incomes of potential transmigrants of around \$55. The average cost of settling a family in mid-1979 prices is \$4,250; this is expected to decrease as spontaneous migrants are attracted to the area.

19. Negotiations were held in mid-April and Board Presentation is scheduled for late May 1979.

Lower Cimanuk Basin Flood Control Project (FY79 Project - \$50 Million - Bank)

20. The proposed project would provide flood control infrastructure for the 90,000 Rentang Irrigation Area and adjacent towns. This would assist the Government's program of introducing flood control in established irrigation areas in order to raise productivity and incomes. The project would benefit 1.7 million persons, 90% of whom are in the poverty target group, create some 27,500 man-years of labor over the construction period, and increase rice production by 6,100 tons per year by 1989.

21. The project's components would include flood protection and the rehabilitation of river training and flood control works on the Lower Cimanuk River and smaller rivers; widening of the artificial Rambatan Channel, and major hydraulic control structures to divert more flood flows down the channel; and related studies.

22. The project was appraised in June 1978. The green cover appraisal report was issued in February 1979. The project status has been changed from FY79 standby to FY79, negotiations were held in March, and the proposed loan is scheduled to be presented to the Board of Executive Directors in late April 1979.

Fifth Highway Project (FY79 - \$130 Million - IDA Credit)

23. The proposed project would support the Government's Third Five-Year Road Development Program (FY80-84). The new emphasis of the program is to spread the benefits of road development as widely as possible, to provide rural mobility and to ensure all-weather road access to as many people as possible. The proposed loan would finance a defined and agreed upon portion of this program, including road betterment, support works and maintenance activities, and bridge replacement. It would also finance advisory assistance to upgrade the Government's transport planning capacities and to promote Indonesian consulting and contracting industries. Total cost of the project is \$250 million for which a loan of \$130 million is proposed.

24. Negotiations were completed on February 12, 1979. The project is expected to be presented to the Board in May 1979.

Fourth BAPINDO (DFC) Project (FY79 standby - \$50 million)

25. BAPINDO is the major DFC in Indonesia and owned by the Government. In the past one credit (\$10 million) and two loans (\$50 million and \$40 million) were made for BAPINDO. The proposed fourth loan of \$50 million is expected to cover about 63% of BAPINDO's foreign exchange requirements for the next two years. The proceeds of the fourth BAPINDO loan will be used to finance industrial and maritime projects from BAPINDO's subborrowers. Negotiations were held in mid-April, and consideration by the Board is scheduled for late May 1979.

FY80 Projects

DFC/Apex Project (FY80 - \$110 million - Bank)

26. As agreed with the Government, future Bank assistance for DFCs such as BAPINDO, PDFCI, IDFC and some regional development banks will be under an Apex loan with the Bank Indonesia acting as an umbrella institution and onlending the agreed portions of the Apex loan to the beneficiary DFCs. We intend to use this loan as a vehicle to address some critical industrial sector issues. Appraisal is scheduled for September 1979.

Third Population Project (FY80 - \$35 Million - IDA Credit)

27. The proposed project would assist the Government to strengthen basic health/family planning services in approximately 50 kabupatens on the outer

islands, in areas expected to be the focus of transmigration schemes. The project's primary objectives would be to reduce maternal and infant mortality, and to moderate fertility in order to reduce population growth in areas planning personnel; expanded training programs for medical and paramedical personnel in family planning and surgical techniques; studies and other consultants' services to ensure adequate provision of supplies to project facilities and to improve the public health planning and management capabilities of the Government.

28. The project is currently being prepared. A Government task force (comprised of representatives of the National Family Planning Coordination Board, BAPPENAS, and the Ministries of Health, Transmigration, and Interior) has been selecting appropriate kabupatens on the basis of their high fertility and low health and family planning service, their location in transmigration areas and the presence of an NFPCP provincial organization for project implementation. During January-February 1979 a Bank preparation mission has been assisting the task force in analyzing the needs and service requirements of such kabupatens and identifying project components.

Nucleus Estates III (FY80 - \$96 Million - Bank)

29. The proposed project is responsive to the Government's request for Bank assistance to develop 50,000 ha of rubber and food crop land to settle 4,000 landless families and improve the incomes of a further 8,000 families in Jambi and South Kalimantan provinces, using the public sector estates PTP VI and XVIII, as the development agent under the nucleus estate development scheme. Under this program, the nucleus estates will be used as organizing units for provision of agricultural inputs and technical assistance, processing, and marketing. Assistance is also extended under the project to rehabilitate PNP I, the sole public sector estate in Aceh province, so that it can play a future nucleus estate role.

30. The project would generate productive employment at a relatively low cost, raise family incomes of the landless or near landless poor and stimulate small business in the project areas. It would also provide for a low-cost health delivery system including malaria control, improved water and sanitation, family planning and basic health services for about 50,000 people. Primary and secondary educational facilities would be provided for children of 7,000 families. Regional needs would be served with new and upgraded roads to improve transportation for about 200,000 people living in or near the project area; and establish a high-yielding permanent tree crop and provide a stable agricultural system.

31. The proposed loan is likely to be negotiated in May and to be considered by the Executive Directors in early FY80.

Agriculture Extension II (FY 80 - \$40 million IDA)

32. Loan 1179-IND for \$21.5 million for a first agricultural research and extension project assisted in strengthening production-oriented research programs for rice, field crops, highland vegetables, rubber; and in improving the agricultural extension information system by constructing and equipping four new research centers within the main regions of crop concentration, one national and nine regional agricultural information centers; and providing fellowships and technical assistance.

33. A second extension project for which IDA Credit funds amounting to \$40 million have been allocated, will be appraised in March 1979. This second project will attempt to lay down an extension framework for agricultural activities in all provinces. During appraisal issues relating to the future organization and scope of agricultural extension in Indonesia and desired links or relationships between extension and other service activities, particularly research, crop production, credit and transmigration projects, will need to be resolved. The proposed credit will be negotiated in November 1979 and considered by the EDs in January 1980.

Agriculture Research II (FY80 - \$23 million Bank; \$27 million IDA)

34. The proposed project is much wider in scope than the research component of Loan 1179-IND described above. It would cover research programs for food crops (especially nonrice), estate and industrial crops, fisheries, animal husbandry and forestry. The project would also provide support for strengthening agroeconomic and soils research, transmigration, statistics and data processing and library services. The research facilities at 20 experimental stations would be improved under the project, 16 of which are in the other islands. The project would also assist manpower development.

35. The project was pre-appraised in November 1978 and is due to be appraised in May 1979. It is scheduled for consideration by the EDs in December 1979.

Watershed Development (FY80 - \$37 million IDA)

36. The proposed project is based directly on the recommendations of the UNDP/FAP-supported Upper Solo Watershed Management and Upland Development Project, aimed at strengthening the Government's capacity for watershed planning and development, to develop pilot projects for a number of sub-watersheds in the Upper Solo Basin in Anhal Java, and to prepare development plans for the watersheds.

37. The proposed project would be the first step in scaling up from a successful group of pilot projects to a full-scale attack on the massive problems of soil erosion in Java. Its objectives would therefore be, first, to establish technically sound and economically viable systems to reduce erosion and enhance incomes and employment opportunities and, second, to demonstrate a system of project management which would be replicable in the

many other watersheds requiring attention. The project would consist of the coordinated development of the entire 27,000 ha Kali Samin Watershed through reforestation, terracing and expansion of irrigation facilities.

38. The project will be appraised in June 1979 and is scheduled for consideration by the EDs in March 1980.

Ninth Power (Second Unit of the Suralaya First Phase) Project  
(FY80 - \$172 million)

39. This project will consist of the construction of the second 400 MW unit of the first phase of the Suralaya station in West Java, the first unit of equal size being financed under the eighth power project in FY79.

40. The cost estimates were made by the consultants when the costs for the whole first phase were calculated. Total cost of the second unit is now estimated at \$251 million of which \$196 million will be in foreign exchange. The amount of the loan in the approved lending program is \$172 million. The shortfall of the foreign exchange component will therefore be \$24 million which the Government will arrange either through co-financing or provide it from its own sources. We are not proposing to increase the amount of the loan for two reasons: (a) these projects are suitable for co-financing and there are already some interested external sources; and (b) the lending program should not be biased towards capital-intensive infrastructure projects.

41. The project appraisal is scheduled for July 1979.

Higher Education (Education IX) Project (FY80 - \$75 million)

42. Inadequate human resources are a major constraint to economic development in Indonesia. The shortage of professionally trained manpower is particularly critical. Government's efforts to meet the demand for professionally trained manpower have been constrained because the existing tertiary level educational institutions suffer from internal inefficiency, poor quality and relevance and inadequate organization and administration. The proposed project will therefore aim to remedy these deficiencies by focusing primarily on institution-building activities (planning and financial control at the national level, institutional management, curriculum development, preparation of academic master plans, staff training). The proposed project would also provide material assistance to several selected universities in the fields of science and technology.

43. The Government agencies are in the process of finalizing their proposals for the scope and size of the project. A preappraisal mission is scheduled to visit Indonesia in February/March 1979. The appraisal is scheduled for November 1979.

Irrigation XIV (FY80 - \$100 Million - Bank)

44. The proposed project would support the Government's high priority of increasing the productivity and incomes of the rural poor. The flood control, drainage, and increased water supply for an existing irrigation system provided under the project would increase food production productive employment and incomes of the project beneficiaries, at least 70% of whom are within the poverty target group.

45. The project would include: construction of a flood control and drainage system on the Serang River in North Java and construction of the Jragung Dam and its appurtenant works on the Jragung River in Central Java. It would also provide detailed designs for an irrigation system in South Grobogan, in the Serang River Valley, and for dams on the Madiun River, to expand the water supply to irrigation systems previously rehabilitated under the Eighth Irrigation Project. A feasibility study for an irrigation system in teh Juana Basin would also be included. Whether the project should also contain a hydropower component on the Jragung Dam remains an Issue, pending ascertainment of its economic justification at preappraisal and appraisal.

46. The preappraisal mission was in Indonesia in February 1979. Appraisal of the project is scheduled for June 1979.

Irrigation XV (FY80S - \$50 Million - Bank)

47. This project would be a companion to Irrigation XIV in that it would focus on land development and irrigation works on islands other than Java. This would support the Government's program of increasing productivity and incomes and creating productive employment on islands outside of Java, thereby developing these islands and spurring population redistribution. The project would include construction of a tidal land development scheme at Karang Agung in Sumatera, including land clearing, drainage, and flood control works to permit rice cropping, and the provision of Transmigrant Settlement facilities. It would also include construction of medium-scale irrigation systems in Java, Sumatera, and Sulawesi, for which feasibility studies were financed by the Ninth Irrigation Project.

48. Preappraisal of this project has occurred concurrently with that of Irrigation XIV. Appraisal will also occur concurrently, and is scheduled for June 1979.





## OFFICE MEMORANDUM

TO: The Files

FROM: Charles Weiss (PAS)

SUBJECT: INDONESIA: Meeting of Minister Habibie with Mr. McNamara  
December 4, 1978

DATE: January 16, 1979

Minister Habibie, Minister of State for Research and Technology, met with Mr. McNamara on December 4 as a preliminary to a day-long visit to the Bank on December 6. The Minister was accompanied by a delegation of about twenty Indonesians associated with the Ministry. Messrs. Kirmani and Weiss from the Bank staff were present.

The Minister explained that, in order to develop a national science policy for Indonesia, he had organized working groups on five major topics, each of whom were represented on his delegation: Basic Needs, Energy and Resources, Industrial Development, Defense, and Social Science/Economics/Philosophy. Priorities for research were being set in accordance with the overall National Plan. One such priority is work on alternative sources of energy (including geothermal, solar, gasohol and a "gasoline bush").

The Ministry for Research and Technology will review and coordinate the scientific and technological programs of non-departmental groups such as the National Academy of Sciences (LIPI); agencies within operating ministries; universities; government-owned companies; and multinational corporations.

The Minister is also the head of the authority for the development of Batan Island. He plans to develop it as a complement to Singapore to provide labor- and land-intensive services. The island will take water and electricity from Singapore.

The Minister also described the industry that his Ministry was setting up for the manufacture of twenty-passenger airplanes. The industry is labor-intensive, now employs 1800 people (expanded from the original 600), and is exporting at competitive prices to Thailand.

The Minister Habibie said that he had not come with a specific request to the Bank but wanted to "visit and say hello."

In response, Mr. McNamara urged the Minister to "keep in touch" with the Bank and specifically mentioned research problems connected with the transmigration project (on which the Minister is on the coordinating board), a major Indonesian project currently hampered by the absence of a low-cost technological package suited to local soils.

cc: Kirmani, van der Tak, R. Stern, Koch-Weser

R. Stern

INDONESIA: Basic Economic Report. Meeting with Prof. Widjojo

1. Messrs. Shahid Husain, Jean Baneth, P. Hasan, Pieter Bottelier and myself met with Prof. Widjojo, Ali Wardhana, Minister of Finance, and Rachmat Saleh, Governor of the Central Bank on January 26 to discuss the Basic Economic Report.

2. Mr. Bottelier began by outlining the main findings of the report noting in particular the report's conclusion that, even though income gaps had widened during the 1972/76 period, the poorest income groups had received significant trickle down benefits from the country overall GDP growth. The authors of the report had already been criticized for this relatively rozy conclusion - both inside and outside the Bank - but he was confident that its findings could be defended. Mr. Bottelier outlined the critical future problem areas, that in the Bank's view, require special attention by the Indonesian policy makers.

(a) Long Term

The population growth rate in the outer islands was now significantly larger than that for Java - Bali. These diverging population and labor force trends required increased attention by the GOI to regional development and population programs on the outer islands.

(b) Medium Term

(i) With respect to food policy greater attention had to be given to diversifying production and consumption - action to identify specific policy measures was needed.

(ii) Since the agricultural sector cannot absorb the growing labor force the need for the development of a coherent industrial development strategy - both public and private - was urgent. Significant growth of labor intensive industry over the next 10 - 15 years was essential if the employment situation was not to significantly worsen.

(iii) Given the projected stagnation of oil revenues, action to identify and mobilize other savings was becoming urgent.

(iv) While acknowledging the need to develop basic infrastructure a more careful phasing and balancing of the public instrument program was necessary.

(c) Short term

The Bank was concerned that the short term management of the economy following the devaluation was resulting in too many price controls.

January 31, 1979

These in turn threatened to become permanent thus negating the very purpose of the devaluation.

3. The following discussion centered around the following topics:

(a) Price Controls.

Prof. Widjojo agreed with the Banks concerns. He noted that the economic managers were under considerable political pressure to limit price rises e.g. Admiral Sudomo but he hoped that the transition period would be over as soon as possible. For example significant transport tariff increases were expected to be announced next week - these tariffs would adjust both for the devaluation and expected future price rises (including fuel) - this would hopefully prevent the need for subsequent upward adjustments in the short and medium term. The political reaction to these increases would be very important. With respect to other prices the government was seeking more gradual adjustment mechanisms, for example the prices of the four most heavily subsidized fuel oils might be increased first. prices of the remaining four categories could be increased later. Mr. Bottelier added that the income distribution effects of a kerosene price increase were not as was sometimes claimed likely to be negative.

(b) Industrial policies

Prof. Widjojo felt there was now a better appreciation within the GOI of both the potential role of the private sector and the need to develop labor intensive industries - both for domestic production and exports. He noted that:

(i) There was a need to review the plethora of regulations which adversely affected investment and to deregulate. However this would be difficult as numerous vested interests were involved.

(ii) The GOI was also now more interested in encouraging joint ventures between the state and private enterprises.

(iii) Free trade zones should be more actively explored.

(iv) The industrial experience of some of Indonesia's neighbors should be examined. - In this connection the Bank representatives noted that we were willing to assist in anyway possible.

The Bank staff noted that the industrial growth targets of the draft Repelita III seemed relatively modest and that a 15% growth rate in manufacturing value added and a 20% growth rate in manufactured exports did appear to be feasible. Such a growth rate would still be modest when compared to Indonesia's neighbors and furthermore essential if the BOP was not reemerge as a dominant constraint.

It was agreed that while general measures designed to alleviate critical constraints were essential, it might also be useful to initially concentrate on

developing specific industries e.g. electronics where neighboring countries were now becoming less competitive. Rachmat Saleh noted that the government's primum policy presented difficulties but that some backdoor exceptions (e.g. joint ventures for labor intensive export industries financed through non banking institutions e.g. insurance companies) might be possible. He indicated that these options should be explored further. Mr. Baneth suggested that the Central Government might give special attention to selected industries by the establishment of special regular review meetings composed of high level officials to which investors might take their problems for quick resolution - thereby circumventing cumbersome regulations. It was also agreed that it was important to examine public sector procurement policies with a view to encouraging small scale labor intensive manufacture.

Mr. Husain emphasized the need to give particular attention to the mobilization private resources for industry including the development of credit institutions, the deepening of the capital markets and the development of long term credit instruments. Mr. Rachmat Saleh stated that he expected that Bapindo would soon be allowed to issue tradable medium term bonds (of three or four years shortly); bond issues for housing banks and insurance companies were also possible. Mr. Husain noted Prof. Widjojo's agreement for the Bank to process with Apex lending. In connection with the later Prof. Widjojo noted the importance of giving attention to the development of the Regional Banks.

(c) Food policy

Prof. Widjojo noted that the need to diversify food production and consumption was now accepted by the GOI but not by the public. He agreed with the need to identify and develop special policy packages in this connection - including price supports for secondary crops. He also noted that storage and marketing problems for these crops were critical and that they needed to be addressed e.g. cassava. In this connection he agreed with Mr. Husain that the role of the private sector in agricultural marketing had previously been neglected.

(d) External Borrowing, Disbursements and Net Resource Transfer

Mr. Bottelier noted that the Indonesian could probably safely expand commercial aid flows by about 6% per annum which, taking into account likely aid flows, should be broadly sufficient to meet requirements. This projection was however critically dependent upon several key assumption - e.g. those relating to industrial export growth.

Mr. Husain stressed that the required net resource transfer was critically dependent on improved implementation performance. For example despite increased commitments by Bank disbursements had been stagnating at about \$ 175 - 195 million per year for the past three years. With increasing debt service requirements net resource transfers from the Bank now threatened to decline. The governments budgetary procedures, in particular the DIP system had been identified as one critical constraint, and a review of these procedures was necessary. He mentioned that Mr. Jaffarey had prepared a report on this subject for the government. Prof. Widjojo, acknowledging that there was a need to reform budgetary regulations, said that he had not seen the report. We promised to send a copy to both Widjojo and Ali Wardhana.

cc: Messrs. Husain, Kirmani, Baneth, Loh, Please, Hasan, Hq Program Div. Staff,  
Mr. Bottelier

RStern/c

File : BER

Statement by Mr. S. S. Husain to the Board on January 4, 1979

Transmigration and questions related to it have to be viewed in the context of the overall developmental issues facing Indonesia at this point. I would therefore like to start with a short account of the economic issues in Indonesia. I would then go on to the relationship of agriculture and transmigration to these issues and then conclude with a discussion of the Bank's approach and program.

Indonesia is the second most populous country in the Third World. Its economic, social and political aspects have been the subjects of continuing study, review and discussion. The pervading theme in much of the discussion on Indonesia is the issue of overpopulation in Java and Bali. The question invariably is whether a political, economic and social framework exists which would enable Indonesia to overcome its development problems; whether the economic and political managers of Indonesia will be able to generate and sustain a process of development which can tackle the fundamental issues of <sup>①</sup> overpopulation, <sup>②</sup> unemployment and <sup>③</sup> food deficit; whether this effort will be broadly based and whether the Indonesian masses can identify themselves with this effort.

Looking back over the last 12 years, one can identify both negative and positive factors. Let us start with the positive factors. Between 1966 and 1977, the average GDP growth rate was 8% per annum; per capita income growth was nearly 6%. There was a 20% decline in fertility in the most heavily populated islands of Java and Bali. Life expectancy increased by about 5%. Infant mortality decreased by 5%. Studies recently made by our staff indicate that employment generation at least kept pace with the 4% annual increase in the labor force. There was an increase in consumption across the whole spectrum of Indonesia's population. These improvements were the result of a mixture of judicious economic policy, growing depth of institutions and, of course, the increase in the price of oil and flow of external resources.

The experience over the last 12 years has also exposed major flaws in economic management and sharpened the issues for the future. There are two issues which particularly threaten the capacity of the Government to provide a meaningful framework for future economic management. First and foremost is the widely held perception among Indonesians and foreigners that the rapid development of the last decade has been accompanied by an increase in the inequality of income, wealth and economic influence. Second, is the perception that valuable resources and borrowing capacity were wasted by Pertamina and some highly capital intensive projects which had little relationship to the welfare of the mass of the people. These issues are of course clouded in controversy; for example, some experienced observers consider that some concentration on capital intensive projects in the recent past may not have been inappropriate for a large economy in the early stages of industrialization; in part these investments were necessary to establish a sound economic infrastructure on which to base growth.

As to the future, it is clear that the task of the economic managers will be even more difficult than in the past. Consensus on political and economic issues will be more difficult. The Government will have to make a much more determined effort than in the past to sharpen its priorities so that policies, programs and projects will have a direct and perceptible bearing on the economic lives of the mass of the Indonesian people. Oil production is likely to stagnate or, at best, increase very slowly. The terms of trade improvement of 1974 are not likely to be matched. Our projection is that with further improvements in economic policy, Indonesia should be able to maintain a growth rate of about 6-1/2% during the next decade. If this lower economic growth is to have any significant impact on the lives of the common people, then there should be much sharper focus than in the past on three key areas.

First, employment generation has to be much more deliberate and concerted than in the past. To realize the magnitude of this challenge, it is enough to note that despite the successes of the population program, the labor force in Java and Bali is increasing at about 800,000 per year. However, because of the unavailability of additional suitable land on the inner islands and technological changes, agriculture in Java is increasingly becoming a part-time activity. The long-term solution has increasingly to be in job creation outside agriculture and settlement outside Java. Investment distribution also has to shift from some of the highly capital intensive projects of the early 70's to activities where the employment efficiency of resources is much greater. Here a few figures are in order. As with all figures, they should be treated with due caution: jobs in transmigration projects can be created for about \$2,500 each. This compares to a figure of \$3,300 per job for the Indonesian Small Enterprise Development Project which was approved by the Executive Directors last March and a figure of \$11,000 - \$20,000 for medium and large-scale industry.

Second, even though during the last 12 years growth in food production has outpaced population growth, Indonesia remains a country of substantial malnutrition and food deficit. It is the largest importer of rice in the world market and, if the present trend continues, by 1985 Indonesia could be importing at least 3 million tons of rice per annum equivalent perhaps to as much as a third of the world's tradable rice surplus. To limit the vulnerability of the economy and to create incomes, the effort to increase food production has to be strengthened even further. The employment issue points in the direction of creating more job opportunities through industrialization and greater off-farm employment in Java and Bali, and exploitation of settlement opportunities in the less populous islands such as Sumatra, Sulawesi and Kalimantan. The food problem calls for further intensification of agriculture in Java and Bali, and settlement in the outer islands.

Third, ensuring the long-term productive use of Indonesia's natural resources and balanced regional development is vital. For example, as a result of population pressure which reaches more than 2,000 per square kilometer in some areas of Java, one of the country's most valuable resources, the soils of Java, have been eroding at an alarming rate for many years. In addition to protective measures, the cultivation of some ecologically fragile watersheds will have to cease if permanent damage is to be avoided. The only viable solution in many cases is to relieve the population pressure through transmigration to other islands where potential agricultural land, presently unutilized, is estimated at around 23 million hectares. 75% of this is located in Sumatra and Kalimantan. In short, if the abundant resource on the outer islands-land can be combined with the abundant resource of Java-labor, a more balanced and sound regional development may in the long term be achievable.

The questions of employment and agriculture are at the heart of the basic economic work undertaken by the Bank staff during the last 12 months. A high rate of generation of employment opportunities and an increase in the rate of growth of food production are also likely to be the principal objectives of the third Five-Year Plan now under preparation. In respect of non-agriculture employment, we have emphasized the creation of an environment in which a rapid increase in private investment can take place and a set of policies which would not penalize low-cost job creation. The recent devaluation is an important step in this direction. However, we have brought to the Government's attention the fact that Government procedures for approval of investment proposals, deficiencies in banking and credit, administrative procedures for Customs clearance and unofficial financial levies are major deterrents and that, simultaneously, steps have to be taken to resolve these issues. We are also working with the Government on the financing of small enterprises. As regards agricultural employment, the experience over the last 12 years shows that the introduction of high-yielding varieties in Java and Bali and the intensification



and cultivation, among other things, through increased irrigation have led to substantial labor absorption; however, given the constraints I have just mentioned, it is improbable that increase in employment opportunities in these overcrowded islands will match the increase in labor force.

This brings me to transmigration. Considering the weight of population and unemployment and, simultaneously, the need to accelerate the increase of food production, promote balanced regional development and protect natural resources, transmigration in Indonesia has to be viewed as an integral part of the developmental strategy. Transmigration is not new. There has been substantial spontaneous migration from Java and Bali to the outer islands. Organized settlement of the outer islands was begun by the Dutch at the turn of the century and by 1941, about 40,000 families had been settled. The present Government revived the concept of organized transmigration, and between 1969 and 1978, 90,000 families were settled in the outer islands. In addition, 270,000 families may have moved spontaneously. While spontaneous migration will always be a significant element of the economic picture, the Government's effort to sponsor and organize settlement stems from many factors. Some of these are as follows:

First and foremost, as more settlers move to the outer islands, there is a possibility of friction between local populations and migrants on questions such as land rights. The Government's view is that these should be tackled in an orderly fashion and that transmigration efforts should be viewed as regional programs where the existing local population would also benefit.

Second, there are important questions about the quality of soils and the ecology on the outer islands. There is need for careful survey and selection of land for settlement.

Third, the Government does not want supporting economic and social services to lag significantly behind human settlements.

With these in mind, the Government has adopted a target of moving 500,000 families during 1979-84. We have had discussions with the Government on every aspect of the transmigration program. We have been supportive of it, and we have encouraged the Government to plan for a substantial increase in transmigration and to gear up its own planning and organization for this. We, however, cautioned the Government against a program which would be inconsistent with its planning, implementation and financial capacity. I would now mention some of the considerations behind our advice.

- 100-111/24
- (1) Five hundred thousand families over the five years would be a substantial jump over the achievement of the recent past. The maximum the Government has been able to settle in any single year is 16,000. Although under the direction of President Suharto, efforts have been initiated to streamline the Government's organization for transmigration and support services, we are skeptical that this organization would be adequate for the task. Our advice has been that the target is excessive, that caution is in order and that the Government rather aim at a more graduated build-up of the program.
  - (2) Considering the delicate ecology and shallow soils in outer islands, careful surveys and land selection should precede settlement. It is unlikely that this could proceed fast enough to support the Government's target.
  - (3) Some of the mechanical land clearing methods suggested are new and their organizational and environmental impacts should be assessed as the program is built up.
  - (4) One of the major constraints to settlement has been support services and social infrastructure. Their build-up will require a major organizational and financial effort.
  - (5) The cost per family and the financial implications should be carefully worked out and monitored as the program proceeds.

Above all, the Indonesian Government's as well as our interest is that the program should have credibility both as regards its concept and its implementation.

As to the Bank's own program, support of settlement in Indonesia is not new. Hitherto, we have made 6 loans for \$189 million for Government-managed estate and nucleus estates projects which include settlement, mostly raising tree crops. About 87,000 families would benefit from these. Indications are that the economic return anticipated at appraisal will be achieved. In 1976, we made a \$30 million loan for a transmigration project in Sumatera under which assistance is being provided for 4500 new settler families and 12,000 existing families. Under the project each family would grow food on 1/2 hectare and cultivate rubber on another 1.0 hectare. The cost per family in 76 dollars is \$5000, and the cost per job ~~\$2300~~. The initial implementation of the project was delayed for some of the reasons I mentioned earlier. There was delay in the resolution of organizational issues in Indonesia and there was delay in the provision of support services. However, later results have been very encouraging. So far, 1300 families have been settled. Spontaneously, another 500 settlers have moved into the area. Initial settlers have cultivated food crops and their average income from food crops is some 90% higher than appraisal estimates. Simultaneously, we are working on a second project which would comprise settlement of 42,000 families. In formulating this project, we are focusing on these fundamental issues:

- (i) The cost per job should be kept as low as possible so that transmigration can be implemented within the financial capacity of Indonesia. Our tentative estimate is that in the second project the cost per job in 76 dollars would be \$1800 as compared to \$2300 in

the first project. Since food production is an important economic issue in Indonesia and since it is unlikely that settlements in new areas can succeed without adequate food production, project settlers would initially be given land for food production. Adjacent land would be reserved for later development of tree crops.

- (ii) Settlement should be based on careful and detailed surveys and land selection so that ecological and environmental hazards can be minimized.
- (iii) Land clearance procedures should be adopted which would be both economical and ecologically sound.
- (iv) The organization and coordination of land clearance and support services should proceed hand-in-hand.

These have been the subjects for our dialogue with the Government, and we hope to be able to negotiate a loan sometime in April and bring a project to the Board in May or June.

Transmigration and the issues related to it have been the subject of controversy and discussion within the Bank and outside. The issues around which discussion has focused are the following:

- (i) Should the Bank really make any significant effort for the development of the outer islands? Shouldn't the bulk of our efforts be in Java? We do not regard transmigration and agricultural development in Java as mutually exclusive efforts. For the generation of employment opportunities and for increasing food and agricultural production, they are complementary. As I had mentioned earlier, it is unlikely that Java alone can provide the employment opportunities for all the new entrants to the labor force every year during the next decade. Moreover, our efforts in transmigration will go hand in hand with programs to increase production in Java. Hitherto, of the total of about \$1 billion of Bank and IDA lending for agriculture

in Indonesia, about a quarter has been for projects which include settlement. The bulk has been for irrigation, extension, research and agricultural credit. The irrigation projects so far financed by the Bank, when completed, will add 1.5 million tons of rice to the current production of 17.5 million tons. As a part of our overall strategy in Indonesia, we will continue to emphasize these activities and, in addition, seek to stimulate Government's effort in secondary crops such as corn and cassava.

- (ii) Is the Bank trying to slow down Indonesia's effort? The answer, clearly, is no. We are seeking to stimulate Indonesia's effort but, simultaneously, we are working with the Indonesian Government to remove the bottlenecks and constraints to a sound development of transmigration. Clearly, in this we are cautioning the Indonesians against an effort which will significantly increase the probability of failure.
- (iii) Are we, by concentrating too much on food crops, courting an ecological disaster? Lands in the outer islands are not of uniform quality. If the cost of transmigration is to be held down, the focus initially has to be substantially on food crops. While indiscriminate settlement through production of food crops would be ecologically hazardous, it is perfectly possible initially to select lands suitable for food cropping and leave other areas more suitable for tree cropping for later development.

Indonesia is a large and complex country. Differing opinions on major development issues facing the nation by qualified and experienced observers are inevitable. This applies with particular force to the Government's transmigration program. The program's uniqueness and size result in even greater inherent risks than those normally associated

with the development process. Transmigration thus attracts increased attention and controversy. Not surprisingly such differences in views often arise between Bank staff working on the country. Indeed not only should such varying viewpoints be expected but they are essential if we are to maintain the quality of our analysis. However, their discussion in the public press seriously compromises our ability to conduct a constructive dialogue with the Government on issues of far-reaching consequence.

In conclusion, Mr. Chairman, we are proceeding with our work on transmigration deliberately with ambition as well as caution. It is perfectly possible that in this process we shall be accused of sins both of omission and commission.

## OFFICE MEMORANDUM

TO: Files

DATE: October 5, 1978

FROM: Richard D. Stern (Chief, AEADC) *RDS*SUBJECT: INDONESIA: 1978 Annual Meetings, Washington, D.C.  
Mr. Husain's Meeting with the Indonesian Delegation

1. Mr. Husain met with the Indonesian Delegation at 4:00 p.m. on September 25, 1978, at the Sheraton Park Hotel. A list of those attending is attached.
2. Mr. Husain began by recalling his August discussions with the Government in Jakarta. He noted that, among other things, the discussion had focused on the need to take further measures to mobilize additional domestic resources and enquired as to what steps the Government had taken in this direction. Minister Wardhana responded by saying that a decision to increase domestic oil prices had been expected in October. Following discussions with the President, however, it had been decided to postpone an oil price increase until January 1979. Apparently the October date was considered too sensitive as several political trials are expected shortly. Since the oil price increase has been postponed it has been necessary to increase the budget oil subsidies - the earlier estimate of subsidies had been based on the assumption that the oil price increase would take place in October. Mr. Husain stressed our continuing concern over this matter. He also noted that the increase in public savings constraints could have adverse effects on the Bank's own long-term lending program. Indeed some examples of constraints in this connection were already apparent on some projects.
3. Some discussion took place on the economic and sector work program. It was noted that the report would try to take a long-term perspective look at the critical issues facing the Indonesian economy. Its major focus would be on employment creation, agriculture and the need for the development of a coherent industrial development strategy with particular reference to exports. It was expected that the draft basic economic report would be in the hands of the Government by early November and that a GOI/Bank review could take place in late November. Timing would be confirmed later. Mr. Husain expressed the hope that government officials, particularly at the working level, would give the report and the review serious attention. In this connection the RVP noted that it was important that the review focus on the long-term issues and perspectives identified in the report. It would be unfortunate if the discussions deteriorated into haggling over figures and wording which were not central to the main theme.
4. In connection with the IGGI, Minister Wardhana reported that the Dutch Minister for Development Cooperation, who had just concluded a visit to Jakarta, had agreed with GOI that the next meeting should be held in April 1979. Mr. Husain indicated that this timing was acceptable to the Bank. All agreed that a three day meeting with the first two days devoted to discussion of development issues would be a most appropriate format. The Bank's basic economic report would form the Bank's

October 5, 1978

documentation for the Meeting. Minister Wardhana suggested that the Bank should act as Vice-Chairman for the next IGGI Meeting. Mr. Husain responded by saying that the Bank was quite happy with the present arrangements, i.e., the Bank providing services to IGGI; any change in the chair in the short or medium term was for the Dutch and Indonesians to decide. Minister Wardhana said he would discuss the matter further with Professor Widjojo.

5. Mr. Husain expressed some concern that the Bank may again not be able to achieve its lending target for the current fiscal year. The Bank hoped to be able to commit about \$700 million in FY79 but slippages in some operations make it uncertain that the target would be achieved. One example was the continuing confusion relating to the Government's transmigration program. In this connection Mr. Husain noted that both the Government and the Bank's credibility were on the line and that careful planning and implementation in the early years of the transmigration program were essential if the long-term objectives were to be achieved.

6. Minister Wardhana noted that the processing of 10 or so projects each year was becoming an increasingly onerous burden on the government agencies involved. In this connection he enquired as to whether the Bank could move to a sector lending approach. Mr. Husain replied by noting that the Bank also wished to move to such lending over time; potential candidates included highways, education, irrigation and ultimately transmigration. The Bank representatives noted that such a change would imply a shift in emphasis from narrow technical issues and appraisals to a deeper examination of institutional and policy issues facing the respective sectors. The amount of technical appraisal work required would not diminish; responsibility for this work would be merely transferred from the Bank to the government agencies concerned. It was very important that the government officials concerned responded effectively to the policy and institutional dialogue which would be concomitant of sector lending.

7. In the above connection Mr. Husain noted that a proposal had been made for an Apex lending operation to Bank Indonesia which would in turn pass on funds to BAPINDO, PDFCI and the Regional Development Bank. The Indonesian delegation noted that while Bank Indonesia was in favor of such an approach BAPPENAS had some doubts as to whether Bank funds should be used for private sector operations. Mr. Husain requested that the Indonesian Government get back to the Bank on these issues. In view of the uncertainty on the Government's side and the need for the Bank to further develop sector understandings Mr. Husain indicated that it might be preferable to proceed with a traditional type loan to BAPINDO this year and go ahead with an Apex operation next fiscal year.

Attachment:

Cleared with and cc: Messrs. Please, Baneth

cc: Messrs. Chenery, Husain, Kirmani, Howell,  
Golan, Blaxall, P. Hasan

RDStern:ms



ANNUAL MEETINGS

List of Participants at Meeting on  
September 25, 1978

Indonesian Delegation

Dr. Ali Wardhana  
Mr. Soegito  
Mr. Arifin Siregar  
Ambassador Ashari  
Mr. Sumantri

Bank Delegation

Mr. Chenery  
Mr. Husain  
Mr. Kirmani  
Mr. Baneth  
Mr. Please  
Mr. P. Hasan  
Mr. R. Stern  
Mr. Bottelier

INTERNATIONAL MONETARY FUND  
THE WORLD BANK

Boards of Governors · 1978 Annual Meetings · Washington, D.C.

September 28, 1978

TO : Memorandum for the Record  
FROM : Stanley Please, Director, AEA  
SUBJECT: INDONESIA -- Meeting Between the Minister of Finance and Mr. McNamara

1. A meeting was held on September 26 between members of the Indonesian delegation and Mr. McNamara. The following members of the Indonesian delegation attended: Mr. Ali Wardhana, Minister of Finance; Mr. Soegito Sastromidjojo, Director General for International Monetary Affairs, Ministry of Finance; Mr. D. Ashari, Ambassador of Indonesia to the United States; Mr. Rachamat Saleh, Governor, Bank Indonesia; and Mr. Arifin M. Siregar, Managing Director, Bank of Indonesia. The following members of the Bank staff were present: Messrs. E. Stern, Chenery, Husain, Baneth, Koch-Weser and Please. Mr. McNamara began the meeting by congratulating the Government on its handling of the population problem particularly in Java. However, despite the success of the family planning program major problems of providing income-earning opportunities remain and within this context the transmigration program and the program to develop labor-intensive projects were, in the Bank's view, essential. He particularly urged the Indonesian Government not to invest in high capital-using projects unless these both had a high rate of return and contributed significantly to alleviating the balance of payments problem. He said that he was concerned by reports he had recently heard to the effect that major capital-using projects were going ahead which did not necessarily meet these criteria.

2. The Minister emphasized the high level of Bank commitments which had been developed over the past few years but said that the program had appeared to hit problems which prevented the program from going any higher than the present level of approximately \$500 million per annum. Mr. McNamara emphasized that he considered that a level of commitments and disbursements significantly higher than that which at present existed was justified in the case of Indonesia given the size of the country and its potential. He would expect the program to be at a level of something around \$700 million in two years' time and rising to even higher levels thereafter. He emphasized that these high levels would clearly have to be dependent upon the Bank's being satisfied about the creditworthiness of the country which derives in particular from the overall management of the economy. In order to achieve these higher levels it was necessary to set in motion a program of project preparation and he suggested to Mr. Husain that his staff and particularly RSI should work with the Government over the next two years on a program of project preparation. This would provide the basis for the high levels of lending in subsequent years.

Address replies to:

JOINT SECRETARIAT - ANNUAL MEETINGS  
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(RCA) 248331 IMF  
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(WUI) 64111 INTERFUND

September 28, 1978

3. In discussion over the constraints on increased lending and particularly increased disbursements to Indonesia, Mr. Husain emphasized the overwhelming importance the Bank attached to Government action to improve the mobilization of domestic resources. In particular, action on the taxation of fuel was urgent.

4. The Minister of Finance reviewed recent development in agriculture and in the transmigration program. There were good crops this year with rice production up by about one million tons. In the case of non-rice crops such as cassava, the major impediment to production was the limitation on markets particularly in Europe. Overproduction was in fact the problem, not how to increase production. As regards transmigration, the Minister still considered that these programs were going through an experimental phase although they were gathering momentum. A new institutional structure for formulating and implementing the transmigration programs had been established and the willingness of people to move was still strong. The major bottleneck was the absorptive capacity of the receiving areas and this was primarily an organizational problem.

5. Finally, Mr. McNamara hoped that the Minister would support in all possible ways the proposed increase in the Bank's capital. Furthermore, he expressed the hope that he would be able to accept the Minister's kind invitation to visit Indonesia again. Unfortunately he could not say precisely when he would be free from urgent Bank business relating to the capital increase and to IDA replenishment but he hoped it would be early in 1979.

SPlease/10/lrd

cc: Messrs. McNamara, Stern, Chenery and Knapp  
Husain, Kirmani, Baneth, Hasan, Ruddy, Stern, Bottelier

Meeting with Mr. Widjojo, Indonesian Minister of State for Economy, Finance and Industry, and Ambassador Ashari, August 7, 1978

Present: Mr. McNamara, Minister Widjojo, Ambassador Ashari

Mr. Widjojo reported on the ASEAN-U.S. meeting which took place in Washington. The focus had been on (i) a preferential trade agreement between ASEAN countries, covering more than 70 items; (ii) preferential treatment in times of shortages of food and energy (particularly between Indonesia and Thailand); (iii) joint efforts on food production, e.g., through IRRI; (iv) industrial development through priority projects jointly owned by the five ASEAN countries, e.g., a fertilizer plant in Indonesia; (v) joint communication projects, e.g., undersea cables between Jakarta, Singapore, Manila and Bangkok; and (vi) a common tourism policy for the region. Mr. McNamara said that he was delighted to see the progress of regional cooperation among ASEAN countries. There were very few examples of successful regional integration in the world; e.g., the East African community had disintegrated in recent years. The Bank was anxious to support the ASEAN countries in their regional cooperation efforts.

Mr. Widjojo said that his Government was grateful to the Bank for its support of the formulation of the third five-year plan. He was particularly grateful to Mr. Husain who had been extremely helpful. The plan emphasized food production and employment creation. Mr. McNamara said that the Bank could provide considerable assistance on food production. Employment creation posed a much more difficult problem, particularly since off-farm employment had to increase substantially.

With regard to food production, Mr. Widjojo said that his country had benefitted from the contribution of Sir John Crawford who intended to visit more frequently in the future. The Government was aware that food production efforts should not be limited to rice and that a broader emphasis on nutrition was required. The example of the Jatiluhur rice irrigation area had shown that the impact of a drought had become particularly severe because home gardens had been abandoned in favor of an expanded area of rice irrigation. Also, rice irrigation had led to the discontinuation of the practice of keeping village rice stocks. The transmigration program continued to receive high priority. The Government hoped that the organizational problems had been resolved. The Bank had been helpful in identifying the bottlenecks. In order to increase employment opportunities, the Government was aiming at a large industrialization program which would develop labor-intensive industries of any size. He would like to see the industrialization effort linked to an export strategy; studies on export processing zones were underway. The industrial sector had to be made more attractive to private investment. Mr. McNamara said that both export promotion and labor-intensive employment creation were very important issues for the Government to deal with. Korea was a good example of the successful implementation of such a policy.

Mr. McNamara enquired about the Government's plan for obtaining a satisfactory level of public savings. Mr. Widjojo replied that, unlike Repelita II, Repelita III had to start from the projection that oil revenue--both in terms of external and public sector revenue--would not increase as fast as in the past. Non-oil resources had to be tapped. Mr. McNamara pointed to the very low energy consumption per capita in Indonesia as compared to other countries. Energy consumption would certainly increase despite conservation efforts. An increase of internal

petroleum prices--which were only at about half the world market level--had to be acted upon. Mr. Widjojo agreed. In view of the substantial subsidy, the Government would have to move fast on this issue. The political climate enabled it to do so. Public savings would also be increased by improved administration of existing taxes, excise taxes and import duties, and new sources of taxation (e.g., an urban land tax for local governments).

Mr. Widjojo said that a good Bank program for Indonesia was being developed. The Bank was willing to take up the chairmanship of the IGGI but his Government first had to resolve a problem with the Dutch Government on this issue. The new Dutch Government was eager to improve its performance with regard to Indonesia and felt that it should continue its present responsibility; Indonesia and Surinam were the two countries of emphasis under the Dutch aid program. The Indonesian Government wanted to part on good terms. In September, the Dutch Minister of Economic Development would be in Jakarta to discuss this issue. Two IGGI meetings were scheduled for next year: the first to focus on the Bank's report and to consider the country's development prospects, and the second to receive aid pledges. Mr. McNamara emphasized that the Bank did not want to take any initiative on the IGGI chairmanship; this had to be left entirely to the Indonesian Government. The group worked effectively and the country needed immense amounts of external capital in order to meet the country's development targets, particularly in the field of employment creation. Oil revenues per capita were relatively low. If a satisfactory level of internal resources mobilization were achieved, external resources could be mobilized more easily.

Mr. Widjojo said that, in order to increase external revenues, the country's extensive gas fields would be developed for export purposes. Exports to Japan had been started and large fields were reserved for gas exports to the U.S. In order to achieve the plan's targets, training and education had to be given particular attention; skilled manpower was becoming a serious bottleneck. A recent Bank mission had studied the problem.

In conclusion, Mr. McNamara urged Mr. Widjojo not to hesitate to let the Bank know how its contribution could be made more effective. He was glad that Mr. Husain had made such a particularly helpful contribution.

cc: Mr. Husain ✓

Caio Koch-Weser  
August 10, 1978

The World Bank /

RESIDENT STAFF IN INDONESIA: P.O. Box 324 JKT, Jakarta, Indonesia  
Telephone—46051-2-3; 357238 • Cable Address—INTBAFRAD JAKARTA • Telex—IBRD JKT 4456

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**APR 11 2013**

Jakarta  
July 18, 1978

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**WBG ARCHIVES**

Mr. Robert S. McNamara  
President  
The World Bank  
Washington, D.C.

Dear Bob:

Widjojo will be in Washington during the first week of August, to participate in the joint ASEAN-U.S. discussion on Economic Cooperation. A meeting between you and him would be very useful, as our future relationship with Indonesia needs to be discussed with him in detail. I suggest that he meets you alone and that the discussion be candid. To brief you, in this letter I am discussing the issues of economic policy and of institutions and procedures. In a way, the latter are the most important and the most difficult to tackle. I hope that you will be able to discuss these, among others with the President, when you visit Indonesia.

The Indonesians are working on their Third Plan (1979 - 1983). Its outlines are supposed to be announced in the President's speech on 17th August. Thinking and work on the Plan is taking place in the context of some perennial problems and some new problems. The perennial problems are population and employment, food production, and the effectiveness and efficiency of Government institutions and policies. The new issues - these are not really new but are assuming new dimensions - are the issues of resource mobilization, resulting at least partly from stagnant production and increasing domestic consumption of oil, and inability of industrial production and investment to make any meaningful contribution to employment and exports. We have done more work on these issues during the last year than ever before, and analyses and reports have been presented to the Indonesians and discussed with them. From my discussions with Widjojo and others, I do get the impression that they are conscious of the seriousness of the issues; they are also conscious that decisions taken now and during the next few years will be harder than at any time during the seventies. However, they seem to have done less to translate their broad concerns into specific plans and policies than would be warranted six months before the Plan period begins; moreover, they do not fully appreciate that the inadequate planning and implementation capacity of the Government may become the most serious constraint to addressing these issues.

During the last several years, Indonesia has been able to sustain a relatively high growth of GNP of around 7 percent per annum. Part of the growth has come from rehabilitation investments in infrastructure, for instance, irrigation. But more importantly, the dramatic increase in oil revenues after

1973 made possible and supported a massive expansion in investment in the public sector. While all of the investments were not well directed, there were substantial multiplier effects on income and employment of sharply higher levels of Government spending. Tentative figures indicate that overall employment grew by 3.5 - 3.7 percent per annum during 1971 - 1976. Income and expenditure data indicate that the real per capita consumption level of the bottom 40 percent increased probably by 10 - 15 percent during 1971 - 1976. Thus, there was a definite trickle down of growth. But on the other hand, there does not appear to have been any improvements in real wages, the gap between rural and urban incomes has increased and income disparities within urban areas have tended to widen. The phenomena of worsening income distribution, notwithstanding some gains in living standards of the poorest group and some reduction in the incidence of absolute poverty, are hardly unique to Indonesia. But the point is worth stressing that employment and the position of the poor would have been a great deal worse but for the unexpected and sharp increase in oil revenues.

A continued high growth rate of GNP of around 7 percent per annum seems a prerequisite for sustaining at least a moderate improvement in the income and employment of the poor. But this will not be attained unless:

- (a) a very major resource mobilization effort is mounted in the public sector;
- (b) there is a substantial shift in the pattern of public investment towards agriculture and rural investments, including restraint on large new capital-intensive projects;
- (c) the effectiveness of the Government programs, especially those dealing with food and agriculture, is greatly increased and the relevant institutions are greatly strengthened;
- (d) there is much greater progress towards labor intensive industries in the private sector.

Our preliminary estimates suggest that without additional taxation effort, the increase in real Government revenues is likely to be limited to 3 percent per annum during 1979 - 1983, while it might be difficult to keep the growth in recurrent expenditures to less than 6 - 7 percent per annum. Thus, public savings may actually decline in real terms unless additional taxation is undertaken. A major issue is the pricing of petroleum products sold domestically; most of these (except gasoline) are priced at less than half of world prices. This contributes to the rapid growth in domestic consumption, and to an increased fiscal burden.

Even assuming that substantial additional taxation (including adjustment of domestic oil prices) can be undertaken, the growth in public savings and investments during the Third Plan will be very slow. Net transfers from abroad, which along with oil revenues, have financed almost the entire public investment in the recent past, are likely to stagnate in the next few years, reflecting substantial debt repayment obligations. Even with an optimistic view of the Indonesian public resource mobilization effort in the

coming years, it is difficult to see public investment growing in real terms by more than 5-6 percent per annum.

The constraint on investment resources will necessitate much greater attention to the resource allocation issues. If the Indonesian Government exercises strict control on new commitments for large capital intensive projects, the situation may prove to be manageable. Otherwise, the investments for alleviation of poverty, unemployment and food deficits are likely to suffer seriously. Shortages of local currency will arise and pressures for inflationary financing will grow. Expenditures on World Bank financed projects are growing rapidly, and could exceed the annual rate of U.S.\$1 billion in the next year or two. Apart from the general economic case for mobilizing domestic resources, adequacy of local cost financing is a matter of special concern to us if we are to achieve the rather large planned level of lending to Indonesia. While there is widespread awareness of the emerging resource constraint among the policy makers, the magnitude of the problem is perhaps not yet fully perceived. Furthermore, the implications of this for new commitments in long gestation capital intensive projects have hardly begun to register. Meanwhile, the costs of some large projects in the pipeline have increased sharply; the Asahan aluminum project (Japanese-Indonesia joint venture) is now estimated to cost \$2 billion, compared with an estimate of \$800 million just a year or so ago.

In terms of sectoral priorities, the importance of food production can hardly be over-emphasized. The level of food output in Indonesia is a major determinant of the income and welfare of the poor. During the last decade, there has been a significant increase in per head consumption of major food crops. However, domestic production has not kept pace with demand, and relative reliance on net imports has increased (although the 1977 import level of 2.5 million tons of rice was exceptional). The trend towards a growing gap between food demand and supply is likely to persist at least till 1985. But a sharp improvement in the recent trend of food production from less than 2.5 percent per annum in the last four or five years to well over 3 percent is possible, although with a major and well-coordinated effort. Secondary crops (maize, cassava etc.) deserve the highest priority. We believe it is feasible to increase food output by 3.2 percent per annum during 1978-85 provided (a) for rice, the ongoing irrigation investments mature on schedule, support services such as research, extension, credit and plant protection are improved, and current price policies continue; (b) for secondary crops, a series of completely new departures are initiated in institution building, and support policies are vigorously pursued. Even with the projected growth of food crops, imports are expected to increase somewhat faster than production, because demand is projected to grow at 3.5 percent per annum. For instance, if rice output grows at 3 percent per annum and there is no shift in demand towards secondary crops, rice imports will be about 2.5 million tons in 1985. If Indonesia relies more heavily than this on rice imports, it might well have to face very steep world prices. Even with the lower rice import level, the overall dependence on net imports of food crops is likely to increase by 1985.

The Government fully shares our concern regarding food supply. It does not follow, however, that the needed agricultural investments will be undertaken and major policy and institutional changes will be brought about speedily. The Bank can play a catalytic role in improving the food policy



framework, since a very substantial part of our total lending during FY79-83 will be directed towards increased food production. During my final meeting with Widjojo and his associates, I have suggested that the Government should undertake the preparation of a very detailed and specific food plan for the decade of the 80's, incorporating demand, production targets, investment requirements, requirements for manpower and other inputs and organizational and policy changes. I have said that the Bank would be prepared to assist the Government in the preparation of this plan, and that the plan should be the basis of future cooperation between the Bank, other external lenders and Indonesia in food production. Baneth will further work on this. I suggest that this should be an important theme in your discussions.

Increased food output in particular, and agricultural output in general, will be an important source of improved productivity in the rural areas. But much of the future employment growth must come from outside agriculture. During the last six or seven years, there has been a fairly rapid growth in the non-farm rural employment. However, much of this employment has apparently been in relatively low productivity occupations. The employment in the modern manufacturing sector has not expanded significantly. It is our belief that in the long run a modern but labor-intensive manufacturing sector must provide a substantial portion of the increment of jobs and exports in Indonesia. A beginning must be made now. Provided the industries are located in the rural areas and have good employment potential, the size of establishments need not be a primary concern. I mention this because current Indonesian thinking seems to regard labor-intensive as identical with very small scale industries. How can a push be provided towards quicker and more efficient industrialization? Again, much depends on government policies and institutional arrangements. At present, the odds are against a revival of private investment activity, and perhaps a key discouraging element is the excessive cost and burden of procedures of one kind or another.

In summary, I suggest that you emphasize to Widjojo that, while we have great hopes about Indonesia's future and have a very substantial program of assistance, we and our partners in external assistance are convinced that the following major issues need to be tackled if the momentum of growth and employment is to be maintained. In fact, Indonesia's capacity to carry its people along depends on these; these are also the major premises on which our assistance program is based.

1. A vigorous effort to mobilize domestic resources, i.e. maintenance of the public savings ratio at least at the current level of about 9 percent G.D.P.
2. Formulation and implementation of a food plan.
3. Revitalization of industrial investment, initially by streamlining and eliminating control and fiscal procedures and policies, and, if necessary, by adjusting key prices.

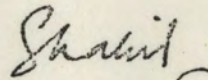
You might also mention that we stand ready to work with the Government on each of these issues, and that the dialogue and cooperation, particularly

at the working level, needs to be deepened. Towards this end we are expanding the capacity of R.S.I. and have significantly improved the quality of staff working on Indonesia in Washington and Jakarta. As you know, we have created two special divisions to work on food and agriculture in Indonesia.

At the invitation of Widjojo, we are planning another round of discussions at the end of October. These will focus on the complete draft of the Basic Economic Report which we hope to circulate to the IGGI members by early December for a meeting in January/February, 1979.

I have discussed your visit with Widjojo and he is enthusiastic about it.

Yours sincerely,



S. Shahid Husain

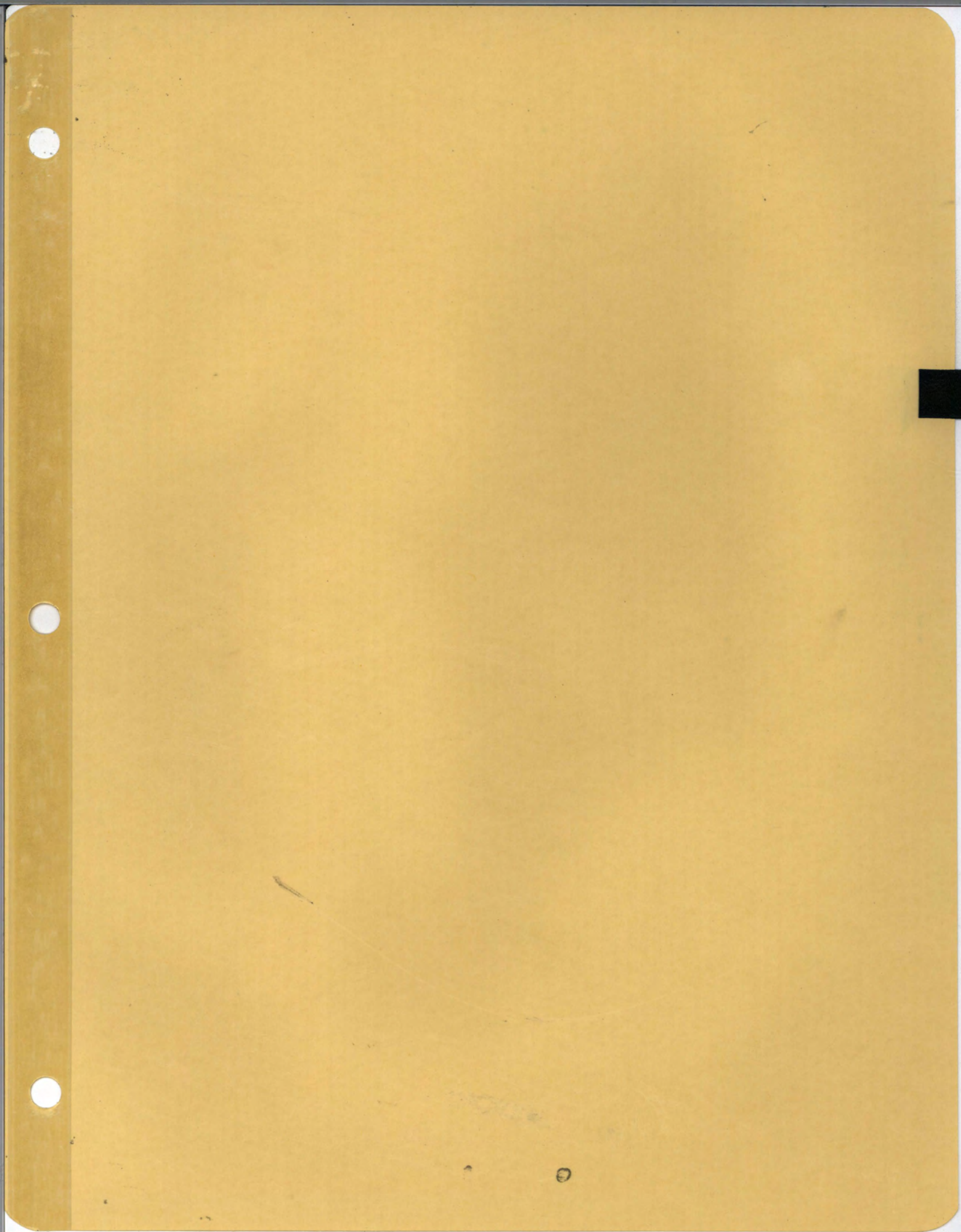
c.c.: Mr. Stern  
Mr. Please  
Mr. Baneth

PARTICIPANTS AT MEETING WITH MINISTER WIDJOJO

AT BAPPENAS, JULY 18, 1978, 9 A.M.

- |                                    |  |
|------------------------------------|--|
| 1. Mr. S. Shahid Husain            | World Bank   |
| 2. Mr. Jean Baneth                 | " "  |
| 3. Mr. Parvez Hasan                | " "  |
| 4. Mr. Pieter Bottelier            | " "  |
| 5. Minister Widjojo                | BAPPENAS   |
| 6. Dr. Saleh Afiff                 | " Deputy Chairman for<br>Economic Affairs                          |
| 7. Professor Madjid Ibrahim        | " Deputy Chairman for<br>Regional Affairs                          |
| 8. Ir. Sardjono Reksodimoeljo      | Department of Agriculture, Director, Food-<br>crops Planning       |
| 9. Dr. Ir. A.T. Birowo Msc.        | Department of Agriculture, Chief, Planning<br>Bureau               |
| 10. Prof. Ir. I. Gusti Bagus Teken | " " Director, Food-<br>crops Guidance                              |
| 11. Ir. Gaol                       | Department of Finance, Directorate General<br>Monetary Affairs     |
| 12. Drs. Permadi                   | President Director, Bank Rakyat Indonesia                          |
| 13. Drs. Hartawan                  | Director, Bank Rakyat Indonesia                                    |
| 14. Ir. Asikin                     | Chief, Agricultural and Fisheries Credits                          |
| 15. Ir. Suryono Sosrodarsono       | Director General of Water Resources,<br>Department of Public Works |

July 18, 1978



H

## INDONESIA

### UNDP ACTIVITIES

1. The Governing Council of the United Nations Development Programme (UNDP) meeting in New York approved, on 26 January 1979, the Second Country Programme of Indonesia, providing some US\$74 million in UNDP technical cooperation for the years 1979-83 (See Table I attached).
2. The central theme of this Second Country Programme (SCP) is training. Training-oriented projects account for 56% of the programmed resources, followed by investment-oriented projects with 17% and research and extension-oriented projects with 16%. The development of human resources and manpower planned under the SCP will be complementary to the inflow of capital and technology to Indonesia and contributes to their optimal utilization. Valuable results and contributions are expected from the projects related to preinvestment studies, regional development, rural infrastructure, appropriate technology for rural communities, and development and income strategy.
3. The Programme includes 67 separate projects. Distribution of the programmed resources for seven areas of concentration is as follows: 25% to human resources development; 21% agriculture; 15% industry; 12% regional development; 11% science and technology; 9% rural infrastructure; 5% social services; and 2% other categories (see Table II attached).
4. Compared to the previous five years of UNDP-financed assistance, there will be a noticeable shift to intensified training efforts to fewer and larger projects, to more defined and measurable objectives, and to a greater use of national expertise and services, whenever appropriate.
5. In the next five years (i.e., the Pelita III period), the amount UNDP plans to spend (US\$74 million) is about double the amount expended in the last five years. Support for the programme will be augmented by government local currency expenditures which may be two to three times larger than UNDP expenditures.
6. The specific technical assistance inputs financed by the UNDP and implemented by the specialized agencies of the UNDP system will be in the form of experts who have both advisory and training functions, demonstration and training equipment, group training locally and fellowships for study abroad. Some 54% of programmed funds will be utilized to meet the costs of specialists/consultants/experts, half of whom will have primarily a training function. This percentage is a reduction over the first country programme and includes an increasing emphasis on short-term consultants. Some 20% of programmed funds are for fellowships, both overseas and in-country. This amount represents twice the amount set aside in the First Country Programme and considerably more than that in real terms, as much of the training in future will be in-country at considerably reduced costs. Equipment provision comprises some 14%, and some 10% of programmed funds are set aside for subcontracted activity, including national subcontracting.
7. Among the projects which have been endorsed is a \$3 million programme of assistance to the Ministry of Education in curriculum development, research, evaluation and management of the educational system. Other educational projects will deal with teacher training in sciences and vocational subjects and with improvement of secondary school instruction.

8. A series of projects, costed at a UNDP input of some \$11.2 million, will focus on preinvestment studies in various regions in order to uncover opportunities for development in less advanced areas. In the context of regional development, assistance will be given to the planning and monitoring of transmigration schemes and to the expansion of small-scale industrialization.

9. Several projects will provide training and advisory services for personnel connected with the country's growing air and road transportation network. A number of projects will offer extension and advisory services in the textile, leather and other industrial fields to help increase productivity and work opportunities.

10. In the broad area of social services, the UNDP will be helping Government efforts to bring safe water supplies to such areas as East Java, South Sulawesi and Flores, through surveys, feasibility studies and engineering designs. The UNDP also will be cooperating with the Government programme to stimulate low-cost housing production through the more versatile use of locally available materials. Additionally, efforts will be undertaken to help the Government expend its social security coverage as well as its health services network.

11. At the request of the Government, the UNDP is undertaking several innovative efforts. Among the projects in this category will be an attempt to develop appropriate low-cost technologies for rural communities. Several promising research areas would be identified, pilot schemes developed and tested and then, hopefully, replicated elsewhere. The UNDP also will be helping in the training of personnel in environmental and resource protection. Additionally, the country programme will attempt to enlarge technical cooperation among developing nations, with particular emphasis on fostering the exchange of skills and knowledge among ASEAN and other Asian countries.

Table 1: RESOURCES AVAILABLE

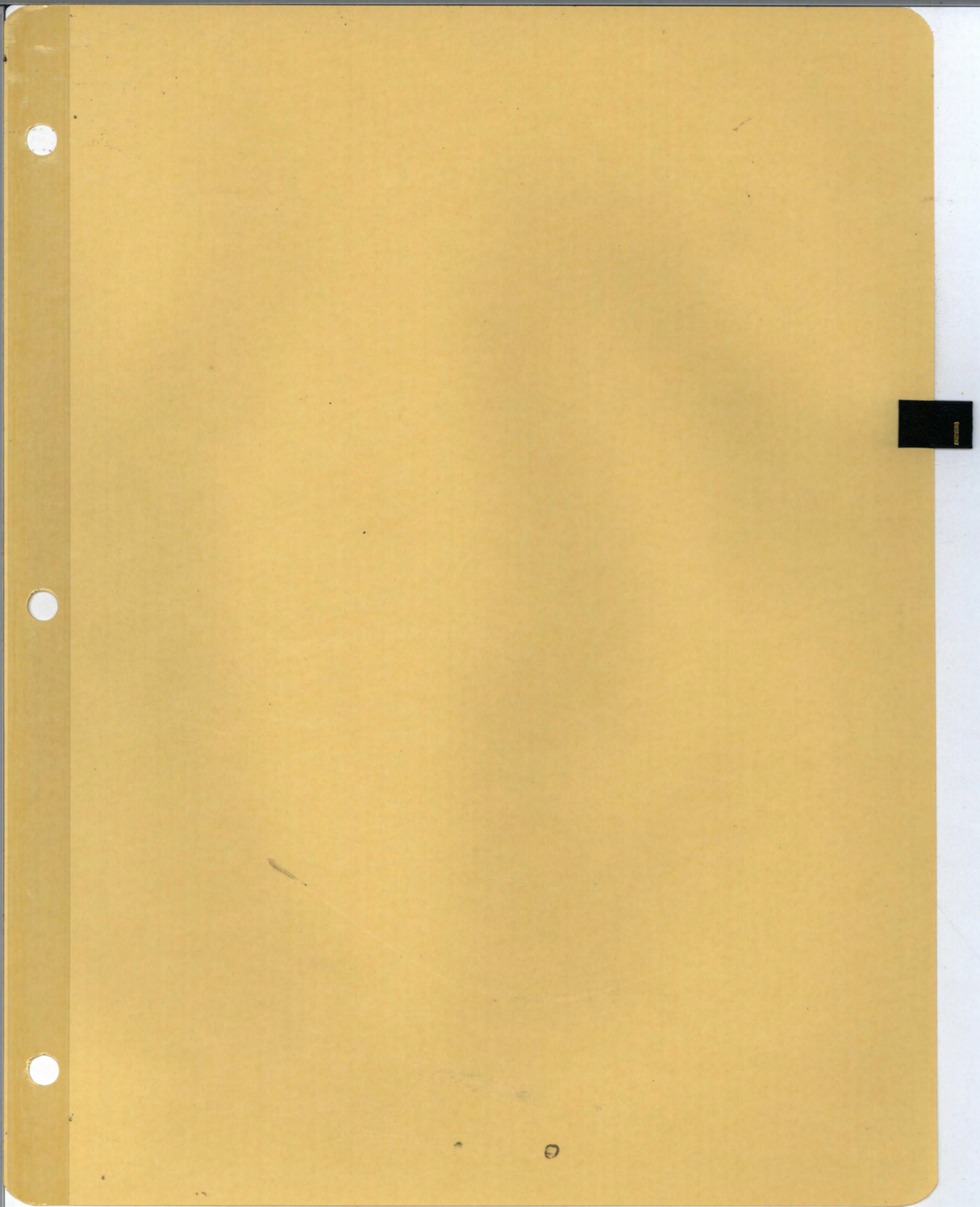
Programme period	IPF for 1979-1981
1979-1983	\$46.4 million /a IPF for 1982-1983
	\$27.8 million /b IPF resources for 1979-1983
<u>Total</u>	<u>\$74.2 million</u>

/a 1977-1981 IPF, minus 1972-1976 overexpenditure and minus 1977 and 1978 expenditures.

/b Estimates at one-fifth of 1977-1981 IPF for each year. While this figure is estimated for planning purposes it does not imply any commitment of resources by the governing council in the third cycle.

Table 2: SECTORAL BREAKDOWN OF PROGRAMME RESOURCES

Sector	On-going projects	New projects	Total	
	Value ('000)	Value ('000)	Value ('000)	Percent
Human resources and manpower	2,507	14,269	16,776	23
Agriculture, fisheries and forestry	1,021	13,000	14,021	19
Industrial development	2,934	7,250	10,184	14
Regional development	2,662	5,500	8,162	11
Science and technology	298	6,714	7,012	9
Rural infrastructure	1,384	4,460	5,844	8
Social services	60	2,950	3,010	4
Others	297	1,250	1,547	2
Reserve		7,644	7,644	10
<u>Total Programmed</u>	<u>11,163</u>	<u>63,037</u>	<u>74,200</u>	<u>100</u>





NEWS MEDIA IN INDONESIA

Some 180 dailies with a total circulation of about 2 million are published in Indonesia. The papers are concentrated in Jakarta where also papers with national circulations are published. Most papers are published in the principal language, Bahasa Indonesia. Newspapers are also published in English (Indonesia Times and the Indonesian Observer) and in Chinese. Circulations vary widely. The most popular newspapers, Kompas and Sinar Harapan, have circulations of 265,000 and 178,600 respectively. The majority are four-page publications printing only a few thousand copies. The Indonesian military authorities are also in the newspaper business. Angkaran Bersenjata and Berita Yudha are read by the public for the views of the army. The government party, Golkar, also has its own newspaper, Suara Karya. However, the most popular newspapers in the country are independent dailies.

Newspaper readers are to be found mostly among urban populations, which represent about 20% of the total population. Press coverage for the remaining 80% living in rural areas is severely hampered by material shortages, especially of printing plant and paper, and by the geographical configuration of the archipelago.

With traditions of control going back to colonial rule under the Dutch, Indonesian newspapers never had the freedom known to the papers of the West. In a recent campaign of journalistic ethics, the government has been successful in making the media accept a ban on reporting the trials of detained anti-government students in several towns in Java. Publications throughout the country have been publishing codes which say, for example, that an Indonesian journalist will not write a story which is "destructive," harms the state and the people, creates trouble, or hurts moral ethics, religion, or belief. Apparently pleased by the mass media's acceptance of the ban on reporting the trials of dissidents, the authorities regarded the Indonesian press as "gaining some maturity" in helping preserve the country's stability.

The government's instruments for controlling the press range from the allotment of newsprint to suspension of publishing permits. Yet independent newspapers keep a close watch on the government and print critical articles. In times of crisis, the government has not hesitated to use its power to stop publication of newspapers. The most recent example was in January 1978, when shortly before the presidential election, the government closed down for two weeks the nation's major newspapers for commenting on student demonstrations. When riots took place in Jakarta over the visit of Japanese Premier Kankuei Tanaka in January 1974, a dozen newspapers were closed by the government.

The condition under which the Indonesian press operates is best described by a prominent Indonesian editor who said, "There is no question, we walk a fine line. If we step over it, we get a telephone call. Then we pull back a bit for a month or so."

Foreign publications are censored. Pages are cut out or blackened to prevent critical stories from being read. At times, whole issues have been banned, as for example an international edition of Newsweek carrying a cover story entitled "Indonesia's Fading Hopes."

Bank news receive good coverage in the English-language press, in the Indonesia Times and the Indonesian Observer, but receive only fair coverage in the Indonesian-language press. Coverage of Bank news in the Indonesian press is generally factual, without any comment. However, criticisms of the Bank and the aid process have recently appeared in the papers owned by Mr. and Mrs. B. M. Diah.

*criticism  
of what?*

### Some Selected Newspapers

Kompas. Circulation: 265,000; editor: Jakob Oetama

This daily is the most widely read paper in the country. It is respected for its objectivity and its independent policy. Among its readers are the intellectuals of the country. The paper is Catholic-oriented.

Sinar Harapan. Circulation: 178,600; editor: Subagyo-Pr

An evening paper with a reputation similar to that of Kompas. It is Protestant-oriented.

Merdeka. Circulation: 130,000; editor: B.M. Diah

The paper is edited by the man who was supported by the government to lead the Indonesian Journalists' Association when it split in 1970. Yet, it was one of the papers suspended in January 1978. Mr. Diah has served as information minister in the early Suharto cabinet. His wife publishes the Indonesian Observer. Merdeka has a correspondent at the United Nations Headquarters.

Suara Karya. Circulation: 91,400; editor: D.H. Assegaf

The paper is owned by the government party, Golkar.

The Indonesia Times. Circulation: 35,000; chief editor: R. P. Hendro

The Indonesian Observer. Circulation: 30,000; editorial chairman:  
Mrs. Herawati Diah

These two papers are published in English and are read by the foreign community. In addition to official handouts, they reprint news stories and articles from foreign sources. They rely heavily on Antara and KNI for domestic and foreign news. There is little original reporting except from Jakarta. The Indonesia Times has reprinted entire chapters from the 1978 Annual Report and the World Development Report.

### News Agencies

Antara. The national news agency. Editor-in-Chief: Mohamad Chudori  
Established in 1937, Antara provides news, features, and photo services with a daily output of 50,000 words of local news in Indonesian and 20,000 words of foreign news in English.

It employs about 100 journalists at its head office in Jakarta and another 100 at its regional bureaus. It has news exchanges with major news agencies.

Kantorberita Nasional Indonesia (KNI). Editor-in-Chief: Drs. Somono Mustoffa

KNI is an independent, privately owned news service. It is associated with AP.

### Radio

Some 6 million radio receivers serve an audience of at least 60 million people in Indonesia. The government-owned Radio Republic Indonesia (RRI) has 48 broadcasting stations, each one linked to one of three regional networks located in Medan in Sumatra, Jogjakarta in Central Java, and Ujung Pandang in Sulawesi. In addition to the government-owned system, 169 privately owned radio stations were registered as of 1976, including stations owned by universities and religious and missionary organizations.

The official radio broadcasts on short-wave as well as medium-wave. An external broadcasting service, Voice of Indonesia, broadcasts in various languages to selected countries including the United States.

### Television

Televisi Republic Indonesia (TVRI), operating one channel only, provides the only television service in Indonesia. Two separate programs, one for the cities and the other for rural areas, are broadcast. Some observers believe that the dual programs are to prevent rural viewers from becoming aware of the gap in the standard of living between the cities and the countryside. Television audiences number 54 million in rural areas and 24 million in cities. Indonesia operates its own fixed-orbit satellites with signals picked up by ground stations in most of the bigger cities. The country is also served by Intelsat.

Television has grown rapidly. During the past five years, the number of television studios has increased from two to six--with 23 transmitting stations reaching a broadcast area of 212,000 square kilometers. During this year, the country will have three more studios and 17 more transmitting stations. The number of television sets in Indonesia increased from 135,000 in 1970 to 512,000 in 1976. Most black and white TV sets are assembled locally but color sets are imported.

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The following is the full text of the article on Transmigration published in the Asian Wall Street Journal of December 12, 1978.

POLICY RIFT WITHIN WORLD BANK THREATENS VAST INDONESIA PLAN  
BY RAPHAEL PURA

SPECIAL TO THE ASIAN WALL STREET JOURNAL

JAKARTA - ON AUG. 31 PRESIDENT SUHARTO SIGNED ONE OF THE LONGEST AND MOST DETAILED EXECUTIVE DECREES IN INDONESIAN HISTORY. THE DOCUMENT SET OUT IN UNUSUALLY EXPLICIT AND FORECEFUL TERMS THE ADMINISTRATIVE FRAMEWORK FOR A MULTI-BILLION DOLLAR PLAN TO MOVE 500,000 IMPOVERISHED FAMILIES OUT OF THE CROWDED ISLAND OF JAVA TO NEW SETTLEMENTS ACROSS THE INDONESIAN ARCHIPELAGO.

THE PLAN REPRESENTED A QUANTUM LEAP IN A TRANSMIGRATION PROGRAM THAT HAS BEEN MOVING FITFULLY IN INDONESIA FOR YEARS. IT WAS TO BECOME A TOP PRIORITY PROJECT IN THIS COUNTRY'S NEXT FIVE YEAR PLAN BEGINNING IN APRIL. IT IS PART OF A MAJOR EFFORT TO ATTACK THE COMBINED PROBLEMS OF POPULATION, FOOD, AND JOBS THAT PLAGUE INDONESIA'S ECONOMY. ON A SOLUTION TO THESE PROBLEMS, MANY BELIEVE, RESTS THE LONG-TERM STABILITY OF SOUTHEAST ASIA'S LARGEST AND MOST IMPORTANT NATION.

YET WITH THE INK HARDLY DRY ON MR. SUHARTO'S DECREE, A COMPLEX AND AT TIMES ACRIMONIOUS DEBATE IS HEATING UP BEHIND THE SCENES OVER INDONESIA'S BIG TRANSMIGRATION PROGRAM. OFFICIALS OF THE WORLD BANK - WHICH HAD INFORMED INDONESIA IT WAS PREPARED TO POUR AS MUCH AS \$1 BILLION INTO THE PLAN - CONCLUDED AT A CLOSED DOOR MEETING THAT INDONESIA WAS "COURTING DISASTER" BY PURSUING HASTLY CONCEIVED AND OVERLY AMBITIOUS PLANS FOR LAUNCHING THE PROJECT. MOREOVER, IN A WARNING CONVEYED TO THE GOVERNMENT IN OCTOBER, WORLD BANK OFFICIALS CAUTIONED THAT THE CREDIBILITY OF THE TRANSMIGRATION PROGRAM WOULD BE "SERIOUSLY THREATENED" IF IT WASN'T QUICKLY SCALED BACK.

THESE VIEWS ARE DIVIDING NOT ONLY THE WORLD BANK AND INDONESIAN OFFICIALS ON SOME POINTS—THEY ALSO ARE LEADING TO SPLITS WITHIN THE BANK ITSELF ON THE AGENCY'S COMMITMENT TO THE PROJECT. THE DEBATE IS PROVOKING ALLEGATIONS AT THE BANK THAT A "GO SLOW" POLICY IS THREATENING TO CRIPPLE THE PROGRAM AND UNDERMINE THE BANK'S OWN CREDIBILITY WITH THE INDONESIAN GOVERNMENT. CONVEIVABLY THE DEBATE COULD SET A VARIETY OF INDONESIAN GOVERNMENT AGENCIES SQUABBLING AMONG THEMSELVES.

SAYS ONE WORLD BANK AIDE : "I'VE NEVER SEEN A PROJECT OR A PROGRAM GENERATE SO MUCH HEAT AND EMOTION."

THE DEBATE CENTERS ON HOW INDONESIA OUGHT TO BE IMPLEMENTING ONE OF THE BIGGEST PROJECTS IN THE DEVELOPING WORLD, AND HOW THE WORLD BANK OUGHT TO BE HANDLING ITS OWN INVOLVEMENT IN PART OF THE PROGRAM. INDONESIA'S TRANSMIGRATION PROGRAM FOR THE NEXT FIVE YEARS WOULD BE ONE OF THE LARGEST OFFICIALLY SPONSORED RESETTLEMENT PLANS EVER ATTEMPTED IN ASIA — OR ANYWHERE. PRESIDENT SUHARTO HAS STAKED HIS PERSONAL PRESTIGE ON THE SUCCESS OF THE EFFORT, AND HIS PLANNERS HAVE TAGGED IT AS A KEY ELEMENT IN THEIR OVERALL PLANS TO CREATE JOBS AND INCREASE FOOD PRODUCTION. TRANSMIGRATION WOULD ACHIEVE THIS IN THEORY, BY MOVING UNEMPLOYED OR UNDEREMPLOYED JAVA RESIDENT TO UNPOPULATED AREAS, WHERE THEY WOULD SETTLE AND GROW FOOD.

#### CRITICAL FOR BANK

THE PROGRAM IS ALSO OF CRITICAL IMPORTANCE FOR THE WORLD BANK, AND FOR ITS CONTROVERSIAL PRESIDENT, ROBERT MCNAMARA, WHO HAS BEEN INSTRUMENTAL IN PUSHING FOR A MAJOR BANK ROLE IN TRANSMIGRATION IN INDONESIA. THE \$1 BILLION THE BANK HAS TOLD INDONESIA IT IS PREPARED TO PUT UP FOR TRANSMIGRATION IS AN ENORMOUS SUM, EVEN BY WORLD BANK STANDARDS. THE BANK RISKS CRITICISM AND EMBARRASSMENT SHOULD THE PLAN FALL SERIOUSLY SHORT OF EXPECTATIONS. AND THE APPARENTLY SPAKY START ON PREPARATION FOR IMPLEMENTING THE FIRST-YEAR GOALS OF THE PLAN IS SURFACING WHEN THE WORLD BANK IS MEETING INCREASING SKEPTICISM IN THE U.S. CONGRESS, A KEY DONOR TO THE BANK, OVER SOME OF ITS LENDING IN THE THIRD WORLD.

WATCHING THE DEBATE CLOSELY FROM THE SIDELINES ARE MANY DOMESTIC AND FOREIGN BUSINESSMEN WORKING IN INDONESIA AND HUNGERING FOR A SHARE IN THE HUNDREDS OF MILLIONS OF DOLLARS IN EXPENDITURES THE PROGRAM WOULD ENTAIL. BECAUSE MOST OF INDONESIA IS DENSE JUNGLE, THE PROGRAM COULD REQUIRE THE PURCHASE OF MORE THAN \$700 MILLION IN LAND-CLEARING EQUIPMENT ALONE. YET THE PROSPECT OF SUCH PURCHASES IS TOUCHING OFF A PROCUREMENT SCRAMBLE THAT IS MAKING SOME WORLD BANK OFFICIALS HIGHLY UNEASY — AN UNEASE THEY ARE COMMITTING TO PAPER IN CAUTIONARY MEMORANDUM.

ALL THIS COMING TO A HEAD AT A CRUCIAL TIME. AT THE MOMENT, THERE ARE SIGNS THAT QUALMS AT THE WORLD BANK MIGHT ALREADY BE TRIGGERING SIGNIFICANT CUTBACKS IN THE PROGRAM. ONE WORLD BANK AIDE, ROBERT SADOVE, WHO HAD WORKED ON THE TRANSMIGRATION PLAN FOR SOME TWO YEARS ONLY TO GET SHUNTED ASIDE BY THOSE ARGUING FOR CUTBACKS, HAS TAKEN THE CASE DIRECTLY TO MR. MCNAMARA. SENIOR OFFICIALS OF THE WORLD BANK ARE INSISTING THE BANK IS STILL PREPARED TO BACK A MAJOR PROGRAM, BUT MR. MCNAMARA, WHO WASN'T AVAILABLE FOR COMMENT, HASN'T YET MOVED IN TO SETTLE THE ARGUMENT, AT LEAST NOT PUBLICLY.

AN UPHILL BATTLE

HISTORY SUGGESTS THAT ANY TRANSMIGRATION PLAN IS GOING TO BE AN UPHILL BATTLE. EXPERIMENTS WITH TRANSMIGRATION DATING BACK TO THE BEGINNING OF THE CENTURY HAVEN'T GOTTEN VERY FAR. FROM 1905 TO 1977, LESS THAN A MILLION PEOPLE WERE MOVED OUT OF JAVA IN OFFICIAL TRANSMIGRATION PROGRAM, WHILE THE POPULATION INCREASED BY A STAGGERING 5 MILLION. IN INDONESIA'S SECOND FIVE-YEAR PLAN (NOW DRAWING TO A CLOSE), AN ORIGINAL TARGET OF 250,000 FAMILIES DUE TO BE TRANSFERRED FROM JAVA WAS SCALED DOWN TO 100,000. BUT IN THE FIRST FOUR YEAR OF THE PROGRAM, ONLY 54,000 FAMILIES HAD BEEN MOVED.

WITH A HOST OF BASIC ECONOMIC PROBLEMS CROWDING IN ON THEM, INDONESIA'S PLANNERS IN THE PAST FEW YEARS BEGAN TAKING A NEW LOOK AT WAYS TO STEP UP TRANSMIGRATION. AS ORIGINALLY CONCEIVED, THEIR NEW PLANS CALLED FOR SHARP INCREASES IN THE NUMBER OF FAMILIES TO BE RELOCATED AND THE AMOUNT OF NEW LAND OPENED AND CLEARED. THE SPEEDUP WOULD REALLY START IN THE FISCAL YEAR ENDING MARCH 31, 1980, DURING WHICH 50,000 FAMILIES WOULD BE MOVED TO SUMATRA, KALIMANTAN AND OTHER "OUTER ISLANDS", AT A COST OF BETWEEN \$4,000 AND \$5,000 A FAMILY. THE PACE WOULD BE PICKED UP LAST OF THE NEXT FIVE-YEAR PLAN, 150,000 FAMILIES WOULD BE MOVED.

SUCH A PROGRAM WOULD BE A COSTLY ONE - PARTLY BECAUSE OF THE AMOUNT OF LAND THAT WOULD HAVE TO BE CLEARED, AND THE DIFFICULTY OF THE TERRAIN. BY 1984, ABOUT 2.5 MILLION ACRES WOULD HAVE BEEN CLEARED. AT THE SAME TIME, MILLIONS OF DOLLARS WERE TO BE INVESTED IN ROADS, PORTS AND SUPPORTING SERVICES FOR THE TRANSMIGRATION COMMUNITIES. HERETOFORE, THE MOST LAND EVER OPENED IN ANY PREVIOUS YEAR FOR A TRANSMIGRATION PLAN WAS BETWEEN 100,000 AND 125,000 ACRES.

IN MAY 1974, THE WORLD BANK DECIDED IT WOULD LEND STRONG SUPPORT TO EXPANDED PROGRAM. IT HAD ALREADY APPROVED A \$30 MILLION LOAN FOR AN UPLAND TRANSMIGRATION PROJECT IN 1976. IN ITS MAY 1977 DECISION, THE BANK DECIDED TO SUPPORT AN EXPANDED PROGRAM IN THE FORM OF A SERIES OF LARGE LOANS TO BE PHASED IN OVER THE FIVE-YEAR PERIOD. THE BANK ATTACHED ONE IMPORTANT CAVEAT, HOWEVER. IT DECIDED, AFTER LENGTHY DISCUSSIONS, THAT THE BULK OF ITS LOANS SHOULD BE "AREA SPECIFIC" - DIRECTED AT INDIVIDUAL SITES, THE PREPARATION OF WHICH WOULD BE UNDER GUIDELINES THE BANK ITSELF COULD SET DOWN.

THIS STRATEGY TECHNICALLY SEPARATED THE BANK'S PROGRAMS FROM THE OVERALL PLAN THE INDONESIANS WERE WORKING ON. BUT THE AUTHORITY OF THE INTERNATIONAL AGENCY AND THE EXTENT OF ITS PROMISED COMMITMENT HAS SINCE LENT HEAVY INFLUENCE TO ITS VIEWS ON THE OVERALL PROGRAM. AND ALTHOUGH ITS PROJECT WERE SPECIFIC THEY STILL INVOLVED ENORMOUS AMOUNTS OF MONEY. THE FIRST OF THE LOANS THE WORLD BANK CONSIDERED INVOLVED MORE THAN \$200 MILLION FOR THE RESETTLEMENT OF ABOUT 42,000 FAMILIES.

BY APRIL 1978, MOMENTUM WAS PICKING UP BEHIND THE TRANSMIGRATION PROGRAM. THAT MONTH, PRESIDENT SUHARTO CALLED IN HIS CABINET AND TOLD THAT TRANSMIGRATION WAS TO BE A TOP PRIORITY IN THE COUNTRY'S NEXT DEVELOPMENT PLAN. HE REAFFIRMED A COMMITMENT TO MOVE THE 500,000 FAMILIES, AND TOLD HIS MINISTERS TO GET ON WITH THE JOB. BY EARLY SUMMER, INDONESIA'S PUBLIC WORKS DEPARTMENT BEGAN FIGURING OUT TECHNICAL APPROACHES FOR PREPARATION OF THE SITES. A JUNIOR MINISTER WAS NAMED SPECIFICALLY TO WATCH OVER TRANSMIGRATION. WORKING WITH SUCH WORLD BANK OFFICIALS AS MR. SADOVE - WHO WAS PART OF A SPECIAL LAND SETTLEMENT TRANSMIGRATION UNIT THAT THE WORLD BANK HAD SET UP MAINLY TO DEAL WITH THE INDONESIAN PROGRAM - INDONESIAN OFFICIALS KNITTED TOGETHER AN ORGANIZATIONAL ARRANGEMENT TO IMPLEMENT THE VASTLY EXPANDED PROGRAM THAT WAS TO BE OUTLINED IN THE COMING PRESIDENTIAL DECREE.

BUT EVEN AS THE OFFICIALS WORKED, SIGNS WERE GROWING THAT PLANS FOR A FAST TAKEOFF IN 1979 WERE UNRAVELLING. DOUBTS CENTERED ON A NUMBER OF QUESTIONS. THERE WAS DEBATE ON WHAT AMOUNT OF LAND CLEARING AND SITE PREPARATION WOULD BE NECESSARY FOR A GREATLY STEPPED UP PROGRAM. THE TYPES, AMOUNTS AND MEANS BY WHICH EQUIPMENT SHOULD BE PROCURED WERE ARGUED WITHIN THE BANK AND THE GOVERNMENT. AT THE SAME TIME, SOME WORLD BANK STAFFERS, INCLUDING OFFICIALS IN THE BANK'S EAST ASIA AND PACIFIC REGIONAL DIVISION, AND THE NEWLY APPOINTED REGIONAL PROJECTS ASSISTANT DIRECTOR. A. GOLAN, HAD BEGUN TO DOUBT JAKARTA'S ABILITY TO BACK UP LAND CLEARING WITH ESSENTIAL SUPPORT SERVICES.

CONCERN DEEPENED WHEN, WITHOUT CONSULTING OTHER GOVERNMENT DEPARTMENTS OR THE NATIONAL PLANNING AGENCY, THE PUBLIC WORKS DEPARTMENT IN AUGUST CALLED FOR BIDS FROM LOCAL CONTRACTORS FOR PREPARATION OF 29 TRANSMIGRATION SITES IN THE FISCAL YEAR ENDING IN MARCH 1980. THE DEPARTMENT TOLD CONTRACTORS AND EQUIPMENT SUPPLIERS THAT THEIR FIRST YEAR PROGRAM WOULD INVOLVE CLEARING ABOUT 375,000 ACRES, FOR WHICH MILLIONS OF DOLLARS OF HEAVY EQUIPMENT WOULD BE REQUIRED.

THE PUBLIC WORKS DEPARTMENT'S HASTY EFFORT TO GET THE PROGRAM UNDERWAY DISCLOSED AN APPARENT LACK OF COORDINATION AND A CERTAIN AMOUNT OF CONFUSION AMONG GOVERNMENT AGENCIES. ALTHOUGH THE SITES PUT OUT FOR BIDS DIDN'T INCLUDE THOSE TO BE FINANCED BY DIRECT WORLD BANK LENDING, THE MOVE DISMAYED SOME SENIOR WORLD BANK OFFICIALS. DESPITE THE CONCERN THAT WAS STARTING TO BUILD, PRESIDENT SUHARTO ON AUG 31 SIGNED THE BIG TRANSMIGRATION DECREE - A DOCUMENT THAT ONE WORLD BANK OFFICIAL, ROBERT SADOVE, REGARDS AS "REVOLUTIONARY" IN ITS SCOPE AND DETAIL.

NO SOONER WAS THE DECREE SIGNED, HOWEVER, THEN THE DOUBTS ERUPTED IN INFIGHTING WITHIN THE WORLD BANK. MR. SADOVE, A PRO- PONENT OF A SHARPLY EXPANDED TRANSMIGRATION PROGRAM, HAD LEFT JAKARTA IN JULY AND TAKEN A VACATION DURING AUGUST. WHEN HE RETURNED TO WORLD BANK HEADQUARTERS, HE WAS MET WITH SOME BLUNT NEWS. AS MR. SADOVE LATER RECORDED THE STORY IN INTERNAL WORLD BANK MEMORANDUM, HE WAS INFORMED ON SEPT. 15 BY S. S. HUSAIN, A WORLD BANK REGIONAL VICE PRESIDENT WHO'S TERRITORY INCLUDES INDONESIA, AND BY S. S. KIRMANI, MR. HUSAIN'S PROJECT DIRECTOR, THAT HIS SERVICES WERE NO LONGER NEEDED ON THE TRANSMIGRATION PROGRAM. MR. SADOVE SAID HE WAS INFORMED THAT HE WAS BEING REMOVED FROM THE PROGRAM BECAUSE OF A CLASH OF PERSONALITIES. BUT HE LATER SUGGESTED HE WAS REALLY REMOVED BECAUSE OF A POLICY CLASH. RATHER THAN FIGHT. MR. SADOVE DECIDED TO ENTER THE HOSPITAL FOR MAJOR SURGERY HE WOULD HAVE TO UNDERGO AT A TIME OF HIS CHOOSING WITHIN ABOUT A YEAR.

ON OCT. 4, HOWEVER, KEY WORLD BANK OFFICIALS INVOLVED WITH INDONESIA'S TRANSMIGRATION PROGRAM GATHERED FOR A MEETING. PRESENT WERE MESSRS. HUSAIN AND KIRMANI, JEAN BANETH, WHO HEADS THE BANK'S MISSION AT JAKARTA, MR. GOLAN, WHO WORKS FOR MR. KIRMANI, AND R. D. STERN, ANOTHER BANK AIDE. THE GROUP MET TO "DISCUSS RECENT DEVELOPMENTS" ON THE TRANSMIGRATION PLAN, ACCORDING TO A MEMORANDUM OF THE MEETING MADE BY MR. STERN. IT IS CLEAR FROM THE MAMORANDUM, THAT THE RECENT DEVELOPMENTS WERE HIGHLY ALARMING, AT LEAST TO THE MIDDLE-LEVEL BANK OFFICIALS AT THE MEETING.



ACCORDING TO THE MEMORANDUM, THE GROUP HAD TWO KEY CONCERNS:

- INDONESIA'S PLANS TO AWARD CONTRACTS FOR CLEARING 375,000 ACRES IN 1979. "SERIOUS RESERVATIONS HAD BEEN RAISED BY THE BANK WITH REGARD TO THE ADVISABILITY AND ACCEPTABILITY OF THE PROCUREMENT PROCEDURES PROPOSED," THE MEMO SAID. AMONG THE RESERVATIONS WAS THAT THE BANK SAW AS A "LACK OF SUITABLY QUALIFIED LOCAL CONTRACTORS" SEMICOLON ITS BELIEF THAT BID DOCUMENTS "WERE LOOSELY DRAFTED" SEMICOLON THE CONTINUING QUESTIONS OVER THE BEST WAY TO CLEAR LAND SEMICOLON THE PROSPECT THAT THE ABSENCE OF INTERNATIONAL COMPETITIVE BIDDING "RAISED POTENTIAL DIFFICULTIES FOR CONTRACTS FOR WHICH BANK FINANCING MAY ULTIMATELY BE SOUGHT" SEMICOLON AND THE PROSPECT THAT THE SIZE OF THE POTENTIAL CONTRACT AWARDS WOULD COMMIT THE INDONESIAN GOVERNMENT TO A RATE OF RESETTLEMENT THAT COULDN'T BE SUSTAINED BY THE PRESENT MILITARY SERVICES.

- THE "UNDUE HASTE" WITH WHICH THE SUHARTO GOVERNMENT APPEARED TO BE EMBARKING ON THE NEXT PHASE OF THE TRANSMIGRATION PROGRAM. IT CALLED THE PLANS FOR QUO "VERY WORRISOME" BECAUSE IF IT COULD BE PHYSICALLY ACCOMPLISHED, "THE SUPPORTING SERVICES "WEREN'T LIKELY TO BE FORTHCOMING, GIVEN THE PRESENT INSTITUTIONAL WEAKNESSES." INDONESIA, THE BANK OFFICIALS SAID, "WAS THUS COURTING DISASTER BY PROCEEDING AT THE PLANNED RATE." IT WAS IMPORTANT, THEY FELT, "THAT THE BANK CONTINUE TO URGE THE GOVERNMENT OF INDONESIA TO PROCEED CAREFULLY AND CAUTIOUSLY."

AT THE MEETING, THE BANK OFFICIALS AGREED THAT A SIGNIFICANTLY REDUCED TARGET OF FAMILIES TO BE RESETTLED DURING THE FIRST YEAR - 350,000 FAMILIES - WAS "PRUDENT." AND IT RECOMMENDED A LAND CLEARING TARGET OF ABOUT 175,000 ACRES IN 1979, ONLY SLIGHTLY MORE THAN HALF OF WHAT THE INDONESIANS WERE SHOOTING FOR. THE GROUP AGREED THAT INTERNATIONAL COMPETITIVE BIDDING FOR LAND CLEARING WOULD BE REQUIRED ON BANK-SUPPORTED TRANSMIGRATION PROJECTS. THE MEMO SAID THERE WAS "NO WAY THAT EXEMPTIONS TO STANDARD BANK PROCUREMENT PROCEDURES FOR CONTRACTS OF THIS SIZE COULD BE MADE OR JUSTIFIED." THE ITALICS WERE IN THE BANK'S MEMO.

"IT WAS DECIDED, " THE LAST PARAGRAPH OF THE MEMO NOTED " THAT THE BANK'S CONCERNS .. SHOULD BE COMMUNICATED TO THE GOVERNMENT OF INDONESIA." THE OFFICIALS FELT INDONESIA SHOULD BE "REASSURED WITH REGARDS TO THE BANK'S COMMITMENT TO THE PROGRAM." THE MEMO ALSO NOTED THA "BANK STOOD READY TO COMMIT ABOUT B1 BILLION OVER THE NEXT FIVE YEARS" TO THE SETTLEMENT PROGRAMS. IT SAID "NEITHER BANK STAFF CONSTRAINTS NOR BANK FUFDS WOULD LIMIT BANK INVOLVEMENT WITH THESE PROJECTS." INSTEAD, "INDONESIA'S CAPACITY TO PLAN AND IMPLEMENT SOUNDLY CONCEIVED TRANSMIGRATION PROGRAMS WOULD BE THE CONSTRAINT." IF INDONESIA "PROCEEDED WITH ITS PRESENT PLANS," THE MEMO CONCLUDED, "ITS CREDIBILITY WOULD BE SERIOUSLY THREATENED."

THESE CONCERNS WERE REFLECTED IN A LATER INTERNAL WORLD BANK DOCUMENT - A MEMORANDUM TO MR. BANETH, THE SENIOR BANK OFFICIAL IN JAKARTA, FROM ONE OF HIS DEPUTIES, ALTAF HUSSAIN. MR. HUSSAIN STATED FLATLY THAT THE CURRENT INDONESIAN TARGET OF 500,000 FAMILIES TO BE RESETTLED IN THE FIVE YEARS ENDING MARCH 31, 1984, "IS UNREALISTIC." ONE STAGGERING STATISTIC IN MR. HUSSAIN'S MEMO : IN ONE SIX MONTH PERIOD DURING THE FINAL YEAR OF THE PROGRAM, THE TOTAL AMOUNT OF LAND THAT WOULD HAVE TO BE CLEARED WOULD REQUIRE THE USE OF LAND CLEARING AND ROAD EQUIPMENT COSTING B715 MILLION, WOULD NEED 7,500 OPERATORS WORKING 12-HOUR SHIFTS, 2,000 SERVICE PERSONNEL AND 23,000 DRIVERS.

IN ANY EVENT, IT WAS THE DECISION TO INFORM THE INDONESIAN GOVERNMENT OF THE BANK'S CONCERNS TTAT MOST ALARMED MR. SADOVE, THE WORLD BANK OFFICIAL WHO'D BEEN DROPPED FROM THE PROGRAM AND WAS ABOUT TO ENTER THE HOSPITAL. ON NOV. 3, HE TOOK HIS CONCERNS OVER THE HEADS OF HIS IMMEDIATE COLLEAGUES. IN A PRIVATE MEMORANDUM TO MR. MCNAMARA, MR. SADOVE EXPRESSED HIS STRONG DISAGREEMENT WITH THE TREND IN THE OTHER STAFFERS' THINKING. HE CALLED THEIR POSITION A "GO SLOW" POLICY" THAT "CONSTITUTES IN MY OPINION, A MAJOR CHANGE IN BANK POLICY REGARDING TRANSMIGRATION." HE MAINTAINED THAT A CONSENSUS THAT HAD BEEN ACHIEVED AT THE TOP LEVELS OF GOVERNMENT IN JULY 1978 " IS APPARENTLY BEING WEAKENED AT THE ADVISE OF THE BANK." HE ARGUED THAT THE REDUCED PROGRAM WOULD RESULT IN HIGHER UNIT COSTS THAT WOULD "SERIOUSLY JEOPARDIZE TRANSMIGRATION'S POTENTIAL." HE EXPRESSED THE OPINION THAT THE INDONESIAN GOVERNMENT "MUST BY NOW BE THOROUGHLY CONFUSED AS TO WHAT BANK POLICY IS" ON THE SUBJECT. AND HE ASKED MR. MCNAMARA PERSONALLY TO RECONFIRM TO THE INDONESIANS THE STRONG SUPPORT MR. MCNAMARA HAD GIVEN TO THE PROGRAM IN THE PAST.

SOME BANK STAFFERS CONTEND THAT TARGETS AND NUMBERS AREN'T PARTICULARLY IMPORTANT IN JUDGING THE TRANSMIGRATION PROGRAM, AS LONG AS THE COMMITMENT TO A GREATLY INCREASED PLAN REMAINS. "WHETHER WE REACH (TARGETS) IN 1983 OR 1985, I DON'T THINK REALLY MATTERS," SAYS MR. BANETH. "WHAT WE SHOULD NOTE IS THE COMMITMENT TO A TARGET." BUT OTHERS ARE WARNING DOWN OF THE TARGET THEMSELVES AMOUNTS TO A MAJOR CHANGE IN POLICY, ONE THAT WILL BE FELT IN INDONESIA FOR MANY YEARS TO COME.

WHAT, IF ANYTHING, MR. MCNAMARA HAS DONE OR WILL DO ISN'T CLEAR. ERNEST STERN, THE BANK'S VICE PRESIDENT FOR PROJECTS, WAS ASKED BY MR. MCNAMARA TO LOOK INTO THE SUBJECT. BUT HE SAID HE DIDN'T FEEL NEWSPAPER INQUIRIES ON THE MATTER WERE IMPORTANT ENOUGH TO BRING TO MR. MCNAMARA'S ATTENTION AT A TIME WHEN THE WORLD BANK PRESIDENT WAS OUT OF TOWN. MR. STERN AND OTHER SENIOR AIDES OF THE BANK, HOWEVER, ARGUE THAT THE DIFFERENCES WITHIN THE BANK ARE BEING BLOWN OUT OF PROPORTION.

THE DIFFERENCES THAT WERE RAISED, MR. STERN SAYS, "AREN'T DIFFERENCES OF POLICY, BUT DIFFERENCES OF JUDGEMENT AND APPLICATION." HE SAYS: "AS FAR AS I'

M CONCERNED, WE HAVE NO DIFFERENCES WITH THE INDONESIAN GOVERNMENT AS FAR AS THE PRIORITY OF THIS PROGRAM IS CONCERNED AND WE ARE PREPARED TO MOVE AS RAPIDLY AS IS PRACTICAL TO DO." SIMILARLY, MR. BANETH SAYS AN "ACRIMONIOUS DISPUTE" HAS BEEN TRIGGERED OVER RELATIVELY MINOR ISSUES. HE INSISTS THE BANK IS "STILL MARCHING ALONG THE SAME ROAD .. IT MIGHT LURCH FROM SIDE TO SIDE, BUT IT ISN'T CHANGING DIRECTION." HE SAYS MR. MCNAMARA WOULD "LET US KNOW IN NO UNCERTAIN TERMS IF WE DEVIATED FROM ACCEPTED POLICY." AND HE SAYS NO SUCH WORD HAS COME DOWN FROM THE BANK'S PRESIDENT.

NONETHELESS, REGIONAL OFFICIALS OF THE BANK - THROUGH MESSRS BANETH AND GOLAN - CONVEYED THEIR RESERVATIONS AND SUGGESTIONS TO JAKARTA. CONVEYING THEIR WARNING TO THE GOVERNMENT IN OCTOBER, THE BANK OFFICIALS CAUTIONED THAT THE CREDIBILITY OF THE TRANSMIGRATION PROGRAM WOULD BE "SERIOUSLY THREATENED" IF FIRST-YEAR TARGETS WEREN'T SCALLED BACK.

EXACTLY HOW INDONESIA IS RECEIVING THE WORLD BANK PRESSURE ISN'T CLEAR. THERE ARE SIGNS THAT SOME OFFICIALS ARE PERPLEXED BY THE SHIFT IN ATTITUDES, AND AT LEAST ONE SENIOR OFFICIAL WAS REPORTEDLY DISMAYED WHEN WORD OF THE CHANGES WERE CONVEYED TO HIM. IN ANY EVENT, THERE ARE CURRENTLY SIGNS THAT THE MESSAGE IS HAVING AN EFFECT. IN OCTOBER, PUBLIC WORKS MINISTER POERNOMOSIDI HADJISAROSO ANNOUNCED THAT LAND CLEARING CONTRACTS FOR JUST 16 OF THE 29 SITES TENDERED IN AUGUST WOULD BE AWARDED AND THE WORK WOULD BEGIN ON ONLY 13 OF THESE SITES NEXT YEAR. ALTHOUGH PUBLIC WORKS DEPARTMENT OFFICIALS DIDN'T EMPHASIZE THE POINT, THE CHANGE AMOUNTED TO A DE FACTO 50-0/0 REDUCTION IN AREA TO BE PREPARED FOR TRANSMIGRANTS IN THE FIRST YEAR OF PROGRAM TO ABOUT 175,000 ACRES, THE ROUGH RECOMMENDATION OF WORLD BANK OFFICIALS. IF ALSO IMPLIED A MAJOR REDUCTION IN THE NUMBER OF FAMILIES TO BE MOVED.

IN LATE NOVEMBER, MR. POERNOMOSIDI TOLD A SEMINAR FOR CONTRACTORS THAT PRESIDENT SUHARTO HAD "INSTRUCTED" THAT THE AMOUNT OF LAND TO BE CLEARED PER FAMILY BE REDUCED FROM 5.6 ACRES A FAMILY TO 3.1 ACRES. ALTHOUGH THE IMPACT OF THE MOVE ISN'T CLEAR, OBSERVERS SAY IT COULD MEAN THAT THE LAND PREPARATION TARGET FOR NEXT YEAR MIGHTN'T BE MUCH IN EXCESS OF THOSE IN PREVIOUS - AND DISAPPOINTING - TRANSMIGRATION PLANS. WORLD BANK INFLUENCE IN THE DECISION ISN'T CLEAR. BANK STAFFERS SAY THEY KNEW NOTHING OF THE DECISION TO REDUCE THE AMOUNT OF LAND TO BE CLEARED PER FAMILY, FOR EXAMPLE, AND OTHERS POINT OUT THAT GOVERNMENT DEPARTMENTS WITHIN INDONESIA HAVE THEIR OWN "GO SLOW" AND "GO FAST" PROPONENTS.

# ASIAN WALL STREET JOURNAL.

Distributed Throughout Asia FRIDAY, MARCH 9, 1979

## Economic Planners in Indonesia Facing Formidable Task

By RAPHAEL PURA

Special to THE ASIAN WALL STREET JOURNAL

JAKARTA - Indonesia faces "enormous problems" in reducing poverty and providing jobs, food and other basic necessities for its people, the World Bank warns in a major new study.

The extent of the economic and political challenges it outlines points to serious tests for President Suharto's planners during the third five-year plan, known as Repelita III, which begins next month. The most significant factor is that Indonesia failed to come to grips with these problems during the past decade of high-speed economic growth and now must operate in the context of slowing growth and stagnating oil revenues that will squeeze public resources.

The confidential study, circulated last month to aid-donor members of the 14-country Intergovernmental Group on Indonesia, is the bank's first extensive review of Indonesia's development record and prospects since 1975. It will be the centerpiece of the aid group's review meeting in Amsterdam next month.

A copy of the report was obtained by The Asian Wall Street Journal.

The central theme of the study is the need for "a long-term, employment-oriented development strategy." To meet this and other demands will involve a "massive" increase in domestic resource mobilization, greatly increased foreign and domestic private investment, steadily expanding foreign commercial borrowing, and a continuing flow of billions of dollars in aid from Japan and the West through the 1980s, the report said.

### Recommended Policies

The report specifically recommended the adoption of policies to:

- Accelerate government investment in employment creation and de-emphasize public spending on capital-intensive projects. The report said Jakarta will have to find work for about 1.45 million persons entering the work force every year, a task that means 36 million jobs must be created by the end of the century.

- Vigorously promote labor-intensive, export-oriented industry. The report said Indonesia should aim at increasing manufactured exports - currently negligible - at least 20% a year during the 1980s. It said changes in tariff structures and industrial incentives were necessary to achieve this.

- Improve administration both for public

policy implementation and for private investment. The bank said Indonesia must reduce "bottlenecks" and corruption and provide better institutional services to underpin investment in industry and agriculture, especially in rural areas.

- Step up mobilization of domestic resources by increasing personal and corporate

tax collection, rationalizing pricing policies of state enterprises and gradually eliminating subsidies, including those for domestic fuel.

- Lift agricultural production. The bank said Indonesia needs a food production and consumption strategy that would de-emphasize rice consumption, promote secondary food crops, improve agricultural research and irrigation, and open new dry land areas for settlement.

The World Bank noted that the policy is-

past decade will not be repeated," the bank said.

The report did note that slower population growth had "significantly enhanced" Indonesia's long-term development prospects. The bank also credited Indonesia's oil-powered rapid growth in the 1970s with contributing "considerably" to real growth in employment and in consumption, even for the "very poor." It said that "progress has been made in raising the level of material well-

being of the bulk of the population". But the report added that despite such gains, "income and wealth disparities haven't narrowed."

In tackling the problems, the bank said that public resources will be crimped primarily because of anticipated stagnation in oil tax revenues. The bank added that net resource transfers in capital and goods from abroad also are likely to be "much lower" than in the past five years.

### Tough Challenges

The pressure to do more with less will present tough challenges to economic planners here. Coping with conflicting demands is likely to mean tradeoffs that could have important political dimensions for the Suharto government.

For example, the bank report indicated that Indonesia might do well to postpone or cancel expensive capital-intensive projects such as a planned new international airport for Jakarta, an alumina plant on Bintan island, oil refineries at Dumai and Batam island and other large ventures unless they can be financed outside the government's budget. Most of these ventures have been supported by one or more senior officials or by Mr. Suharto himself.

The bank's call for an end to domestic fuel

Please Turn to Page 10, Column 1

**"Progress has been made in raising the level of material well-being of the bulk of the population," the World Bank report said. But it added that despite such gains, "income and wealth disparities haven't narrowed."**

# World Bank Says Indonesian Planners Are Facing 'Enormous Problems' in Providing Jobs and Food

*Continued From First Page*

subsidies similarly may rankle some senior military officials who fear lifting them could cause political unrest. Recommendations for stepped-up taxation of the rich and for de-emphasis of assembly-oriented manufacturing also would have political fallout.

But the bank insisted that "difficult choices" must be made between projects and programs "competing for the same limited resources."

## Administrative Obstacles

The bank said that for the moment, administrative inefficiencies and obstacles "may be the single most important constraint on the acceleration of development." The bank said Jakarta's civil service was "still weak" relative to the size of the job it must undertake. The report noted an "acute shortage" of skilled managers and technicians in every government department and agency. It said that lack of coordination between departments was a "major problem" exacerbated by highly centralized decision making.

The bank said that with "top-down" management, senior officials were "overburdened" and "often buried deep in the minutiae of growth tactics."

The report added that corruption, high license fees, port and customs delays and other "bottlenecks" added to costs that hurt business and the economy.

The report also said that industrial development was distorted by tax and tariff structures that encouraged final-stage assembly over basic and intermediate manufacturing and capital-intensive methods over labor-intensive ones.

Much needs to be done to make the bureaucracy more responsive to the needs of the economy, the bank said. "An unresponsive bureaucracy adds to costs of production and retards development in many different ways."

The bank called for Indonesia to restructure tariff and investment tax incentive systems.

Subsidies, especially for oil products, also were distorting the economy, the bank argued. It calculated that in the current fiscal year the "real economic" cost of supporting local fuel prices was about \$1.1 billion, or more than 2% of GNP.

Government enterprises are also undervaluing electricity, road, rail and water transport, the bank said.

The bank, arguing that the budgetary and hidden subsidies don't always reach "the lowest groups" anyway, said that they should gradually be reduced and eventually eliminated.

The bank gave industrialization the key role in spurring the pace of Indonesian development and in combatting poverty. "Poverty elimination in Indonesia and sustainable rapid development are becoming increasingly dependent on the rate and quality of industrialization," the bank said.

## Host of Problems

But the bank found a host of problems in the current industrial pattern. "The decline in the industrial growth rate, the lack of export orientation, the stagnation of private investment, geographical imbalances in industrial development and the concentration of new investment in capital-intensive units and final stage processing of luxury goods for domestic consumption are all matters of serious concern," the bank said.

To fuel economic growth, Indonesia needs to aim at rapid labor-intensive industrialization with value added manufacturing growing at least 15% annually.

The bank conceded that its industrialization plan was a "tall order" that would need a "strong political commitment" to fulfill.

The bank forecast increasing imports of basic foods, including rice, wheat, sugar, vegetable oils and possibly maize through the 1980s.

The bank said Indonesia "urgently" needed a food production and consumption strategy that emphasized secondary crops, increased irrigation, research and other agricultural inputs. It warned that unless rice consumption slowed, imports of the grain would "exceed acceptable levels" through 1985.

"The consequence of rice deficits of the projected magnitude (two million to three million metric tons a year) — apart from considerable strains on the balance of payments — would be a worrisome lack of food security and dependence on the thin and volatile international rice market," the bank said.

Constraints on government resources mean a "massive increase" in local and

foreign private investment is needed, the bank said. The public sector currently supplies about 65% of funds for investment, but the bank saw the government's proportional contribution shrinking steadily during Repelita III.

To pay its development bills, Indonesia must find new sources of domestic revenues at a time its vital oil sector can't be counted on to contribute as it had in the 1970s. The bank said that if no "positive fiscal policy action" to raise new revenues is taken, growth in public sector allocations may be so slow as to threaten new development schemes or even cut back existing services.

The bank said Indonesia's oil earnings will come increasingly from higher-cost offshore and secondary recovery production, reducing the government's tax take. It said that a "continuous large scale exploration" effort is necessary to prevent a running down of reserves.

The bank said mineral and agricultural export prospects are only "modest."

It added that recent trends in private sector investment have been "lackluster."

## Lifting Public Revenues

The bank recommended a number of policies to lift public revenues. The eventual elimination of domestic fuel subsidies could save billions of dollars for the government during Repelita III, the bank said.

The bank acknowledged that doing so would "pose severe social and political problems" and exert strong inflationary pressure on the economy. But it maintained that the move was "a tolerable price to pay for what would amount to a very significant national saving effort."

The World Bank also called for increased nonoil tax collection efforts. It said nonoil taxes must rise 7.5% a year if government growth targets are to be met. The bank said there was "significant scope" for increased personal and corporate income tax.

The bank said most state enterprises pay no tax at all. It said the rich could be taxed more heavily, especially on land and urban property, where a "wide gap" exists between actual and potential receipts.

One area, however, doesn't offer much hope for increased resource generation. The bank said that net resource transfers from abroad would shrink during Repelita III, although commercial borrowing and aid flows would increase in absolute terms. It projected a net capital inflow of about \$4 billion through fiscal 1983-84, or about 1% of Indonesia's GNP during the period. This is down from a net inflow of \$5.3 billion or 3% of GNP during Repelita II.

The net decline in net resource transfers reflects the growing size of Indonesian debt repayment during the period.

9 MARCH 1979

## Indonesia Is Seen Needing More Loans, Aid for Development

Special to THE ASIAN WALL STREET JOURNAL

JAKARTA — Indonesia will need higher aid commitments and increased commercial borrowing to fund development programs, the World Bank said.

In its basic economic report on Indonesia, the bank recommends outlays of \$11.5 billion in soft credit and grants from its own coffers. Intergovernmental Group on Indonesia donor countries and other international lending agencies during Indonesia's third development plan, Repelita III.

The bank also projects that new commercial borrowing by Jakarta could "prudently" rise from \$750 million last year to \$2 billion in 1986 and \$3 billion by 1990.

Total lending to Indonesia — soft term and commercial — could raise Jakarta's outstanding external debt to \$38 billion by 1990 from \$11.4 billion at the end of 1977, the bank said.

The projections and recommendations in the report will be discussed next month in Amsterdam by IGGI countries, which support Indonesia with concessional loans and grants. The bank's recommendations normally are accepted by the group as the yearly lending target.

For fiscal 1979-80, the World Bank said Indonesia intends to lift commercial borrowing to \$850 million from \$750 million this year. The bank recommended that soft credits — known as Official Development Assistance — climb to \$1.925 billion in 1979-80 from \$1.75 billion this year.

Of the ODA contribution, multilateral agencies such as the World Bank and the Asian Development Bank are expected to provide almost \$1 billion, while IGGI members are to provide about \$950 million.

Although the amount represents an increase in dollar terms, the World Bank said that with exchange rate changes and price changes the total would be about the "equivalent" of this year's contribution.

On commercial credits, the World Bank projected increases in borrowing by Indonesia of 12% a year, reaching \$3 billion by 1990. The bank said that such borrowing was "consistent with prudent external debt management." Under the projection, Jakarta's debt service ratio would range between 17% and 18% of export earnings through the 1980s. Many economic analysts, including Indonesian planners, consider a debt service ratio of 20% to signal the upper limit for prudent debt management.

The bank said that projected borrowing levels would allow Jakarta a "comfortable" foreign exchange reserve buffer capable of financing about four months imports through the coming decade.

The bank said that worries about a looming balance of payments problem have receded with the devaluation of the rupiah last November. The devaluation is expected to slow the growth of imports, at least temporarily, and to boost exports over the longer run.

The bank projected a payments surplus averaging about \$600 million a year through 1990 and a comfortable level of foreign reserves.

But it cautioned that its forecast is dependent on oil and liquefied natural gas earnings projections. A shortfall in these categories occurring after the mid-1980s could cause balance of payments problems, the bank noted.

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# What's News

THE CHRISTIAN SCIENCE MONITOR  
 ASIAN WALL STREET JOURNAL

## Business and Finance

**INDONESIA'S RAPID GROWTH** during the 1971-76 period brought some real gains to the country's millions of poor people but not enough to make a dent in the problems of shrinking farm employment opportunities and widening consumption and income gaps. In a still unreleased report, World Bank researchers found that the country's urban population made greater gains than those in rural areas.

(Story on Page 1)

# Indonesia's Economic Spurt of 1971-76 Left Troubles Unsolved, World Bank Finds

By RAPHAEL PURA

Special to THE ASIAN WALL STREET JOURNAL

JAKARTA — For the better part of a decade, social scientists, aid officials and political analysts concerned with Indonesia have debated a basic question: Has rapid economic growth in the 1970s brought real gains to this country's tens of millions of poor people?

In large measure it has been a debate waged in an information vacuum, argued with fragments of field research, scraps of statistical data of unknown reliability and seat-of-the-pants observations comparing present conditions with those in the days of Sukarno.

Now, in a development that will reignite the debate, a World Bank-commissioned report has given a tentative answer to the question of whether the bulk of Indonesia's 137 million people are better off today than at the beginning of the decade. The answer appears to be yes, but not much.

The conclusion emerged in an internal study by World Bank staff workers examining Indonesia's employment and income distribution during the first half of this decade. A copy of the study was obtained by The Asian Wall Street Journal.

### A Challenge for Officials

The report said economic expansion between 1971 and 1976 brought real consumption and income gains to most Indonesians, including the rural poor of crowded Java, which account for 70% of those on the bottom step of Indonesia's economic ladder.

But the study pointed to shrinking agricultural employment opportunities and a widening consumption and income gap between the urban rich and the unskilled rural poor as possible economic and political challenges for Indonesian officials.

While it cited "substantial" improvements in absolute levels of employment, consump-

tion and income, the report said the record of 1971-76 amounts "to only a tiny diminution of the problems of poverty in Indonesia." The study noted that while real economic growth proceeded at an average of 7% to 8% annually in the period, poverty was still large-scale and widespread, especially on Java. The study said that in 1976 more than 59 million people (or about 40% of the population) were "subsisting" on less than 3,000 rupiah a month, or about 25 U.S. cents a day at then prevailing exchange rates.

The World Bank study was commissioned as part of a soon-to-be circulated "Basic Economic Report" on Indonesian development in the 1970s. The report will be used by donor countries of the Intergovernmental Group on Indonesia, and key international aid agencies to assess conditions in the country. World Bank researchers drew heavily on census data compiled in 1976, 1971 and 1961 for their analysis.

The researchers cautioned that their report was "no more than a preliminary reconnaissance" of employment and income distribution in Indonesia. And they stressed that lack of reliable data made a "definitive analysis" impossible.

However, the researchers offered the following key observations in their report:

— Overall employment grew at the "encouraging" rate of 5% to 7% annually in 1971-76. But data indicated that a squeeze on agricultural labor demand was pushing unskilled rural dwellers into relatively unproductive rural jobs.

— Real wages stagnated for agricultural and nonagricultural jobs in rural and urban areas.

— For a variety of reasons, income inequality increased "markedly" between the rich and the poor despite gains in absolute terms for all groups.

— Policies geared to "the efficient de-

velopment of less capital-intensive and less skill-intensive production and techniques" are needed to spread income gains more evenly and to increase future employment.

### Measure of Standards

The most closely scrutinized segment of the study is likely to be that dealing with consumption, poverty and income distribution. These elements, taken together, are often used to measure improvements in the standard of living.

The study said per capita consumption rose in real terms in Java's urban and rural areas and outside Java from 1971 to 1976. The report said the increased consumption appeared to be coupled with a reduction in the overall proportion and the absolute number of

... |



people living at "extremely low levels" of consumption. The report said consumption in urban areas increased 4% to 7% annually throughout Indonesia, while rural consumption rose 2% to 3% a year.

The study concluded that "in absolute terms the benefits of growth have been shared by even the lowest income groups," and that the proportion of "poor people" in the population had declined. It termed both developments "encouraging."

But the report added that other data "weren't so encouraging." The study said despite employment and income gains, poverty remained an "immense" problem in Indonesia. And it said the widening gap between rich and poor was "cause for concern." Moreover, the World Bank researchers called attention to certain economic subgroups they said were "left out of the growth process altogether."

The researchers pointed to the growing gap between consumption rates of rural and urban workers as one indicator. They said that given existing imbalances in consumption favoring urban groups, "such deterioration is a cause for concern." The report said that while consumption gains in rural areas were better than no growth, they were "hardly impressive," compared to the growth of urban consumption.

"Real consumption growth so much lower for the poor four-fifths of the rural population than for the better off urban one-fifth implies a severe increase in the disparities between consumption levels of both groups," the report said.

The report also found evidence of growing income inequality. It said that in the absence of "any discernible" increase in real wages during the 1971-76 period of rapid economic growth, "it may be inferred that profits and property income were growing at an even faster rate, to the benefit of those generally concentrated at the upper ranges of the income distribution."

The study added that several economic subgroups — mostly rural workers using low-level skills and technologies — were hurt by economic change. The report said it appeared the benefits of expansion tended to concentrate in the hands of those in a relatively superior economic position and thus better placed to take advantage of opportunities.

"For millions of people the prospect of any early escape from poverty is not bright and for some this economic position may worsen over time," the study said.

The 106-page World Bank report also analyzed employment and labor force trends in 1971-1976. It offered the following assessments:

— **Population and the Labor Force:** The study said the labor force grew at a 3% to 5% annual rate, increasing by seven million to 10 million workers, to about 51 million by 1976. In the same period, the overall population increased 2% a year to about 131 million (in 1978 it reached 137 million).

The report said overall employment kept pace with labor force expansion. It said nonagricultural employment grew 5% to 7% a year. (Indonesia defines as employed anyone who worked at least one hour during the week preceding a census or survey period).

The report said higher employment "must be interpreted as evidence of the widespread and substantial impact on the labor market of the rapid increase in output and investment in the first half of the decade."

But, here too, the report saw some problems. While overall "open" unemployment (under Indonesia's definition) climbed marginally to 2.3% from 2.2% in the period, urban unemployment increased to 6.4% from 4.8%.

Moreover, the report noted with concern the possibility that a rapid rise in non-agricultural rural employment, which accounted for more than 50% of new jobs in the period, may mask another problem. The report said these jobs may be low-quality unskilled positions taken by workers squeezed out of agricultural employment by changes in the rural economy.

— **Rural Employment:** The World Bank said agricultural job opportunities were being pinched by changing conditions, especially in Java. While farm employment continued to gain in absolute terms during 1971-76, it slipped to 62% of the total work force from about 66% in 1971. Meanwhile nonagricultural rural employment rose markedly.

The report said the pattern may be influenced by a "discernible increase in landless or near-landless laborers (in Java) and a growing dependence of rural households on participation in nonagricultural" jobs to pro-

vide additional income. The report said 45% of rural households derived some income from nonagricultural pursuits and 75% depended entirely on nonagricultural income. The bank said 1975 census data showed that more than half of agricultural households cultivate less than 0.75 acres of land and almost 60% less than 1.25 acres. "On this basis, it would seem that there are 10 to 12 million rural households who might be classified as landless in the sense that they do not have access to cultivated areas of sufficient size to provide even the potential for minimal employment and income needs."

Recent observations at the village level report a high rate of land sales, often to people outside the village, with consequent loss of control of the land," the report said.

The study identified a number of changes in the rural economic structure that may be hurting rural employment.

Among these, it noted:

— **New Rice-Growing Technology:** The study said that, contrary to early expectations, the introduction of more intensive rice cultivation using high-yield varieties didn't add substantially to employment. The bank said labor-intensive farming techniques appeared to be declining, a prospect it said might further strain the economic structure of rural Java.

— **Changes in Harvesting Systems:** The bank said a shift to contract harvesting, which is the presale of a rice crop to a middle man and the use of sickles for cutting padi, was replacing traditional forms of harvest-

ing. The earlier system opened fields to all those seeking work at harvest time. They used a small rice knife to cut the padi stalks.

— **Mechanical Hulling and Pounding:** The report said these new techniques also may be displacing some workers.

The researchers said the picture that emerged from these changes indicated that growth in agricultural employment is slowing, while employment in nonagricultural rural jobs, which may be only marginally productive, is increasing.

— **Urban Employment and Wages:** The report termed the data in this area "especially hazardous," and cautioned that no definite conclusions could be drawn. It said employment had increased 3.8% to 4.8% a year in urban areas, well ahead of urban population growth of 2.6%.

But the report added that unemployment increased in absolute terms, climbing to 6.4% in 1976 from 4.8% in 1971. The bank said real wages for unskilled urban laborers showed no increase during the period.

The report recommended several policies to encourage job expansion and improve job quality in Indonesia:

— With the labor force estimated to grow at 1.5 million to 1.7 million persons a year through the next 20 years, Indonesia must create jobs at its rate during the rapid growth of the 1970s. But the bank said it wasn't "clear" that Indonesia "can maintain" such a pace.

— The government should adopt agricultural development policies to broaden the rural job base and avoid concentrating wealth and income. It suggested "positive disincentives to capital-intensive agricultural techniques." It said without these policies, the rural poor could fall farther behind.

— More emphasis on labor-intensive light manufacturing industries to avoid a trend "toward a highly concentrated" industrial structure.

This news item appeared on page 4 of the 26 AUG 1978 issue of:

- THE NEW YORK TIMES     THE WALL STREET JOURNAL     THE CHRISTIAN SCIENCE MONITOR  
 THE WASHINGTON POST     THE JOURNAL OF COMMERCE     THE INDONESIA TIMES  
(JAKARTA)

# Third World Will Need Big Increases in Capital



ROBERT McNAMARA  
President of the World Bank

The World Bank, in the first of a series of analytical reviews of world development, says even maintaining present rates of progress will require large increases in the flow of capital to developing countries, determined resistance to protectionist pressures against their exports, and vigorous efforts to raise the growth of agricultural productivity. On current projections, it says, it is clear that absolute poverty will continue to be a massive problem for many decades. Gemini News Service reviews the report.

By Roy Laishley (Gemini News Service)

Eight hundred million people are living in absolute poverty. By the year 2000, given an optimistic view of future economic growth, there will still be more than 260 million people living with malnutrition, disease and squalid surroundings as part of their daily lives.

On the more realistic assumption that the nations are going to grow much more hesitantly, it is more likely that the number of poor will fall only to 600 million.

These are the startling and depressing conclusions of a new publication from the World Bank. "The World Development Report, 1978", just published (Editors: Aug. 16), is the first in a new series of annual reports on global development issues.

If the first issue is anything to go by the new series will provide a useful synthesis of an increasingly complex process of change.

Inevitably the first report concentrates on providing an over-view of the present state of the developing world, and its prospects over the next ten years. Its conclusion, that the development progress of the last twenty years has been impressive but that even greater efforts will be required if poverty is to be reduced, is hard to dispute.

So too, is the mood of pessimism that emerges from the report when it contemplates the worsening trends that could impede those further efforts. Its almost passionate plea for industrialised countries to take more seriously both the role of developing countries in expanding world trade, and their own rhetoric on aid transfers and trade adjustment programmes, are welcome additions to the demands for international change.

And yet, in many ways, the report lacks the courage to pursue the logic of its own

analysis through to the most relevant and effective policy prescriptions. The increasing emphasis the World Bank has placed on the need to remove world poverty if real economic growth is to be sustained represents a vital shift in the direction major international development efforts are taking.

The increasing number of World Bank projects aimed at the small farmer is just one aspect of the new ways in which the Bank is spending its money. But it is the area of rural development, where as the report points out most of the poor live, for which the new report's prescriptions are least convincing.

The World Development Report urges a four point programme for development; sustaining rapid economic growth, modifying the pattern of growth so that it increases the incomes of the poor, improving public services to the poorest, and "maintaining an international environment supportive of development".

In looking at the pattern of past development, and the prospects for the future, the report distinguishes between Middle Income Developing Countries, those with an annual income per person of more than US. 250, and Low Income Countries, with an annual income below that figure. The differing structures and experiences of the two sets of countries leads the report to advocate a different mix of the above measures for the sets of countries.

For Middle Income Countries the emphasis is on adjustments in the international environment of trade. These countries, the report points out, have fuelled their growth through stimulating exports, be it of raw material, manufactured goods, or men and women.

The report argues that

the growth of exports "is likely to be much more limited for the next decade than it was in the last two. The main reasons for this are the faltering pace of economic recovery in the industrialised countries and the rise of protectionist pressures."

This observation leads the Bank to project a fall in the rate of economic growth for middle income countries, and for it to spend much time in worrying over how this can be countered.

The Bank anticipates that the more advanced developing countries can expect their exports of manufactures to expand their rate of growth only in iron and steel and possibly machinery and transport equipment and miscellaneous goods.

Overall, developing countries can expect to supply a smaller share than before of the growth of consumption in the industrialised countries; and to supply only 2.7% of the market there by 1985. For commodities, only timber, rubber and bauxite seem to have a bright future in the next ten years — short-term shortages apart.

For the developing countries the report urges that export earnings be supplemented by measures to achieve "a more broadly based expansion of domestic demand."

"This", it is pointed out, "will require a more balanced growth strategy including the accelerating of agricultural development". In addition international action needs to take place, in both the International Monetary Fund (IMF) and GATT (General Agreement on Tariffs and Trade), to coordinate the stimulation of demand, restrain protectionist pressures and ensure an adequate flow of financial transfers to developing countries.

The World Bank Report is quite optimistic on the debt front. The report projects a debt service ratio

(repayments to export receipts) in 1985 of 22% for middle income countries; though "for these countries to manage their debt satisfactorily", the average maturities of their external borrowing must be lengthened. Nevertheless half the increased financing required by these countries will need to go on repaying their old debts.

For Low Income Countries the report has a different emphasis. It places the blame for continuing high rates of poverty in these countries on low growth, and low agricultural productivity. Rapid economic growth, the report argues, is essential if poverty is to be reduced. But as it admits "in most countries, the poor are apt to be bypassed by growth".

The report therefore urges "modifications in the pattern of growth to increase the productivity of the poor", and in particular programmes aimed at the small farmer and at increasing employment by the adoption of labour-intensive techniques.

The report itemises a number of large-scale development programmes in the areas of irrigation, credit facilities, and public works. This is to be supplemented by increasing public expenditure on services aimed specifically at reaching the poor and raising their living standard.

Despite this apparently comprehensive series of policy recommendations the report is pessimistic about the possibility of removing poverty in the Low Income Countries. Its more realistic projections still anticipate that 27% of the population of these countries will be living in absolute poverty in the year 2000.

Part of the problem is simply one of scale; the enormity of the task and the growth rates that will be required. The other, only tentatively admitted, is the conflict between the need to raise the savings rate in these countries in order to finance this growth, and the desperate need, at the same time, to increase government revenues and spend them on increasing public services and financing development programmes.

It is this tension which is at the heart of development as defined by World Bank President Robert McNamara, "to accelerate economic growth and to reduce poverty".

It is the conflict between the two, symbolised by the need to save and spend at the same time, that the World Bank Report fails to deal with.

Its apparent solution is to in resource transfers from rich to poor countries; then poor countries could save and spend at the same time. But the report itself admits that such transfers are highly to reach an adequate level. Despite continuous pressure, from among others the World Bank, Official Development Assistance from these countries is projected to rise from only 0.36% of their GNP to 0.39% in 1985.

The solution to the removal of world poverty must lie elsewhere to the policies put forward in the World Bank Report. Paradoxically, the report itself points to the solution. "Historical experience suggests", the report says, "that the poorer members of the population are unlikely to share equitably in economic growth, mainly because they have less access to the productive assets needed to generate incomes — land, credit, education, and jobs in the modern sector."

(GEMINI):—

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ROY LAISHLEY was born 1948 in Britain. Graduated from Sussex University. Worked for three years as research Officer at Institute of Development Studies, Sussex University. Published book on migration. He is now a freelance journalist specialising in economic and development affairs.

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- THE WASHINGTON POST
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- THE JOURNAL OF COMMERCE
- THE TIMES
- THE FINANCIAL TIMES
- THE GUARDIAN
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5

## Missing the Mark In Indonesia, Attempts By World Bank to Aid Poor Often Go Astray

### Critics Say Pressure to Lend Money Weakens Ability To Make Projects Work

#### Case of the Undug Ditches

By BARRY NEWMAN

Staff Reporter of THE WALL STREET JOURNAL

JAKARTA—There are six million people in this city—maybe seven million. Piped water reaches one in five, electricity one in 44. There aren't any sewers. A third of the garbage rots uncollected. Jakarta isn't a city, really. It is a fusion of *kampongs*, or villages—a plain of one-story, orange-roofed shacks, unplanned and unserved, where people are packed as many as 360 to the acre.

As such, Jakarta is a logical place for the World Bank to put into practice its policy of trying to "directly affect the well-being of the masses of poor people." At one time, the main concern of the bank, the world's leading economic-development institution, was to upgrade living standards by undertaking such major projects as power plants and highways. But under the leadership of Robert S. McNamara, the bank has placed increased emphasis on—as he puts it—getting "the services to the poor and the poor to the services" by lending money for less sophisticated projects.

At the same time, Mr. McNamara, as president, has been increasing the scale of the bank's total lending in the strong belief that as much money as possible must be used to help as many people as possible. Mr. McNamara predicted in a September speech that 40 million poor people stand to have their incomes doubled by bank programs that have started only since 1974.

### Problems of the Push

But the push by a numerically aware president to quickly lend a lot of money appears to be sapping the bank's ability to make its delicate new projects work. Indeed, a number of projects here in Jakarta and elsewhere in Indonesia suggest that touching the lives of the desperately poor is trickier than building roads and dams.

The newer projects have embroiled the bank in the cultural and political crosscurrents of a host of small Indonesian communities. The background needed to understand these forces is more than the bank has managed to muster so far. And the Indonesian bureaucracy's capacity to absorb large volumes of cash for these ventures is clearly in doubt.

Consider Jakarta's *kampongs*. The city government has been making improvements since 1969, putting in footpaths and drains, digging wells, setting out garbage boxes. In 1974 the World Bank got involved. It lent Indonesia \$25 million for doing much the same thing; this year it lent \$52 million more.

### The Effect of Improvements

In one central-Jakarta *kampung* where the bank is spending its money, a raised concrete footpath is being laid over a narrow dirt path, and two new culverts are carrying water and sewage into a nearby canal. The *kampung* is neither fragrant nor anti-septic, but it's better than it was.

So much better, in fact, that the market value of the houses here and in other improved *kampongs* is going up. Property-tax collections are rising 15% a year. What does this mean for the poor people who live in the *kampongs*? World Bank officials and Indonesian observers say it means that the poor are selling out to richer people and moving to illegal settlements on Jakarta's fringe. The poor are selling both to avoid the property taxes and to make some money.

"It's a natural process," a bank staffer says. "You can't stop it."

But does this jibe with Mr. McNamara's objective of directly aiding the poor?

"Not completely."

"It's harder to do everything with these (newer types of) projects," one bank worker says: They are harder to devise, harder to implement, harder to supervise and harder to evaluate. As a result, development workers here, while applauding the bank's decision to aim its aid at the world's neediest, seriously question its simultaneous drive to increase the amount of money it lends. They believe that the bank should reduce the number of new-style projects or carry them out on a smaller scale until they are more fully understood.

### Reining In Ambitions

Indeed, it is already apparent that despite pressure from its Washington headquarters to lend increasing amounts of money to Indonesia, the World Bank is being forced to rein in its ambitions here. It is simply unable to prepare and carry out programs at the desired rate. And the government is as lacking as the bank in the people and the knowledge to comprehend the chemistry of large numbers of small villages.

Bank lending to Indonesia rose from \$131 million in fiscal 1971 to \$517 million in fiscal 1976. But in the year ended last June, the loans dropped back to \$440 million. Bank sources say that the target for the year ending next June had been \$617 million but that the figure was cut to \$578 million last month. And, they add, it's questionable whether actual loan commitments by the end of June will be appreciably more than \$400 million.

Of 45 bank projects that have been under way in Indonesia for at least four years, sources say, nearly 60% have been delayed two years or more. Three-quarters suffer cost overruns. "They're feeling their way," says a former bank staffer in Boston of bank officials. "They admit they don't know the answers, but can you experiment with mountains of money that big?"

Without question, the bank, on a global basis, has been dealing with mountains of money in recent years. In the nine years since former U.S. Defense Secretary McNamara became its president, the Washington-based bank has increased its lending to developing nations sevenfold, to almost \$6 billion a year. The institution, which is owned and controlled by its 130 member nations, was originally concerned with reconstructing Europe after World War II; now its awesome task is to eradicate world poverty. The U.S. is the bank's largest shareholder, supplying about one-fourth of its capital.

Indonesia has been the recipient of much of the bank's huge largesse. With its population of 140 million, this nation in the Malay Archipelago is the bank's third-largest borrower, after India and Brazil. Indonesia has accepted \$1.9 billion in loans and credits over the past decade, half of it in the past two years. At the outset, bank loans here were used to erect the bare scaffolding of economic growth — power, transportation and communications—which this country lacked almost completely.

CONTINUED

These efforts, which continue, get high marks from almost everyone involved. Such projects take up about 30% of the bank's lending world-wide, down from 36% in fiscal 1976. The newer programs, which are steadily gaining in prominence and which accounted for 33% of the bank's total program in fiscal 1977, are another story.

One such project is irrigation, for which the World Bank has lent Indonesia \$276 million since 1968. Most of the money went for rehabilitation of old canals. None of it, at first, went for construction of small feeder canals, which carry water directly to the fields of the paddy farmers. The government assured the bank that the farmers would dig those ditches themselves. The bank, without keeping a close watch on what the farmers were doing, took the government's word for it.

**Sweetness but No Light**

As one drives through the irrigation systems east of Jakarta, it becomes painfully apparent what happened: Large canals carry water through the rice fields. Connections for feeder canals extend 50 yards out from the main canals and stop. "That's where the theory broke down," a guide says. "Right out there." The farmers never built anything.

It wasn't until 1973 that the bank fully realized what was going on, and it wasn't until 1975 that it started making loans for the feeder canals. Then came another snag: The design and the engineering for the lacework of small canals are far more than the Indonesian public-works department can handle. The work is lagging. "We've overcommitted funds for this whole project," a bank staff member says. "It's more difficult than we thought."

Indonesia used to be an exporter of sugar, but the industry deteriorated after the Dutch colonizers left. The World Bank thought that it could rebuild Indonesia's sugar mills and help farmers grow cane. In 1973 it lent \$50 million to do just that.

What the bank didn't find out at the time was that the farmers were most reluctant to raise cane because they could make about twice as much raising rice. Part of the inadequate payments they received from the sugar companies, moreover, were being raked off by corrupt local officials. And the officials were forcing the unhappy farmers to grow cane at gunpoint.

For three years, the World Bank has been bankrolling this. It still is.

Now the bank is scrambling to find a new plan that will allow sugar to be grown at a profit and without graft. But this is only one example of Indonesia's ubiquitous corruption fouling a bank program. It is authoritatively estimated that 10% to 15% of the total cost of bank-financed projects in Indonesia is dissipated through "leakage."

**A Success That Failed**

One of the bank's success stories—as far as it went—was a \$5 million loan in 1973 to help small farmers in North Sumatra, one of the islands of Indonesia, plant rubber and oil palm. The project worked well—too well.

North Sumatra is a politically unstable area, and the man chosen to head the project turned out to be the vociferous leader of the local Moslem opposition to Indonesia's military government. His achievements, sources say, became an embarrassment to the Indonesian central government, which then contended that the program was too expensive.

During last spring's national elections, there was fighting in the project area, and 11 people died. It appeared that the Moslems had been egged on by the project head. The government has since decided to close the operation and send its four foreign advisers home. A high-level World Bank visitor argued in July that the project should be extended. He was turned down.

Many observers consider the bank's clumsy performance in these and other projects the result of ignorance about the way things work in Indonesia. One reason, it is said, is that the pressure to lend money doesn't give the bank's experts time to think. Compounding the problem is the bank's bureaucratic setup, which fits nicely into a global strategy but loses something in on-the-scene application.

The resident staff here, with 14 professionals, is the bank's biggest in the Third World. But it functions largely as an intermediary between headquarters in Washington and the government here, shuffling 4,000 cables a year. The more substantive work is handled by "missions" from Washington, where 90% of the bank's 2,000 professionals are based. Every year about 70 missions pass through Jakarta.

**Not Adept at Adapting**

The big trouble with the system, many bank professionals say, is that it doesn't adapt well to Indonesia's unbusinesslike ways. "This is the ultimate in non-Western thinking," says a Western development expert who has been here several years and isn't with the bank. "But the bank hasn't changed its style at all.

"I work slowly but surely," this man goes on. "The first few conversations here are just to establish a relationship. On a 30-day mission to Indonesia you don't find out anything basic. I've had 30-day periods when I don't feel I've made any progress at all. But when the Indonesians are ready to move, I'm here and the bank isn't."

While relations between the bank and the Indonesian government haven't always been strained, contacts between the two now are

often described as "testy," and some Indonesians accuse the bank of "meddling." The government (with the bank's concurrence) fears that the bank's cumbersome procedures won't be workable on the provincial level, and so it is keeping the bank out of a series of small-scale public-works projects. The bank, on the other hand, is begging off from investing in a big government telecommunications enterprise that it considers far too extravagant.

But it is tension within the bank that is causing problems on other programs. A case in point is a "transmigration" project—a government plan to move a half-million families from the overcrowded island of Java to Indonesia's sparsely populated outer islands. The government wants to spend \$5 billion on the program over five years; the bank is willing to chip in \$1 billion of that sum.

**An Omen?**

A modest transmigration project received a \$30 million loan this year, and it touched off an internal furor within the bank over the dangers of anything like such a program on a huge scale. The bank's top management got into a dispute with its technical staff over a pivotal point: the amount of land a relocated family needs to survive in places with starved soils. Several sources say management ignored the technical report and reduced the acreage in order to cut the cost per family and thus be able to increase the number of project "beneficiaries." One bank worker worries over "human risks," but executives counter that condemning people to "low-level starvation" on Java is just as dangerous. "Of course there are risks in this," one executive says. "There are risks in everything."

The dispute over transmigration has caused more internal bitterness at the World Bank here than most people can remember on any other project. Yet the result could be positive. The moving of a population is a colossal undertaking, and some staffers say the bank hadn't grasped the immensity of it. If anything has come out of the argument, they say, it may be that neither side really knows what it is talking about. The solution is more research and more preparation. In other words: Slow down.

"There's a good argument," a development specialist says, "for doing what you know how to do. If you don't know how to do it, don't lend the money."

- THE NEW YORK TIMES  
 THE WASHINGTON POST  
 THE WALL STREET JOURNAL  
 THE JOURNAL OF COMMERCE

- THE TIMES  
 THE FINANCIAL TIMES  
 THE GUARDIAN

## Letters to the Editor of the Journal

### The World Bank & Indonesia

Editor, *The Wall Street Journal*:

Your Nov. 10 article on the World Bank's operations in Indonesia was incom-

plete and, I believe, misleading. Since 1959 Indonesia has borrowed from the World Bank \$1,978 million. Of this amount 23% was from IDA (the International Development Association), the bank's concessional lending fund to which 24 donor countries contribute as a principal part of their effort in the attack on world poverty. A review of nine completed projects in several fields shows that, despite early problems, benefits achieved have been up to expectations. The first irrigation project, for example, is yielding the results expected when the loan was made. In other projects, e.g. highways, telecommunications, fertilizer and agriculture, returns are at least as high and often higher.

You wrongly dispute the acknowledged success of the Jakarta Kampung Improvement Program by suggesting that some households are moving out. The rate of out-migration from the project area is below 10%, little different from movement out of other areas in the city. Let us agree that such projects are difficult and are properly subject to difference of opinion on all sides. Debate on the issues of transmigration, for example, continues, as it must. The human aspects of such matters, let alone the economics, are extraordinarily complex. Yet such projects are essential to balanced growth, and the continued effort of the Indonesian government and the World Bank and its staff demonstrates that such mat-

ters can only be met by facing the difficulties squarely. The record, properly seen, shows that we are succeeding.

THAVIL KHUTRAKUL  
Executive Director  
The World Bank

Washington

### Life With the World Bank

Editor, *The Wall Street Journal*:

Contrary to your article on conditions in the World Bank, this is not exactly the renaissance of gracious living around here.

I'm with an agriculture projects division in the bank. (I was recruited from Chicago in 1975, and have 29 years relevant experience.) This year I have worked in seven countries, entailing 120 days travel away from my family. The office work load, too, is very heavy, maybe because we have to demonstrate that our projects recover their costs.

I'm not in a country club; I did not get a subsidized home loan; I usually eat in the coffee shop or at my desk. This is par for most of my colleagues. My pay comes from the bank's earnings—we are a profit-making institution. Uncle Sam (and other countries) funnel development funds through our affiliate, the International Development Association; these are invested with care in the poorest countries.

Eqs HING

McLean, Va.

## World Bank

News Service of the Department of Information and Public Affairs

This news item appeared on page 7 of the September 16, 1978 issue of:

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| <input type="checkbox"/> THE WASHINGTON POST     | <input type="checkbox"/> THE FINANCIAL TIMES                      |
| <input type="checkbox"/> THE WALL STREET JOURNAL | <input type="checkbox"/> THE GUARDIAN                             |
| <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input type="checkbox"/> THE <u>INDONESIAN OBSERVER</u> (Jakarta) |

# WB on developing world's economy

Washington — The developing world's rapid economic expansion is a fragile one that will need continued support to keep food production ahead of population gains and encouragement of trade with the industrialised world to avoid disaster, the world bank said in its annual report.

The lending institution which has outpassed the gains of the developing world, is one that is likely to continue as long as trade barriers are not raised.

The bank said that its studies of developing countries show that they have on average recovered from the 1973/1975 recession and that recovery should continue in 1978.

The main problem facing the developing world is ensuring that agricultural production expands faster than population. The bank said that while the world food situation has improved considerably since 1974, per capita food production is the poor countries of South less than it was two years ago, with the exception of Asia.

It noted that unless major strides are made in the next few years, food shortages in the developing world could reach 145 million tons by 1990, with 80 million tons of that hitting the poor countries of South Asia and Africa.

At the same time, the bank found that non-oil developing countries had managed to achieve rapidly increasing export earnings, coupled with only moderate growth in imports.

From a 1975 aggregate current account deficit of \$37.3 billion, the figure fell by almost \$12 billion in 1976 and stood at \$22 billion in 1977, about the same proportion of GNP as in the early 1970's. Decline was achieved in the wake of rising commodity prices.

But the continued growth of developing country economies is a fragile one", the bank said, "and aggregate figures obscure the fact that many social and economic problems can not be eliminated by rising commodity prices, reduced current account deficits and expanding trade".

The report said that projections of future growth are modest indeed especially when account is taken of population increases.

On the issue of trade, the bank report found that by historical standards at least, current trade barriers imposed by industrialised countries are "remarkably low".

But it noted that increased exports to developed countries with stagnating economies are resulting in a rise in protectionist sentiment, causing increased concern in the developing world that policymakers can withstand pressures to impose new restrictions.

The bank said that some developing countries incriminate against their own exports through such measures as protecting not-so-infant "infant" industries, overvalued exchange rates and purchases at artificially low prices.

If the problem of trade barriers can be overcome and export promotion policies are accelerated, the bank said there are estimates that by 1985 the value of exported manufactures from the developing countries could rise by as much as \$21 billion and grow at 15 percent a year.

Meanwhile the World Bank said outstanding debt of the 34 developing countries which account for about 80 percent of non-oil LDC left increased by 23 percent to \$133.8 billion in 1977.

The World Bank said in its annual report that it appeared this group of countries borrowed in excess of immediate needs in 1977, as they did in 1976, when borrowing increased by 24 percent.

The World Bank estimated that the combined current account deficit of the 34 countries declined in 1977 as it did in 1976, and that substantial additions were made to their reserves.

However, the bank said that experience among the countries was not uniform in that the rate of increase in debt seems to have declined in Latin America, South Asia and Africa, but rose or remained the same in the other regions. (Ant/ AFP) 22

**World Bank**

News Service of the Department of Information and Public Affairs

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- THE NEW YORK TIMES       THE WALL STREET JOURNAL       THE CHRISTIAN SCIENCE MONITOR  
 THE WASHINGTON POST       THE JOURNAL OF COMMERCE       SINAR HARAPAN (Jakarta)

**Laporan Tahunan Bank Dunia**

**Perkembangan Ekonomi Di Negara<sup>2</sup>  
Asteng Dan Pasifik Mantap**

Washington, 13 September

Untuk membiayai proyek khusus di Filipina, Indonesia dan Muangthai, Bank Dunia, melalui Organisasi Pembiayaan Internasional telah memberikan pinjaman sebesar ASS 139 juta, demikian antara lain isi laporan tahunan Bank Dunia yang disiarkan di Washington hari Rabu.

Menurut laporan tersebut

seluruh negara di Asia Tenggara dan Pasifik telah menerima ASS 1.7 milyar selama tahun fiskal 1977, yang berarti meningkat sebesar ASS 2012 juta dari tahun<sup>2</sup> sebelumnya. Pinjaman tersebut merupakan yang pertama kali selama dalam tiga tahun.

Dikatakan, permintaan dunia akan barang<sup>2</sup> ekspor dari negara<sup>2</sup> Asia Tenggara dan Pasifik diharapkan akan terus mening-

kat pada tingkat yang "memuaskan" pada dekade mendatang ini berbarengan dengan meningkatnya pertumbuhan industri dan pertanian.

Menyinggung laporan tahunan tahun 1977, Bank Dunia mengatakan, hampir semua negara di kawasan itu nampaknya dapat menyelamatkan diri dari kelesuan ekonomi tahun 1974 - 1976.

"Hampir semua data<sup>2</sup> ekonomi menunjukkan secara pasti, bahwa pertumbuhan ekonomi di negara<sup>2</sup> tersebut telah meningkat", kata laporan tersebut.

"Pertumbuhan itu akan terus mantap manakala kemajuan dalam usaha memecahkan soal pengangguran, kemiskinan dan pemerataan pendapatan bisa dilakukan secara mantap".

Dikatakan, angkatan kerja di kawasan itu sedang cenderung meningkat sampai 3% tiap tahun. Produksi bahan<sup>2</sup> makanan masih cukup, dengan pertumbuhan dalam sektor pertanian mencapai 4% dan Malaysia dan Filipina bergerak kearah men-cukupi diri sendiri dalam produksi beras.

Laporan itu mengatakan, hampir semua negara di kawasan ini mempunyai pasaran dalam negeri yang penting. Tetapi masa depan pertumbuhan ekonomi mereka nampaknya bersumber dari hasil<sup>2</sup> barang ekspor.

Angka<sup>2</sup> ekspor berkisar 18% dari GNP di Filipina dan 51% untuk Malaysia, kata laporan itu. Dikatakan sejumlah negara seperti Malaysia dan Muangthai yang belakangan ini barang<sup>2</sup> ekspor mereka sangat terbatas, kini telah memperoleh kesempatan baik dalam pasar<sup>2</sup> dunia dalam memperluas pemasaran barang<sup>2</sup> ekspor mereka.

Korea Selatan, dikatakan, telah menggantikan diri secara menyeluruh kepada barang<sup>2</sup> pabrik guna memperluas eksportnya, barang<sup>2</sup> tersebut terdiri dari 90% dari hasil keseluruhan negeri itu yang diekspor ke luarnegeri.

Dikatakan, bahwa anggota negara<sup>2</sup> ASEAN telah membantu meningkatkan pertumbuhan ekonomi dikawasan itu dengan menjajaki jalan<sup>2</sup> memasuki pasaran<sup>2</sup> internasional dan memperkuat persaingan<sup>2</sup> dari hasil<sup>2</sup> produksi mereka di pasaran<sup>2</sup> dunia".

Laporan itu melukiskan juga peranan bank dunia dalam pembiayaan keluarga berencana di Malaysia, Filipina dan Muangthai, dan menurut catatan, secara menyeluruh angka kelahiran di negara<sup>2</sup> tersebut cenderung menurun. (AP-K-4).

\*CONTRACT TRANSLATION  
RECEIVED IN 1980 ON

FEB 8 1979

Control No.: E-291/79



WORLD BANK ANNUAL REPORT

Firm economic development in the Pacific and  
Southeast Asian countries.

Washington, 13 September (1978) -

The World Bank annual report announced in Washington Wednesday stated among other items, that through the Agency for International Development, it has given a loan in the amount of US \$139 million to finance special projects in the Philippines, Indonesia and Thailand.

According to the report, countries throughout the Pacific and Southeast Asia have received US \$1,7 billion during the fiscal year of 1977, an increased amount by \$251,2 million from the previous years. The loan mentioned in the report is the first of such loan in three years.

It was reported that the world demands on exported goods from the Pacific and Southeast Asian countries are hoped to continue to increase to a "satisfactory" level in the coming decade, simultaneously caused by the increase in the development of industry and agriculture.

In reference to the 1977 World Bank annual report it said that almost all of the countries in the area appear to have escaped from the economic recession of 1974-1976.

"Almost all economic data show with certainty, that the economic development in those countries has increased," said the report.

\*CONTRACT TRANSLATION  
RECEIVED IN IBRD ON

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"The development will continue to be substantial when progress in the efforts to solve unemployment, poverty and equal distribution of income can be done effectively."

It is reported that the work force in the area tends to increase up to 3% each year. Food production is still sufficient, with development in the agricultural sector to reach 4% and Malaysia and the Philippines move toward self reliance in rice production.

The report said that almost all of the countries in the area have important domestic market. But the future of their economic development appears to be from the results of their export goods.

Export points shift between 18% from the Gross National Product in the Philippines, and 51% for Malaysia, the report stated.

It was reported that a number of countries such as Malaysia and Thailand which recently suffered from very limited export goods, are now able to gain good opportunities in the world market to expand the marketing of their export goods.

South Korea, it was reported, has totally changed into producing factory-made goods, to expand its export potentialities, those goods consist of 90% of all the country's over-all production to be exported.

It was reported that members of the ASEAN countries have helped increase the economic development in the area by probing ways to enter the International market, and to strengthen themselves against competition of their products in the world market.

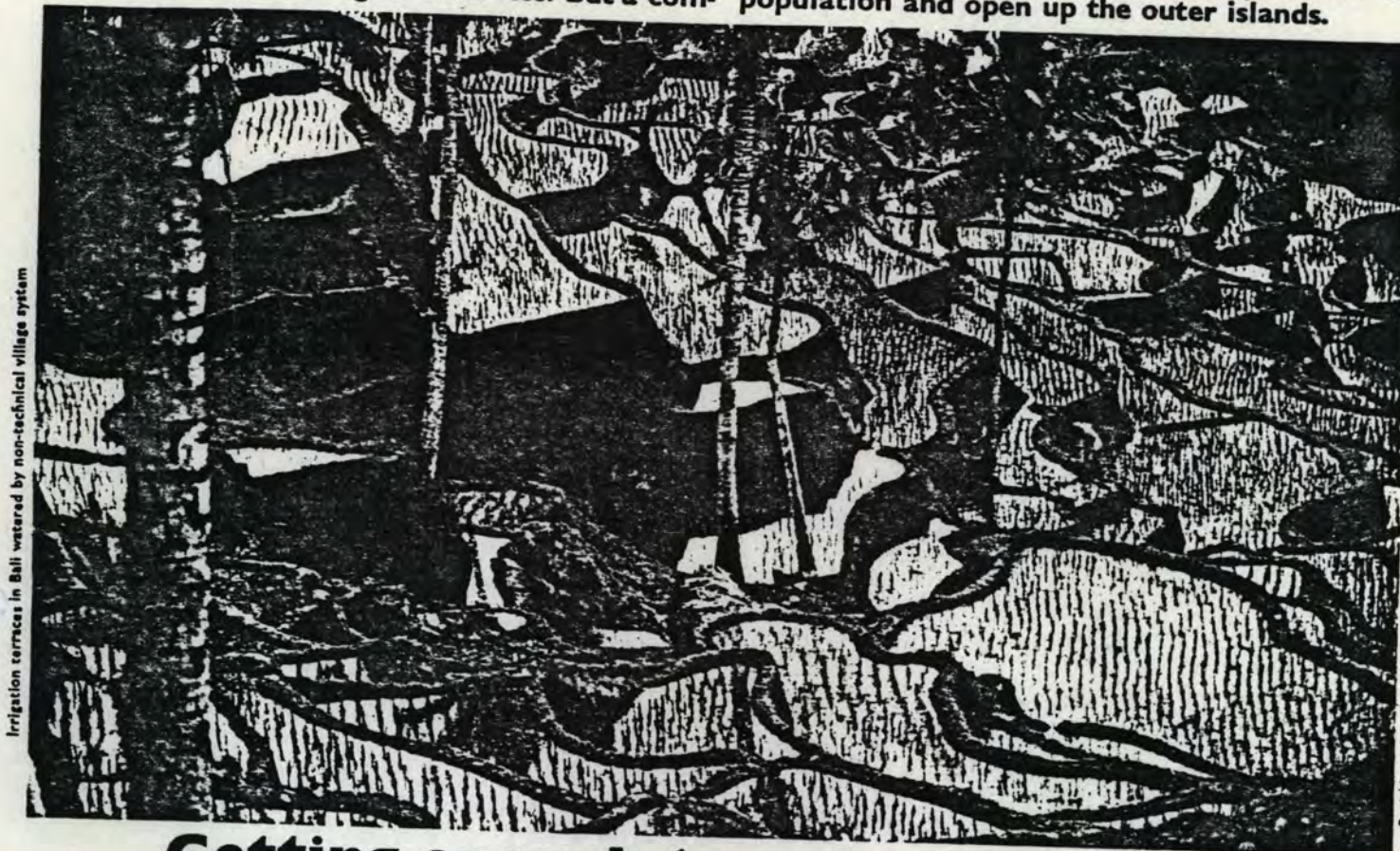
The report also described the role of the World Bank in the financing of family planning in Malaysia, the Philippines and Thailand, and according to reports, in general, the birth rate in those countries tends to decrease.

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## Indonesia: food, population, land

The balancing of food, population and land is perhaps the central task facing poor Third World countries. In the 1960s Indonesia appeared to be losing this battle, with one of the worst standards of nutrition in the world, rural overcrowding reaching disastrous proportions on Java, and increasing landlessness. But a com-

prehensive assault on three fronts is bringing the equations closer to balance. This week Paul Harrison looks at the crucial inputs of water and fertiliser to boost food production. Subsequent articles will examine programmes to improve nutrition; and to ease the pressure of population and open up the outer islands.



Irrigation terraces in Bali watered by non-technical village system

Paul Harrison

### Getting enough to eat in Indonesia

Indonesia's food production is rising as the country reaps the first benefits of an intensive campaign to provide more water and fertiliser

**Paul Harrison** is a freelance writer specialising in development

High-yield varieties of rice were developed for their ability to respond to extra fertiliser; they require adequate water to do so. Without these two essential components there can be no green revolution; they are now the limiting factors.

As population pressure pushes Asian farmers on to all suitable areas, and many unsuitable ones too, further extension of agricultural land becomes impossible. The only way to increase the effective cultivated area is by intensifying: fertilising to push up yields and irrigation to get two or three crops a year. Until recently, irrigation meant Western contractors building massive dams, at astronomical costs, with capital-intensive machinery, and often with considerable ecological damage to boot. By now the most promising sites have been filled and the oil price hikes have made funds scarcer. Emphasis is shifting, both in national programmes and in those funded by international agencies such as the World Bank, towards small-

scale schemes that do not involve massive social upheavals, cost modest amounts, and benefit small farmers most. They have the additional advantage that they can be constructed by labour-intensive methods and are more easily maintained.

Indonesia has gone farther down this road than most countries. On the fertiliser front, she has reached a position of near self-sufficiency in nitrogen fertiliser, after the establishment of a fertiliser industry was given top priority. Irrigation was allocated 60 per cent of the agricultural development budget, and agriculture itself got more money than any other sector. Both developments are now beginning to pay off. *Per capita* food production had been falling through most of the 1960s, but since 1970 it has caught up and passed the growth of population. Production of irrigated rice per capita rose from 149.4 kg in 1968 to 188 kg in 1971. New seeds played an important part, the spread of the seeds was severely limited by the availability of water. The proportion of farmers planting unimproved local varieties in the *dry* seasons actually rose from 39 per

cent in 1968-69 to 48 per cent in 1970-71. The new varieties mature in 120 days, against around 140 days for the older improved varieties—permitting two, or even three, crops per year for farmers who can irrigate for eight to 12 months.

The land surface of Indonesia is 203 million hectares, of which 13.5 million is agricultural land. In 1968 only 3 million hectares, 85 per cent of Java, were irrigated. For all Sukarno's flamboyant nationalism, there had been no expansion of the irrigated area since 1940. But by 1976, an extra 790 000 hectares had been brought under irrigation, an annual expansion of 100 000 hectares, enough to feed perhaps an extra one million mouths every year. The population is growing by about 3.4 millions a year, so this is not enough, but it certainly helps.

Of the irrigation systems that existed in 1968, 60 per cent were in need of rehabilitation because of disrepair or silting up. The process by which this came about epitomises some of the administrative and ecological problems faced by developing countries. Unlike those countries such as China, India, or Peru, that once supported advanced hydraulic empires there is little evidence on Java or Bali of complex large-scale irrigation networks (the ancient system on Sri Lanka was so sophisticated that the World Bank has now made a loan to rehabilitate it). There would have been little need for such systems here. Even in 1800, Java was quite sparsely populated, with only five million inhabitants. What irrigation systems did exist were small and primitive affairs, constructed and maintained at village level—much like those on Bali (see box).

#### The Dutch legacy

The Dutch started to build technical irrigation systems around 1820, but not out of any humanitarian motives. The Dutch East India company had collapsed with astronomical debts in 1799, due to the costs of defence. When they recovered the East Indies from the British in 1816, the Dutch government determined that the colony would not only pay for its own costs, but produce a handsome profit. This was achieved by forcing the natives to cultivate cash crops, principally sugar, on their land. The irrigation works were constructed to boost production of cash crops. But they obviously helped food production, too, because, by 1900, the population of Java had reached 30 million.

In 1949 the Dutch finally gave up struggling to hang on to Indonesia. They left a technology which could have been beneficial—but they did nothing to train their former subjects to understand and maintain it. They did less for education than perhaps any other colonial power (and none of them did much): at independence only 15 per cent of the population were literate and there were only 2000 university graduates, a mere handful of them engineers. Villagers themselves maintained the tertiary canals and below, as they had always done—but the major technical works fell into disrepair. Central gates rusted tight, weirs and beds were scoured and leaked precious water, and canals silted up so they could carry much less traffic than they were designed for. The silting problem was much aggravated by farmers moving onto higher and higher slopes and the resulting deforestation: the net outcome was erosion upstream—and floods lower down.

All of these problems are evident in the area of the Kaliprogro river in the special district of Jogjakarta in central Java, site of a rehabilitation project partly funded by Britain's Ministry of Overseas Development. Rainfall here is plentiful—2 to 3 metres a year—but there are five dry months. Areas without continuous irrigation can get only one crop of rice. With high-yielding varieties, those irrigated all the year round can get three. Hence, irrigation improvement can more than double yields in affected areas.

The central problem in the northern half of the project is faulty design by inexperienced Indonesian engineers early in the Sukarno era. A weir and intake at Karangtalun

siphons off eight cubic metres a second (cumecs) from the Kaliprogro river to feed two canals. An old Dutch canal, the Van der Wyck built in 1910, takes three cumecs while the other five go down the Mataram canal. This was started by the Japanese occupying forces in 1943. Soon after independence, the Indonesians extended it another 15 kilometres. To feed this, three times the existing flow of water would have been required, but no one seems to have thought of that. No work was done at the weir and intake to provide the extra water, so the canal stayed dry. Now the project is building a new weir and intake at Karangtalun to provide enough water to enable the extra 15 km of canal to be used, to irrigate an additional 13 000 hectares, and to speed up the flow and prevent the system silting up.

The other five cumecs will go down the Van der Wyck canal. The Dutch designed this one quite well, according to consulting engineer Doug Clendon. But silting up has reduced its capacity to 60 per cent of design. It will be cleared and widened. More silt traps will be provided—deeper, wider sections where the flow slows down and silt drops out, so that it can be flushed out by opening special scouring gates. Some rivers and streams that flow into the canal will be bypassed under it to prevent their loads of silt getting in.

All these technical solutions are answers to the same basic problem—making maximum use of water, treating it as a valuable and scarce resource, eliminating every potential source of waste. Elements of the colonial legacy still remain. Many of the Indonesian staff on the project are straight out of university and the UK consultants had to spend a year training them, during which time little design work was done. Poaching by the private sector goes on all the time, as public sector salaries are low by comparison. Because so many irrigation projects are under way at once, trained manpower remains in short supply. And UK aid is tied to the purchase of British-made products, but our sluggish exporters have little or no effective local servicing facilities. Spare parts usually have to be forwarded from Britain, and an over-bureaucratic customs can take three to eight months to clear them. Three trucks spent three months off the road when the drive gearing broke, a track loader was out of action for seven months, and so on.

The only poser about small-scale irrigation is: how small-scale is it worthwhile to get? Is it worth upgrading the tertiary and quaternary canals that until now have been primitive structures under village control? The effective community organisation in Bali has ensured neat canals, deep and narrow as they should be (see box). In Java maintenance is not so good, village canals are often wide and shallow and waste too much water. Some of the latest World Bank backed projects go down as far as fourth-tier canals, but there are so many of these that it gets expensive. However, the landless and near landless certainly need the work.

#### Self-sufficing in fertiliser

Fertiliser is the other component of increased food production. Before the green revolution, fertiliser use in Indonesia was extremely low. Even in 1972, with 19.2 kilos of nitrogen fertiliser per hectare, usage was only one-eighth of the Korean rate, for example. After the introduction of high-yielding varieties (HYV), fertiliser use increased by leaps and bounds—from 101 000 tonnes of nitrogen fertiliser in 1968, to 305 000 in 1972. This produced savings in food imports, but 80 per cent of 1972 fertiliser needs had to be imported. At that time fertiliser prices were only around \$60 per tonne—two years later they had multiplied sevenfold. Self sufficiency in food was not enough—it would always be vulnerable if Indonesia depended on external supplies of fertiliser at highly unstable prices.

Indonesia is ideally placed for self-sufficiency in

## Fair distribution in Bali

The Balinese evolved what is probably the most socially sophisticated system of village irrigation anywhere in the world. Every owner of land in a particular ecological unit—watered by the same stream or canal—belongs to a common organisation, the *sebak*, which maintains the system and controls water use. It meets once every Balinese month of 35 days, and has its own system of law called *awig-awig*. Every landowner has to provide free labour one day a month for repair and maintenance—the more land he owns, the more labour he must provide or pay for.

The *sebak* decides democratically on planting times—simultaneous planting is preferred to keep pests and diseases down, but if water is insufficient for everyone's land to be irrigated at the same time, the *sebak* works out a complicated planting and cropping rota to stagger the demand for water. Though landholding is far from equal, water is distributed with scrupulous fairness. Its supply is regulated into each parcel of land by a length of coconut tree trunk spanning the inlet. For every one *tenah* of land (0.35 hectares) he owns, each *sebak* member has a right to one *tektek* of water. A *tektek* is a gap four fingers wide cut into the coconut trunk (see photo). Anyone who attempts to cheat the system, and take more water than he is entitled to, can be tried by the *sebak* meeting and fined heavily.

The technology of the system is as primitive as its organisation is advanced. The weirs are just piles of stones in the river. The coconut trunk inlet regulates only the width of water, not the height. In the heavy rains of November and December flash floods often sweep away weirs and break down the bunds between fields. Farmers usually delay planting for as much as two months, until water supply is more even. That delay costs an extra crop of rice in most areas.



Figure 2 Water supply to individual fields in Bali is regulated by a slit coconut tree trunk

In Bali the small-scale irrigation effort has gone into upgrading the village systems—building permanent, solid weirs and primary canals and providing control gates that can regulate the supply of water. Areas that have already been upgraded have seen an increase in cropping intensity of anything up to 80 per cent.

In all the small-scale irrigation projects labour-intensive methods are used. Excavation, even of long tunnels, is by pick and shovel; waste is carried away in straw baskets on the head. Masonry is used instead of concrete; and the stones are collected and broken up on or near the site. One Balinese weir was getting the final touches when I saw it—workers were handsetting thousands of tiny pebbles into mortar to provide an attractive finish. P.H.

nitrogen fertiliser: it has ample supplies of suitable feedstock and fuel in the form of natural gas from the oilfields of south Sumatra, which used to be flared off and wasted. Indonesia's giant fertiliser factory, P. T. Pupuk Sriwidjaja (Pusri) opened its first plant at Palembang in 1959 with a capacity of 95 000 tonnes a year. It was only 70 kilometres from the oilfields. With the help of loans totalling \$215 million from the World Bank, the government commissioned three new plants for the Palembang site, with a total capacity of some 1.5 million tonnes of urea a year. Their energy consumption is prodigious—150 million cubic feet of gas per day—but the reserves are enough to last until 1997 which is the planned lifetime of the plant. When the fourth of these plants, due to open this month, gets into production, it will make Indonesia self-sufficient in fertiliser, soon becoming an exporter of urea to the other nations of south east Asia.

In Pusri's case there was no possible alternative to imported technology, though this decision involved its drawbacks. US and Japanese contractors handled everything from design and procurement to construction and staff training. US fertiliser plants do not need to carry a large inventory of spares as they can pool them with other plants nearby. Pusri has to keep spares against any eventuality. And where Western plants would be provided with essential infrastructure by the state, Pusri has had to build its own power plant to avoid the danger of power cuts halting production.

Fertiliser distribution is just as important as production. Pusri has its own fleet of ships and a dense network of wholesalers throughout Indonesia. Even that is not enough: poorer, smaller farmers have to be able to buy the stuff. One of the drawbacks of the green revolution has been that it was often only the richer farmers who could afford the extra investment needed to reap the returns of the new seeds. This situation has been wrongly blamed on the seeds themselves. A major problem has been the credit system, which favoured large farmers over small. To cope

with this problem Indonesia has evolved an agricultural extension programme known as BIMAS. This combines instruction on farming methods with a comprehensive package of inputs. For each hectare of land, the farmer gets 300 kilos of fertiliser, 25 kilos of suitable HYV seed, two litres of insecticide, 200 grammes of rat poison, and a share in aerial spraying. Fertiliser accounts for half the total cost of £40. The farmer gets the credit to cover this from the People's Bank of Indonesia, which now reaches most villages with mobile branches. The collateral demanded is the farmer's certificate of ownership of the land. As owners of smaller patches require a smaller package of inputs, they are just as likely to get credit as bigger farmers. So irrigation and fertiliser expansion is enabling food production to keep ahead of population growth.

But the issue of social justice, of distributing the benefits of the increased production widely enough, remains. In principle, the Indonesian government is committed to growth with social justice. In practice the two are not so easy to combine. The landless—growing in number as smallholdings shrink below the level of viability—may actually find themselves worse off as technological advance and commercialisation slashes employment opportunities. Access to adequate land is a precondition for sharing in the benefits. So is access to water. BIMAS does not cover farmers in dry upland areas: their potential for intensification is much lower and international research has been slower to produce the "wonder" seeds for their crops.

Similar problems face not only Indonesia, but every Asian country. Unlike Latin America, redistribution of land through land reform may make little difference: anyone who owns more than a hectare or two is a big landowner in Indonesia. Tenancy reforms would help. But the marginalisation of very small landowners and the landless probably has no solution on the land itself; the only hope for them is rapid expansion of employment in industry. □

# Indonesia: food, population, land

## Improving the people's menu

Indonesia is one of the most malnourished of all developing countries. In this second of three articles the author describes how it has now embarked on one of the most complex and ambitious nutrition programmes in the world

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The key to improving nutrition throughout the Third World is, first and foremost, increasing food production and employment opportunities. Even if farmers can produce more, those without enough land need sources of income with which to buy it, otherwise they may starve in the midst of plenty. But this two-pronged approach, especially the second prong, takes time to pay off; in the meantime, the poor suffer from malnutrition and other deficiency diseases. It should be possible to remedy the situation, in part at least, by helping people to put their scarce resources of land or money to better nutritional use.

In my last article (*New Scientist*, vol 76, p 417) I showed how Indonesia was trying to boost food production by improving the limiting factors of water and fertiliser use. It has now embarked, simultaneously, on a programme of applied nutrition.

The programme was urgently needed because, until recently, Indonesia was one of the most malnourished of all developing countries, especially in Java, the island that contains two-thirds of the national population. The FAO target for this area is a *per capita* consumption of 2300 calories per day and 55 grammes of protein. An unpublished FAO survey found that, in 1972, average consumption nationally was 2020 calories and 39 grammes of protein. On Java things were considerably worse, with 1850 calories and 36 grammes of protein. A government Department of Agriculture survey showed that the protein was badly unbalanced, with vital amino acids in short supply: cereals made up the bulk of the protein, with only 11 per cent from eggs, fish, milk, and meat and 13 per cent from pulses, seeds and nuts. Malnutrition is a disease of poverty. A 1970 National Social Economy Survey found adequate nutrition among the 18 per cent of the population with monthly incomes of more than 2000 rupiahs per month. Among the 43 per cent with less than 1000 rupiahs income, average calorie intake was 1400 (almost a crash diet in the West) and protein intake was 33 grammes. The extent of malnutrition is difficult to measure in a nation of relatively small people like the Indonesians (their smallness may, of course, be partly due to poor nutrition). But one survey of 30 villages found that 25 to 46 per cent of the population suffered from symptoms. The same survey discovered that 10 per cent of the women were underweight. Another measure of malnourishment is the high rate of spontaneous abortion and stillbirths: 63 per 1000 live births.

There are other widespread nutritional deficiency diseases in Indonesia. Xerophthalmia, the most advanced symptom of which is night blindness, affects nearly 5 per cent of under fives—the proportion rises with age to a peak of 8 per cent among three- to four-year-olds. This is due to inadequate consumption of vitamin A, because little fish, dairy produce, coloured vegetables, or greens are consumed. Anaemia is very widespread and may affect 80 per cent of rural women. Endemic goitre has been found in 62 per cent of boys and 67 per cent of girls—goitre is due to iodine deficiency, as iodine is lacking in the soil of large tracts of Java. UNICEF has attempted to translate

these prevalence rates into raw numbers, and the result is depressing: there may be 6 million children with mild to moderate malnutrition, and 600 000 with severe forms; 800 000 with vitamin A deficiency: 10 000 cases of xerophthalmia a year; and 12 million children with iodine deficiency. More than 3 million of the 5 million women pregnant at any time may be anaemic.

These are the facts of the situation that Indonesia's comprehensive new Applied Nutrition Programme is designed to alleviate. The underlying concept is the idea of village self-help—increasingly popular in all types of development programme. The government, with the aid of UNICEF and the World Bank, provides small, selective inputs of cash and medical supplies, plus a major input of research and training. The resources of the village itself are mobilised to provide the bulk of the programme's ongoing content.

### Barefoot dieticians

The barefoot-technician idea has been recruited for this sphere: the core of the programme is the nutrition cadre, a sort of barefoot dietician. These are literate local people, men and women, who have volunteered for the role and perform it without pay. The volunteer approach may not work in some countries. In Indonesia the spirit of responsibility to the community is well developed, and motivation of workers is not likely to be a problem.

That is just as well, because the nutritional cadre has a long list of functions: supplying diet supplement pills, providing nutritional first aid, organising the monthly weighing of children; organising supplementary feeding for the underweight; educating mothers in the principles and practice of good nutrition; and stimulating fathers to produce a better nutritional balance of food from their fields and gardens. Each village will get a nutrition package made up of 800 tablets of 200 000 international units of vitamin A, to be given to children every six months between the ages of one and four, 10 000 iron folate tablets to be given to pregnant mothers, 1000 packs of oralite, the UNICEF/WHO-developed compound for oral rehydration of children with acute diarrhoea; weighing equipment and growth charts. The cadres will be expected to administer "nutritional first aid" in acute cases. Gastro-enteric complaints are among the prime killers of young children throughout the Third World, and most mothers have no idea what to do when they attack. The cadres will administer oralite to afflicted children—and also teach mothers how to make their own rehydration drink (a litre of boiled water, with one teaspoon each of salt and bicarbonate of soda plus eight teaspoonsful of refined sugar, to be drunk at the rate of one glassful per motion).

Perhaps the key component of the programme—both in identifying cases needing extra resources and in motivating mothers—is the monthly child weighing. David Morley of the London Institute of Child Health developed the idea of child weighing as the best way of assessing the health/nutrition status of a child, and the "Road to Health Card" for recording the results. Wherever this card is used, the mother retains it so that all service personnel have access to it. The drawback in most programmes is that the



Photographs by Paul Harrison

*Left: supplementary feeding at Gunung Kidul; 150 calories and 15 g of protein per day produced notable weight gains*  
*Below: Improved UNICEF goats at Beriharjo quadrupled the milk yield*  
*Bottom: Salt production in thousands of traditional factories makes iodisation of salt—to prevent goitre—a problem*

child weighing is done at health centres or mother-and-child health centres. These suffer from the endemic problems of all types of clinic in the Third World: they are too distant from clients, socially, economically and geographically. Mothers cannot afford the time or the fares to go and queue up at a clinic for a routine weighing that may merely show that their child is OK.

#### 'Eggs are good for you'

Staff from the Medicine Faculty at Jogjakarta University, the Rockefeller Foundation, and the provincial health authority experimented with ways of bringing weighing to the client groups. Rockefeller's Dr Jon Rohde explained that the mothers themselves told him: "We're tired of hearing stuff like 'eggs are good for you'. How do we know if our kids are OK or not? How can we tell if it's worth a visit to the clinic? What can we do here in the village about it?" Experiments were carried out in several villages using groups of mothers themselves to carry out the weighing by a simple, village-market hanging scale with a pair of denim pants on the end of it. The health/weight message was simplified to: a child not gaining weight is not healthy—a child gaining weight is not seriously ill. Records of weight gain gave the mother herself a visible measure of her child's health status. If a child was found to be losing, or not putting on enough weight, mothers of children who were progressing would help out, and give the mother in question advice on how they feed their own children. This procedure exploits what the Indonesians call "the wisdom of village motherhood", the distilled experience of many generations on feeding sick or finicky children with limited resources and locally available foods—how to interest a child in greens, how to make maize more palatable, and so on. Rohde has other ideas for the uses of weighing: he suggests it should be used to motivate sensible child spacing, to urge mothers not to have another child before the last one has reached a weight of at least 13 kilos. This would happen, on average, at age 3½, in Indonesia—but children in poor, or badly nourished, families would take longer and therefore their children would be more widely spaced.

In the official programme, nutrition cadres will organise





mothers into weighing groups and help them weigh their children every month. Training courses urge them to "select a suitable but non-luxurious place for weighing so the mothers will not be bashful", and to "call the brave children first". The cadre will help the mother to record the weight on a record card specially designed for the programme, with a series of coloured curves marking the weight progress a healthy child ought to be making—if a child progresses on his own colour—or higher, he's OK; if he drops on to a lower colour band, there's something wrong. The record card also carries visual symbols as to the precise dates on which vaccines (smallpox, TB, polio, diphtheria, whooping cough, tetanus, cholera, typhoid and paratyphoid) and the megadoses of vitamin A should be given.

#### Treating the ones in need

If the child does not gain weight normally, the cadre checks with the mother if he has had any illnesses, what his appetite has been like, asks her about what she gives him to eat, suggests changes in the diet. Usually, with the help of the other mothers, this is enough to do the trick—but if a child fails to gain weight two months running, he is referred to the health centre. Hence scarce medical resources are reserved for those who really need them.

The most underweight children are selected for supplementary feeding. In the official programme, these selected children get an additional 150 calories and 15 grammes of protein every day for 120 days, in special meals that the mothers themselves, helped by the cadres, cook. So, at the same time as their baby is recovering, they are informally learning new recipes and foods they can provide, to prevent the problem happening again. This amount of food is unlikely to be enough to make up any real deficiencies in diet: nevertheless, the children almost all make good progress. The reason is that the mother is now paying much more attention—and informed attention—to feeding him properly. In the official programme, the government pays for this supplementary feeding. But the eventual idea is that the villages will set up nutrition committees and organise a levy—in money or in food—on the inhabitants to set by a store that can be used for supplementary feeding. Selection of candidates for this by weight ensure that surplus food is administered selectively as if it were a medicine instead of in a blanket way as in most food supplementation programmes.

Education is another important function of the cadre. He or she is expected to make an inventory of local food rich in essential nutrients, to check on local food prices, and to prepare menus that use locally available cheap foods in the most nutritious way. These are then taught to mothers at joint cooking sessions, at the supplementary feeding meals, and on other occasions. At meetings like these, or at local women's groups, the cadres are expected to teach women about nutrition principles, the central importance of breast feeding, the extra food needs of pregnant and nursing mothers, rehydration, and ways of cooking greens and beans for young children. One of the tricky problems is that beans, especially soya beans, are rather indigestible for young stomachs and have to be processed into *taho* (soybean curd) or *tempe* (digested by mould, then cooked complete with the mould).

The fifth part of the programme relates to the production and storage of food. Most Indonesian families, even the "landless" ones, have some land—often as much as a quarter hectare—around the house. Here they grow fruit and vegetables and may raise the odd goat or chicken. While the fields provide the staples—rice, cassava—the home garden is extremely important as a source of extra protein, vitamins and minerals. The cadres are trained to teach fathers to grow more carotene and iron-rich vegetables and fruit, more legumes and nuts. The Bogor

Institute of Agriculture will research a suitable package of improved seeds that could be distributed for home gardening, and agricultural extension workers will be trained in home gardening as well as the production of staples. There are other steps families and villages can take. At Beriharjo, one Gunung Kidul village I visited, UNICEF had provided 13 goats of an improved breed, that gave two litres of milk a day compared to the stunted local goat's half litre. The male goats were being used as studs to improve the local stock, and the village has now got nearly 50 improved goats. In the same village UNICEF had provided several large fish pounds. Families here had made other changes in their diet: they were now planting Chinese cabbage, which they were unfamiliar with before, and cooking cassava leaves for their protein.

It is difficult to imagine a more comprehensive nutrition programme. It will clearly upgrade everyone's diet to some extent, and make sure that limited resources for supplementation are channelled to those who need them most. As malnutrition among children—the main sufferers in any case—is inseparably linked with health, the programme will be linked with a health programme of a community delivery or barefoot-doctor type, and speeded up programmes of water supply.

Despite all this, its impact is likely to be limited, for it is arguable that the root cause of malnutrition is poverty and shortage of land. Studies of the elasticity of demand for foodstuffs in the Third World show that as people's incomes increase they spend more money on protein-rich foods and less on the bare providers of calories, like cassava. Whenever they have feasts, the side dishes with the all-important extras are always there. Poor nutrition seems to result from a strategy for survival.

Farmers with a small patch that is continually dwindling in size and fertility will naturally attempt to maximise the calories they can get from it. That means growing cassava in increasing proportions—calories at the expense of every other type of nutrient. A study of three central Javanese villages found that between half and two-thirds of the families owned only a home garden, a house plot, or no land at all. In these circumstances the role of the home garden as source of protein, vitamins and minerals in the diet gives way to the need for calories. In place of scarce land, the completely landless have the similar problem of keeping alive on little money. Cassava provides pure calories a good deal cheaper than rice and tends to supplant it in the diet.

The survival strategy also affects the distribution of food within the family. Nutrition cadres are encouraged to urge mothers to steal a little extra from father's plate for the smallest, most vulnerable children. But where food is scant, nutrition of the breadwinner takes first priority—if he falls ill or slackens, everyone suffers. If the fourth or higher child of the family dies, or the mother has a miscarriage because she is too malnourished to sustain the pregnancy, that is a matter of less consequence and may even be a cause for relief. Urging the poor and landless to eat more wisely and feed their children better may well fall on deaf ears until their poverty has been alleviated. Without that, it may in fact be impossible to improve nutrition and child health. The nutrition programme will initially reduce infant mortality. Fertility will take 10 to 50 years to adjust itself downwards. So there will be even more mouths clamouring for the limited food resources, and nutrition will automatically worsen again.

It is a vicious circle that cannot be broken unaided by the poor village or the poor family. Clearly, some unnutritional deficiencies—goitre, xerophthalmia, anaemia—can be alleviated very cheaply with minor outside inputs. But the major problem of malnutrition demands major inputs to be made in order to attack its root cause: shortage of land and of employment. □

# Indonesia: food, population, land

## Can Indonesia farm the swamps?

Indonesia is attempting to ease the pressure of population by farming the rain forest.

It is taking into account the ecological and social perils ignored in many other projects throughout the world. But even here, efforts are threatened by the poverty of the soil and of the settlers

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Spontaneous migration has been going on for millennia. In search of survival, people spread out under their own steam into all the empty areas they are able to cultivate. Increasingly, developing countries are encouraging people to move to virgin territories (transmigration), especially as an alternative to joining the throngs moving to the cities. But, at this advanced stage in human history, if large areas remain empty, it is because farmers, with the technology at their disposal, cannot make a living out of them. With few exceptions (eg the river valleys of West Africa now being cleared of river blindness), the areas of colonisation are laborious to clear and relatively infertile when they are cleared. They require considerable investment to open up and a high level of fertiliser use and skilful husbandry to keep going in the long term. They are usually areas with a precarious ecology—most often rain forest. Without expert back-up and some powers to make farmers comply with expert recommendations, these areas can soon deteriorate irrevocably. Hence the migrant can find himself transplanted from an ecological frying-pan into a slow oven that could still frizzle him, or his grandchildren, in the end.

Indonesia's vigorous programme is a good example of the promise, and dangers, of transmigration. It is one of the few countries in overpopulated Asia that still has large areas for potential settlement. The central problem is that Java, with only 7 per cent of the land area, has 65 per cent of the population. The average density of Java is 660 persons per square kilometre, with pockets of 2000 and more in some rural areas in the centre and east. By contrast, the outer islands are sparsely inhabited. For example, 38 per square kilometre in Sumatra. There are excellent reasons for this distribution, and they are the same reasons why transmigration is problematic. Java's soils are extremely fertile, fed by a range of volcanoes that have spewed out ash, plus lava that has been leached down on to the plains as alluvium. Rainfall is lower than on the outer islands, and there was no climax of impenetrable jungle to clear before settling. The good soil, plus the system of *sawah* (irrigated paddy), has permitted continuous cultivation for centuries with no loss of fertility.

### Cutting the rainforest

The main islands of settlement suffer from excessively high rainfall, supporting rainforest. Once the forest canopy is removed, the heavily leached soils quickly lose what little fertility they have. Aboriginal settlers used the only form of cultivation such a system can support without fertilisers: shifting cultivation, clearing and burning a bit of forest, growing mixed crops or dry rice for two to five years, then moving on to another patch, letting the used bits recuperate for a decade or two. But this *swidden* system tends to break down as population increases—instead of secondary forest, *alang-alang* grass invades the abandoned clearings, and with its immense roots is almost impossible to remove.

Until the late 1960s there was little understanding of these limitations of the rainforest. Transmigration was

encouraged by the Dutch from as early as 1905, and pushed hard under Sukarno. Both assumed that Javanese style *sawah* agriculture could be transplanted but the technical backup and infrastructure were non-existent. With endemic malaria and other swampy ailments, settlers were lucky to survive. Without fertiliser, rice yields fell within a few years so farmers, in a desperate bid to keep up their calorie intake, shifted to cassava. As no land was provided for subsequent generations, land ownership became fragmented. Indebtedness and landlessness appeared, just as on Java, and many third generation settlers found themselves forced to migrate once more.

A new generation of technocrats under Suharto led to a more thorough approach. No transmigration project is now undertaken without a thorough survey. As well as getting free land and houses, settlers are provided with the essential backup services without which they cannot hope to prosper: roads, health centres, credit, seeds, fertiliser, tools, and agricultural extension. It is a measure of the inherent difficulty of opening up virgin land that despite all this, serious problems still threaten the future.

Delta Upang is one of the new settlements, transformed from swampy coastal forest into farmland. It is a 26 000 hectare, wedge-shaped island between the Musi and Upang rivers on the east coast of Sumatra. The climate is promising for agriculture, with constant temperatures of 28°-30° C and some rainfall all the year round. The soil in the main farming area is a beautiful dark brown peat with 80 cm of humus that has been enriched with minerals from alluvium washed down from volcanic areas.

The bold idea behind Upang was to use tidal influences to irrigate the land so rice can be grown. In the rainy season, high tides raise the level of river water above the land. Three primary canals were dug by excavator across the island, linking the two rivers, with secondary canals at right angles to the primaries. The tertiary canals supply the water to the fields, while a separate set of canals drain it off. Supply and drainage are controlled by a series of simple aeroflap gates, which remain closed to allow water to be retained after the tide has dropped below the land level. The land can be drained any time at low tide simply by opening the drainage gates. The river level is high enough for tidal irrigation for only four months of the year (December to March), enough time for one crop of high yielding rice to be sown and harvested. For six months of the year the canal water is too brackish even for irrigation with pumps, but rainfall is high enough for almost any variety of rainfall crop.

Settlers began arriving at Upang in 1969 and there are now 1600 families. Each transmigrant is given two hectares of land, a house, tools, seeds, and enough food for the 18 months it can take to bring the land into adequate production. A research station—located on the best 17 hectares of land—investigates suitable varieties and practices. The station has established that two crops of rice can be grown in a year, a wet one of 2-3 tonnes and a dry one of 1-1.5 tonnes, without any fertiliser. At the prevailing prices for rice, this would give the farmers an income of 250 000 rupiahs (£350) which could be augmented by growing maize and cassava plus cash crops like bananas on dry plots.



Many migrants supplement their income selling wood (above). Javanese transmigrants at Delta Upang planting rice (right), where the methods are still those of subsistence agriculture



Photographs by Paul Harrison

The station recommended that no fertiliser should be used for 16 years, but that farmers should keep up the organic content of the soil by digging in all waste plant material and weeds and by practising mixed farming with livestock. Unfortunately, the research station has no power to compel farmers to follow its suggestions. Its conclusions pass through three levels of bureaucracy down to the agricultural extension workers, and the message does not seem to get through to the farmers. As a result, yields are much lower and ecological dangers much higher than they might be.

To find out why, you have to talk to individual farmers. Jasco Suwito came to Upang from central Java eight years ago when he was aged 32. His father was a landless labourer. After several years of dwindling opportunities on the land, Jasco joined the urban exodus and became a rickshaw driver in Jogjakarta. At the time of my visit, at the tail end of the dry season, he had only one-fifth of his two hectares under cultivation, growing cassava. He and three of his six children were hacking back the dry season's crop of weeds from the other four-fifths, ready to plant rice in time for the high water. I asked him if he would dig the weeds in. He said he would burn them. Why? Because it would take too much work to dig them in and he couldn't afford to pay labourers. Why didn't he borrow money from the local branch of the People's Bank, which lend to smallholders using their ownership certificate as collateral. He said he didn't want to go into debt, because that was how people ended up losing their land. Why did he cultivate so little of his land in the dry season? It was too much work, he said. So what did he do with himself? A bit of construction work for the transmigration department, a bit of tree felling to get firewood for sale at three rupiahs a stick. But

why was it too much work to plant his land in the dry season—he was going to clear it now to plant rice, why couldn't he manage that twice a year? It wasn't worth the effort, he answered. The rats would eat whatever he planted.

It seems that when the forest was cleared, the local rodent population found itself without food supplies, so they gratefully accepted the new offering of human crops. In Java, rats are a perennial problem too, but there are so many people in the fields all the year round that their numbers are kept down. Here the density of farmers is too low, and most feel they cannot afford poison.

Kagat was the first settler in Upang. Hard work has brought him a limited prosperity. He has built a larger house for himself, and owns a canoe, a sewing machine, and two Brahmin cattle. But he complains that things are not going so well. His rice yields have fallen by half since he started. He too uses only a small part of his land during the dry season. Well, I prompted him, at least he could feed the grasses to his cattle? No, he replied. His wife was dead and he has no grown up children at home. So he has to employ contractors to clear the field, and they burn the weeds. He daren't graze his cows in the fields, because he is afraid they would wander and trample his neighbours' crops.

All the farmers I spoke to were getting yields of only two tonnes of rice a year—half the potential. The basic reason for all their deviations from what was recommended was their poverty; they were unable to pay for the inputs of pesticide or labour that would be needed to get the higher yields. This, in turn, kept them poor. For the same reasons, they were mining the soil, taking snatch crops of paddy, switching to cassava when the yield dropped. They were not conserving the soil structure or fertility for future generations. The 80 cm of organic matter are shrinking by 5 cm a year, which doesn't leave much time.

Delta Upang may just pull through. Some settlers clearly are producing a surplus—enough to attract throngs of boats along Primary Canal Two loading up with cassava and firewood, and traders to the market that has sprung up there. But clearly life is going to be a struggle.

Is transmigration worth the effort? Individually, all the farmers I spoke to felt they were better off than before. The congested areas they came from will also benefit from the easing of pressure on land and jobs. But the Indonesian government is under no illusions that transmigration offers more than a palliative to the population problem. Since the beginning of the century, about one million settlers have left Java. Even if the projected rate of 100 000 settlers a year is achieved, it will absorb only 7 per cent of the annual increase on Java alone.

Transmigration programmes are costly for two reasons. One is the expense of clearing rainforest or irrigating semi-arid areas. The other is that transmigrants are almost always provided with a superior level of services—schools, health centres, and agricultural assistance—than is available to the average rural area. Because of this there is a danger that they might be preempting scarce resources and manpower that are more urgently required—or could be more productively applied—elsewhere. For example, intensified agricultural assistance to the traditional farmers of Sumatra could enable them to farm permanently on a much smaller area, thus releasing productive, more cheaply accessible land for transmigrants.

But the ecological dangers are more serious. Indonesia has 120 million hectares of forest. Of that total, 45 million may be potentially suitable for agriculture. The activities of logging and mining companies—extremely difficult to police in dense rainforest—may be more of an immediate threat. But unwise farming can degrade an area more thoroughly, and sometimes permanently, in only a few extra decades. □

**World Bank**  
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Translation

# In Indonesia with the World Bank

ALAIN VERNAY

December 5, 1976

What an exemplary country Indonesia seems to be when it is shown off by officers of the rich and powerful World Bank, those cosmopolitan managers in all fields, who are out there working for the development of this sumptuous but terribly poor land, in some places grossly overpopulated (out of a total of 130 million Indonesians, 80 million live in Java alone, i.e. 1,200 per square kilometer), while many of its 3,000 islands are infertile and almost uninhabited.

Traveling from the ancient landscapes of Bali, with their rice terraces irrigated by a thousand streams, to the marshes of Sumatra and the congested countryside of Java, where latifundia start at five hectares, we kept stumbling onto some productive World Bank project, thanks to carefully devised itineraries. Even for the experienced traveler of the highways and byways of Asia, who knows the extent to which resources are outweighed by needs, this guided grand tour takes on some of the characteristics of a philosophical tale, with its edifying yet bitter lesson that everything is for the best in the best of all possible worlds.

On the whole, our group of eight nationalities was pretty sophisticated. We all knew about the balance of payments difficulties resulting from Pertamina's inability to honor its obligations in 1975, the result of extravagant investments by General Sutowo, the spendthrift president of that State-owned oil company, who was deposed in March of this year.

We all remembered what had happened a little over ten years ago: the attempted coup d'etat by officers close to the Communist party, IKI, which up till then had been protected by President Sukarno; the reaction by the moderate military faction, which made General Suharto President, while the Indonesian people, 97% Moslem, massacred hundreds of thousands of Chinese, either because they supported the communists or because they were running the financial circuits, which is still partly true.

In this respect, the Chinese have been acting partly for their own account and partly for that of powerful Indonesian allies: even today there is no high-ranking military man or top-level civil servant who does not have his "Chinaman" in the same way as he has his "smuggler," who brings him from Singapore items that cannot be found in his own country. But no Chinese in Indonesia are allowed to live outside the major cities, and the ongoing census is likely to continue, because of passive resistance by the parties concerned, at least until the year 2,000.

## The Worst and the Best

But all this goes on behind the scenes. Visible and tangible reality is what is important. Thus the World Bank has shown us rubber plantations created for landless rural dwellers. The people also receive training in the case of these plantations. True, their number is limited, and the lots are distributed by the village chief, who is elected in proportion to the number of presents he himself has distributed and is anxious to pay off his debt by granting favors to those who elected him. But these small properties, where expert help is provided, can be distinguished from the others as easily as Israeli from Jordanian fields on the opposite side of an unmarked frontier.

The aim of this trip was undoubtedly to get a firsthand idea of the impact of the daily, painstaking and perforce utterly inadequate activities of the World Bank, whose President McNamara makes an annual presentation of global targets. It was not a question of showing

us whether or not Indonesia was a good risk for large-scale investments, which in any case are essential because of its population density (Indonesia is fifth in the world in terms of population and 17th in terms of area) and also because of its low standard of living (\$145 per capita per annum). Between 1965 and 1966, the annual inflation rate of 600% fell to less than 10%, but is now back up to 25% in the wake of the universal trend.

So how much can be accomplished by the \$500 million contributed each year by the World Bank? A great deal, in fact, since each of its eight loan categories has multiplier effects that extend far beyond the actual loan figures. It guards against the worst, and allows for the best.

By the worst we mean the orders of the most expensive and highly sophisticated equipment financed out of the earnings generated by 60 million tons of petroleum: lavish buying of this kind is flattering to the national pride, and the Indonesian negotiators have not lacked a certain interest of their own in such transactions. This is understandable in a country that is so poor and, in principle, so egalitarian (a general earns barely four times as much as a common soldier) that bribery and corruption according to social rank make it possible either to merely survive or else to put away half a million dollars a year.

The best is represented by the prestige and de facto priority given to projects in which the World Bank takes part, such as Indonesia's effort to achieve self-sufficiency in the fertilizer production field.

However, the World Bank does not intervene in any way in the negotiations between the Indonesian Government and international groups, as the US Embassy in Monrovia used to dictate to President Tubman the Liberian policy for recourse to foreign companies. General Ali Murtopo, President Suharto's most trusted associate and foreign policy and defense adviser, and the real chief of the information services, told us that the World Bank had "taken the initiative to advise his country to change the distribution of profits in petroleum contracts from 40-60% to 15-85%."

This was not the case. A minister—one of the 22 remaining out of 130 following government cutbacks—told us that the inspiration had come from a letter from the IMF: this turned out to be simply a study comparing the respective profits in the different OPEC countries, which showed that with a 15-85% distribution there would still be one dollar per barrel for the oil companies.

The development targets were selected by the Repelita I and II planners. As in Brazil, the generals who hold most of Indonesia's ministerial positions acknowledge the superiority of a number of remarkable professors, who have studied abroad and are powerful enough for their rivals to call them the "Berkeley Mob." Their lack of self-interest is the key to their prestige and sometimes to their difficulties also. What the World Bank does for Indonesia is to help within the limits of its commitments to effect the transition from the conception to the execution stage of Repelita.

Thus the World Bank-supported projects become models, for example in the field of migration. The Indonesian Government, unlike the Brazilian Government in opening up the Amazon Highway, seeks less to settle river banks and wilderness frontiers than to correct the imbalance of its population. The labor force is increasing by 1.4 million a year, and at most 150,000 of these persons could find land if the migration program ever attains its ambitious goals. However, the recipients of such land do not worry about numbers when it is their lives that are being transformed.

And in the swampy areas of Jakarta, the kampungs, where the roads have been paved and there is a water faucet for every 600 people, children in their hundreds rush out to the visitors hoping for a friendly pat or handshake and a smile in the same way that children elsewhere look for handouts of money. The World Bank's activities may certainly look like social acupuncture, but they do alleviate many sufferings.

Hence also the importance of the family planning program put on in Bali by the village chiefs: large boards are set up in the open air showing the name of each head of family and the precise method of contraception chosen by his wife. The progress of birth control will perhaps be facilitated by the Government's decision to distribute rice and other staples at subsidized prices only on the basis of two children per family and no more.

Another basic aspect of World Bank assistance is to get foreign lenders to believe that Indonesia will honor its earlier obligations, which then enables the country to secure the new loans it needs if it is to keep going.

Is this a virtuous circle? Definitely, within certain limits. Or a vicious one? Undoubtedly, and even beyond those limits: Indonesia's indebtedness represents 9% of GDP and 19% if the debts of national companies are taken into account. This is close to the threshold that cannot be crossed, even with proven oil reserves that will last for 25 years before Indonesia finally stops being an OPEC country and simply remains a major coal producer. For there are no fantastic subterranean treasures in this land.

#### Outbreaks rather than True Revolution

When speaking of its future, one cannot help but wonder whether Indonesia, after the bloody outbreaks of 1965 and the brief uprisings of January 1974, is actually an "extinct social volcano." The question cannot be avoided. Professional duty demands a reversal of Napoleon's concept: look first, act later.

My personal conclusion is that Indonesia is a country of extreme rather than explosive inequalities, for two reasons: (i) it may be poor, but no one lives below the absolute poverty line, as happens in so many parts of India, and (ii) desert areas and seasons of drought are relatively few and far between, so that once the galloping population growth rate slows down the future will perhaps be better than the past.

Since it is an island and therefore cannot be a domino in the South Asian game, Indonesia seems to be a country of rumblings and brief uprisings rather than one of true revolution. Why? Since the abortive PKI coup d'etat in 1965 there has been no rural guerilla zone as there is in Thailand or in Malaysia. The officers have found public offices and sinecures; the police, which is part of the army, does not represent a counter-power; students, who are closely supervised yet very much pandered to, can get nice fat fellowships and trips abroad, provided they demonstrate leadership qualities; parliamentarians have no role to play, and civil servants do not concern themselves with major issues. The mass of the people are not politically aware.

But the present equilibrium surely runs the risk of being challenged when in two years' time the generation of military men who carried on the guerilla war first against the Japanese and then against the Dutch comes to retiring age. To maintain continuity, President Suharto will have to keep in post some 183 officers, which does not seem beyond the bounds of probability.

Corruption, the subject of so much talk—just how serious a threat does it represent to the regime? Taken to excess it becomes an element of discord, but within moderate limits it can be an element of cohesion, without which the economic and social machinery cannot function. But just which stage has it reached? There is a frequently heard pun on the first name of the President's wife, Tien (meaning ten)—she is popularly known as "Mrs. Tien Percent," though some say this is only an approximation, and that the percentage should in fact be added onto 20 if not 50.

Just how spontaneous are the rumors one hears in Jakarta? Since we cannot be sure, we shall simply recount our personal experiences during ten days in September. At two receptions on the 18th, all we hear about is the list of the ten wealthiest Indonesians that has come out in Hong Kong's South China Morning Post. Mrs. Suharto is at the top of the list, with the President in third place—I am told this is not as ridiculous as it seems, since it often happens in upper-class Indonesian families that the wife handles her own fortune individually.

However, since the second person on the list is the incorruptible Professor Ali Wardhana, Minister of Finance, who is only moderately well off, and the seventh is General Sutowo, who amassed immense riches as President of Pertamina, it is assumed that he is the instigator of the whole thing. The experts tell me that it is an indirect warning to President Suharto, of whom he has long been an intimate, not to betray him in the Indonesian courts.

And this will have to happen if Indonesia is to be able to plead before the rest of the world that, since Sutowo has exceeded his powers by chartering tankers for \$3 billion, the Indonesian government is justified in refusing to pay for unilateral cancellation of the charters. Some tell me it is a warning shot from the technocrats to the army officers, while a minority thinks it is the opposite. I finally telephone Hong Kong and find out, some time before the news breaks in Jakarta, that the newspaper has not published any list of the kind.

On September 20, the President issues a message affirming that he has never granted the slightest favor to his family, while official spokesmen recall his speech on April 16th ordering his ministers "never to commercialize their public office."

At a dinner on September 21, I am told by my host, the Minister of Information, that there is nothing new on the domestic scene. Next morning, the "Sawito Affair" is blazoned in enormous headlines across the newspapers: this obscure little official has managed to get a letter signed, demanding the return of moral values in Indonesia, addressed to elder statesman Hatta and to the Roman Catholic, Protestant, Moslem, and "Javanese mystic" leaders. These influential men are all vying with each other to let it be known that they have been deceived, that they did not understand that the words of the insignificant Sawito were inspired by policy and not moral considerations. As one may they deplore the fact that they have been made fools of, and loudly reaffirm their loyalty. On September 24th, the President's brother, Probosepido, holds a press conference to affirm that contrary to what has been said, the lucrative monopoly on clove imports has been conferred upon him solely by virtue of his business acumen, not because of family connections, although the prestige of the Head of State cannot do any harm to his commercial undertakings.

During the next few days, the Indonesian censors, who are always very active, proceed to clamp down on press articles concerning nepotism and conspiracy.

What is one to believe? People in the know are convinced that this series of incidents is not unrelated to the elections that are to be held next spring to give a new boost to the democratic process without the slightest risk of altering the majority or even the balance of these factions. When all is said and done, the chief cause—or even effect—of the Sawito affair would be that the preparation of all the polling machinery would be entrusted to General Ali Murtopo, the man who discovered the conspiracy, and not to his rival, the chief of military security, who didn't know a thing about it.

This interpretation is reassuring, and it is tempting to believe it when we see that these upheavals have not had any effect on either domestic or foreign investment. After all, and this is also one of the peculiarities of this country where there is no exchange control, there has been no major flight of capital. On the contrary, the fruits of corruption, with a few important exceptions, have been plowed back into the country, rather than following the international investment circuit. This is perhaps a form of morality in this country of moderate Islam persuasion, where western criteria cannot really be applied.

Indonesia deserves the support of the western countries, in addition to that of the World Bank, and still has many efforts and sacrifices to make if it is to emerge, largely by its own strength, from the group of lowest-income countries.