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McNamara Papers

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Travel briefs, multi countries

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Folder 1 of 5

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WBG Archives

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

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

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

GA-986 DC9
Marco Polo Hotel

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

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

CKW May 7, 1979

INDONESIA IA

**ITINERARY IN INDONESIA
OF
PRESIDENT OF IBRD/WORLD BANK
Mr. ROBERT S. McNAMARA**

May 10 - 15, 1979

2. Martono, Minister of Transmigration
3. Brigadier General Kadusno, Director
General for Transmigration
4. Dr. Soegito Sastramidjojo, Director
General for International Monetary
Affairs
5. Brigadier General Saenan Sagiman
Governor of South Sumatra will travel
from Batavia - Pematang Pangang -
Pematang

2. Martono, Minister of Transmigration
3. Brigadier General Kadarusno, Director General for Transmigration
4. Drs. Soegito Sastromidjojo, Director General for International Monetary Affairs
5. Brigadier General Saenan Sagiman Governor of South Sumatera will travel from Baturaja — Pematang Panggang — Palembang

II. Party Visiting South Sumatera

A. World Bank

1. Mr. Robert S. McNamara President of the World Bank
2. Mr. C. Koch-Wester, Personal Assistant to the President
3. Mr. William Clark, Vice President, External Relations
4. Mr. S. Shahid Husain, Regional Vice President, East Asia and Pacific Region
5. Mr. J. Baneth, Director, The World Bank Resident Staff in Indonesia
6. Mr. M. Altaf Hussain, Chief, Agriculture Division
7. Mr. Bevan, Agriculturalist will travel Tanjung Karang - Baturaja - Palembang

B. Indonesia

1. Drs. Harun Alrasyid Zain, Minister of Manpower and Transmigration

PARTY OF PRESIDENT OF IBRD/WORLD BANK

1. Mr. Robert S. McNamara
2. Mr. C. Koch-Wester
3. Mr. S. Shahid Husain
4. Mr. W. Clark

Accommodation: Hotel Borobudur Inter-Continental

PROGRAM

Thursday, May 10, 1978

19.45 Arrival at Halim Perdana-
kumamah Airport by PR 535

B. Indonesia

1. Prof. Ir. Soedarsono Hadisapoetro,
Minister of Agriculture
2. Ir. Wardoyo, Director General, Food
Crop Agriculture
3. Ir. Soeyono, Director General, Water
Resources Development
4. Drs. Soegito Sastromidjojo, Director
General for International Monetary
Affairs

I. Party Visiting West Java, East Java and Bali

A. World Bank

1. Mr. Robert S. McNamara, President of the World Bank
2. Mr. C. Koch—Wester, Personal Assistant to the President
3. Mr. William Clark, Vice President, External Relations
4. Mr. S. Shahid Husain, Regional Vice President, East Asia and Pacific Region
5. Mr. J. Baneth, Director, The World Bank Resident Staff in Indonesia
6. Mr. J. Caparas, Irrigation Engineer *)
7. Mr. Ping—Cheung Loh, Deputy Director will travel from Sumberejo
8. Mr. Ballereau, Loan Officer will travel from Surabaya

*) Cirebon — Citangtu replaced by Mr. M. Altaf Hussain, Chief, Agriculture Division

Friday, May 11, 1979

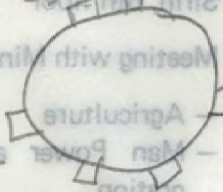
- 08.00 Meeting with Coordinating Minister for Political and Security Affairs
at : Jl. Merdeka Barat 15
- 09.00 Meeting with Ministers of :
— Finance
— Trade and Cooperative
— Administrative Reform and Governor of Bank Indonesia
at : Bank Indonesia, Jl. Kebon Sirih, 6th floor
- 10.00 Meeting with Ministers of :
— Agriculture
— Man Power and Transmigration
— Public Works
at : Bank Indonesia, Jl. Kebon Sirih, 6th floor
- 12.45 — 14.15 Lunch at Bank Indonesia, Jl. Kebon Sirih, 6th floor

14.30 - 16.30 Meeting with Coordinating Minister for Social Affairs at : Jl. Merdeka Barat 3

16.30 - 18.30 Meeting with Ministers of :

- Industry
 - Mining and Energy
 - Communications
 - Research and Technology
- at : Bank Indonesia, Jl. Kebon Sirih, 6th floor

SEDA



SADLI
 Ali NUR LUEDIN
 - bus. man
 SARDINA
 economist

Lunch at Bank Indonesia, Jl. Kebon Sirih, 6th floor 12.45 - 14.15

tlement and draft animal cultivation demonstration; talk to settlers.

Briefing by Messrs. Harsono and Sumarsidik

15.00 - 15.45 Pematang Panggang to Palembang by Helicopter

16.00 - 16.30 Leaving for Jakarta by F 28.

*Proyeksi land project as graduate
 land clearing
 the village and project as tree.
 Result: one family
 27 cement tanks
 Delay 2*

* Cirebon - Cianjur replaced by Mr. M. Alif Hussain, Chief, Agriculture Division

**PROGRAM FOR FIELD TRIP
TO SOUTH SUMATERA
MONDAY, MAY 14, 1979**

- 07.00 – 07.30 Jakarta to Tanjung Karang
by F 28
- 07.30 – 08.00 Tanjung Karang to PNP X by
Helicopter
- 08.00 – 09.00 Visit coconut seed garden,
briefing by Mr. Husni, Inspec-
tor
- 09.00 – 10.00 PNP X to Baturaja by Heli-
copter
- 10.00 – 13.15 Visit transmigration I. Villages
2 and 4, rubber area, seed
farm, health post and school;
talk to settlers. Lunch (30 min.)
briefing by Mr. Koesnan
- 13.15 – 13.50 Baturaja to Pematang Pang-
gang by Helicopter
- 13.50 – 15.00 Visit GOI Transmigration set-

Saturday, May 12, 1979

- 07.30 Visit to West Java, East Java
and Bali (details are attached)
- 18.30 Arrival at Ngurah Rai Airport,
Denpasar
- Accomodation : Bali Beach
Hotel
- 20.00 Dinner and Cultural performan-
ce
- (Dress : Batik/Casual)

Sunday, May 13, 1979

07.15 Visit to various projects

18.00 Leaving for Jakarta by F 28

18.30

Departure

Accommodation : Bali Beach

Hotel

20.00 Dinner and Cultural performan-

ce

(Dress : Batik/Casual)

15.15 - 17.15 Besakih to Bali Beach Hotel
Visit Klungkung Justice Palace
on way

18.00 - 19.30 Leaving for Jakarta by F 28

07.00 - 07.30 Jakarta to Tanjung Karang
by F 28

07.30 - 08.00 Tanjung Karang to PNP X by
Helicopter

08.00 - 09.00 Visit coconut seed garden,
briefing by Mr. Hasan, Inspector
for

09.00 - 10.00 PNP X to Batujaya by Helicop-
pter

10.00 - 13.15 Visit transmigration 1 Villages
2 and 4, rubber seed, seed
farm, health post and school;
talk to settlers (Lunch (30 min))
briefing by Mr. Kosman

13.15 - 13.50 Batujaya to Pematang Pang-
gang by Helicopter

13.50 - 15.00 Visit GDI Transmigration set-

- 10.45 – 11.00 Tilem's wood carving collection
- 11.00 – 11.05 Mas to Peliatan – Ubud (4 km)
- 11.05 – 11.20 Barwa painting Gallery and Workshop
- 11.20 – 11.50 Peliatan to Ubud and Tampaksiring (24 km)
- 11.50 – 12.10 Visit Tampaksiring sacred pool and temple
- 12.10 – 13.25 Tampaksiring to Bukit Jambul (48 km)
- Balinese irrigation system (Subak) near Bangli
- 13.25 – 14.25 Lunch at Bukit Jambul Garden Restaurant
- 14.25 – 14.45 Bukit Jambul to Besakih (15 km)
- 14.45 – 15.15 Visit Besakih temple

Monday, May 14, 1979

07.00 Visit to South Sumatera (details are attached)

16.00 Leaving for Jakarta by F 28

Courtesy call on the President of the Republic of Indonesia

Round-up meeting and lunch with Minister of Finance and Associates

(**at : Bank Indonesia, Jl. Kebon Sirih, 8th floor

Departure by GA 988

15.00

(*) tentative hours

(**) tentative

Tuesday, May 15, 1979

- 09.00*) *Widjaja* Courtesy call on the Vice President of the Republic of Indonesia
- 10.30*) Courtesy call on the President of the Republic of Indonesia
- 12.00 *VP*
Widjaja Round-up meeting and Lunch with Minister of Finance and Associates
- ***) at : Bank Indonesia, Jl. Kebon Sirih, 6th floor
- 15.00 Departure by GA 986

*Dr. Mahabadi - Rector Chair
(Indonesia)
Selo Soemardjo - Sociologist
Soedono - #4 in Econ Faculty*

*) tentative hours

**) tentative

Sunday, May 13, 1979

- 07.45 - 08.45 Visit Family Planning Program Project:
- new Provincial office, briefing by DR. Astawa (10-15 min.) followed by 30 min. film on Bali Family Planning System
 - inspection BKKBN Provincial Training (PTC) for field workers and trainers, plus mobile units financed under CR.300-IND
- 08.45 - 09.00 Leave Denpasar for Batubulan (10 km)
- 09.00 - 10.00 Barong performance
- 10.00 - 10.15 Batubulan to Banjar Tarukan and Mas (12 km)
- 10.15 - 10.45 Banjar's Family Planning at work; talk to acceptors

**PROGRAM FOR FIELD TRIP
TO BALI
MAY 12 - 13, 1979**

Saturday, May 12, 1979

17.30 - 18.15 Surabaya to Denpasar by F 28

20.00 - 21.30 Dinner and Cultural show

Dress : Batik/Casual

**PROGRAM FOR FIELD TRIP
TO WEST JAVA AND EAST JAVA
ON SATURDAY, MAY 12, 1979**

07.30 - 08.30 Jakarta - Penggung Airstrip
(Cirebon) by Helicopter

08.30 - 08.45 Penggung - Cirebon (Prosida)
by car

08.45 - 09.05 Briefing by Prosida on Irriga-
tion Projects and by ex-
tension staff on Agricultural
extension

09.05 - 09.25 Prosida - Plumbon by car

09.25 - 10.10 Visit farmers' meeting with
village extension workers and
discussion with farmers.
Visit tertiary Irrigation system

10.10 - 10.35 Plumbon - Penggung Airstrip
by car

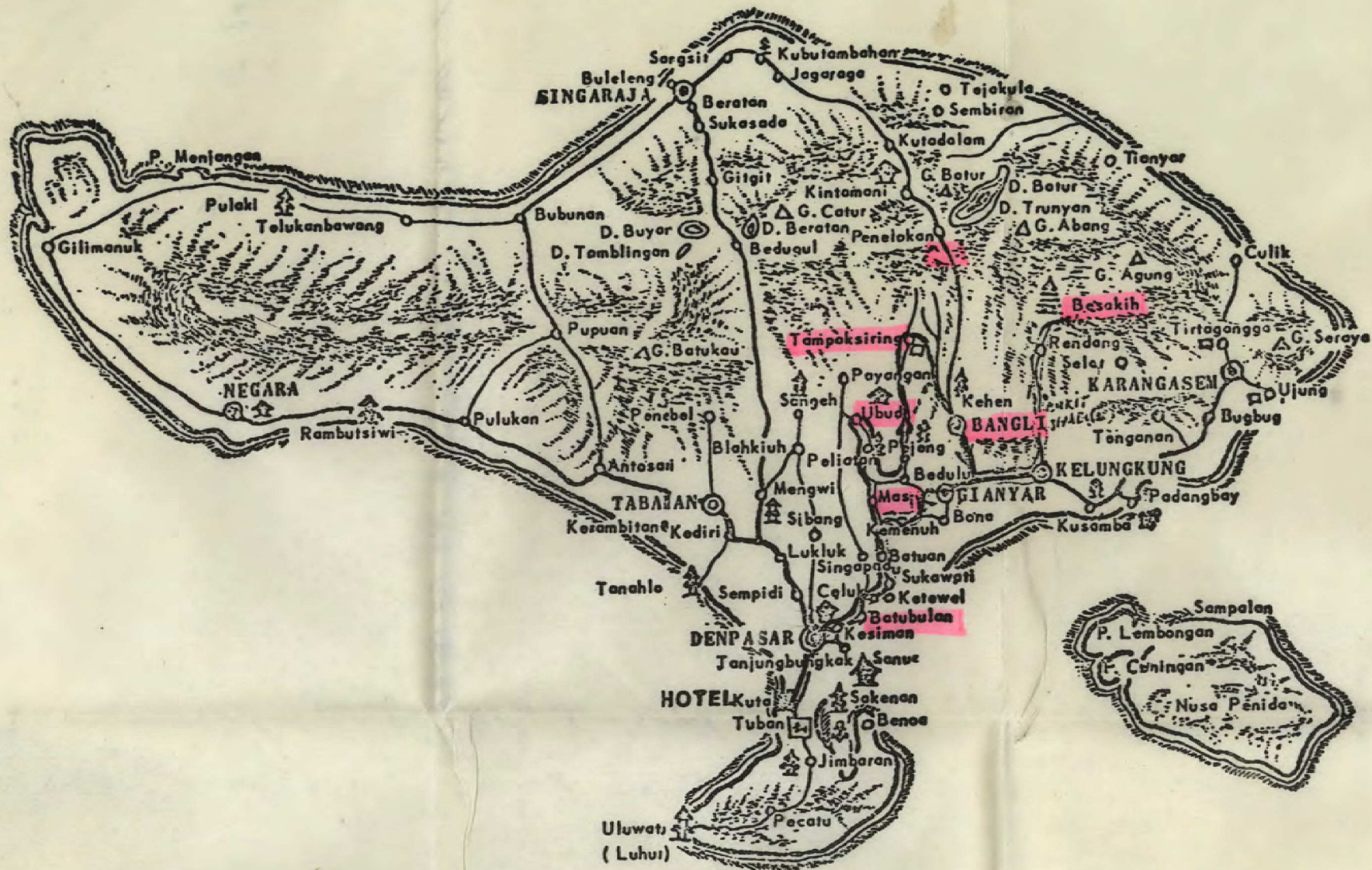
10.35 - 10.50 Penggung - Kuningan
Stadium by Helicopter

- 10.50 - 11.05 Kuningan Stadium - Citangtu
by car
- 11.05 - 12.00 Meeting with farmers to discuss non-farm employment and upland farming
- 12.00 - 12.15 Citangtu - Kuningan Stadium
by car
- 12.15 - 14.15 Kuningan Stadium - Sumberrejo (Bojonegoro) by Helicopter
*14:15 - 14:40 to Heli
14:40 - 14:50 to Heli
14:50 - 14:55 to Heli*
- 15.15 - 15.55 Sumberrejo to Surabaya Airport (Perak) by Helicopter
- 15.55 - 16.00 Surabaya Airport (Perak) to Kampung Perak Timur by Minibus
- 16.00 - 16.30 Visit to recently improved Kampung (April 1978-79)
- 14:35-50 water
talk to mothers
14:50-54 to village
58-03 food
03-10 on road
08-15 to field*
- Briefing presenting KIP assisted under Bank second urban project, by Mr. Gunadinya KIP Unit Manager in community hall;

- Walk thru Kampung new road, foot paths, drainage canal and water supply/sanitation facilities. Talk with inhabitants (80% port workers)
- 16.30 - 16.40 Kampung Perak Timur to Kampung Pegirian by Minibus
- 16.40 - 17.00 Visit to unimproved Kampung earmarked for urban III:
- Walk thru narrow alleys along very poor houses with high population density to traditional wells and canal (toilets); talk to urban poor
- 17.00 - 17.10 Kampung Pegirian back to Perak Airport by Minibus
- 17.10 - 17.20 Perak Airport to Juanda Surabaya Civil Airport by Helicopter
- 17.30 Departure for Bali by F 28.

**Itinerary in Indonesia
of
President of IBRD/World Bank
Mr. Robert S. McNamara**

May 10 — 15, 1979



BALI ISLAND


OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara


DATE: April 25, 1979

FROM: S. Shahid Husain *h*SUBJECT: Your Visit to Indonesia

The regional staff has prepared a detailed brief for your Indonesia visit. This memorandum is a personal analysis of, and reflection on, the Indonesian situation and our work on Indonesia.

1. Indonesia has entered a more difficult stage in its development than at any time since the increase in oil prices in early 1974. This change stems from several factors. The principal issues that emerge are: 

- (a) pressing domestic resource constraint;
- (b) growing strains on governmental institutions for development planning and implementation;
- (c) increasing questions and doubts about the course of government policy and its impact on the mass of Indonesians;
- (d) strains in the relationship between the technocrats and the military on the issue of economic management; and
- (e) possibilities of political discontinuity.

2. Indonesia is entering a period of a critical domestic resource constraint. Without measures to alleviate this, the growth target of 6.5% p.a. in the new Plan may not be realized. This constraint is primarily related to the developments in the oil sector. Following the oil price increase of 1974, the Government reaped windfall revenues from oil exports. Oil revenues provided about 60% of Government budgetary revenues. With oil production expected to stagnate, the burden of raising additional revenues will fall on the non-oil sectors. Such revenue increases, however, can come only in the medium and long terms. In the short term, important means of raising additional revenues still lie within the oil sector, namely by reducing the large subsidy on domestic oil consumption. Domestic oil prices are therefore the most crucial fiscal issue facing the Government. Even with the long awaited domestic oil price increase which was approved on April 5, the explicit budget subsidy for domestic oil is still in the region of \$650 million per year. The economic subsidy is much higher as the budget benefits from low-priced "pro rata crude" contributed by the producing companies under their "Contracts of Work" and "Production Sharing Contracts" with Pertamina. There is no politically easy or neutral way to alleviate the domestic resource constraint. The quickest way may be progressively to eliminate the subsidy; but elimination of the subsidy by 1983 would require an annual increase of domestic oil prices of about 20%. Given the delays in, and insufficiency of, the recent price increase, the prospects are not overly encouraging. 

3. When I first visited Indonesia, I was impressed by the depth of institutions in areas such as agriculture, government estates, population planning and education. Clearly Indonesia's remarkable development record of the last decade would not have been possible without a significant improvement in the depth of institutions. I now see a growing strain on these institutions. The strain arises from several factors. First and foremost, the size of the economy has grown immensely. Over the last ten years, Indonesia's real GNP has grown about 8% p.a., and its budget has quadrupled in real terms. Second, institutions of planning and development, and manpower training have not kept pace with these developments; the Government has not paid sufficient attention to adapting the organization for planning and development to the changing needs and the changing environment. Third, the accent in government procedures and mechanism remains inordinately on control and centralization, and insufficiently on planning and implementation.

4. A crucial area of weakness is the Central Planning Organization (BAPPENAS). Its size has hardly grown in the last ten years. Many contracts and project development expenditures have to be approved by this agency./1 Yet, the agency lacks a system even to estimate future commitments on ongoing projects. Many senior staff are tied up with development budget expenditure authorization and contract approval and have little time to focus on broader issues of policy. The new Plan is a broad statement of intentions - an indicative plan - and it is not supported by detailed policies, programs and projects. As in the past, annual development budgets will give specific content to the plan. The machinery for longer-term planning of sector policies and programs is still very weak. By contrast, the machinery for project approval and implementation is overly cumbersome. Last summer, Professor Widjojo requested me for assistance in development budgeting and planning of project approval. We sent experts from the Bank and outside. They wrote excellent reports; however, it was only very recently, and in response to my personal reminders, that Professor Widjojo reviewed them. The simplified expenditure authorization procedures announced at the IGGI meeting in Amsterdam in April 1979 appears to be a first response to our technical assistance efforts in this field.

5. The story is similar in the relationship of the Government to the private sector. Although the broad policy objectives of the Government in relation to the development and promotion of labor intensive industry are laudable, the mechanisms to translate these intentions into coherent policies and programs have yet to be established. Development in this crucial area - private sector industry - is hampered by a labyrinth of procedures and controls which are an accumulation dating back from the Dutch times. In many cases, they have lost their original purpose. Any action that the Government takes to improve relative prices such as the devaluation is frustrated by these procedures. In many cases, the procedures merely act as a trigger point for the passing of money to Government servants.

/1 Some simplification of expenditure authorization procedures were announced by Prof. Widjojo at the recent IGGI meeting in Amsterdam but these have yet to be implemented.

6. I am convinced that unless the Government undertakes a major effort to improve the planning and implementation of its own programs and procedures relative to the private sector, it may be unable to achieve the targets of the third Five-Year Plan.

7. Regarding the course of the Government's economic policy and its impact on the mass of the Indonesians, there is a muffled debate within Indonesia, and more vocal questioning outside, particularly in the United States. The data on employment, consumption and wages which we have analyzed in our recent Basic Economic Report, indicate that:

- (a) During 1971-76, employment grew by 4.7% per annum, or at about the same rate as the labor force. In 1976, 2.3% of the labor force was unemployed with an unemployment rate of 6.4% in urban areas.
- (b) While real consumption expenditures have grown over the entire spectrum of Indonesia's population, including the bottom 10%, there is much circumstantial evidence to suggest that overall income and wealth disparities have widened.
- (c) The absence of a marked increase in real minimum wages during this period (1971-76) suggests that productivity in many "residual" service and small-scale manufacturing activities has stagnated. Much of the real consumption growth at lower income levels is explained by rising labor force participation rates which are confirmed by labor force surveys.
- (d) Despite the increases in per capita consumption, over 50 million Indonesians or 38% of the population were unable to maintain a level of consumption above the extremely low standard of \$90 in 1976.
- (e) Although employment has increased, much of the job creation has been in the context of low productivity employment. Some micro studies in rural areas of Indonesia, lay considerable emphasis on the increase in poverty among the landless rural population in Java and the strain that it is creating on the local societies, and on the relationship between the Government and the governed.

8. Even if we discount the questioning of the past, the employment task now confronting the Government is critical. Much of the employment created in the last decade was in the rural areas. This was aided by the vast rehabilitation investments in irrigation and the growth of the labor-intensive INPRES (public works) programs. The possibility of employment growth in the rural areas, particularly in agriculture, is, however, now limited. Most of the relatively easy and quick yielding irrigation projects have been completed and the growing domestic resource constraint will limit further rapid expansion

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of INPRES programs. Over the next decade, Indonesia will have to create approximately 1.4 million jobs per annum merely to prevent the pool of unemployed from expanding. The only specific employment strategy that the Government now has is transmigration; at best, this will create 200,000 jobs per annum. As to the rest, while the rhetoric of the Plan is in the right direction, broad policy outlines do not add up to a complete plan of action. In our discussions, we have been impressing upon the Government the need for a more detailed work on employment generation. My fear is that unless the Government identifies and embarks on a comprehensive, coordinated and detailed employment program the overall unemployment problem will become unmanageable. Social upheaval which could in turn threaten the whole development process could result. One cannot predict the exact flash point in each country which turns inequity and unemployment into a violent force for change. But, what is predictable with certainty is that such a situation is, in the long-term, untenable and that it inevitably leads to a violent change.

10. Brazil and Indonesia are two countries where a coalition of the military and the technocrats, coming into power at the same time, has led them out of economic and political morass. I have not followed the Brazilian situation in detail of late, but in Indonesia some strains are visible in this coalition. These strains arise from several factors. Unlike Brazil, the military in Indonesia is deeply involved in many spheres of Government activity and society. Many provincial governors and even village level officials are from the military. The majority of ministers are drawn from the armed forces. Many Government departments and corporations are headed by military people. Recruitment to the military is broadly based and in many respects it is a microcosm of the society at large. These factors make for a considerable stability in the regime. However, the upper echelons of the military are associated with many cases of corruption, visibly high standards of living and some outstanding instances of dissipation of resources, e.g., Pertamina. Petty corruption of course pervades the whole structure of authority. Thus, while the military has apparent control of Indonesia, its moral authority has weakened. Perhaps conscious of these developments, the top military leaders have become very concerned with the issues of employment and equity over the past year or two. The new Minister for Defense and supreme commander of the armed forces, Gen. Muhamed Yusuf, who was appointed by President Suharto about a year ago, is, however, reported to be determined and so far quite effective in reducing corruption in the upper echelons of the army and in improving the lot of the common soldier.

11. In his speech, announcing the new Plan, President Suharto placed equity at the top of the Government's concern for the future. There is, however, no effective dialogue on economic and social policies between the military and the technocrats. Thus, after the recent devaluation, when prices began to rise, military leaders stepped in and enforced a price freeze (now partially lifted) with a vengeance. Export quotas have also been placed on several essential commodities. My fear is that attempts to formulate coherent and coordinated development policies by the technocrats will be frustrated by the military who will be tempted to follow populist policies to appease the masses.

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12. In sum, during the next five years, Indonesia will go through very important economic and political transition. Crucial questions are whether this transition will be peaceful and whether a reasonable developmental momentum will be able to carry the mass of the people along with it. The answers will depend in large measure on what the various elements among the governing establishment of Indonesia are able to do about the above issues.

13. In our own work program and relations with the Government we are trying increasingly to concentrate on the critical development issues I have outlined above. In recent months the newly completed Basic Economic Report has provided the main focus for these discussions. For example, we have commenced a dialogue on the need to develop a sound labor intensive industrialization strategy and to this end plan that in the coming months a significant amount of our economic work will focus on some of the industrial issues which neither we or the Indonesians fully understand at this point in time. As this work develops, we expect that our industrial lending, which has hitherto been limited to a few discrete projects, will expand and become more coherent. We have at last received a response to our continual prodding on the need to develop a consistent and comprehensive secondary food crop strategy, and Sir John Crawford has been asked by the Government to take the lead in this exercise. We intend to provide him with the necessary support in this effort. We have attached major importance to domestic resource mobilization not only in our overall dialogue but also in our project work. For example, we have made our lending to the power sector conditional on substantial movement on tariffs. In this connection we have recently received firm indications that substantive progress will now be forthcoming. We are also continuing major efforts to develop and focus the Government's attention on specific proposals designed to strengthen the machinery of Government and the planning organizations. This area is of course extremely sensitive, but as noted in paragraph 4 above it does appear that we are now getting a belated response to our initiatives. In a related move we have commenced and intend to continue a major effort to improve project implementation performance. In recent months we have become alarmed at declining disbursement trends which, more often than not, seem to reflect overly cumbersome Government procurement and financial procedures rather than project specific problems. A first joint Government/Bank project implementation review was held in March and the second is planned for June. The Government's initial response has been encouraging and several steps to alleviate some of the more critical procedural problems have now been taken.

14. Over the last year we have, as you know, taken a number of steps to streamline our own organizational structure, to make it more responsive to Indonesia's development needs and to better enable us to focus on the substantive issues I have outlined above. The recent organizational changes also represent a deliberate attempt to institutionalize our relationship. Our relationship in the past was based almost entirely on personalities. While they were often extremely productive, the large and complex nature of our involvement now demands a more coherent structure. Our progress in implementing these changes was summarized in my confidential memo to you of February 16, 1979 which is attached for ease of reference.

Attachment:

cc: Mr. E. Stern (VPO)

OFFICE MEMORANDUM

C O N F I D E N T I A L

TO: Mr. Shahid Husain

DATE: February 13, 1979

FROM: James M. Kearns, Dir., OPD

DECLASSIFIED

APR 11 2013

WBG ARCHIVES

SUBJECT: Follow-up Review of the Indonesia ReorganizationINTRODUCTION

1. Shortly after the Indonesia reorganization decision was taken, you asked Mike Ruddy and me to plan a follow-up review early in 1979. We knew then, and more so as the date of the review approached, that too little time would have elapsed to conduct a full-scale evaluation of measurable results, especially since staffing changes were still incomplete. We therefore agreed to carry out a preliminary, impressionistic evaluation of the degree to which the organizational objectives were being realized and attempt to identify emerging problems.

2. The main objectives of the original reorganization can be summarized as follows:

-- First, a decrease in friction and an increase in constructive collaboration between the Resident Staff, Indonesia (RSI) and headquarters through a number of changes in responsibilities and relationships including:

- a) eliminating RSI's uniquely autonomous status (particularly its obligation to appeal directly to the RVP, EAP any headquarters action with which it disagreed) by making it an integral part of the EAP Regional Office;
- b) involving the EAP Programs Director in Indonesian operations;
- c) redefining the role of the RSI Director with respect to Programs functions to that of "lead man";
- d) establishing a pattern of shared responsibility, collaboration, and work program integration for Programs functions between the RSI and the Programs Department and among the key Programs managers, i.e., Programs Director, RSI Director, and Indonesia Programs Division Chief; and
- e) establishing that RSI Projects staff reported both to the RSI Director and the headquarters Projects managers and integrating the RSI and headquarters Projects work program.

-- Second, reducing problems associated with an excessive number of missions, the lack of Projects staff continuity during the project cycle, and the lack of authority of the RSI to take implementation decisions. We sought to attain this objective in a cost-effective manner by concentrating RSI Projects resources in agriculture through the establishment of an RSI Agricultural Staff of sufficient

size to give it a critical mass of skills (and therefore competency to take implementation decisions) and by assigning to it project preparation and supervision responsibility — the two project cycle activities that benefit most from staff stationed in the field. To complement the field structure in Agriculture, we consolidated headquarters Agriculture Staff, under a single Assistant Director with two divisions, all of whom would work exclusively on Indonesian agriculture.

- Third, to continue to provide local coverage to non-agricultural project activities in the complex Indonesian governmental context, we established several loan officer positions in the RSI with multi-sectoral responsibilities and began to phase out the single project specialists that had been the tradition in the RSI.

- Fourth, to improve macro and sectoral policy attention and dialogue, we increased the number of economists stationed in the RSI and established the principle that the senior economist for Indonesia should be stationed in Jakarta.

3. Before beginning our review, you outlined certain concerns you wished us to pay particular attention to including the quality of relationships with the GOI, relationships with other donors and the intellectual community, special problems of Transmigration, internal RSI management, the excessive number of missions to Indonesia, and the sector dialogue in Industry and Transportation. Following our discussion with you, we reviewed available documents, interviewed key headquarters staff and proceeded to Jakarta (in January '79) for further interviews with RSI staff and others.

4. Because our review could not be made on the basis of hard evidence, I think it best that I write this report to you in a descriptive manner. In it I will: a) describe the situation as we found it; b) attempt to provide insight into why things are as they are; c) record corrective action taken along the way, and d) point the way toward further action you and your associates should take. What is contained in the following is substantially the same as the oral report I gave you in Jakarta.

HEADQUARTERS PERSPECTIVE

5. As was the case with our previous visit to Indonesia, the situation appeared much worse at headquarters than in the field.

6. You'll recall that when we started the review in late November it was just after The Wall Street Journal leak occurred, and the results of the Carnegie Endowment Seminar on Indonesia became known to the Bank. It was feared that The Wall Street Journal leak would impair our relationships with the GOI. The Seminar members reported a variety of unhappy things: poor WB/GOI relationships; poor WB/other donor relationships; a strong belief that the WB simply did not "know" and "understand" Indonesia; and that our lending program for Indonesia was poorly conceived.

7. When we interviewed key Bank staff at headquarters we found them disposed to believe the worst and ill-equipped to defend criticisms -- not surprisingly because so many are relatively new to Indonesia. In particular, we found the loan officers particularly "bearish" as a group although many have been long associated with Indonesia. Their basic message was threefold: a) relationships with the GOI were deteriorating; b) no one was in charge of the overall program for Indonesia; and c) Golan and the Agricultural Staff were riding roughshod over them and no one was defending them and their role in the Indonesian Program.

8. It looked to Ruddy and me at the end of the headquarters review that serious problems existed and that the reorganization, among other things, was not going well in spite of the fact that the Agricultural side of the house -- Golan's dynamic leadership, reasonably rapid staffing of RSI's Agricultural unit, coming to grips with Transmigration, and the rapid, sensible organization of field/headquarters work and responsibilities -- were coming along nicely. What concerned us about the reorganization was the disarray on the Programs side. It appeared that little had been done to implement the reorganization of Programs work -- Please was hanging back; Baneth had not changed his style nor taken formal steps to put the new concept into practice; Baneth and Please had made no attempt to work out their new roles; and Programs work had not been rationalized as between headquarters and the RSI. Furthermore, no one was attempting to resolve the growing controversy between Programs and Agricultural Projects staff at headquarters.

9. I reported all of this to you prior to departing for Jakarta, indicating that I felt you had to step into the breach and run the Indonesian Program until such time that you could build an effective management team for Indonesian and get it functioning smoothly. You told me at that time you had come to the same conclusion and intended to do just that. In the meantime, Kirmani began to work on the negative reactions Golan was generating on the Programs side. Furthermore, you decided to visit Indonesia at the same time Ruddy and I were there and you asked us to extend our stay and plan to have a frank, open session with as many of the Indonesia managers as you could assemble in Jakarta at that time.

THE FIELD PERSPECTIVE

10. While in Jakarta, Ruddy and I interviewed all RSI professional staff, spent about four hours picking Bernie Bell's brain (who had been there since early November as a consultant to the GOI), and met with the USAID Deputy Director in Jakarta. In addition, I spent some time with members of a non-governmental organization stationed in Jakarta. We did not, however, talk to GOI officials as agreed with you before we left because you wanted to hold such talks. We did not seek to talk to other donors this time because during our previous visit we found that they were not prepared to be very frank with us. Since I know the AID people they are willing to open up somewhat, and AID being a large donor with the largest resident staff of professionals is a good indicator of general donor views.

11. The picture obtained locally is quite different from that gained at headquarters. As far as I can tell, the situation is as follows:

- At the highest levels, the GOI is delighted with the Bank's work in Indonesia.
- Baneth is well connected and well accepted by the GOI.
- Our lending program is sensible and well balanced.
- While no donor has the same close relationships with the GOI as in the days of Bell's regime in Indonesia, the Bank's relationships are the best and closest of all donors.
- The Wall Street Journal article caused little, if any, problems with the GOI.
- Of course there are problems and difficulties over certain issues between the Bank and the GOI, but these are ordinary problems which exist with all countries. One difficult problem is that of BAPPENAS's ineffectiveness, but this is essentially an Indonesian intragovernmental problem that the Bank inescapable gets caught up in.
- The criticism the Bank received at the Seminar is unjustified.
- The new basic economic report is a sound piece of work and will be well received by the GOI which is now turning its attention to it after finishing its new five-year plan and annual budget.

12. The picture we got of the situation from the several outsiders we spoke to was basically consistent. The USAID Deputy, in particular, made the point that relationships between the Bank and the donor community in Jakarta had improved markedly over the last several months and expectations for further improvement were high -- a statement in stark contrast to what I was told last year.^{1/} In particular, he said the donor community was looking forward to the planned seminars on the Economic Report and asked us to convey to the Bank his appreciation for offering these seminars. He also made the point that the Bank's relationships with the GOI seemed to be very good, adding that it was only recently that he and his colleagues recognized that while the Bank's relationships with the GOI were good, the old intimacy was gone for the Bank as well as for USAID. Prior to this recognition, he and others incorrectly assumed greater intimacy of Bank/GOI relationships than USAID/GOI relationships, and therefore had suspected that the Bank was "holding out" on other donors. They now recognize that this is not the case and that recognition itself provides a basis for healthier relationships.

13. Conversations with Baneth, Loh and others in the RSI ring true with that which is said by the outsiders, and the sense I get is that the Bank's staff in the RSI have a realistic appreciation of the situation.

^{1/} I believe Ping Loh's presence is reflected here. But I think this should not just be attributed to the fact that Ping is a capable and sensitive person, but recognition also should be given to the fact that for the first time Baneth has a deputy with whom he can share his work load.

14. There are, of course, problems within the RSI but not as bad as I had anticipated. The Agriculture unit is now almost fully staffed and the staff seem capable. Altaf Hussain appears to be in charge of the Agriculture unit, is reported to have established very good relationships with GOI officials, and fully understands and accepts his role and dual reporting relationship to Baneth and Golan — all told he appears satisfied, motivated and off on the right foot. After some initial difficulties with the Programs side of RSI, Altaf and Ping Loh appear to be coming together in a supportive and constructive relationship, but this could come apart if not carefully nurtured by their superiors. The Programs side of RSI is not yet staffed fully and, as mentioned previously, the division of labor between headquarters and the field has not been worked out. But, in spite of this, the economists and loan officers in the RSI are busily engaged with their work and not seemingly dissatisfied or overly concerned that all problems have not yet been sorted out. Ping Loh and Richard Stern are working well together and this is an important source of strength. Loh and Baneth seem also to be working reasonably well together. So, in summary, the impression one gets of the RSI is that of a unit in transition that is becoming united internally. However, there is considerable room for improvement and much still to be done.

WHY THE BAD PUBLICITY?

15. The basic question is then: why do things seem worse at headquarters than they are in fact, and why is there less internal and external support for the Bank's work in Indonesia than is realistically deserved?

16. There are of course, many reasons for this, but I think two are most important. First, the Bank management team working on Indonesia are all rather new except Baneth. The RSI Deputy, the RSI head of Agriculture, the headquarters Programs Director (who has tended to keep hands off Indonesia since assuming his job about a year ago), the Programs Division Chief, the Senior Economist, the Agriculture Assistant Director and his two Division Chiefs. Such striking lack of continuity simply does not equip the Bank to perform effectively or to sense and fend off potential external criticism. It also raises questions in the minds of concerned and knowledgeable outsiders about the Bank's seriousness and competency to deal with an important and complicated country like Indonesia. There is, of course, nothing that can be done about this in the short term except to make staff continuity a major long-term goal and to ensure that those working on the program recognize the exceptional need they have to work together closely and effectively as a team so that every ounce of knowledge anyone has can be shared and used by the others. I know that this is your goal and that you are strongly committed to it. I would also mention that I believe you have selected some very good people to work on Indonesia.

17. The meeting you held with managers at Puncak on Sunday, January 20, was a good start for a long-term process of building a management team. I was impressed by the ability of the staff to deal with the key substantive issues and agree rather readily and maturely that, while the Bank's program for Indonesia is ambitious, it is about right as to size and composition. Similarly, their common agreement on the internal Indonesian governmental

problems of managing a development program is evidence that your managers can be brought together to work collaboratively and constructively on and around these problems. Also, their ability to deal openly and frankly with the interpersonal issues we put before them also bodes well for the future. Finally, your unequivocal statement about the relative roles of Baneth and Please -- particularly stressing that you want Please deeply involved -- cleared the air on that point nicely and was, I think, understood and accepted by all. But, of course, this meeting was just a start and you have some long way to go before an effective management team for Indonesia is built. Day-to-day pressures of operational work exert centrifugal forces on the team and you'll have to take countervailing measures. The Punchak meeting should be repeated at headquarters with Golan and Please present, and then you should bring the key managers together as frequently as possible over the next year to deal with basic objectives, broad problems, strategy and tactics, and interpersonal relationships. Also, until the entire situation is on track I believe you should stay deeply involved in the substance and direction of the overall program in an extraordinary fashion for a Regional Vice President.

18. Second, an underlying cause of the perception of serious problems with Indonesia is, I believe, a lack of executive direction of this program. I believe the reason the Bank was so heavily criticized at the Carnegie Seminar can be traced to the way the Bank handled its involvement in Transmigration which, I think, can be described somewhat along the following lines.

19. Other donors and academicians involved in Indonesia respect the Bank's capacity and competency to deal with macroeconomic policy issues and major infrastructure projects, but feel the Bank knows little (and they know much) about the problems of the poor and how to deal with these problems through grass-roots, socially-oriented projects. Whether true or not, this is their attitude which we must understand and deal with if we wish their support or hope to allay their forceful criticism of our work.

20. In the face of these attitudes, the Bank announced its massive support for Transmigration without prior consultation with the other donors and academicians, or even the courtesy of informing them prior to the public announcement. (You'll recall that last year I informed you about one donor's bitterness about the way the announcement was handled and the "concern" of another donor.) Then, to add insult to injury, our people working on Transmigration systematically ignored the other donors and academicians, or at least treated them very lightly, and plunged ahead on their own.

21. I believe it was primarily this approach to Transmigration that set up the very bitter feelings which were vented at the Carnegie Seminar and spread by association to the Bank's entire program in Indonesia.

22. Another example of the lack of executive direction can be found in the fact that the RSI reorganization had not been "sold" to the GOI or the donor community. Let me explain what I mean by this. In our conversation with Bernie Bell and with the USAID Deputy Director, the old problems about the excessive number of Bank missions, the constant stream of "new" Bank faces each with an apparently different slant, and the concentration of

authority in Bank headquarters (the latter particularly centering on the approval of procurement and other implementation actions as we learned last year directly from the GOI officials to whom we spoke). I asked Bernie whether the Indonesians understood the RSI reorganization as being responsive to these problems and I similarly asked the USAID Deputy Director whether he understood the reorganization that way. The answer was no in both cases. I then went on to explain how by creating a single group of agriculturalists in headquarters and a large group of agriculturalists in the RSI, we were being directly responsive to important concerns which we share with the GOI and the other donors. This new structure, I explained, would significantly reduce the number of new faces as those working in the largest sector will deal exclusively and continuously with Indonesia. The integration of the agricultural staff will also improve the consistency of approach and knowledge of the country. Finally, I explained that the RSI unit has responsibility for project preparation and supervision and the authority and competency to approve implementation actions without reference to headquarters. As a result, the number of missions will be reduced and implementation will be speeded up. Obviously the USAID Deputy was impressed (and Bernie too, I think), but why did such a presentation have to be made to a major donor so late by an evaluation team?

23. There is, of course, a lesson to be learnt from these examples. With greater sensitivity to the attitudes of others and with a greater appreciation of the areas where we are believed to be weak (even if we are not in fact weak in these areas) problems can be avoided, confidence in the Bank improved, and a better general impression created if the people in charge understand it to be their responsibility to deal with the various parts of the external environment.

24. These are examples of where capable executive direction is needed, but not the only examples. It is also needed with respect to the entire network of relationships with GOI officials and the network of field/headquarters relationships, and I believe we have been deficient in all of this.

25. One key way to fill this gap is to ensure that the Director, RSI, is a broad-gauged, very senior and very savvy executive. The RSI Directorship is one of the more difficult jobs in the Bank and we need to recognize this when choosing a person for this job. But the right person in the RSI alone is not sufficient. He must be backed up and complemented by an equally competent executive at headquarters and, as a practical matter, either the Programs Director or the RVP will have to do this job.

26. In case what I've said so far is interpreted as being exclusively or unduly critical of Jean Baneth, let me state that it is not so intended. Under the circumstances, Jean has done much better than might be expected. He is a very smart and capable individual, and a first-rate development economist. Moreover, he has learned a lot in this job and will be better in the Bank for it. But, he entered the job with no prior managerial, much less executive, experience, and has received precious little support and direction from headquarters executives since being in the job. Moreover,

the staffing of the RSI with key, capable people -- senior economist, deputy -- has been very inadequate and that is not Baneth's fault alone, if at all. So, I want it to be clear that I make the point about executive abilities not to criticize the past, but to establish criteria and concepts for future personnel choices.

CONCLUSIONS

27. In summary then, I believe you are on the right basic course at present for Indonesia. The organizational design and pattern of relationships chosen are, in my opinion, basically sound. You have chosen very good people to work on Indonesia. The Agriculture side has made excellent progress.

28. Your commitment to provide close executive direction to the Indonesian program and to build a close-knit management team is correct. The start you made at Puncak was, I think, a good one. We have discussed the criteria for selecting Baneth's successor -- I agree with your thoughts on this matter.

29. Additionally, there are two other important things that I want to mention. First, it is essential and urgent that the division of labor for Programs work at headquarters and in the field be set forth and in the process an appropriate relationship between Programs and Projects work in Agriculture needs to be established, taking into account the existence of the Agricultural unit in RSI and the implications this has for traditional loan officer work. Please, Baneth, Loh and Stern should be made responsible for working this out, although one of them might take the lead. Do not, however, have some staff officer (such as Ruddy or myself) do this for the managers. This is their business and they must come to grips with it and work it out.

30. Second, although I think a capable group of agriculturalists have been assigned to the RSI, I think some "new style" rural development, sociologically-oriented staff should be assigned to the RSI as a matter of some priority. Others will judge us by the kinds of people we assign to the program and I sense we have a gap in the RSI in this respect. Moreover, doing sound work in Indonesia on Transmigration and other socially-oriented projects requires great local, grass-roots knowledge and this is best developed and displayed through RSI staffing.

Discussed with and cc to: Mr. Ruddy, Program Coordinator, EAP

JMKearns:DW

RESTRICTION NOTICE

Multiple Items

In the review of this file the items identified below have been withdrawn according to the World Bank Policy on Disclosure of Information. This policy can be found on the public website of the World Bank.

Fonds, subfonds: Fonds 03-04

Series: 14 Travel briefings

File title: Travel briefs multi countries (Indonesia)

Form	Date	Correspondents or Title	Subject	Restriction #
memo	1979-02-16	Shahid Husain to Robert S. McNamara through Ernest Stern	Indonesia - Organization of the Bank's work	1

Withdrawn by: *thp*

Date: 2013-04-11

BRIEFING FOR MR. MCNAMARA'S VISIT TO INDONESIA

Introduction

The attached brief was completed at the end of February when it was anticipated that your visit would take place in March. It has been amended and updated to reflect the events of the past seven weeks or so, however. The most important of these are highlighted below:

Domestic Resource Mobilization (para. 5-8, section Fl. Brief for discussions with the Macro Economic Ministers)

On April 5, the Government raised domestic oil prices by an average of 32%. Prices of premium grades were revised by as much as 55% while the politically sensitive price of kerosene was not changed. While we welcome this action, it is less than the average 50% oil price increase anticipated in the budget for the current fiscal year. About an additional Rp 200 billion, over and above the budgeted subsidy of Rp 219.6 billion will now be necessary. In dollar terms domestic oil prices are still less than before the devaluation. This belated and lower than expected increase highlights the political difficulties faced by the Government in mobilizing additional resources particularly when such measures are perceived as having a direct impact on the poorer income groups, e.g., kerosene prices. In fact, we believe that only a small proportion of the kerosene subsidy benefits the bottom 40% (para. 7, Section Fl, Brief for discussion with the Economic Ministers). Several new tax incentives introduced with the 1978/79 budget and designed to encourage private domestic and foreign investment will initially have the effect of reducing the growth of non-oil tax revenues. These measures, in combination with the modest domestic oil pricing increases underline the need to continue to urge the Government not to relax domestic non-oil revenue efforts in spite of the steeper than expected recent OPEC oil price hikes.

Project Implementation (paras. 15 and 16 Section Fl. Brief for discussion with the Macro Economic Ministers)

The first project implementation review was held in March. Although it is too early to see a response in disbursement trend we have been encouraged by the Government's reaction to our initiative. The reviews have been taken seriously. Furthermore during the IGGI meeting held in Amsterdam in early April, the Government announced a number of measures designed to simplify some of the more complex budgetary and financial procedures. We will, however, need, and intend, to maintain constant vigilance in this area.

Inter Governmental Group in Indonesia

The 22nd meeting of the IGGI was held in Amsterdam from April 3-5. The three day (rather than the normal two day) meeting provided an occasion for a more detailed review of critical development issues than is usual at

the IGGI. The discussion focussed on many of the critical problem areas identified in this brief including the need to develop coherent employment, industrialization, and secondary food crop strategies. In a welcome initiative the Government asked Sir John Crawford to assist and advise them in developing a plan for the development of secondary crops. Sir John has accepted this assignment and will over the next few months work out a plan of action. He has requested and we have indicated our willingness to assist him in this effort.

The weaknesses in the machinery of government, particularly the government planning mechanism were also highlighted in a far more forceful and direct manner than has been the case in previous IGGI discussions. The donor concerns in relation to these issues have now been clearly communicated to the Government. In this connection, Prof. Widjojo has now belatedly responded to one of the reports we commissioned on budgeting procedures (para. 14, Section Fl. Brief for discussions with the Macro Economic Ministers) and indicated an interest in implementing some of its recommendations.

The IGGI meeting generally endorsed the opinions and recommendations expressed in the various economic and sector reports submitted by the World Bank as documentation for the meeting. Official Development Assistance (ODA) pledges by bilateral members of the Group for 1979/80 totalled approximately \$1 billion which is close to the level recommended in our economic report.

POLITICAL SITUATION

1. The lines of tension in Indonesian politics are; cultural, religious, economic and political. During the first decade of the present military Government, these tensions were held down by the collective memory of the disruptions and horrors of the preceding period, by relatively mild but pervasive repression and rapid and widespread economic improvements. Some of these tensions will become more acute in the next few years, but chances are good that they will be kept under control. The biggest danger is that there is a real tendency for some of the now separate lines of tension to move closer together, coincide and reinforce each other. This is, in particular, the case of the desires for Islamic orthodoxy, for social equity and for political democracy. The Government is quite aware of the possibility and dangers of such a congruence of tensions, and is trying to prevent it. It will probably succeed.

The Setting

2. Section E(3) of this Brief describes recent economic events and the substantial progress made over the last decade. It also notes that serious problems are yet to be addressed and that objective circumstances, in particular the much tighter resources picture, will enhance the difficulty of dealing with them. Many of the circumstances governing economic and political actions have deep roots in the past and are deeply imbedded in Indonesia's cultural and economic structure. Java is still spectacularly overcrowded; the export of primary products is still the main source of wealth; the country's cultural diversity and (for most provinces) equally deep unity are as great as ever; and the cities are still full of people without fulfilling jobs, the small towns of, merchants without capital and the villages of peasants, without land.

I. The Regime

3. The power of the military rose gradually after independence, but it was naturally much reinforced after 1966. Although there is room within the regime for civilians and for civilian mechanisms, the military control the Government and the country at many levels. The President and other leading generals directly influence major policy decisions. A majority of Cabinet positions are held by military men. The Armed Forces send their direct representatives to Parliament, and also dominate the majority party GOLKAR. Both in Jakarta and in the provinces, a high proportion of Government positions are held by military men on special leave. Much of modern business is dominated by military men, their families and interest groups allied to them.

4. The Army dominates the Nation; but it also represents it. Most of the political, religious and social tendencies found in the Nation at large are also found in the Army. There, they coexist and equilibrate each other more harmoniously than in society at large. At the same time, the Army feels

that an exacerbation of outside tensions could also divide it against itself, and therefore exerts its power to dampen all such tensions. The Army is and will remain the strongest political force in Indonesia; it is at the center of the political spectrum; it encompasses and represents most political, economic and cultural groups.

II. Cultural and Religious Groupings

5. Javanese Islam - The Abangan: Most Indonesians strongly feel they belong to Islam. However, unorthodox practices and beliefs derived from a blending of Islam, Animism, Hinduism and assorted regional traditions also play an important role and are deeply felt. Those Muslims among whom these non-Islamic influences are strongest constitute the Abangan group. They are dominant in East and Central Java and strongly present in West Java. Socially, the elite of this group were traditionally village chiefs and bureaucrats. Because of this and because many of them are of relatively modest means, they are closely linked to and broadly represent the slightly more orthodox rural population, particularly the landless. However, they now also form a large part of the Army and bureaucratic personnel, and of the entrepreneurial groups associated with and dependent on them.

6. Orthodox Muslims: Traditionally, the rural landowners and the merchant class have been closer to Muslim orthodoxy. This is reinforced by the dynamics of the practice of Haj (pilgrimage to Mecca), which only the well-to-do can afford. Haj confers considerable local social status, especially in East and Central Java where religious lines increasingly are being drawn between the orthodox and the Abangan in a quest for influence.

7. The social-political orientation of the group is very marked in East and Central Java where the Abangan are in the majority; it is still existent in West Java, but almost absent in the Muslim provinces outside Java, where Islam is by and large practised with equal strictness by the whole population. Aceh is a special case. It not only practices strictly orthodox Islam, it also has a strong and lively nationalistic movement.

8. The Christians: Nominal Christians make up less than ten percent of the population, but a disproportionately higher share of all elites, in part because of the benefits of earlier missionary education, and the greater alacrity with which they coped with modernization and capitalism. Of the country's two largest newspapers, KOMPAS and SINAR HARAPAN, one is Catholic and the other Protestant. Christians are also very well represented in the Army. The Christian groups share the Muslim social and moral concerns but they also have closer intellectual ties to the developed countries, and are therefore, broadly speaking, more sympathetic towards Western-types of development processes. As a Christian religious state is clearly impossible, the Christians carefully defend a state that is neutral between religions, and equally favorable to all of them. The economic importance of Christianity,

but perhaps also its political vulnerability, have been heightened by the increasing association of its membership with ethnic Chinese-Indonesians, particularly in urban areas in Java. The greatest political strength of the Christians derives from the fact that in several outlying provinces, particularly in Eastern Indonesia, ethnic Indonesian Christians constitute the majority, and in North Sumatra and parts of Sulawesi they match the strong orthodox Muslim groups. Thus any threat to their fundamental interests would compromise the country's unity.

9. The Balinese Hindus do not play a significant national role nor, for the present, do the once strong leftist groups, although the possibility of their resurgence is clearly very much in the minds of the security authorities.

III. Socio-Political Groups

10. The religious groupings mentioned above partly - but only partly - correspond to economic interest groups.

11. Muslim Merchants: Throughout the colonial period, Dutch power secured for Dutch trading houses, selected sectors of the economy: banks, shipping and mining industries, and most of the new manufacturing industries of the pre-capitalist state. Chinese merchants were mainly used as intermediaries between the Dutch interests and the domestic consumption market. The traditional merchant class and medium-size landowners, who were generally fairly close to Muslim orthodoxy, tended to be confined to rural rentier positions, to petty trading and to traditional small-scale industries. These economic restrictions coupled with Islamic social values and population pressures created a strong populist, anti-foreign and anti-Chinese political movement around which early nationalism emerged, the Serikat Islam (United Islam) movement. However, the nationalist movement later became dominated by more secular (Abangan), politicians originating in the administrative class, who had been exposed to Dutch education and to Western liberalism or Marxism. After independence, the State and the bureaucracy have dominated economic life and the Muslim merchant/petty landed class has continued to be excluded from major economic opportunity. This exclusion, and resentment of the ease with which links with powerful bureaucratic, military and political patrons have led to the enrichment of some in the last decade, has begun to shape a still fragmented, yet potentially broad coalition of powerful interests. This tends to regroup the orthodox Muslim middle-class with the rural and urban poor and with the students.

12. The Islamic Party (PPP) /1 increasingly tends to represent a coalition of these interests, and to couple rural frustrations and populist sentiments with Islamic moral and religious values. It thus appeals to the traditional middle classes and to the poor and landless and against the moral, social and economic shortcomings of Government. The traditional landlord-peasant opposition which led some orthodox Muslim groups to play the leading role in the anti-leftist massacres of the mid-sixties, is now attenuated by the growing ownership of land by the new urban and bureaucratic elites. A parallel tends to be established between Islam's religious and moral concerns, and the revulsion of the traditional middle classes and of the poor at the conspicuous display of newly acquired wealth. The political origins of this wealth also push its critics to desire greater political freedom. Furthermore, there has been a strong religious revival among the students - traditionally a respected political force /2. The more activist among them, allied to the PPP but more vocal than it, lead a political movement opposed to forms of development associated with the decline in moral values, with the enrichment of those who hold political power, and with the dominance of foreign and ethnic Chinese capitalists. They are most violently opposed to the latter, and very vocal in the defence of the small "indigenous" entrepreneurs.

13. The PPP is also anxious to limit, and ultimately to eliminate the influence of unorthodox (i.e. traditional Javanese, largely animistic and mystical) practices. Perhaps the most outspoken violent debate in Parliament last year focussed on the Government's proposed explicit reference to "aliran kepercayaan" (interpreted as "mystical beliefs") together with religion; such a reference was thought to give Javanese mysticism additional prestige as well as a sort of constitutional protection. The Government naturally won, but the PPP dissented, which was almost unprecedented; later in the year, partly as a measure of conciliation to the PPP, responsibility for mystical "beliefs" was transferred from the Ministry of Religion to the Ministry of Education and Culture.

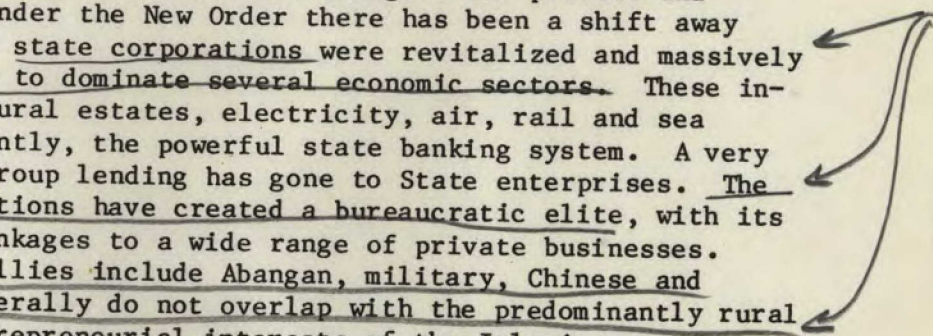
/1 The Government forced the coalition of a range of Islamic and populist/socialist parties in 1972, after an election which put the mainly secular-Abangan Golkar in absolute numerical control of the Parliament. The coalition was named the Unity and Development Party, with no reference to Islam. When in 1973 the Government introduced a new marriage law before Parliament, the PPP came clearly to be seen as the Islamic party and for a related but wide range of reasons gathered considerable strength and support from students, women and the rural population. By the 1977 elections PPP was widely associated with its newly chosen symbol, the Kabah.

/2 The widespread nature of this orthodox Islamic movement is a new phenomenon, all the more remarkable as a high proportion of students of the better universities are children of the military, whose practices are often closer to traditional Javanese beliefs (Abangan).

14. One impact, and perhaps a major aim of this move by the Government was to undercut the appeal of the PPP and to legitimize an Abangan alternative, thereby fragmenting the rural opposition. A campaign which in effect charged the PPP with threatening Java with Islamic fanaticism and intolerance no doubt hurt the Party temporarily.

15. The Muslim groups were and remain strongly anti-Communist and consider the Government rather too weak in this respect. In foreign policy, they oppose the resumption of relations with China, and naturally favor closer relations with the Arab world.

16. State Capitalists: Dutch domination of commerce and industry was built on bureaucracies staffed with Javanese gentry and the offspring of outer-island fiefdoms. It gave way to state capitalism managed by these same groups, including many military officers. State corporations became the central economic focus of Sukarno's Guided Economy. They ended up as financial wrecks, in part because of their exploitation by their managers for private and political ends. Although under the New Order there has been a shift away from state capitalism, many state corporations were revitalized and massively financed, and they continue to dominate several economic sectors. These include oil, mining, agricultural estates, electricity, air, rail and sea transport, and most importantly, the powerful state banking system. A very large share of World Bank Group lending has gone to State enterprises. The activities of these corporations have created a bureaucratic elite, with its own vested interests and linkages to a wide range of private businesses. This elite itself and its allies include Abangan, military, Chinese and Christian elements, but generally do not overlap with the predominantly rural and indigenous merchant-entrepreneurial interests of the Islamic groups.



17. Bureaucratically-linked Capitalism: The military leadership and the Government apparatus, themselves largely overlapping, have become very interdependent with economic interests. Not only is most economic activity intimately dependent upon Government and state capitalism, in an extremely wide range of business activities ownership and the demarcation between public (including military) and private interests is at best blurred. The private corporation has become a main focal point of investment and production incentives under the New Order. The military commands and bureaucratic organizations and some of their leaders, including family groups of important leaders, have become owners of manufacturing, trading, and most importantly, construction industries and the holders of forestry licences. Because of the political patronage they carried, these new entrepreneurs have been the favored partners of both foreign and ethnic-Chinese investors in the past decade. By virtue of their market position and of helpful linkages with the bureaucracy, they were the contractors for a large part of public expenditure. Managerial, financial and technical links between these new capitalists and the military and civil service (both Abangan and Christian elements) and the Chinese created a strong set of supportive linkages. These dominate present business relationships.

18. The New Middle-Class: Lastly, the past decade of economic growth has created a rapidly growing, primarily urban modern middle-class. As military officers and middle and higher civil servants, as employees of private enterprises, or self-employed in the booming small services sector, and also as recipients of legal and illegal bureaucratic largesse, they have benefitted highly from economic growth. This group includes all ethnic and religious elements, and will strongly resist threats to its well-being. If challenged, it could be moved to perceive its interests as being parallel to those of the orthodox Muslim traditional middle class and the poor. The political implications of post-devaluation economic policies must be seen in this perspective.

19. In describing economic groups and their relationships, no sharp choice needs to be made between economic models such as capitalism, socialism, or state capitalism. All of them are represented and form part of Indonesian development. This is well in keeping with traditional Javanese dislike of confrontations. The overlapping of these groups in the State, and the Government's reluctance to alienate any of them partly explains the difficulty of reaching decisions on seemingly simple and clear issues.

IV. Recent Political Developments

20. The President, the Government and the development policy of the past decade came under increasingly strong attack during the period beginning with the campaign for parliamentary elections in 1977, and ending about 6 weeks before the presidential elections of 1978. It was said that the petroleum wealth had profited mainly the rich and the foreigners, including Chinese, that independence had been exchanged for foreign aid, that foreign debts burdened Indonesia's future. After the clampdown and silence which followed the 1974 Tanaka riot, the first attacks came from religious groups, but they were joined by others including some prominent military. Much noticed was the statement of General Alamsyah, (now Minister of Religion) a practising but moderate orthodox Muslim and then Vice-Chairman of the Supreme Advisory Council (DPA). The General deplored the fact that development was not benefitting the poor. His statement was similar to that made several months earlier by General Nasution, retired but still widely respected, and closely associated with Islamic thought and orthodox practices. Critical noises were also heard from General Ali Sadikin, ex-Governor of Jakarta. Although not known for his religious fervour, and a main practitioner of some of the development policies most criticized by orthodox Muslims, Ali Sadikin has established close contacts with various student and Islamic groups. There was widespread, although never fully credible talk that the Army would replace President Soeharto, against whom the attacks were getting increasingly personal, with a less controversial figure. The name of General Soerano (now Coordinating Minister for Social Affairs), was widely mentioned.

21. However, in early 1978 either spontaneously or through active engineering the demonstrations turned more broadly against the Army /1 in general. There followed an immediate and thorough clampdown, although remarkably little true repression. Thereafter, the President was re-elected unanimously despite the refusal of the respected Sultan Hamengkubuwono of Yogyakarta to run again for the position of Vice-President.

22. The New Cabinet reflects the reinforcement of the President's power and also its limits. The official Muslim groups are completely absent from it for the first time. General Alamsyah has been brought in as Minister of Religious Affairs, an area where it is very difficult to register major successes. General Soerono, as one of the three Coordinator Ministers, has responsibility for social affairs, another area where responsibility is high but power quite limited. Several close personal friends of the President have had their positions reinforced. General Panggabean, previously Minister of War, has been made Minister Coordinator for External and Security Affairs. Under him, General Jusuf, previously Minister of Industry and an old military associate of the President (it is he who obtained Soekarno's resignation on March 11, 1966) has been made Minister of Defense and Supreme Commander of the Army. General Jusuf is a practising orthodox Muslim, but he is acceptable to the Christians and Abangans as the man who put down the Islamic rebellion in South Sulawesi. He is reported not to be interested in acquiring wealth. As Minister, he has worked hard and successfully at improving the welfare of the lower ranks. He has probably greatly solidified support for the regime among them - and also his personal popularity. These efforts were combined with attempts at ending petty military abuse and corruption, and at re-emphasizing the military's dual role (security and social improvement). Admiral Sudomo, previously Chief-of-Staff of the Security Command, has been made its Commander (a position held by the President himself since 1974), and Deputy Commander of the Armed Forces./2

23. Amir Machmud, who is also reputed to be totally loyal to the President, remains in the powerful position of Minister of Interior. His main power base is the large groups of Provincial Governors, Regents (Bupatis) and lower level provincial civil servants who, even when they are nominally elected, are de facto renominated by him and hold their jobs due to him. Sudomo and Panggabean can presumably count on the loyalty of their large Christian factions in the military.

/1 This occurred immediately after an intensive meeting of the most senior leaders of all military factions which concluded, with much publicity, that the military only derived its legitimacy from the people, that it had to uphold and protect their interests and that the creation of tensions between the people and its military could not be tolerated.

/2 Admiral Sudomo is a Catholic; General Panggabean is Protestant.

24. One of the important changes of last year, was the promotion of Yoga Sugama to Chief of Staff of the Security Command. Yoga concurrently remains the Head of BAKIN, the intelligence coordinating organization. His position is further reinforced by the fact that his second in command, Ali Murtopo, was relieved of his BAKIN position when he was made Minister of Information. This was widely considered to be a weakening of Ali Murtopo's power, despite the fact that one of his close associates, Daud Jusuf, was made Minister of Education. That again, however, is a position where it is easier to unmake than to make a reputation.

25. Ali Moertopo has long been reputed to be the eminence grise of the Regime. He has access to underground groups, has close links with important elements of GOLKAR, and can organize or disorganize demonstrations. He has his own men in the Army, but is strongly disliked by the majority of the generals. Part of his notoriety and strength comes from his having organized the Centre for Strategic International Studies, and built up a group of educated people, including economists, often referred to, not jokingly, as the "shadow technocrats". Several of them are ethnic Chinese and nominally Christians. Although their line of thought and philosophy are not very clear, they seem to be advocating a reduction of bureaucratic controls on domestic enterprise and more active promotion of them, including greater protection against foreign enterprise, and a lessening of discrimination against domestic Chinese. They seem to have close personal links to domestic business groups. Their strength comes less from the vigor of their thought than from their being the one organized and available group of intellectuals linked to a faction of the Army.

26. There are two other individuals of great interest in the Cabinet. One is Dr. Habibie, whom you have received in Washington. His strength lies in his being the trusted technological adviser of the President and of the military. For the past several years, he was head of the technological division of Pertamina, in practice a completely independent body which pays private sector remuneration to the scientists and technicians it employs. The other is General Bustanil Arifin, a relative of the President's wife, and for the past several years the Head of BULOG, the food procurement and import agency. His management of BULOG has been extremely skillful. BULOG is an autonomous body which handles huge funds and, until the devaluation, has made large profits, notably through its handling of the sugar import monopoly.

27. The Technocrats: The President feels that development is the fundamental justification of the Regime. There is widespread and genuine desire for rapid improvement in the welfare of the poor. However, according to one strong current of thought, this improvement should essentially take place through the rapid buildup of strategic projects and sectors, and of the infrastructure. The benefit of these developments would, in due course, filter down to the poor. Meanwhile, some direct poverty alleviation programs, essentially of a distributive rather than of a productive nature, would ensure that discontent does not rise too high. The other current of thought

places much greater emphasis on the direct buildup of the productivity of the poor, through the introduction of appropriate technologies and the provision of capital to support them. Conversely, it would wish to restrain the amount of resources devoted to large projects.

28. Both these currents traverse the group formed by the so-called technocrats, a group of non-military men, educated in economics at the University of Indonesia and the United States (the majority at Berkeley). Although it has no strong roots in the country, the group is strongly represented in the Cabinet, and, at least nominally, its leader, Professor Widjojo, has overall responsibility for development policies. Other main members of the group include, Ali Wardhana (Minister of Finance), Rachmat Saleh (Governor of the Central Bank), Radius Prawiro (Minister of Trade), Subroto (Minister of Mining), Emil Salem (Environment), Sumarlin (Administration). One of their ablest, but too outspoken associates, Professor Sadli, Minister of Mining in the previous Government, is no longer part of the Cabinet.

29. Although in recent years we have had some success in developing and reinforcing our links to other groups, the technocrats have been the Bank's main contact point with Indonesia.

30. The technocrats (except Rachmat Saleh and Ali Wardhana) certainly lack managerial ability. It is also true that the Javanese dislike confrontations and sharp decisions, and Professor Widjojo is very Javanese. However, the overcentralization and clogging up of economic decision-making processes must also be seen in the light of the technocrats' political situation. They are unwilling to offend their political protector and other politically powerful interests, and might be unable to implement offending decisions. Yet they are also unwilling to make or carry out decisions which they see as being economically harmful, either directly or through their impact on foreign aid and borrowing. They therefore rely on refusal through non-response, inaction, protracted study and discussion. Naturally, it is impossible to apply such practices selectively, and even politically popular programs which they fully back also suffer. In the end, the very delaying tactics they use to protect themselves and the development policies they favor become a major subject of criticism and attack.

31. The position of the technocrats is very delicate. They have no political backing of their own, and are entirely dependent on the President. In the long run, their survival depends on the successful implementation of economic policies leading to equity, growth and stability. In the short run, however, they cannot afford to offend the political or personal interests of politically important groups or individuals, nor the ideological preferences of their patron, notably his liking for high-technology, capital-intensive projects. They have to make demonstrable efforts toward the implementation of the large-scale "strategic" projects desired by the President and a significant portion of the military, bureaucratic and economic interests mentioned earlier. They must also safeguard the interests of the politically most vocal groups, the middle fifty percent of income recipients, who include both the new and the old middle-class, the PPP and the students.

Yet the richest group has remained practically untouchable. Policies following the November 15 devaluation must be seen in the light of these conflicting pressures. One must add, though, that the devaluation also demonstrated Widjojo's willingness to make a clear cut recommendation, and the President's willingness to accept and back it. It is all the more regrettable that the post-devaluation follow-up has been confused and paralyzed. Although there are indications that the technocrats were split on the advisability of devaluation, Widjojo having been clearly in favor of it has put their prestige at stake as a group. Their survival as an influential group may well be decided by the success they have in implementing the November 15 devaluation package, including the consequent price adjustments, while minimizing the offense given to politically powerful groups. The prognosis is at best mixed.

V. Conclusion

32. Barring gross mistakes, the Army will not relinquish its dominant position for a long time. It does not exercise its dominance merely through pressure from the top, as is the case in many "strong" regimes. Officers on special leave permeate the Central and Provincial administrations. Many of them are technically very competent. The vast majority of Provincial Governors and most Regents (Bupatis) are also military men who, whenever possible, are chosen from among people with roots in the area. Many village chiefs are also retired military people. /1 Thus, the Army provides the general framework of the civilian administration and is largely represented in the countryside.

33. While national unity is a goal by itself, stability is increasingly seen as only a means towards economic and social progress. Economic progress itself is increasingly understood to be progress for the poor. Significantly, one of the few changes made to the "Draft Guidelines of National Policy" when they were debated by Parliament in 1977 and 1978, from which the Third Development Plan derives, was to change the development trilogy defined in the Draft as consisting of stability, progress and equity, into equity, progress and stability. This change is not yet fully translated into concrete policies; nor are its implications, particularly the sacrifices a move towards equity would involve for the privileged groups, fully understood yet. Nevertheless, the exchange is extremely significant.

34. Economic programs and progress are described in Part 3 of Section E. However, the control of corruption must be mentioned here. Corruption is a major cause of discontent. To control it, the Government launched OPSTIB - "operation regularity" in 1977, led by Admiral Sudomo and Minister Sumarlin. Minor extortions by low and middle-level officials have been greatly reduced by OPSTIB, and even some middle-level cases have been prosecuted. There is no indication, however, that there has been much impact at the higher levels,

/1 This characteristic is changing rapidly however, as deliberate efforts are made to professionalize and civilianize the local Government.

where high officials or their relatives are associated with lucrative businesses. These individuals may receive help to open doors to markets or licences, or simply to expedite processes which are by themselves legal but normally very slow.

35. Some of these practices create significant difficulties for the Bank. A recurring difficulty, which the Bank will have to confront soon, is the obligation placed on most foreign contractors to have local associates. The most lucrative deals, however, are associated with turnkey projects, and with timber exports. A visible reduction of the leakage of the profits and costs of development into private pockets is a direct political necessity, but it is also one of the keys to successful development policies as the resource situation tightens during the next Plan period. At the same time, it is a politically difficult process to reduce the incomes of those so closely associated to the power elites.

36. The Indonesian regime holds the broad middle ground of the socio-political spectrum. It has broadly distributed large benefits to many groups, and has the means of transmitting its wishes not just through the top, but directly to the middle and lower levels of the Nation. It seems destined to last, although the relative influence of the inner power groups may change, in particular through further weakening of the power of the technocrats.

37. The only serious threat to the regime would be the coalescing into a single force of the several separate, but not necessarily mutually antagonistic forces which now at least partly oppose it. The orthodox Muslims would be the only group capable of regrouping such a coalition, whose avant-garde could come from the students and whose troops would be formed by the lower middle classes and the truly poor Javanese. A temporary coalition of these forces with the modern middle class could come about if the latter are hurt by economic policies, and it could bring about the replacement of some of the policymakers. A durable coalition and a deep crisis, however, could be caused only by a significant and prolonged slowdown or reversal of the economic progress of the Javanese middle class and the poor.

38. The Bank's actions should take into account this political setting. As the lending institution, it should be reasonably reassured by the likelihood that disruptive crises will be avoided. It should also help avoid such crises, and protect itself in case a sharp change does occur, by exerting its influence and shaping its lending in ways most likely to ensure widespread and fast growing development benefits. This requires no radical departure from past practices, but a somewhat more active stance in defining and advocating policies tending to ensure the most economic use of infrastructure facilities, further movement towards the provision of directly productive facilities to the rural poor, and a sharply increased effort to help develop labor-intensive forms of industrial and infrastructure investment.

39. The Bank must also be careful not to reinforce some of the harmful tensions. It must realize that inability to reach decisions in certain fields is a reflection of political realities, including the conflicting pressures on the technocrats. Even if decisions are reached under pressure, they often run into difficulties of implementation. The Bank must continue to try to widen its contacts and its political support in the country, but realize that its closest friends, those who both understand its workings and support its aims, often have very little room to maneuver. Consequently, we should as much as possible accept their judgment that the Javanese way of decision-making, through non-action, consensus, osmosis of ideas, excruciatingly slow and seemingly inefficient as it is, is the only one that often is feasible. We should not expect nor push hard for clearcut decisions, but continue low-key persistence to resolve specific problems. We should recognize that this requires considerable inputs of staff time and energy, and a constant state of tension between excessive activism and undue passivity, both of which would undercut the Bank's effectiveness. There is a cost to pay; but compared even to minor improvements in the development processes of a country of Indonesia's size and importance, the cost is low.

February 13, 1979

INDONESIA

The Economic Situation

Summary and Conclusions

1. Indonesia's economy grew rapidly over the past decade. The main factors responsible for this fast development were the reconstruction of a shattered and bankrupt economy, pragmatic management, inflow of foreign capital, rapid growth in timber exports and, above all, in oil revenues. There is strong evidence that disparities of income distribution widened during the period, but also that the lower income groups - however defined - also increased their incomes and consumption.
2. Intellectual infrastructure has been impressively built up with universal primary education well within sight, and major advances at other levels of education. Other well-conceived programs have made a significant impact on the satisfaction of basic needs.
3. However, much of the growth was directly related to the increase in primary product exports, essentially those of timber and oil. The direct benefits of a large part of these incomes accrued to the Government, to contractors, agents and administrative personnel, and to a modern sector catering in turn to the consumption demands of these high income groups, often through import-intensive processes. The poorer groups and traditional entrepreneurs have benefitted only indirectly, through trickle down processes.
4. In the medium term future, primary production will not be a significant source of additional growth; oil revenues will decline in real terms. The budget will have to find other sources of revenues - unavoidably, the incomes and consumption of the better-off groups. The new sources of growth will have to be based on labor-intensive industrial development, producing competitively for the domestic mass market and for export; on continued upgrading of food-producing agriculture, particularly in Java; and on accelerated development of the provinces outside Java, will accrue to labor, to a new group of entrepreneurs, and to farmers. There are still many technical obstacles to this sort of gradual restructuring, but perhaps the most important problem is related to the fact that much of the burden of financing it will be placed on the groups which most benefitted of the earlier phase of development, while they will get a lower share of the benefits of future growth. However, while difficult, the process is feasible and we believe that with appropriate outside help it will be carried out, and give Indonesia sufficient growth incomes and employment.

THE ECONOMY

5. For the quarter century before 1966, political objectives completely overshadowed economic ones in Indonesia. Few development projects were undertaken, and most of those were showpieces. Funds for maintenance of

the economic fabric were lacking, deficit financing led to hyperinflation. The Dutch had ill prepared Indonesia for self-government; for example, there were only two small higher education establishments at the time of independence and no Indonesian had previously served in an important administrative position. However, they did leave a modestly prosperous economy which then disintegrated. Two development achievements stand out in the pre-New Order period. Namely the self-complementing policies of promoting Bahasa Indonesia as a truly national language and the expansion of educational facilities, including the establishment of Universitas Indonesia. These successes were undeniably an important factor in ensuring the cohesion of the Republic. The collective Indonesian memory of the years before 1966 is still strong, and it underlies the strong preoccupation with "stability" in economic and social development.

The New Order

6. The severely dislocated and bankrupt economy that was inherited by President Suharto's new order government has grown by a healthy 8% p.a. over the last decade. By the early 70s Government had brought hyperinflation under control, established full convertibility of the currency, and successfully regained the confidence of western creditors. The political and economic normalization and stabilization and the massive rehabilitation of neglected infrastructure (the investment rate doubled to 18% between 1968 and 1973) enabled GDP growth of over 9% p.a. during the First Plan Period (1969/70-1973/74). The rapidly increased exploitation of natural resources, in particular timber and petroleum, and increased foreign aid flows greatly facilitated the recovery. From a negligible base in 1969, timber and oil exports had reached \$1.3 billion by the end of the First Plan period while foreign aid flows grew rapidly to nearly \$1.0 billion (gross disbursements) in 1973. While the emphasis of economic policy was on rehabilitation of the economic and physical infrastructure and on rapid growth, the First Plan period also saw the beginning of the successful family planning program, the BIMAS/INMAS rice intensification schemes and a number of INPRES decentralized programs to support local Government and provide basic services.

7. During the Second Plan period (1974/75-1978/79), which will end in March, economic activity was fueled by the dramatic increase in resources resulting from the world commodity boom and the quadrupling of oil prices, and by the rapid rise of foreign and domestic private investment in the early 70s. Net oil exports increased by \$2.0 billion in 1974/75 and reached \$4.3 billion by 1978/79, the value of non-oil exports doubled between 1972/73 and 1974/75 (mainly because of price changes), foreign investment approvals in 1974 and 1975 totalled \$3.0 billion and gross disbursements on account of foreign aid and loans exceeded \$2.0 billion both in 1975 and 1976. The sharp increase in oil revenues and the related increase in borrowing capacity enabled Government's development expenditures to grow by over 40% p.a. in nominal terms and over 20% p.a. in real terms during the Second Plan period. However, despite a significant multiplier effect of vastly increased public sector expenditures based on the oil revenues and on a related increase in

borrowing capacity, the growth of GDP in constant prices remained somewhat below 7% p.a. during 1973-77, as compared to a Second Plan target of 7.5% p.a. This was partly due to the disappointing performance of the agricultural sector (due to favorable terms of trade GDY grew by almost 9% p.a. during this period).

8. Total investment rose to about 20% of GNP by 1977 as a result of the rapid increase of public sector investment, which reached about two-thirds of total investment. Private investment activity has been subdued in recent years. Many factors explain this, including the exhaustion of the easiest investment opportunities in consumption-oriented import substitution activities and in timber exports, anti-Chinese policies, world economic conditions and, in the oil sector, the scars left by the unilateral revision of oil contracts in 1976. However, the single most important factor hindering the deepening of private investment, particularly in manufacturing, has been the high cost of investment and operations resulting from bureaucratic obstacles.

9. During the reconstruction phase, until about 1972/73, much of the private investment went into activities oriented towards relatively high-income consumption, but most of the public sector investment was aimed at rebuilding basic infrastructure and agricultural production facilities. Thereafter, the new found oil wealth tempted the state oil company Pertamina into a vast and low priority investment program. Only resolute and drastic Government action prevented the financial collapse of the company and country in 1975. The Government's handling of the "Pertamina crisis" was indeed commendable, but it is also true that Pertamina's investments and their financing must have been approved at least tacitly by Government. Moreover, parts of the Government's own investment program were unproductive and rather capital-intensive. For instance, Bank experts estimated that the purposes of the \$1.5 billion telecommunications program could have been achieved at a fraction of the cost; in addition a large (but unknown) proportion of total public investment has gone into office buildings. A number of imaginative programs of social investment, bringing direct benefits to the poor, increased rapidly in sectors as diverse as urban slum improvement (kampung improvement), basic health services, family planning, and a variety of decentralized rural development activities (INPRES). However, a large share of the public investment program contributed little to the creation of productive employment opportunities.

Socio-Economic Development

10. What benefits did this decade of rapid economic growth bring for the people at large? The Basic Economic Report examines this question and presents the following main findings in great depth and detail for the period 1970-76. The choice of this time period is governed by data availability. It is probable that improvements were faster and perhaps more broadly distributed in the 1967-70 period. Socio-economic surveys in 1970 and 1976 suggest that while overall income disparities have widened, the rapid overall growth of the economy has contributed to a considerable improvement in consumption of all income groups, including the very poor. Increases in per capita consumption were higher in Java than in the Other Islands and higher

in urban areas than in rural areas, probably reflecting the geographic and sectoral bias of investments. Many Indonesians remain, however, extremely poor: in 1976 when average per capita income was about \$240, over 50 million Indonesian (38% of the population) spent less than \$90. The concentration of poverty is particularly high in East and Central Java. These provinces account for about 39% of Indonesia's population but for 54% of the very poor. However, extreme poverty is a feature of life in all parts of the country.

11. Employment surveys show a remarkable 4.7% p.a. rate of employment growth between September 1971 and October 1976. Labor force participation rates increased from 50% in September 1971 to 55% in October 1976. Most of the increased per capita consumption of the poor was related to increased labor force participation and declining dependency ratios. These favorable findings are violently criticized by many observers, but they can be accepted with high confidence. Yet even these favorable statistics of employment growth give cause for real concern. About 46% of incremental employment was in agriculture, the sector with lowest average productivity. Employment growth in the higher-productivity medium- and large-scale industries was very modest, even though these benefitted from the bulk of industrial investment. The vast majority of non-agricultural employment was in proliferating very small-scale enterprises, where labor productivity is extremely low. This is confirmed, inter alia, by the stagnation of real minimum wage levels which are among the lowest in the world. The going wage for unskilled labor is less than a dollar per day in most areas, which in real terms is probably not higher than 50 years ago. The broad picture of rapid employment growth since 1970, though encouraging in many respects, confirms that a relatively large part of the incremental employment has been of poor quality, in residual types of activities.

12. Without formally adopting a basic needs strategy, Government has invested heavily in improving access to some social services, financing this with part of the rapidly expanding oil revenues. Much progress has been made in recent years with the provision of education services. Enrollment rates increased at all levels. In 1979, primary enrollment will reach 85% for the 7-12 age group, compared to 60% in 1974 while dropout rates, although still high, declined. Universal primary education has now been adopted as a Third Plan target. Recently, a nonformal education program was introduced to improve the basic employable skills of the estimated 45 million people who never attended or completed primary schooling. Indonesia's adult literacy rate was 62% in 1974 (World Development Report) India (36%), Pakistan (21%), Bangladesh (23%), Thailand (82%), Philippines; (87%).

13. In basic health care services, there has been a tremendous expansion of physical infrastructure, including medical training facilities. Almost 3,000 rural health centers, designed to become the principal vehicles for the delivery of basic health services, were constructed between 1969 and 1977. The expansion of these facilities has not yet resulted in any marked improvement to health standards, as measured by mortality and morbidity statistics, in part no doubt because popular preference for traditional health care services remains strong, and the utilization of health centers is correspondingly low.

14. Inadequate sewerage and sanitation are still major health hazards, especially in crowded urban areas, and over 100 million Indonesians still remain without easy access to safe drinking water. Simple and inexpensive improvements in water supply, drainage, footpaths and community facilities executed through Kampung Improvement projects, including those supported by the Bank Group, are improving both public health conditions and general living conditions in many poor neighborhoods. The scale of the Kampung improvement program is quite unparalleled anywhere.

15. Although the findings of the Basic Economic Report reflect a broadly favorable picture of socio-economic development in Indonesia, many observers are unwilling to share this interpretation. Conspicuous consumption in Jakarta draws widespread attention to the gap between rich and poor; some poor subgroups of the population have been shown to suffer as a result of the development process; landlessness continues to grow in the rural areas; and some studies have suggested, inconclusively, that real wages in urban areas may have declined very slightly. To a large extent such observations reflect only a partial view of the overall situation. But even so, the particular phenomena represent real problems, which are not always being successfully dealt with.

16. Moreover, the favorable interpretation of the past leaves no room for complacency for the future. The poverty backlog is enormous, however defined. There is a limit to the growth in welfare that can be attained by increased labor force participation rates and reduced dependency ratios. The achievement of 4.7% p.a. growth in employment from 1971-76 may appear high by international standards, but it must be seen against a 10% p.a. growth of DGY and a 20% p.a. real growth in public expenditure. If real minimum wages did not increase during such a period of growth, what are the prospects to resolve the fundamental problems of a labor surplus economy, if, as is widely expected, the growth rate falls in the coming years.

Prospects for External Resources

17. The special factors which contributed to rapid growth over the past decade - the rehabilitation of neglected infrastructure and the dramatic rise in oil revenues and external resources - will not be repeated. Indonesia is now facing a tightening overall resource position, which will make it more difficult to maintain high levels of income and employment growth.

18. The economy is now very exposed to oil sector developments. Net oil revenues now account for over half of export earnings and of budget revenues. Following a period of rapid growth, crude oil production reached 615 million barrels (1.68 MBD) in 1977. In 1978 it dropped to 597 million barrels. Expectations are that production will decline, or at best stagnate during the next few years, as a result of the sharp drop in exploration activities during 1976 and 1977. If and when growth resumes, it is expected to be slow. A rapidly growing share of production will come from higher cost offshore wells and from secondary recovery. The share of the Government's take from these will also be reduced by the new incentives granted to foreign oil companies during 1977 and 1978. Even if the growth of domestic consumption (now about 115 million barrels of crude equivalent) slows down, the exportable surplus of oil will decline until 1983. Taking into account the expected

expansion of LNG (liquefied natural gas) earnings from about \$200 now to about \$1.0 billion in current prices by 1983/84, net oil and LNG earnings will at best remain roughly constant in real terms. The volume of timber exports the second largest export commodity, is expected to grow only modestly, although their value may double to about \$2.0 billion by 1983/84 if the buoyant DPS price forecasts materialize.

19. Indonesia has tremendous potential for non-oil mineral development and exports, but prospects for the medium term are also less promising than earlier expected. Reduced nickel prices have recently caused postponement and delays in two major nickel projects; the Royal Dutch Shell Group cancelled an export-oriented coal mining project in Sumatra; and the Bintan Island Alumina Project has been found to be uneconomic. (However, as discussed in para. 3, Section F "Topics for Discussion with the Minister of Industry", the project does not seem yet fully abandoned). Production of tin and copper is expected to increase only marginally, if at all. The only major new projects to come on stream during the Third Five Year Plan period are the Asahan Aluminum Smelter, construction of which is proceeding despite high cost overruns, the Bukit Asam Coal Project will will produce for domestic consumption (power generation), and the LNG expansion projects. Only the last will make a significant contribution to export earnings and to Government revenues. Nor is the picture much brighter for agricultural exports. The only plantation crop for which rapid expansion can be forecast on the basis of recent plantings is palm oil, and a growing share of that commodity may be absorbed by the domestic market.

20. A factor exacerbating medium-term resource pressure is the maturity profile and terms of Indonesia's external debt. Net resource transfers have fallen rapidly and debt service on account of public debt committed through 1977 will remain at around \$1.5 billion (15% of export earnings) through 1982. This illustrates the need for increasing amounts of new loan commitments, but also for continued restraint with regards to new commercial borrowing. The Basic Economic Report estimates that, given plausible levels of concessional commitments and commercial borrowing consistent with prudent debt service management (See Annex on Foreign Assistance and Debt) net resource transfers would increase from about \$0.5 billion last year to about \$1.0 billion in current prices over the next five years. This is about \$1.5 billion less than the actual transfer received during the Second Plan period. The Government hopes to reverse the recent trend of declining foreign investment interest, but the post devaluation price controls (see para. 4 of the Brief in Section F on Topics for Discussions with Professor Widjojo) added to the shock of the devaluation itself, have at best delayed any foreign investment response. Moreover, even if private capital flows increased significantly, they are in the medium-term likely to be offset by overflows of factor payments and repatriation on account of previous and new investments.

Domestic Resource Mobilization and Public Sector Investment

21. The expected stagnation of oil revenues creates a major domestic resource problem. Since 1974/75, more than half of total Government budget revenues have been derived from the corporate tax on oil. Oil revenues

increased nearly tenfold from about \$0.5 billion in 1972/73 to nearly \$5.0 billion in 1977/78 and 1978/79. They account for about the totality of budgetary savings. Non-oil revenues also grew significantly in the past three years, primarily as a result of improved tax collection. They were budgeted to reach Rp 1.9 trillion (\$4.6 billion) in 1978/79, representing a near doubling since 1975/76 when they amounted to Rp 1.0 trillion (\$2.4 billion). Overall increases in current expenditures were modest.

22. However, with the shortfall in oil revenues resulting from declining production, a somewhat disappointing non-oil revenue performance, and larger budget subsidies for domestic oil consumption, budgetary developments in 1978/79 were less favorable than anticipated and prospects for 1979-80 were rather bleak. The November devaluation has had a pronounced impact on the budget. The value of oil and LNG earnings increased by 50% in rupiah terms, and their share in the 1979/80 budget is projected to exceed 60%. While there will be a need for subsidies to smooth and delay domestic price effects of the devaluation, these should be temporary only. Despite these and the higher cost (in rupiah terms) of foreign expenditures, the net impact of the devaluation, should lead to a budget surplus of about Rp 200-300 billion during 1979/80. Such a surplus would be needed to reduce the inflationary impact of devaluation.

23. Beyond the once and for all increase in the rupiah value of oil revenues resulting from the devaluation, the expected oil sector developments described in para. 18 above will lead at best, to a stagnation of budgetary oil revenues in real terms during the remainder of the plan period. The item representing 60% of budgetary revenues will not grow; this illustrates the magnitude of the domestic mobilization effort needed to obtain an adequate increase from the remaining 40% of revenues, as well as the need for continued restraint with regard to current expenditures in order to achieve some growth in Government savings.

24. The Basic Economic Report singles out domestic oil pricing as the most important fiscal policy issue facing the Government. Domestic fuel prices have not changed since 1976. Prior to the devaluation, the economic subsidy on fuel products amounted to about one third of opportunity cost. The subsidized products were kerosene, diesel, and fuel oil, which together account for about 80% of total consumption. The devaluation increased the rupiah cost of crude and imported products, and now all products are subsidized. At present, domestic oil consumption is receiving budget subsidies at an annual rate of nearly \$1.0 billion. The economic subsidy is much higher (the budget benefits from cheap "pro rata crude" contributed by the producing companies). The Government has actually budgeted for only about \$350 million of oil subsidies in 1979/80 which implies a weighted average domestic oil price increase of about 50%, thus restoring the pre-devaluation dollar equivalent price. Assuming the increase is implemented before the next budget year begins on April 1 (which is not yet certain), and international oil price developments are as projected by DPS, further annual domestic oil price increases of 15-20% would be required just to eliminate budget subsidies by 1983.

25. Besides oil pricing, the success of the domestic resource mobilization effort depends on improvements in tax collection for which there is considerable scope, and making the tax system more income elastic and equitable. For example, taxes on personal and business incomes amount to only 3% of GNP, while taxes on consumption yield just 2.5% of GNP. Land taxes bring in only 0.3% of GNP, and both on economic and equity grounds there is considerable scope for sharply increased taxes on urban and the speculative land holdings. It is also necessary to increase the net contribution of public enterprises to the budget, by bringing their output pricing more in line with economic cost and by improving the efficiency of their operations.

26. Yet even with vigorous efforts and considerable success along all these lines, overall resources will be quite limited. Taking into account net foreign resource transfers and the need to refrain from deficit financing of the public sector, one reaches the inescapable conclusion that the resource constraint will prevent all but a modest expansion of the Government's investment program. A significant portion of future resources has already been committed to ongoing investment projects and programs. The choice of new programs and projects will have to be careful indeed if adequate stimuli to productive employment and the social services in critical areas are to be provided. Such choice would almost certainly entail a reordering of the pattern of public investment and of the focus of Government attention. During the first three years of the Second Five-Year Plan period, a large part of investible public resources went to physical infrastructure and to capital-intensive industrial development. During 1977/78 and 1978/79 no new large scale industrial or low priority infrastructure projects were started, and even the composition of actual development expenditures began to change. The share of industry and physical infrastructure declined from around 50% during 1974/75-1976/77 to 40% during 1977/78-1978/79; over the same period the share of agriculture and irrigation (excluding fertilizer subsidies) increased from 10 to 15% while the share of social sectors, regional development and transmigration increased from about 25% to 33%. These changes were related to the new policies towards commercial borrowing and towards capital intensive investments, reflected in our 1976 report.

27. However, one cannot yet be fully confident of the durability of the new pattern of public investment. Key Government officials continue to focus much of their attention on "spectacular" projects. For a variety of reasons, the proposed allocation of development expenditures in the Third Plan does not necessarily give a good indication of public sector investment intentions. In the initial years, considerable resources are needed for the completion of ongoing investments. On the other hand, most of Pertamina's investments were not reflected in the budget, and the same may be the case for new large projects, particularly if the Government succeeds in its search for what it calls unconventional financing arrangements. Yet, with all these reservations, the figures are noteworthy and encouraging. The planned allocation shows a further reduction of the share of industry and physical infrastructure to 35% from 45% during REPELITA II, the share of transmigration more than doubles, to over 5%, while the share of agriculture and irrigation increases marginally. The programs for regional and social development receive an unchanged allocation of about 25% of the total.

Economic Structure and Strategy

28. The overriding issue facing the Government is how to maintain the past momentum of income and employment growth despite the reduced growth in the resource-based extractive sectors. The latter's past high growth made an essential contribution to a high and growing overall demand, to domestic finances, and via the budget, to improved social amenities for the mass of the population. However, very few elements in the past pattern of growth have favored direct employment creation and upgrading of the productivity of the unskilled, and (apart from the important social programs already mentioned), the benefits of growth have reached the poor mainly through "trickle down" mechanisms. A new strategy is needed now if the rate of income and employment growth is to be sustained despite the emerging resource constraints. Development policy must now lead to a gradual restructuring of the economy, starting with a new pattern of investment and ultimately leading to a different pattern of production. The emphasis must be on labor-intensive development in all sectors, but of a more meaningful sort than the marginal labor absorption that has been typical of the past. Quality as well as quantity must become a vital characteristic of future employment. Productivity must be increased in a real sense, i.e. at competitive prices, and exports must play an increasing role.

29. Moving the economy in this new direction will require a much more prominent role for genuine, productive entrepreneurship. Because of the traditions of existing state enterprises, state capitalism is not a feasible option for the type of economic activities which should be encouraged, nor is it politically acceptable in Indonesia. Consequently, a greater role must be left to the private sector. Two major obstacles stand in the way of such a strategy. First, the country's major entrepreneurial class are ethnic Chinese, and official policies call for a reduction in their economic role. More importantly, the development of a more broadly based private sector will require a strong political commitment to go counter the vested interests of the current economic elites. These include the joint owners of industrial and other enterprises catering to high-income consumer demand, often with heavily import-dependent production; contractors of all sorts and a large quasi-parasitic group of representatives, brokers, dealers, concession holders. The incomes of all these groups are highly dependent on the advantages they derive from the existing structure of formal protection, official and de facto obstacles to new entry, and their relationships with the political elite, which allow them to move with less difficulty through the administrative maze.

30. The proposed restructuring would reduce demand for the products of the existing economic elite, directly (reorientation of public expenditures) and indirectly (redirection of consumer demand away from highest-income groups). Radical reduction of administrative obstacles, which must be a major part of any such effort, will adversely affect many enterprises now protected by these obstacles, and also those who profit from administering them. The inescapable conclusion is that the process will necessitate a significant reduction in the relative, and probably even absolute, incomes of the important group which has benefitted from past growth.

31. The recent devaluation could be an important part of this process, as it increased the cost of the consumption package of the rich more than that of the poor, and could provide a stimulus to labor-intensive import substitution and exports activities. However, its success is completely dependent on the radical easing of administrative obstacles to entrepreneurship, which is not yet apparent; and also on a certain reorientation of public sector expenditures.

32. Overall the three pillars of the new development strategy should be labor-intensive manufacturing development; agriculture, particularly food-producing agriculture, and the development of the provinces outside Java, through transmigration. Not only are each of these three parts of development strategy all indispensable; they are also mutually interdependent and self-reinforcing.

Prospects for Industrial Growth

33. Dynamic entrepreneurial action in manufacturing industry is the linchpin of successful balance of payment management and of adequate employment generation. The growth of the manufacturing sector during the past decade, though fast, was less than in many other countries at a comparably early stage of industrialization. The growth rate of manufacturing value added decelerated from about 15-16% p.a. during the early 70s to 11-12% in recent years. More serious for the future were the implications of the location and composition of manufacturing investment. A few figures are telling: close to half of modern manufacturing establishments are in the Jakarta region. New employment in modern manufacturing was 50,000 p.a. - this for a total manufacturing investment whose dollar value was comparable to that of South Korea. Manufacturing exports amount to a mere \$250 million, most of it surplus fertilizer and cement.

34. Caricaturing, yet describing the whole situation, 28 plants assemble more makes of automobile in Indonesia than in any other country. Only very limited parts of the newly-created industry seems to provide the bases for expanding production in a competitive manner in response to the needs of the domestic investment program, of the broad mass of domestic consumers, or of foreign markets. These are matters of serious concern. Poverty elimination in Indonesia and sustained rapid development are critically dependent on the rate and quality of industrialization. If there are to be enough new jobs, at levels of productivity and skills allowing labor incomes to rise somewhat above the basic wage for unskilled labor, Indonesia must accelerate labor-intensive industrial development. The Basic Economic Report estimates that value added in manufacturing should grow by not less than 15% annually.

35. The present domestic market is too small to support the high manufacturing growth rates that are needed. A stronger export orientation of Indonesian industry is, therefore, essential. The Basic Economic Report estimates that a 20% growth rate of manufacturing exports (from an almost non-existent base) is feasible, and essential both for the reasons outlined above and for balance of payment equilibrium.

36. The Third Plan document projects manufacturing growth of 11% p.a. only. A few points difference may not be very important. However, if the Government program were also oriented somewhat more towards capital-intensive import substituting processes or basic industries, the implied growth of the labor-intensive industries may be very much less than is deemed essential by the Bank.

37. While there is no formal disagreement about our formulation of this strategy, there is daily evidence that the major focus of interest of many in Government is still on other types of industries, including both large, high-technology projects (Asahan, Bintan Alumina, Petro Chemicals) and import-substituting assembly operations (airplanes, heavy earthmoving and landclearing equipment).

38. One must also recognize that no one has clearly indentified the ingredients of a successful industrialization and manufacturing export strategy. In Indonesia, particularly with the current exchange rate, export subsidies or bonuses should not be necessary. The most effective incentive should be the removal of administrative obstacles, together with supporting measures in the fields of credit, infrastructure and technical advice.

39. Ideally, the removal of administrative bottlenecks should extent throughout the economy, as a second best, special mechanisms could be established to give at least actual and potential exporters the possibility of cutting across administrative obstacles, and to give them protection from pressures. As an interim solution only, it may be desirable to improve existing export manufacturing zones or to create new ones where new industries can develop and buy not only imported inputs but also domestic inputs at international prices, free of trade taxes and of administrative interference (which is not the case now). Such zones have been effective in several countries in early stages of an export drive as a means to attract and reassure foreign investors, demonstrate potential, promote backward linkages, and provide training and experiences in technical skills, quality control and international marketing. However, policies and arrangements that would make it possible to use for export some of the already established industrial capacity would be much preferable.

40. It is difficult to assess the chances of success of the recommended industrialization strategy. The present low stage of industrial development, the availability of low-wage, relatively well-educated disciplined labor, the large purchasing power and investible resources provided by mineral exports, are all arguments in favor of judging the Bank's 15% industrial sector growth rate and 20% manufactured exports growth rate achievable, and even modest. Perhaps the biggest problem still is to convince all relevant decision-makers of the desirability and feasibility of this strategy, and of the consequences of following an alternative road.

Food Production/Agriculture

41. To generate adequate employment and incomes for the poor, and to avoid unmanageable food imports, continuing increases in food production are also necessary. Indeed, although the suggested industrial strategy is an indispensable component of long-term development, in the next few years success or failure towards agricultural policy will weigh much more heavily on employment and the balance of payments.

42. Despite impressive achievements in rice production, the past decade has been a continuing increase in Indonesia's food deficit. Between 1968 and 1977 rice production grew by an average of 3.5% p.a., but output of the five main secondary staples (maize, cassava, peanuts, sweet potatoes and soybeans) by only about 1.7% p.a. Over the same period demand for food grew by nearly 4% p.a. in caloric equivalents, food production and availability grew by about 3.2% annually, and consumption by about 3.7%. By 1975-77 the actual food deficit averaged 2.6 million tons of cereal equivalent or about 20 kg per capita. Including the amount theoretically needed to eliminate malnutrition, the gap was about 4 million tons. From 1975 to 1977, rice production was essentially stagnant. With a 10% increase in output in 1978, rice production is probably still on the same growth trend as the past decade's 3.5% growth rate. However, the approaching completion of irrigation rehabilitation work on Java, and a shift towards the more difficult tasks of expanding irrigated area and swamp drainage will make it more difficult to maintain this growth rate.

43. Assuming continued growth of GNP at about 6-6.5%, with reasonably well distributed benefits, the import requirements of basic foods will continue to increase. There is therefore an urgent need for a comprehensive food production and consumption strategy for balance of payments reason. This strategy must aim not only at holding the overall food deficit within affordable limits, but must also avoid any further dependence on rice imports. Indonesia's rice imports in a bad year can represent as much as one-third of world trade, and exposure to risks of price and quantity fluctuations in that market are already high.

44. Increased production of food is also an indispensable component of employment and income distribution strategies. Increased food imports have meant that the trade circuits and corresponding multiplier effects were channeled from the towns and other beneficiaries of oil revenues and Government expenditures directly abroad, instead of stimulating demands and interaction between the Indonesian countryside and the urban producers of simple goods. The magnitude of this short-circuit is illustrated by the fact that in 1978 - admittedly a bad year - rice imports were equivalent to one sixth of total consumption, most of them going to the 20% of the total population which is urban and which also use most of the large wheat imports. Clearly a reversal of this trend is necessary to allow the rural economy to develop linkages with industry, and to provide it with markets. At the same time, naturally, growth in agricultural production is also necessary to provide productive employment to at least parts of the rural population.

Rice Production

45. A national food production strategy has three main components. First, there must be continued energetic implementation of irrigation programs. In the past, irrigation programs were geared towards rehabilitation. Future irrigation projects will be oriented much more towards new irrigation and swamp drainage and this will increase the strain on Government's implementation capacity. Reflecting this the Basic Economic Report projects annual completion of 100,000 ha irrigation projects, as compared with 160,000 ha p.a. in the past. Even these diminished completion rates will not be achieved if ongoing irrigation investments fail to mature on schedule. As investment implementation has been the weak link in the past, Government should give this high priority.

46. Second, the production of the major secondary crops must be stepped up. The transmigration program is an essential element in this, by opening up part of the vast unalienated land areas outside Java. However, more efforts are also needed in Java, where secondary crops have received much less assistance than rice from Government, and the cultivation system and yields are those of a subsistence economy.

47. Thirdly, pricing policies for food crops are a critical part of a long term strategy. The temptation of holding down producer prices so as to hold down the urban cost of living and general wage levels is a strong one. Past price levels for rice have been relatively remunerative for rice producers, relative to input prices, but in the wake of devaluation, the producer price will need to be continuously kept under review. The prices of other crops will need to be stabilized if they are to be encouraged, and this should be achieved through marketing support services such as are provided for rice.

Population, Transmigration and Development Outside Java

48. At the end of 1978, the population of Indonesia was over 137 million, of whom 63% were living in Java. Java has a population density of over 650 sq km, as against less than 30 sq km for the rest of the country. The growth population has declined slightly in recent years and is now fractionally below 2.0%. Compared with earlier expectations of accelerating growth, the decline in population growth is very encouraging. Rising average age at marriage has contributed generally to reductions in fertility, but the greatest reductions have been achieved in Java and Bali, where since 1969 a successful and cost-effective national family planning program has been implemented. The number of new acceptors recruited annually rose from 53,000 in 1969-1970 to almost 2 million in 1977/78. There are indications that the proportion of women who are current users of contraception may be reaching a plateau in some parts of Java and Bali, though the extension of the program's services outside Java should enable further fertility reductions to be achieved quite easily. Without access to the program, fertility reduction outside Java has expectedly been modest, and as a result on Other Islands the rate of population growth is now well above that in Java - 2.4% compared with 1.8%. Even so, population pressures are so acute in Java that any transmigration of population to the Other Islands can only be beneficial.

49. Transmigration policy is a reaction to the enormous differences in density between Java and the provinces outside Java naturally. This situation gave rise to the idea of developing the Other Islands while relieving pressures on Java. The North Sumatra jungles were cleared and plantations developed by the Dutch with contract labor from Java, and later, smallholder settlements were started with transmigrants. The plantations flourished in part because they generally took the best land, but also because they benefitted from centralized management and capital to tide them over the long early unproductive years. The smallholder transmigrants rarely did very well, precisely because they lacked those factors.

50. After several attempts at achieving large-scale transmigration programs, which all ended in failure to meet the target, Indonesia once again fixed a very ambitious target for the Third Plan, the resettlement of 500,000 families. The implied minimum figure for the last plan year, 150,000 families would represent more than a tenfold increase over the Second Plan average. If achieved or even approached, it would contribute substantially to the achievement of the country's major objectives. For instance, an annual rate of 150,000 transmigrant families would mean approximately 225,000 full-time jobs, which is more than what is implied by the Government's projections for manufacturing. Once established, this rate should add at least 300,000 tons of rice equivalent to food production, say about one-fourth of the desirable annual production increase.

51. Much of the recent debate surrounding transmigration centered on technical questions, in particular, the suitability of land outside Java for foodcrops, land clearing techniques, size of land to be given to settlers, choice of crops, etc. While a consensus is far from having emerged, the main body of opinion can be summarized as follows: most soils outside Java are indeed quite fragile. However, with appropriate precautions in land clearing, land can be safely developed for foodcrops cultivation, provided that high levels of technological inputs, in particular of proper seeds and fertilizer, are thereafter applied at all times. In order to do so, the corresponding institutions have to be developed, and adequate markets provided.

52. The debate within the Bank and between the Bank and the Government is still proceeding. It is complicated by the internal debate within the Government, which adds to this technical dimension, the dimension of institutional rivalries. Nevertheless, however slowly, progress is being made, and beyond the first loan for a new type transmigration project (Transmigration II), to be made later this year, the Bank should be able to cooperate with an increasing transmigration program. There is no point in debating with the Government the appropriateness of the 500,000 target; as a target for annual movement when the program has matured; 150,000 families seems appropriate, and whether it is reached by 1983 or a few years thereafter is less important than that it be solidly based.

53. Beyond the technical agricultural points, the whole concept of transmigration must be thought through. The concept of transmigration as a series of disjointed agricultural settlements may have been appropriate as long as the flow was very small; it certainly no longer corresponds to needs, now that the planned five year transmigration figure exceeds the total population of many of the provinces outside Java.

54. Transmigration must now be perceived as one of the means of developing Indonesia, by combining Java's human resources with the land and other resources of the other provinces. The accent must be on the integrated development of these areas, although by insisting that this, like other developments, be labor-intensive, one would ensure that transmigration plays a catalytic role. Agriculture will remain important, but all other activities and resource uses must be planned. Such comprehensive advance planning is all the more essential as transmigration areas are bound to increase their populations and levels of economic activity manyfold over the next decades. However, such comprehensive long-term regional planning has begun only in one province, East Kalimantan, under the auspices of the German Technical Assistance.

CONCLUSION

55. Indonesia has identified its key problems, and at least the broad nature of the action needed to cope with them. The Government is genuinely committed to development, and both for social and political reasons it is concerned with improving the lot of the poor, for whom large and effective social investment programs have already been devised and implemented. The country has a widespread export base, and oil revenues will continue to provide Government income without imposing any corresponding levy on the domestic population. Despite the expected stagnation of oil revenues, and the growing burden of somewhat excessive past borrowings, resources for the Third Plan will be well in excess of what even the most optimistic observer would have forecast ten years ago.

56. Yet one must also realize the difficulties of the task. Some of them are technical, and they are themselves great. Some relate to genuine uncertainties concerning strategic development choices. What should be the role of export industries, or of private capital? At what stage of its development should a country develop high technology industries, and indeed, how does one exactly define such industries?

57. However, the greatest difficulty will be inherent in the nature of the necessary restructuring. New circumstances require recourse to different development processes. More taxes will have to be levied on the relatively prosperous. The direction of public sector investment will have to be reoriented further. Greater scope must be given to the development of small and medium size enterprises of a type capable of offering fast-expanding employment opportunities to semi-skilled and skilled labor, and of competitively supplying goods to the domestic mass market and to exports. This process involves getting increasing resources from the relatively well to do, while channelling more of the benefits of development to those who have hitherto received less of them. The process is not painless, and the fact that many of the relatively well to do are so only in relation to Indonesia's poor, not in relation to developed countries which they know and whose patterns of living they wish to imitate, increases the difficulty. Despite this difficulty, however, the chances are good that the process will be sufficiently successful.

FOOD PRODUCTION PROSPECTS

A. Rice Production

1. Irrigation is crucial for rice production. About 94% of all rice output in Indonesia is produced on wet land (Sawah), 85% of which is irrigated and 15% rainfed. Apart from sugar, rice is effectively the only major crop under irrigation in Indonesia. From 1969/70 through 1975/76 an annual average of 160,000 ha was added to the stock of rehabilitated irrigation works. Irrigation rehabilitation probably accounted for most of the fast yield improvements (3% p.a.) during the period. At the same time, an average of 45,000 ha p.a. of new irrigation, and 36,000 ha p.a. of swamp and tidal drainage has been completed. The main constraint to irrigation development has been project design, appraisal, and implementation capacity. During the past decade, most of this was allocated to rehabilitation projects in Java, where much of the major irrigation rehabilitation has now been completed.
2. The emphasis in irrigation development is now shifting from rehabilitation to extension of irrigated areas and swamp drainage projects, for which the maximum average annual future completion rate is estimated to be about 100,000 ha. Most of this will consist of the completion of new projects outside Java. The rate of annual completions will thus fall markedly below past levels (and add about 1% p.a. to total harvested area) with a corresponding impact on the growth of rice production. Even these diminished completion rates will not be achieved if ongoing irrigation investment fail to mature on schedule. As implementation has been the weak link in the past, Government should give this high priority. Average yields on Sawah land (about 2.1 tons in 1976) are already higher than elsewhere in Asia, except South Korea, Taiwan and Japan. Agricultural support services should also receive priority attention. Average fertilizer application rates (about 120 kg of urea per harvested ha of Sawah land in 1977) are low by the standards of those countries and well below the Bimas /1 recommended level of 200 kg/ha. The use of insecticides is also limited. Research and development of new varieties have already received Bank assistance, and a comprehensive new research project is under preparation.
3. Before devaluation, rice prices were generally fair from both producers and consumers point of view. What to do with domestic rice prices now that it is much lower than that of imports (which are therefore subsidized), is an important but not urgent domestic pricing policy issue. The price of rice has a major influence on wages and all other prices throughout the economy. Given last year's good harvest and adequate stocks, there is no overriding pressure to restore approximate parity between domestic and international rice price too quickly, but Government should eventually move towards parity. A 13% increase (to Rp 85 per kg) of paddy support price was announced prior to the devaluation and became effective in February 1979, and other gradual increases could follow. Government should certainly avoid a long term policy of subsidizing rice imports to hold down domestic prices.

/1 A farm input-credit package program.

B. Major Secondary Food Crops

4. The five major secondary crops (cassava, maize, sweet potato, groundnuts and soybeans) account for about 25% of food energy consumption. Exports have virtually disappeared, and extrapolation of past trends suggests future deficits, rising prices, and imports. There is a need for far greater emphasis on the production of secondary crops. It should be technically possible to achieve annual production increases of 3-3.5% for most secondary crops, about double the rate achieved in the past. A realistic target would be a 1% annual increase in area harvested (all outside Java) and a 2.5% yield increase. By international standards, Indonesia's yields of secondary crops are low.

5. Land availability outside Java, is no constraint to area expansion for secondary crops. Unalienated arable land with a slope of less than 8% is estimated at about 23 million ha, 75% of which is located in Sumatra and Kalimantan, compared with a present harvested area for secondary crops of the order of 5 million ha. The ability to expand harvested area by 1% annual is more dependent on the results of land development policies including transmigration. For this, organizational and institutional capacity is the bottleneck, particularly in assuring market outlets, and in providing adequate crop processing and storage. The greatest immediate supply potential, however, lies in productivity increases, particularly in Java where 70% of secondary crops are produced. Most secondary crops are grown under subsistence economy conditions with no application of improved practices or techniques. Farmers have no guaranteed market, there are strong spatial and seasonal price differentials and Government provides no major agronomic, marketing, and processing support services, with the exception of maize marketing in West Java. Many technical problems (relating in particular to the storage of fresh cassava) still need to be solved, but the Government seems increasingly determined to tackle them vigorously. If the increase in the production of secondary crops does indeed accelerate, consumption patterns may also have to be adjusted accordingly, although there is strong evidence that the recent relative shift to rice reflects supply availabilities rather than changes in consumer preferences. Export possibilities must also be examined. The Bank is preparing a mission to examine marketing questions for cassava, the secondary crop with the greatest potential.

EXTERNAL ASSISTANCE, BALANCE OF PAYMENTS AND CREDITWORTHINESSBorrowing

1. Following the dramatic increase in net oil export earnings by about \$2.0 billion in 1974/75, Indonesia's creditworthiness improved drastically. It became (until 1978) ineligible for IDA Credits, ceased to have an IMF standby arrangement, and the public sector borrowed heavily on hard terms. Excluding short-term debt, total commercial loan commitments rose by \$1.0 billion to \$1.6 billion in 1974 and to \$2.5 billion in 1975 (including, in 1975, \$1.0 billion in quick disbursing cash loans). Concessional and semiconcessional borrowing reached around \$800 million in each of those years.
2. These commitments caused a rapid deterioration in the projected medium- and long-term debt service structure. Government instituted mechanisms for controlling borrowing by public sector enterprises, and, after thorough discussions and in close agreement with the Bank, it decided to limit its future borrowing on commercial terms to specified prudent levels. Commercial borrowing in 1976 and 1977 amounted to \$2.0 billion and \$0.4 billion, respectively, compared to \$1.6 billion in 1974 and \$2.5 billion in 1975. In line with our recommendation, the share of commercial borrowing in total commitments was reduced from about 75% during 1974 and 1975 to 50% in 1976 and 1977, and the Government in fact borrowed about \$300 million less on commercial terms during these two years than it prudently could have. For 1978, our Economic Report recommended total borrowings of \$2.4 billion, of which \$750 million on commercial terms. Preliminary indications are that concessional loans fell short of our recommendation by about \$0.4 billion, and commercial borrowing may have nominally exceeded the recommended amount by about \$300 million, on account of a \$350 million loan the Government contracted with a banking consortium in late 1978, in order to utilize the favorable eurodollar market terms it was offered. The loan may have become fully effective only in 1979; in any case, we had agreed with the Government that our borrowing recommendations should be considered as averages rather than strict annual targets, and the excess in any year can be compensated in the following year.
3. The Basic Economic Report considers 12% p.a. a prudent rate of increase in commercial borrowing from the recommended level of \$750 million in 1978. Commercial borrowing would then reach about \$2.0 billion by 1986 and \$3.0 billion by 1990, and account for about one-third of total new public sector loan commitments of close to \$19 billion during 1978-83. ADB and the Bank Group would account for about half of the total concessional and semi-concessional borrowing, or one-third of the total. By the late 1980s, the share of commercial borrowing could gradually increase to about 40%.
4. Government has expressed its intention to restrain both the level of overall borrowing and of commercial borrowing specifically. The draft Repelita III document envisages total borrowing of about \$17-18 billion during 1978-83 of which only \$5.5 billion, (about 30% of the total) on commercial terms. Such levels of public borrowing would permit financing of the capital intensive projects still under consideration only at the expense of investment in high priority programs which would generate employment and incomes and relieve extreme forms of poverty more significantly (e.g. transmigration, irrigation,

INPRES). The Government is therefore considering alternative financing, specifically through private foreign capital, of some of the large capital-intensive projects. We have stressed that while such arrangements may have advantages over public sector borrowing, the substance rather than form of future public sector obligations should remain the guiding criterion for entering into financial obligations. Long-term balance of payments considerations rather than short-term consequences, should be the determining factor in entering into financial commitments in any form.

Balance of Payments

5. Following overall deficits in 1974/75 and 1975/76, and the fall of reserves to a low of \$450 million at the height of the Pertamina crisis, the balance of payments recovered strongly. Overall surpluses totalling \$1.6 billion were registered during 1977/78 and 1978/79, thus rebuilding reserves to an acceptable level of around \$2.2 billion, 3 months' imports. Some deterioration in the balance of payments situation is expected for the next few years, but the longer term outlook could be more favorable if the devaluation and required follow-up measures are successfully implemented.
6. Prospects are that as a result of the devaluation, consumer goods imports other than basic food, will increase only modestly. Plausible supply and demand scenarios suggest that rice imports would amount to around 2-2.5 million tons p.a. in the medium term, although the current level is much lower following last year's build of stocks and an excellent harvest. A successful food strategy could prevent a widening of the food gap beyond 1983. Intermediate good imports may rise rapidly, in line with domestic manufacturing activity, but ultimately increased domestic input manufacturing and utilization of Indonesia's richly varied resource base should lead to deceleration of intermediate import growth. Capital good imports have risen rapidly in intermediate import growth. Capital good imports have risen rapidly in recent years, reflecting the capital-intensive pattern of investment. With a shift away from such a pattern, capital good import growth should decelerate significantly in the medium term.
7. By 1977/78 Indonesia's export earnings reached nearly \$8.0 billion compared to \$2.5 billion in 1973/74. Since 1973/74 net earnings from oil and LNG exports increased by nearly 20% p.a. in real terms, and the share of energy exports in total exports has reached nearly 60%. Despite increases in LNG exports from about \$300 million in 78/79 to \$1.0 billion by 1983/84 and to \$1.4 billion by 1990/91, all in current prices, energy export earnings will remain roughly constant in real terms up to 1983/84 and gradually decline thereafter. On the basis of DPS price forecasts, which assume a constant real price of oil, the Basic Economic Report projects net oil and LNG earnings of \$6.6 billion by 1983/84 and \$8.4 billion by 1990/91, representing less than one-third of the projected total (\$26.9 billion) for 1990/91. Non-oil mineral exports are projected to reach \$1.0 billion (current prices) by 1983/84 and \$2.5 billion in 1990/91.

8. In view of medium-term supply constraints and increasing domestic consumption in the longer term, agricultural exports are projected to grow by only about 3% up to 1990/91, from less than \$3.0 billion in 1977/78 to \$5.8 billion by 1983/84 and \$9.7 billion by 1990/91. This modest rate of increase nevertheless implies substantial efforts to stimulate tree crop production.

9. The Basic Economic Report concludes that, in the final analysis, Indonesia can avoid potential balance of payments difficulties only by achieving a sustained high rate of growth of nontraditional manufactured exports. It suggests a minimum target of a real growth rate of manufactured exports of 20% p.a. These exports would have to triple from close to \$400 million in 1978/79 to about \$1.2 billion by 1983/84 and reach \$6.3 billion in current prices by 1990/91. Initially, exports of fertilizers and cement surpluses would contribute around \$150-300 million to export earnings, but the bulk of manufactured export earnings should be provided by labor intensive manufactures. If this target is achieved, the projected export earnings and public sector net resource transfers will permit an adequate foreign exchange availability for imports while maintaining foreign exchange reserves at reasonable levels, i.e. foreign exchange would not become a constraint to development. The achievement of such a target is possible, but it needs to be supported by policies which are yet to be implemented.

10. Under the borrowing and export scenario described above, the debt service ratio would remain at around 17%. Even if oil and LNG revenues would fall about 10% short of expectations or if the export growth rate of manufactures reaches only 15% p.a., the debt service ratio would remain below the prudent 20% limit; however, in that case foreign exchange problems would arise during the mid-eighties. This suggests that failure to slow down internal oil demand growth (through pricing policies and substitution, e.g. coal), to increase food production to reduce import requirements and to stimulate tree crop exports, and to promote labor-intensive manufacturing, would lead to foreign exchange constraints on development and lower levels of growth.

TABLE I: RESOURCES AND USES
(in Rp trillion at constant 1976 prices)

	1972	Actual					Estimate	Projected		
		1973	1974	1975	1976	1977	1978	1979	1980	1985
Gross domestic product	11.4	12.8	13.7	14.4	15.5	16.6	17.7	18.9	20.1	27.5
Factor payments (net)	-0.3	-0.4	-0.6	-0.6	-0.4	-0.5	-0.5	-0.5	-0.5	-0.8
Terms of trade effect	-1.4	-1.0	0.4	-	-	-0.1	-0.2	-0.2	-0.2	-
Gross national income	9.7	11.4	13.5	13.8	15.1	16.1	17.0	18.2	19.4	26.7
Gross domestic investment	1.9	2.2	2.6	3.0	3.2	3.4	3.6	3.8	4.0	5.2
Exports	2.7	3.3	3.4	3.1	3.4	3.8	3.1	3.1	3.1	3.9
Imports	1.5	2.2	2.8	3.0	3.2	3.2	2.9	3.0	3.1	3.9
Gross domestic savings	1.7	2.3	3.6	3.1	3.4	3.9	3.6	3.7	3.8	5.2
Gross national savings	1.4	1.9	3.0	2.5	3.0	3.4	3.1	3.2	3.3	4.4
GDI as % of GDP	17.6	17.2	19.2	21.0	20.7	20.3	20.2	19.9	19.7	19.0
GNS as % of GNY	14.5	16.4	22.3	18.2	19.8	21.1	18.5	17.8	17.1	16.4
GNS as % of GDI	74.8	84.5	113.9	82.9	93.0	100.8	87.8	86.2	83.6	83.8
Memorandum item: Government oil and LNG revenues	0.3	0.5	1.1	1.2	1.6	1.8	1.7	1.7	1.8	2.2

TABLE II: SUMMARY BALANCE OF PAYMENTS
(US\$ billion, current prices)

	Actual						--Projected (World Bank)--		
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1983/84
Total Exports	<u>1.4</u>	<u>2.5</u>	<u>4.6</u>	<u>5.0</u>	<u>6.6</u>	<u>8.0</u>	<u>8.2</u>	<u>9.0</u>	<u>13.6</u>
Oil and LNG (net)	0.4	0.6	2.6	3.1	3.7	4.5	4.6	5.0	6.6
Other exports	<u>1.0</u>	<u>1.9</u>	<u>2.0</u>	<u>1.9</u>	<u>2.9</u>	<u>3.5</u>	<u>3.6</u>	<u>4.0</u>	<u>7.0</u>
Timber	(0.3)	(0.7)	(0.6)	(0.5)	(0.9)	(0.9)	(0.9)	(1.1)	(2.1)
Other Agriculture	(0.5)	(0.9)	(1.0)	(1.0)	(1.5)	(1.9)	(1.8)	(1.8)	(2.5)
Minerals	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)	(1.2)
Manufactures	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)	(0.5)	(1.2) (Normative projection)
Imports	(1.7)	2.9	4.3	5.1	6.2	7.2	7.6	8.4	12.8
Non factor services (net)	-0.1	- 0.2	- 0.3	- 0.3	- 0.4	- 0.5	- 0.5	- 0.6	- 0.9
Resource balance	-0.4	- 0.6	0.0	- 0.4	0.0	0.3	0.1	0.0	- 0.1
Public sector net resource transfer	0.8	0.9	1.3	1.8	1.3	0.7	0.4	0.5	0.9
(disbursements)	(0.9)	(1.1)	(1.7)	(2.5)	(2.4)	(2.0)	(1.9)	(2.1)	(3.3)
(debt service)	(0.1)	(0.2)	(0.4)	(0.7)	(1.1)	(1.3)	(1.5)	(1.6)	(2.4)
Other items	-	0.1	- 1.3	- 1.8	- 0.3	- 0.4	-	-	-
Change in reserves (- = increase)	-0.4	- 0.4	-	0.4	- 1.0	- 0.6	- 0.5	- 0.5	- 0.8
<u>Exports in constant 1976 dollar</u>									
Total Exports	<u>4.3</u>	<u>4.8</u>	<u>6.1</u>	<u>5.9</u>	<u>6.6</u>	<u>7.2</u>	<u>7.5</u>	<u>7.6</u>	<u>8.6</u>
Oil and LNG (net)	2.0	2.2	3.7	3.4	3.7	4.3	4.4	4.2	4.3
Other Exports	<u>2.3</u>	<u>2.6</u>	<u>2.4</u>	<u>2.5</u>	<u>2.9</u>	<u>2.9</u>	<u>3.1</u>	<u>3.5</u>	<u>4.3</u>
Timber	(0.7)	(0.9)	(0.7)	(0.6)	(0.9)	(0.8)	(0.9)	(0.9)	(1.1)
Other Agriculture	(1.2)	(1.3)	(1.3)	(1.4)	(1.5)	(1.5)	(1.5)	(1.6)	(1.7)
Minerals	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.5)	(0.7)
Manufactures	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.8) (Normative projection)

TABLE III: SUMMARY BUDGET

	----- Actual -----					W.B. Est. W.B. Projection			
	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1983/84</u>
Rp. billion (current prices)									
Oil and LNG Revenues	0.20	0.35	0.97	1.20	1.59	1.95	2.40	3.30	5.00
Other Current Revenues	0.39	0.63	0.80	1.00	1.29	1.59	2.00	2.50	5.00
Total Revenues	0.59	0.98	1.77	2.20	2.88	3.54	4.40	5.80	10.00
Current Expenditures (excl. debt service and subsidies)									
	0.39	0.64	0.80	1.13	1.40	1.78	2.10	2.55	5.13
Subsidies (oil, food, fertilizer)	0.01	0.18	0.39	0.19	0.14	0.10	0.30	0.55	-
Development Expenditures (of which foreign financed)	0.29 (0.15)	0.47 (0.21)	0.97 (0.23)	1.43 (0.49)	2.04 (0.78)	2.16 (0.77)	2.60 (1.09)	3.10 (1.30)	5.50 (2.10)
% foreign financed	51	44	24	35	38	36	42	42	38
<u>US\$ billion - (current prices)</u>									
Oil and LNG revenues	0.5	0.8	2.3	2.9	3.8	4.7	4.9	5.3	8.0
Budget subsidies	-	0.4	0.9	0.5	0.3	0.2	0.6	0.9	-
Development Expenditures	0.7	1.1	2.3	3.4	4.9	5.2	5.3	5.0	8.8
<u>US\$ billion - (constant 1976 prices)</u>									
Oil and LNG revenues	0.8	1.1	2.6	2.9	3.8	4.3	4.2	4.2	5.1
Development Expenditures	1.4	2.0	3.2	3.9	4.9	4.8	4.8	4.3	5.6

DEVALUATION

1. The recent devaluation should logically be an important part of the restructuring described above. It raised the price of imports which enter much more heavily into the consumption of the rich than of the poor, particularly if one excludes rice, whose imports have been stabilized. It relieved pressures on the Government budget. According to proclaimed intention, it was to be accompanied by a drastic simplification of licensing procedures and general reduction of administrative obstacles to entrepreneurship. Naturally, these changes implied significant immediate hardships for those with import-intensive consumption patterns, the producers and importers of many such goods (demand for which was to be reduced), and even the workers engaged in the production processes. Unless this happens, the devaluation would merely lead to a general increase in domestic prices, only attenuated at the cost of new distortions by the artificial reduction of the desirable price changes through subsidies or control.

2. A devaluation had been desultorily discussed for some time. Its proponents were basing their main argument on the relatively faster increase of prices in Indonesia since 1971, and on the need to return to earlier purchasing power parity to overcome the relative stagnation of most traditional non-oil exports and the uncompetitiveness of labor-intensive products. The World Bank and a limited number of other observers held that, provided henceforth prices behaved no worse in Indonesia than elsewhere, a devaluation was not an indispensable, nor perhaps even desirable at the early part of the adjustment process.

3. This position, outlined in moderate terms in our 1978 Economic Report and much more explicitly in confidential briefings, held that in dollar terms Indonesian wages were rather lower than those prevailing in neighboring countries and competitors. The real basic wage rate was also low as compared to other Asian countries (in modern manufacturing, even including India and Pakistan), and probably not higher than it had been fifty years ago. A devaluation is normally most helpful as a way to reduce real wages and the price structure based on them when they are excessive, as the well-known resistance of nominal wages to downward movement renders other means inoperative. It is doubtful that excessive real wages were truly a major obstacle to the competitiveness of Indonesian enterprises, and that their reduction was either a necessary or a sufficient component of adjustment. The real problem was that of high internal transformation costs in domestic industry and services, due notably to the presence of administrative bottlenecks, the scarcity of indigenous entrepreneurship and the handicaps it has to bear, and the importance of what one might call a parasitic entrepreneurship. It was held that these problems had to be decisively tackled first, with devaluation possibly crowning the process. If it came first, it would be extremely difficult to prevent it from merely causing renewed inflation and additional price distortions.

4. In the end, the rupiah was devalued on November 15, by approximately 50% in terms of rupiah per dollar (33% in terms of dollars per 1,000 rupiahs). The devaluation was of quite unparalleled magnitude, if one takes into account

the fact that no exchange controls and few import controls existed in Indonesia. It came at a well-chosen time, when no speculative pressure existed on the rupiah; technically the execution of the purely monetary aspects of the move was superb. It was accompanied by relatively minor import duty relief and customs simplification measures. The only potentially important move was the transformation of the past reimbursement mechanism of customs duties to exporters into an arrangement whereby the duty is provisionally suspended.

5. On November 16 and 17 there rose a tidal wave of price increases. The prices of virtually all privately produced commodities, including those that are fully domestic, increased by 50%. The Government reacted in three ways: it made it clear that public sector corporations would not be allowed to raise their prices during a "transition period" of unspecified length; it actively intervened to stabilize, and even indeed slightly lower the prices of basic commodities such as rice, flour and sugar. As transitional arrangements, such measures were probably justified and had been planned; they were devised and administered by the economic authorities. However, after the first few days, price controls were also imposed in practice on all major producers and traders who were ordered to bring prices back to their predevaluation levels. These controls were announced, administered and probably even defined by the Security authorities. Admiral Sudomo himself has repeatedly referred to the summary punishment he could mete out to "economic insurgents." At the same time, the Minister of Trade and the Head of the Investment Board both advised domestic enterprises to renegotiate their foreign debts, if these made it difficult for them to comply with price controls. Subsequently, to ensure availability of certain goods for the domestic market, export quotas were imposed and export taxes levied on certain commodities which also have a substantial domestic market, primarily palm oil. Some producers were more recently authorized to raise their prices, but the whole area is still one of confusion, particularly as fuel and utility prices are yet to be adjusted. In any case, for the time being, the prevailing impression among entrepreneurs is one of increased rather than reduced bureaucratic interference.

Visit to Group Marketing and Savings Organization at Ban Phru

The Group Marketing Organization (GMO) at Ban Phru started in 1969 with five members who sold 515 kg of rubber with aim of improving quality and getting a better price. The GMO faced many problems; other farmers nearby were not interested in joining because the quantity of rubber sold was too small to attract buyers. However, with continued support from the Rubber Research Centre membership was gradually increased and, with larger volumes of rubber for sale, the members were in a better bargaining position and started to get more money for their rubber. *not progress*

During 1973-74 the Cooperatives Department attempted to improve matters further by buying rubber from this and other nearby GMOs and smoking it for sale directly to exporter/packers. However, due to inexperience, and during a period of falling prices, the Cooperative Department efforts failed, but the GMO continued to operate on its originally-established basis.

In 1976 the Rural Development Department encouraged the GMO to broaden its activities to become a savings group; they joined up with another GMO nearby to become the present "Group Marketing Organization and Savings Group". Whilst most members produce or tap rubber for sale, some have joined only in the savings activities.

The GMO sells rubber three times a month on pre-arranged days; that part of the money set aside for saving is deposited by a Committee member at the Bank of Agriculture and Agricultural Cooperatives (BAAC) in Hat Yai. Some minor savings accumulated by the GMO as a result of part-kilogram deliveries or odd fractions of Baht per kilogram are held over to the end of the month and the sum is available for minor credits to members.

In 1976 an average of 32 members sold rubber on 31 occasions. Total sales were 82¹/₂ tons at an average price just under 68 ct/kg. This was 3.3 ct/kg higher than received by others in the village, and the group also gained just over \$ 210 from "fractional sales". Average earnings from rubber were \$ 145 per member per month. Savings deposits by 66 members totalled \$ 2100.

Members are able to borrow upto \$ 15 directly from the group, free of interest for one month, and at 1% per month thereafter, increasing to 5% per month after four months. Loans of upto \$ 150 from BAAC are for one year at 1% per month. Interest on deposits is 6% p.a.

Visit to Replanted Rubber Farm

The two fields belong to Nai KLUEN Suwanawong who is 42 years old, married with six children (three boys and three girls ranging in age from 15 months to 12 years).

One field of 1.16 ha is mature; it was replanted with budded stumps in September 1971 and opened for tapping in September 1977. Nai Klueen taps the field on alternate days and harvests about 10 kg of rubber on each tapping day. During this first year of tapping, this has been worth about \$ 8.00; production will gradually increase to about 20 - 25kg per tapping day.

On his non-tapping day, Nai Klueen works as a tapper in a nearby holding; he taps 250 trees and receives 40 percent of the crop (3kg worth about \$ 2.50).

1 1/2 kg or 10 + 20 - 25

The immature field is 1.4 ha, it was replanted in October 1976 with seed-at-stake and budded in 1977. In the first year of replanting upland rice was inter-cropped over the whole area and 3 tons of paddy was harvested and kept for home consumption. Subsequently, bananas were planted as intercrop on 0.5 ha; 50 bunches were harvested in 1977 and 150 bunches in 1978, they were sold for \$ 32.00 and \$ 86.00 respectively. Income from intercropping helped considerably to make up for loss of income whilst the rubber is still immature.

Nai Klueen also owns 0.64 ha of rain-fed paddy land and a similar area planted with coconut and fruit trees.

Notes on Visit to Bali

Submissions

Send also notes on Bali

1. The area for Political + Security Affairs forecast protracted warfare in Indonesia with adverse effects on the Asian region
2. When I enquired re corruption he said "we still remember your strong criticism of the Sutomo's". His attitude + that of other govt leaders appear to indicate that at least the subject has been brought out in the open & can now be talked about. Although they point to a campaign to reduce corruption it clearly remains widespread at all levels (note former Pelli's experience on the day of...)
3. Important elements of the 3rd Plan (77-83) appear quite unrealistic:
 - a) The Transmigration Plan calls for movement of 500,000 families (vs 500,000 in the previous 5 yrs) including 50,000 in '79.
 - b) The agr. plan stated they would attain food self-suff (i.e. forecast would need for grain imports of 500,000 t. in '79)
 - c) The agr. plan forecast output of rice - once food prod of 52 pa vs 1.52 in prev 5 yrs + our "optimistic" being of 3.52.
4. The Min of Indus shows no understanding of the need to emphasize labor-intensive investment to absorb the rapidly expanding labor force. Instead he talked out of large cap-intensive low-profit projects (he was unconcerned with low-profit projects because "the govt could set the price" to ensure profits). He showed no greater interest in eff. of efforts.
5. The dramatic shift in the orientation of the BK's approach to devel. is illustrated by the critics who suggest a shift from "quantity" to "quality" growth. (The 4 projects visited in the context of a single day:
 - a. An irrigation project with a return of 35%, which is doubling the acres of 250,000 people, 80% of whom are the absol. poor, by raising paddy yields from 2.5 to 4.5 tons per ha
 - b. A population proj. - in E. Java, the program in which the BK is

participating has raised the prog. of women using contraceptives from about DR in '70 to over 30% today.

(Bojonegara) (30,000)

c. A nutrition pilot project in an area where 50% of 3 yr old children are suffering from moderate or severe PCAS targeted at mothers in 3rd & 7th preg; lactating mothers; + 0-3 yr olds with PCAS + nutritional deficiencies of 17,000 families

d. A Kampung Sehat prog in Surabaya which at modest cost (15%) potable water, bathing facilities, latrines, post offices, health posts have been brought to 15000 low dwellers who have thereby been stimulated to a wide range of self-help activities (home up-grading, etc).

10 yrs ago the BK had not a single project in any one of these categories anywhere in the world.

- Bali has a parallel organ for support of irrig. canals thru the
- BUS III. 1. Mr. William Clark.
 2. Mr. Sutomo.
 3. Mr. Altaf Husain.
 4. Mr. Dr. Susila.
 5. Mr. C. Koch. Weser.
 6. Mr. Julius Payung.

economic (area) well (tech)

b) The traditional basis for social, religious (+ political?) organ -
 + the traditional health development: regular monthly intgs; funds for absence; strong financial base; highly disciplined (dependable) total detailed monthly reports + registers

1,970	44	5.9
1979	28	3.6

CBR Fertility

Bali 3/79 - Banjar Report

Pop 2,389,832
 Elig. couples 478,127
 Curr. users 199,028 (71.65%) of elig. couples

IUD	134,656	67.72
Pill	32,617	16.4
Cond.	22,449	11.3
Tubectomy	6,878	3.5
Vasectomy	1,239	.6
Vaginal	1,374	.7
Injection	815	.4

FP. 1/2 full worker per 10,000 pop
 1 MD per 5000 pop
 1 Health & FP clinic (mid-level) per 15000 pop

Total pop of Bali approx 2.4m



This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.



THAILAND

REVISED ITINERARY

Visit to Thailand by World Bank President
Robert S. McNamara, May 16-19, 1979

Wednesday, May 16, 1979

09:45 Arrive Bangkok (from Singapore) TG 402 VIP Room V, 2nd floor
Prime Minister Kriangsak present

10:10 Depart for Amphoe Bang Rachan, Singburi Province by
helicopter (take off from Hanger No. 6)

10:40 Arrive Bang Rachan. Review of Upper Chao Phya Irrigation
Project. Briefing by Mr. Charin Attayodhin, Deputy
Director-General (Operations & Maintenance), Royal
Irrigation Department (RID)

11:15 Depart from Bang Rachan for Chainat Barrage by helicopter

11:35 Arrive Chainat Barrage. Visit Central Agricultural Centers
Briefing by Dr. Thalerng Thamrong-Nawasawat, Deputy
Under-Secretary of State for Agriculture, on Agricultural
development past performances and future prospects

12:00 Lunch and discussions at Chainat Barrage Guest House

13:15 Depart from Chainat Barrage for Electricity Generating
Authority of Thailand (EGAT) by helicopter

14:10 Arrive EGAT. Meeting with Mr. Kasame Chatikavanij, General
Manager and Senior Staff

15:10 Depart EGAT for Oriental Hotel by boat

15:55 Arrive Oriental Hotel

16:30 Depart Oriental Hotel

17:15 Arrive Government House
Meeting with Prime Minister (together with other Ministers)
and Senior Government Officers:
H.E. Mr. Sunthorn Hongladarom - Deputy Prime Minister
H.E. Mr. Suphat Sutatum - Minister of Finance
H.E. Mr. Prida Karnasut - Minister of Agriculture
H.E. General Lek Naewmali - Minister of Interior
H.E. Dr. Boonsom Martin - Minister of Education
H.E. Mr. Kasame Chatikavanij - Minister of Industry
H.E. Mr. Narm Phunwathu - Minister of Commerce
H.E. General Surakit Maiyalarp - Minister of
Communications
H.E. Dr. Yongyoot Sujjavanich - Minister of Public Health
Mr. Krit Sombatsiri - Secretary-General, NESDB
Mr. Suthee Singhasaneh - Director, Bureau of the Budget
Mr. Charnchai Leethavorn - Under-Secretary of State
for Finance
Dr. Snoh Unakul - Governor, Bank of Thailand
Mr. Pandit Bunyapana - Director-General, Fiscal Policy
Office, Ministry of Finance
Mr. Pravit Klongwathanakith - Director, Project Loan
Operations Division,
Fiscal Policy Office,
Ministry of Finance

19:00 Dinner with Prime Minister, relevant Ministers and
senior government officials at the Government House
(as above)
21:30 Depart from Government House
22:00 Arrive Oriental Hotel

Thursday, May 17, 1979

06:15 Depart Oriental Hotel for Don Muang Airport
07:00 Depart Don Muang Airport (Hanger No. 6)
for Ubol Ratchathani
08:35 Arrive Ubol Airport
08:45 Depart Ubol Airport by car for Tha Kok Hare
09:00 Arrive Tha Kok Hare Agriculture Extension Pump Irrigation
Village. Briefing by Mr. Yookti Sarikaputi, Director-
General, Department of Agricultural Extension
10:00 Depart from Tha Kok Hare by helicopter for Amphoe Kuang Nai
10:15 Arrive Amphoe Kuang Nai and drive to Ban Kuang Kam
10:25 Visit Ban Kuang Kam Accelerated Rural Development Water Well
Briefing by Mr. Anant Sanguannarm, Secretary-General (ARD)
10:40 Depart by car to Amphoe Kuang Nai
10:45 Visit Rural Road Construction Site, Kuang Nai
11:00 Visit Kuang Nai Elementary School
11:20 Depart by helicopter from Amphoe Kuang Nai
11:55 Arrive Ban Muang Phai Electrified Village
Briefing by Dr. Chulapongs Chullakesa, Manager of Rural
Electrification Office, Provincial Electricity Authority
12:35 Depart by helicopter from Ban Muang Phai for Yang Talad
13:05 Arrive Yang Talad. Lunch at Yang Talad Diversified Secondary
School with Ministry of Education
13:30 Visit Diversified Secondary School, Yang Talad
Briefing by Dr. Ruang Charoenchai, Director, Department of
General Education
14:00 Depart by car to Upland Crop Research Station
14:10 Visit Upland Crop Research Station, Yang Talad by car
Briefing by Dr. Amphol Senanarong, Director, Upland Crop
Division, Department of Agriculture
14:50 Depart by helicopter from Yang Talad for Ban Kaeng Noi
15:10 Arrive Ban Kaeng Noi Livestock Village
Briefing by Dr. Suntraporn Ratanadilok Na Puket, Project
Manager, Northeast Livestock Development Project
16:05 Depart by helicopter from Ban Kaeng Noi for Khon Kaen Airport
16:30 Arrive Khon Kaen Airport
16:50 Depart from Khon Kaen Airport for Don Muang Airport
18:05 Arrive Don Muang Airport (Hanger No. 6)
18:50 Arrive Oriental Hotel
19:30 Depart Oriental Hotel for Prime Minister's Residence
20:00 Dinner at Prime Minister's Residence

Friday, May 18, 1979

06:15 Depart from Oriental Hotel for Don Muang Airport
(Hanger No. 6)

07:00 Depart from Don Muang Airport (Hanger No. 6)
for Hat Yai Airport. In-flight briefing on development
issues in Southern Region by Dr. Paiboon Wattanasiritham,
Director, Bank of Thailand, Southern Branch

09:15 Arrive Hat Yai Airport

09:25 Depart from Hat Yai Airport for Rubber Research Center
Briefing by Dr. Sermlap Vasuwat, Director, Rubber Division
and Dr. Narong Suchare, Director, Office of the Rubber
Replanting Aid Fund (ORRAF)

09:45 Arrive Rubber Research Center
Briefing by Dr. Sermlap Vasuwat and Mr. Narong Suchare
in Class 1 of School Building

10:20 Walk to adjacent office building to see the operation of
Rubber Replanting Aid Fund and meet some farmers

10:30 Depart for Ban Klong Wah

10:40 Arrive Ban Klong Wah
See small rubber farm supported by Rubber Replanting Aid Fund

11:05 Depart for Group Rubber Marketing Organization

11:25 Depart for Prince of Songkhla University

11:35 Arrive Prince of Songkhla University
Luncheon and discussions on role of the education sector
and the University in the South with professors and student
leaders. Briefing by Dr. Phasook Kullavanijava, Rector
Prince of Songkhla University

13:00 Depart from Prince of Songkhla University for Ban Prik
Village No. 6, Sadao District

13:35 Arrive Ban Prik, visit Rural Health Center and Child Nutrition
Center. Briefing by Dr. Phairoj Ninsanonda, Deputy Director-
General, Department of Health, Ministry of Public Health
and Dr. Lek Manomai-Udom, Chief Medical Officer, Songkhla
Province

14:45 Questions and discussions with Health Personnel at the
Rural Health Center

15:00 Depart for Hat Yai Airport

15:45 Depart from Hat Yai Airport for Boa Fai Airport, Hua Hin
In-flight briefing by Governor of Songkhla, Mr. Charoenchit
Na Songkhla

17:45 Arrive Boa Fai Airport

18:00 Depart for Hua Hin Railway Hotel

18:15 Arrive Hua Hin Railway Hotel

18:25 Depart for meeting with Khun Boonchu Rojanastien at his residence
(Khun Boonchu is former Finance Minister, President of Thai
Banker's Association and presently President of the Bangkok
Bank)

18:30 Arrive at Khun Boonchu's residence

19:00 Depart for Railway Hotel

19:05 Arrive Railway Hotel

19:40 Depart from Hua Hin Railway Hotel for Krai Kung Won Palace
 19:50 Arrive Krai Kung Won Palace
 20:00 Audience with Their Majesties the King and Queen of
 Thailand followed by dinner hosted by Their Majesties
 Prime Minister Kriangsak present

Saturday, May 19, 1979 (Suggested)

07:00 Depart from Hua Hin Airport
 07:40 Arrive Don Muang Airport (Hanger No. 6)
 08:10 Arrive Oriental Hotel
 08:30-09:00 Dr. Phaichitr Uathavikul, Rector of National Institute of
 Development Administration (NIDA). Prominent Economist
 and Acedemician - *very bright & descriptive observer of the admin. of the devel. process*
 09:15-09:45 Dr. W.J. van der Oord, Executive Agent, Secretariat of the
 Committee for Co-ordination of Investigation of the Lower
 Mekong Basin (Mekong Committee)
 09:45-10:30 Meeting with Dr. Meechai Viravaidhya, Director, Community-Based
 Family Planning Services - *an experienced & active person - the most*
 10:45 Depart Oriental Hotel by boat for Bank of Thailand
 11:00 Arrive Bank of Thailand
 Discussions with Dr. Snoh Unakul, Governor
 12:00 Depart from Bank of Thailand by boat
 12:15 Arrive Oriental Hotel
 12:15-17:00 Free
 17:15 Depart Oriental
 17:45 Arrive Don Muang Airport
 17:45-18:00 Meet Press
 18:00-18:30 Final meeting with Prime Minister
 18:45 Depart for Hong Kong with TG 602

Mr. van der Oord, Head of the central bank
for the central bank
Richard Sale

OFFICE MEMORANDUM

TO: Mr. S. Shahid Husain

DATE: May 14, 1979

FROM: Hendrik van der Heijden

SUBJECT: THAILAND: Supplementary ^{note} for Mr. McNamara's Visit to Thailand

1. Gen. Kriangsak Chomanan has just been appointed Prime Minister of Thailand (for a four-year term) and is currently forming a new Cabinet. Expectations are that the new Cabinet will be appointed before the end of this week, with some holdovers from the previous Cabinet which still functions as a caretaker Cabinet. We do not expect major changes to Government policy: Kriangsak has already re-affirmed his commitment to equitable economic growth, to rural development, and has emphasized the development of agriculture. He can count on adequate support from Parliament: the Upper House (Senate) is solidly behind him and he has sufficient support in the Lower House (Assembly) to govern effectively. Thailand's military groups support Kriangsak, as do the business groups. Kriangsak's opposition comes from Kukrit (former Prime Minister in 1975/76 and Leader of Social Action Party) and Samak (former rightist Interior Minister in 1976/77 who, in the April 22 elections won 29 out of 32 seats in Bangkok), but these two political leaders can only count on some 110-120 votes in total, not enough to oppose Kriangsak effectively.

2. Prime Minister Kriangsak spent much of his time during his first tenure on foreign affairs issues. While there have been clear successes in the area of Thailand's foreign policy, Kriangsak has received criticism regarding the management of internal economic affairs. He is expected to devote more energy to economic issues during the coming four years, and to strengthen the economic team in his Cabinet. We should welcome this: difficult political decisions are to be taken in the field of public utility rates (electricity, water, telephone), energy pricing and taxation so as to mobilize more resources internally to permit an expansion of public investment, while, at the same time, reducing demand increases with the aim of relieving balance of payments pressures. More attention also needs to be given to the energy problem, the balance of payments and to development program implementation (we will be supporting a second procurement seminar next week), and to development administration (principally to improve Thailand's planning machinery, and to delegate decision-making authority to lower administrative levels). These issues have all been analyzed in the Basic Economic Report.

3. We expect the Government of Thailand to raise the following subjects:

- A. More borrowing from Bank/IDA in support of agriculture development. We expect to be presented, during your visit in Thailand, with a request to finance about 15 agriculture projects in the coming 3 years. We know most of these projects and are encouraged by the Government's initiative.
- B. More IDA Credits. Various authorities have been saying that, as happened during Kriangsak's trip to Washington DC in February, Thailand would like to see, during the next Replenishment period, its allocation doubled to about US\$60 million per year (Thailand received \$90 million for IDA V).
- C. More Bank loans for Energy Development (in particular power), and for Industrial Development (Potash, Ammonia, Paper and Pulp, and Fuel/Alcohol). It will be difficult to accommodate these requests within the constraints of the Lending Program, but we might consider RTG's request further if there are prospects for increasing the Lending Program to Thailand. I have, incidentally, prepared an up-to-date summary of the Status of our Lending Program (attached).
- D. Bank Assistance to NESDB to improve Planning. This subject was discussed in Washington. My feeling is that our assistance should focus on ways to prepare a Fifth Development Plan which would be allocative (certainly by region), rather than to provide support for a macro-economic framework for an indicative plan (as NESDB may want to prepare).

4. Prime Minister Kriangsak, and his Cabinet, attach much importance to Mr. McNamara's visit, and there will be ample opportunity for both formal and informal discussions. Ministry of Finance officials have suggested that Mr. McNamara raise with Prime Minister Kriangsak the following issues (we agree):

- A. Need for greater resource mobilization (public utility rates, taxation, energy pricing).
- B. Need to give more attention to staffing of agencies dealing with rural development.
- C. Need to improve planning, in particular agricultural planning; and
- D. Need to improve project implementation (simplification of procedures, delegation of authority to lower levels).

5. You will be meeting H.M. the King of Thailand. I have attached a booklet describing the King's interest in economic development.

Attachments

May 14, 1979

IMPLEMENTATION OF LENDING PROGRAM

1. The Country Program Paper for Thailand was reviewed at a meeting chaired by Mr. McNamara on October 25, 1979. The principal conclusions of that review, and the Country Program Paper itself, are included in the Brief for Mr. McNamara's visit to Thailand (Annex I1).

2. In essence, as subsequent pages will show, the Lending Program, as approved on October 25, 1979, is being implemented in line with the Lending Program then approved, not only in terms of number of operations and amounts, but also with respect to the composition of the Lending Program. In fact, the re-direction of the Lending Program towards poverty alleviation is proceeding in accordance with expectations. As to numbers of operations, and lending volumes, we are ahead of expectations and will remain in that position for the next few years. There are some staff proposals, supported by the Regional Mission, Bangkok, that another review of the Lending Program should be initiated by this fall, with a view to determine whether a revised Lending Program is called for. RMB thinks this is the case.

Annex: Status Execution Lending Program
Pages 1-6

ANNEX

STATUS EXECUTION LENDING PROGRAM

(US \$ Million)

I. FISCAL YEAR 1979

	<u>Project</u>	<u>Amount</u>	<u>Observations</u>
1.	Natural Gas Organization of Thailand (NGOT)	4.9	Effective
2.	Telecommunications III	90.0	Effective
3.	North-East Irrigation II (with IFAD \$17.5 million)	17.5	Effective
4.	Bangkok Traffic	16.0	Effective
5.	Railways V	16.7	Signed April 23.
6.	EGAT - Ban Paknong Power	80.0	Board approved April 24.
7.	Education V (IDA)	35.0	Scheduled for Board Presentation May 22.
✓ 8.	Northern Agriculture Development (IDA)	25.0	Negotiations completed; Board presentation planned for June 12. RTG approval to be obtained before May 22.
	Total	\$ 285.1	
	No.	8	
	of which IDA	(2)	

NOTES:

CPP of October 12, 1978 indicated Lending Program of \$248.4 million for 7 projects. Education V which was FY80s project was brought forward. Loan for Railways V was reduced by \$0.3 million, and IDA Credit for Northern Agriculture increased by \$2.0 million.

II. Fiscal Year 1980

	<u>Project</u>	<u>Amount</u>	<u>Observations</u>
✓ 1.	Agriculture Extension II	40.0	Negotiations have been invited. RTG approval being obtained for end May Negotiations.
✓ 2.	Gas Pipeline II (NGOT)	80.0	Field appraisal completed February 1979. Negotiations scheduled for July 1979. Staff proposing increase in loan to \$100 million.
✓ 3.	EGAT - Kao Laem Hydro	80.0	Field appraisal completed February/March 1979. Negotiations planned for September 1979.
✓ 4.	PEA - Rural Electrification II	40.0	Field appraisal completed February/March 1979. Negotiations planned for October 1979. Sandi Fund (\$20.0) and Kuwait (25.0) to co-finance.
✓ 5.	BAAC - Agriculture Credit I	15.0	Field appraisal completed, March 1979 and project brought forward from FY 81. Negotiations planned for October 1979.
✓ 6.	Agriculture Research	40.0	Field appraisal substantially completed. Negotiations possible before year-end.
7.	EGAT - Mae Moh Lignite	40.0	Field appraisal completed May 1979. Negotiations scheduled for October 1979. Staff proposing increase in loan amount to \$54.0 million.
✓ 8.	Irrigation XI (Maeklong and Pattani) <i>South</i>	70.0	Field appraisal completed May 16, 1979. Negotiations planned for November 1979.

<u>Project</u>	<u>Amount</u>	<u>Observations</u>
✓ 9. Bangkok Drainage/Flood Control, Provincial Water Supply	40.0	Project ready for appraisal June 1979, and is being brought forward from FY 81s
Total	<u>\$ 445.0</u>	
	(9)	

NOTE:

Eight projects have already been appraised (4 in agriculture - Agriculture Extension II, Agriculture Research, Agriculture Credit and Irrigation XI -, and 4 in the emergy field - Gas Pipeline I, Kho Laem Hydro, Mae Moh lignite and Rural Electrification), and a ninth project (Bangkok Drainage/Flood Control and Provincial Water Supply) will be ready for appraisal in June 1979. This would generate at least 9 projects for FY 1980, totalling about \$445-480 million in lending volume. This compares to 8 projects in CPP, with lending volume of \$343 million. Program is, therefore, ahead of schedule: Agriculture Credit project was moved up from FY 81, as was Mae Moh lignite and Bangkok Drainage/Flood Control and Provincial Water Supply. Rural Infrastructure slipped into FY 81, but Rural Electrification is being brought forward to replace it. Other projects included in the CPP for 1980 (Small- and Medium/Scale Industry, Sites and Services/Slum Improvement II) are on schedule, but more realistic programming would now put these projects into FY 81.

III. Fiscal Year 1981

<u>Project</u>	<u>Amount</u>	<u>Observations</u>
<i>Problem ARD</i> 1. Rural Infrastructure	45.0	Appraisal slipped from May 1979 to April 1980.
2. Small/Medium Scale Industry	15.0	Appraisal scheduled for September 1979. Legislation with Parliament.
3. Sites and Services/Slum Improvement II	35.0	Pre-appraisal completed in early 1979. Appraisal scheduled for October 1979.

	<u>Project</u>	<u>Amount</u>	<u>Observations</u>
4.	Inland Waterways/Sattahip/ Coastal Ports	30.0	Project preparation proceeding about on schedule. Appraisal planned for November 1979.
5.	Irrigation XII (Maeklong II, Medium Scale, Upper Nam Mun)	90.0	Consultant studies proceeding on schedule. Appraisal planned for April/May 1980.
6.	Rubber II	65.0	Preparation under-way. Project can be brought into FY 81.
7.	Provincial Telecommunications (Telecom IV)	75.0	Project preparation nearing completion. June mission reviewing state of progress.
8.	EGAT - Lang Suan Hydro and transmission (new)	100.0	Feasibility and Engineering completed. Appraisal possible before year-end.
9.	Forestry	30.0	FAO/IBRD CP preparation mission currently in Thailand.
		<hr/>	
	Total	<u>\$ 485.0</u>	

(9)

NOTE:

Project preparation for the FY 1981 Program is proceeding satisfactorily. We expect nine field appraisals for this program to materialize in FY 1980. Three appraisals would take place during the first half of FY 1980 (Small/Medium Scale Industry), Sites and Services/Slum Improvement and Inland Waterways, Sattahip/Coastal Ports. Appraisals of remaining six possible during second half of FY 1980. This program compares to CPP program of \$415.0 million (7 projects), but differs in composition because of bringing forward into FY 80 the Agriculture Credit Project, Bangkok Flood Control, and Gas Pipeline and Coal Expansion, and because of bringing forward from FY 82 the following projects: Rubber II, and Forestry (from FY 83). The Program is in line with the thrust of the October 1978 CPP.

IV. Fiscal Year 1982

	<u>Project</u>	<u>Amount</u>	<u>Observations</u>
1.	Squatter Upgrading	40.0	FAO/IBRD identification mission currently in Thailand.
2.	Irrigation XIII	120.0	Project preparation proceeding.
3.	Rainfed Agriculture I	30.0	Bank preparation mission visiting Thailand in September 1979.
4.	Livestock II	20.0	Sector Review and project identification scheduled for mid 1979.
5.	Highways VII	120.0	Consultants identifying priority roads.
6.	Education VI	45.0	Project identification to be firmed up July 1979.
7.	Rural Roads	75.0	Consultants scheduled to initiate preparation in August 1979.
8.	EGAT - Mae Moh lignite II	30.0	EGAT preparing project.
9.	EGAT - Ban Paknong II	70.0	EGAT preparing project
10.	Changwat Planning	50.0	Studies to be financed under NADP.
	Total	<u>\$ 600.0</u>	

(10)

NOTE:

This Program compares to a CPP program of \$490.0 million (8 projects), is consistent with the thrust of the 1978 CPP (See, in particular, projects like Squatter Upgrading, Rainfed Agriculture I, Rural Roads and Changwat Planning), but demonstration the need for a larger lending volume allocation in Thailand.

V. Other Projects Under Preparation

	<u>Project</u>	<u>Amount</u>	<u>Observations</u>
1.	Eastern Seaboard (FY 81 R)	50.0	Project preparation by consultants to be financed from Bangkok Traffic Loan.
2.	Industrial Estates II (FY 82)	30.0	Identification mission scheduled for May 1979.
3.	IFCT IV (FY 82)	40.0	Project may have to be advanced to FY 81.
4.	Secondary Cities (FY 83)	50.0	Project preparation by consultants to be financed from Bangkok Traffic Loan.
5.	Population II (FY 82)	40.0	Project being identified.
6.	Kasetsart II (Ed. VII) (FY 84)	60.0	Demand for manpower being ascertained.
7.	Potash Development (FY 84 R)	50.0	Project scope and feasibility being discussed.
8.	Model Village Dev. (new)	50.0	Project identification scheduled for September 1979.
9.	Engineering Industries (FY 83 R)	20.0	February 1979 mission identified project need.
10.	Provincial Water Supply (FY 83)	50.0	Feasibility studies to be financed from Bangkok Drainage/Flood Control Project.
11.	EGAT - Chiew Larn Hydro	100.0	Project ready for appraisal in FY 80.
12.	Fertilizer I (new)	70.0	Identification completed; preparation under discussion.
	Total	<u>\$ 610.0</u>	

(12)

NOTE:

Project preparation on most projects listed above has been initiated. This list would provide projects for FY 83 and FY 84 program.

BRIEFS FOR FIELD TRIPS

A. VISIT TO UPPER CHAO PHYA AREA (MAY 16)

Stop 1: Chanasutr (Singhburi Province)

Land Consolidation was commenced in this area in 1975-76 under the Chao Phya Irrigation Improvement Project I (Credit 379-TH of US\$5.5 million of 1973). This project, involving rehabilitation of canals and on-farm development of some 15,000 ha, is now completed. A second project, covering 63,000 ha with on-farm develop together with other improvements over a wider area, has since been started under loan 1468-TH for US\$55 million of 1977.

Land consolidation as used in this context involves the realignment of farm boundaries into a regular pattern permitting each farm to be served by an irrigation ditch, a drain and a farm road. This process requires the work of three agencies plus the agreement of the farmers involved; after some initial problems the process has nevertheless worked well. Physical implementation is by the Royal Irrigation Department (RID) under force account and contract, with contract-work taking a gradually increasing share (this year about 2/3 by contract). This year's construction program has been held up partially by shortages of diesel fuel, a feature of government projects throughout the country in recent months.

The project has been monitored annually by a small survey (100-200 farmers) of implemented and non-implemented areas. Year-to-year changes in cropping patterns, yields, cropping intensities and farm practices are therefore known with reasonable accuracy. In summary, once an area (such as the one you are visiting) is implemented, within two years the following pattern emerges:

- cropping intensity increases from about 130% to 200%; ←
- wet season paddy yields increase by about 40% ←
- buffaloes give way to tractors as the principal source of traction for land-preparation;
- total labor use increases by about 20%;
- no major changes in farm-size or tenancy are evident to date.

Costs of implementation under stage 1 averaged about US\$1,000 per ha developed. The Government has previously not charged for water but intends to start a program of cost-recovery this forthcoming wet season. Charges will be calculated to recover 100% of the cost of on-farm development plus 10% of common facilities, both capitalized over 15 years including 3 years grace at 12% interest.

About 60% of costs are for on-farm development; the balance for improvements to the main system. An interesting development is the proposal for farmers to pay for on-farm works through long-term credit from the Bank for Agriculture and Agricultural Cooperatives. The Bank will propose to support this program under the recently appraised rural credit project.

Stop 2: Chainat Barrage (Chainat Province)

This barrage was built under the Bank's first loan to Thailand for irrigation (Loan 36-TH; US\$18 million; 1950). You will be briefed on Government's irrigation program. Lunch will be served.

The total water available for dry season irrigation in the Chao Phya river system will already be fully utilized in the average year by developments under construction or already completed, assuming present levels of efficiency in water use. RID, assisted by consultants, is studying water availability in the system and ways of improving water-use efficiency; future development projects will need to be accompanied by improved efficiency of water-use.

B. NORTHEAST THAILAND VISIT (MAY 17)

Stop 1: Agricultural Extension/Pump Irrigation - Tha Kok Hare, Ubol Ratchathani

1. The Bank is currently assisting the Department of Agricultural Extension to expand and improve its extension services under two loans. An \$840,000 component of Ln. 1198T-TH (Northeast Rural Development Project. \$21 million) initiated activities in four northeast provinces, and Ln. 1393-TH (National Agricultural Extension I, \$28.0 million), is helping establish the training and visit system of agriculture extension in these and 29 other provinces throughout the country. A recently appraised National Agricultural Extension II will cover the remaining 39 provinces.

2. All these projects provide for an increase in the number of trained agricultural extension staff; construction of regional training centers, provincial and district extension centers, and staff houses; procurement of equipment, furniture and vehicles; overseas fellowships and study tours. USAID is supporting the training program.

3. The program has experienced delays in construction of civil works during the first two years, but the situation has recently improved and disbursements are expected to be back on schedule during 1979.

4. Consultants for extension (Israeli) and for civil works design and supervision (local) are performing well. Present deficiencies in the regularity of the training and visit system and the quality of extension advice reflect the lack of experience on the part of many of the recently recruited staff and the shortage of subject matter specialists, but these shortcomings are recognized by senior department personnel and should be rectified in a year or two. *cancel why? big fig*

5. Tha Kok Hare Pump Irrigation Village has been chosen because it has one of the few extensive areas of land under crop to be found in Ubol Province at this time of year (the transition between the dry and wet seasons). Irrigation water is lifted from a nearby river by an 8-inch pump which RTG provided as a grant under the 1977 Drought Relief Program. The villagers themselves dug the ditches. The pump was removed for safty and servicing during the 1978 wet season, when the village experienced severe flooding which damaged or destroyed much of the main padi crop. It was returned to the site to provide an emergency irrigation supply for the present 600 rai (100 ha) off-season padi. One off-season crop has already been successfully harvested, with a yield of 480 kg/rai (3 ton/ha). A second off-season crop has recently been transplanted and will be harvested in early August, after which the land will be planted with a main season crop later in that month. The percentage of Northeast farmers that can have access to such schemes is unfortunately small. *educ? it is to remain.*

6. The extension service, through its village-level extension worker, has encouraged the farmers to plant a nonphotosensitive, nonglutinous padi variety (RD7), using improved field management practices developed *start problems? best control? source control?*

as. but for after 4m.

by the Department of Agriculture Rice Research Division. The farmers have taken to the new system with great enthusiasm.

Stop 2: Village Infrastructure/Domestic Water and Access Roads - Ban Kuang Kam, Amphoe Khuang Nai

A. Tubewell and Hand Pump

The Office of Accelerated Rural Development (ARD) is carrying out the village water supply component (\$2.3 million) of the Northeastern Rural Development Project by expanding its well drilling program through the construction of about 4,000 tubewells. The wells, sited in villages poorly supplied with dry season water sources, are being bored using recently procured, medium-size, mobile rigs. The start-up of the program was very slow, due to difficulties in procurement, but should expand rapidly in the next few months, now that the first large consignment of rigs has been delivered and are being assembled, tested and commissioned.

Variations in water quality and yield between different boreholes are considerable. The water is not always drinkable, due to salinity, but the additional supply is always welcome for nonpotable domestic uses or for backyard vegetable or other small-scale agricultural purposes.

*canal
delay?
progress
now?*

B. Village Access Road

The ARD is also carrying out the village access road component (\$4.3 million) of the Northeast Rural Development Project by expanding its road construction program through the construction of about 1,300 km of 5m wide compacted laterite roads. The roads generally follow existing tracks and connect villages poorly served by existing access to paved highways or main feeder roads.

Construction is being carried out mainly by local contractors, under supervision of a joint local and foreign consultancy group which is also responsible for engineering design. 32 roads, typically 10 km in length, are currently under construction.

Stop 3: Rural Electrification - Ban Muang Phai Village

The Provincial Electricity Authority (PEA) is being assisted under the rural electrification component (\$3.0 million) of the Northeastern Rural Development Project in electrifying 346 villages in ten provinces in the Northeast. An estimated 27,000 consumers are likely to benefit from this program in the initial stages. A further 3,825 villages in the Northeast will also receive electricity supply under Ln. 1527-TH (Accelerated Rural Electrification Project: \$25 million).

PEA has good data and a pragmatic weighting system for assessing relative priority of all villages for electrification. The selection system and the benefits which accrue in electrified areas will be outlined during the briefing.

Stop 4: Secondary Education - Diversified Secondary School,
Yang Talad, Kalasin

This school (including part of the building, equipment and furniture) was one of 32 such schools supported under the Third Education Project (Credit 369-TH, \$19.5 million); a further 50 schools are being supported under the ongoing Fourth Education Project. A principal objective of the Third Education Project is to support a new secondary school curriculum, introducing science and practical subjects in addition to the previous stress on academic subjects, and for the production of teachers through establishment of seven new teachers colleges.

Under the Diversified Secondary Schools program, students typically spend 25% of their time on practical arts but some spend up to 50%. Generally, students leaving these schools have had a good record in continuing education or finding employment. Implementation of the project is about 18 months behind schedule; principal problems have been design, contracting and budgeting difficulties. You will be briefed on details of the curriculum, the background of the student body and the disposition of graduates.

Stop 5: Agricultural Research - Yang Talad Upland Crops Research
Station, Kalasin

This is one of seven research stations being upgraded under the upland crop improvement component (\$1.3 million) of the Northeast Rural Development Project (Loan 1198T-TH). Project staff will give a briefing on the Upland Crops Research Program. This component attempts to bring together the efforts of several divisions and branches of the Department of Agricultural Techniques (DOAT), RTG's principal agricultural research agency working on crop rotation, cropping systems, intercropping, etc., for possible use by farmers in upland (i.e., nonpaddy) areas of the Northeast. The briefing will illustrate the difficulties and complexities in: (a) developing low-investment, low risk packages for such areas; (b) focussing research onto immediate and real problems of a target group of small farmers; and (c) coordinating the efforts of functionally-defined administrative units in tackling small-farmer problems (which are multidisciplinary). This component is an extremely small part of DOAT's total activities; it received little high-level attention in early years, but a change in project management about one year ago has resulted in a marked improvement in the conception and execution of the research program.

Stop 6: Livestock Development - Ban Kaeng Noi, Maha Sarakam

This village contains some of the activities supported by the Northeast Livestock Development Project (Loan 1199T-TH, US\$5.0 million).

The project attempts to upgrade communal pasture through over-sowing about 80,000 ha of fallow and native pasture with tropical legumes and upgrading native herds through 900 imported Brahman stock and

provision of AI. The project had many early administrative problems (lack of local budget, staff shortages and lack of familiarity with Bank procedures). You will see village seed production, backyard forage plots, and improve village herds. The project raises a number of points:


- (1) Upgrading of communal-pasture or individual backyard pasture and fodder plots appears to offer a low-cost way of providing a small improvement in income for large numbers of target group farmers, and
- (2) In an attempt to provide better coordination among disciplines and decentralized control, the project is being implemented by a project unit located in the Northeast. This has not been successful so far since other (functional) divisions of the Livestock Department do not regard themselves as being involved in the project, and give it minimal support. Because of legal requirements and administrative traditions many matters (even trivial ones) continue to be referred to Bangkok.


C. SOUTHERN THAILAND VISIT (MAY 18)

Stop 1: Rubber Replanting - Nam Noi Rubber Farms, Songkhla

Rubber research has been one of the more successful programs of the Department of Agricultural Techniques in recent years. It has benefited from twelve years of FAO/UNDP technical assistance support, through which rubber production technology first developed in Malaysia, and has been transferred and adapted to Southern and Southeast Thailand conditions. Virtually all Thailand's rubber is grown by smallholders. It is most unlikely that the Bank would have been able to support the RTG Smallholder Replanting Program on the scale of our First Replanting Loan (see below) were it not for the improved rubber smallholders management systems developed at this center.

The RTG Rubber Replanting Program, financed largely from a replanting cess collected on exported rubber, is being accelerated from an average preproject 20,000 ha/year to 50,000 ha/year with the aid of funds provided under Ln. 1243-TH (Rubber Replanting Project, \$50.0 million).

A highly experienced administrator who was director of the Office of Rubber Replanting Aid Fund during the preparation and appraisal stages of the project cycle unfortunately retired in the month prior to effectiveness (January 1977), and was succeeded by a senior RTG official with weak administrative skills and very little familiarity with the technical aspects of the replanting program. A personal ailment also contributed to his relative ineffectiveness. 

Project implementation in the first 21 months was slow and beset by serious problems of a managerial and technical nature. Morale within the agency slipped badly and for a few months the project was in danger of floundering. Fortunately, operations at the field level were largely unaffected, and replanting standards were maintained at a high level. A young, capable and experienced director was appointed in October, 1978  and an immediate improvement took place. The recovery has been spectacular. A reorganization recommended by management consultants financed through the loan has been carried out successfully; two competent deputies have been appointed; morale has improved markedly; much needed additional staff have been recruited and trained; procurement difficulties hinging on the appropriateness of rubber fertilizer specifications have been overcome; and prospects for attaining physical and disbursement appraisal targets have brightened.

You will visit: (a) the Rubber Research Center (b) a typical rubber replant on a farm on the outskirts of Hat Yai and (c) a rubber group marketing organization (GMO).

(a) Rubber Research Center. You will be briefed on the rubber research program in Thailand and on the (Bank supported) rubber replanting

program. You will also meet briefly a group of farmers who will be attending a course at the Center. You will walk to the nearby provincial office of the Rubber Replanting Aid Fund where farmers will be receiving grant payments.

(b) Field of Replanted Rubber. A few km. along the main highway you will be shown a recent new planting. Although located near the main road, the replant is typical of the work of the Rubber Fund throughout the rubber-growing areas of Thailand. (See attachment 1).

(c) Group Marketing Organization (GMO). A stop a few km. further along the highway will show you a GMO, a small group of farmers who get together every few days to pool their rubber for sale to bidders. Over 400 GMO's now operate in Thailand. (See attachment 2).

Stop 2: Higher Education - Prince of Songkhla University

The University was opened in the late 1960s, as part of RTG's decision to develop regional universities (until 1965 all universities were in Bangkok). The University is still under development and enrollment (currently about 3,400) continues to grow rapidly. A continuing issue for the University is its extent of operational autonomy vis-a-vis central government ministries in Bangkok. You will be briefed on the role that education and the University have played in the development of the South, and the rural sector in particular. You will also be informed on the composition of the student body, the curricula and placement of graduates.

The Faculty of Science, which was partly financed under Credit 369-TH (Third Education Project, \$19.5 million) has an enrollment of about 600. The total project cost for the Science Faculty was estimated at \$2.6 million including \$0.8 million of technical assistance. The Science Faculty suffered some delays in construction and there were delays and disagreements in recruiting technical assistance personnel.

Stop 3: Health and Family Planning - Ban Prik, Songkhla

Thailand's family planning program is one of the most successful in the world, having reached both its operational and demographic targets since its inception in the early 1970s. It is based on a high degree of integration with the health delivery system and is marked by a number of innovations including the utilization of paramedics and of village health volunteers, the use of injectable contraceptives and the mutual reinforcement of public and private activities. Credit 767-TH (Population Project, \$33.1 million) made in 1978, coupled with assistance from Australia, Canada, Norway and the United States is supporting this effort through a project which will help bring 20 disadvantaged provinces up to the national norm by 1981. The three-year project will: (a) expand the rural health infrastructure from about 5,400 service points in 1976 to about 7,000 in 1980; (b) increase the supply and quality of paramedics and volunteer health workers especially at the village level; (c) stimulate demand for integrated

family planning and health services and encourage broad community support through an expanded information and education program; and (d) improve evaluation and research capabilities.

The project has been in operation for one year. After initial delays due to problems in securing timely budgetary support, all project components are progressing satisfactorily except evaluation. Service delivery, training and information and education activities are generally on schedule, the majority of staff required have been recruited and posted and the implementation machinery has been established and project management is taking charge. Construction, after six months delay, is now ready to move ahead; bidding documents have been prepared and approved. Particularly encouraging is the high level of support for the project and effective functioning of coordinating mechanisms.

The briefing will review village health problems, organization and implementation of innovative programs to tackle these problems, and description of the role and function of Village Health Volunteers (VHVs), Village Health Communicators (VHCs), etc.



10/10/61

a strong idea of action to reduce Reg. disparties + improve the welfare of the poor; important of the complexities of the investment, & fin. control. They thought in terms of series of methods; & recognizing and about 1960-61 series of problems; & recognizing and about 1960-61 series of work potential of institutions; weak; & recognizing and about 1960-61 series of work potential of institutions; weak; & recognizing and about 1960-61 series of work potential of institutions; weak;

Thir - comments

1. Rarely have I seen a worker ^{work potential of institutions; weak; & recognizing and about 1960-61 series of} & they think - almost that look of good between Reg. Bd, Bank - Off & Fin Min. As a result the Reg. Bd & the impact on current alloc. prog. prog. prog. or fin. control.
2. The Gov is a typical centrally oriented country: highly motivated, & the lack of the route to the fields in the rural areas demonstrated that the human & resource potential is far from being realized. E.g. credit was totally unavailable or supplied to the extent of 50% by money lending at rates of from 5% to 20% p.a. As a result yields were substantially below field requirements for crops of horticulture & cereals etc. The limitations are: institutional (lack of) of credit; money; other services; the annual infra (check rates; power for pumps; etc); inapprop. policies (improper bal. between ^{cost of} inputs & output prices); or shortages of properly trained tech & admin pers (Hankok said within past 10 yrs, 10000 have ret'd from us with a B.A. or Ph.D. in fin. by did & in a few yrs will make a major diff) [Should not be in Bk rate bc. major country on their culture & develop tech. cont. prog. & correct]

3. [I don't want Reg. ^{imp. 77} Carroll said to me (Shaid) what are Ball & now doing in Indonesia - they are going mad (far too much banking - this at a time when ^{banking level} was relatively low] - your job is to cut back the program - This comment relates to investment & is not development program at top of Bk.

4. In fact, there has been a rapid (at the slow) rate of dev. because of the incentives & an extraordinarily strong sector. Now when the

but process requires a greater role of gov't in ^{the} ~~work~~ ^{work} ~~of~~ ^{of} the
just stone. ^{the} ~~process~~ ^{process} ~~is~~ ^{is} ~~an~~ ^{an} ~~activity~~ ^{activity} & become more efficient
& more a ^{city} ~~factor~~.

Chairman
S. C. Gray Jan 1958 (Under 55) (A. B. P.) ^{which} ~~code~~ ^{code} ~~was~~ ^{was} ~~of~~ ^{of} ~~world~~ ^{world} ~~concern~~ ^{concern}
Apr 2 73-74. Now must advance ^{the} ~~benefit~~ ^{benefit} ~~of~~ ^{of} ~~the~~ ^{the} ~~world~~ ^{world} ~~and~~ ^{and} ~~not~~ ^{not}
& further requires an effective gov't which they don't have.

Pop 44m
 Inc 7c 4.10
 44 Bakt 2821
 60-77 7.626 WP pa. - 52. Efforts 72
 70-77 182; as stand 4 302

64-68	13V	77	108
69-73	Y30	78	13V
74-78	716	79	Y83
79-83	Y061	80	308
		84	540

I Income Disparities

v52 in Absolute Poverty (but down from '64 542; '68 342)
 11m fifth or no growth in inc in last decade
 NE only 40% of rate over - (James prod. - ttd by: lack of educ.; poor tech; lack of infra. services)
 unequal distri of pub service: poorest receive least
 Inc. disparities among agr households likely to inc in next decade

II Agri. Sector

Oppor. for expanding cultivated land area, the engine of growth of per household
 within limited by sub: divers. into maize, cassava, & sugar ^{poor roads; poor farming}
 need: Res. on soil & crop for part. areas; land titles, inc. credit, ^{upland}
 change in govt. policy: govt. land loan

III. 5th Plan 77-81

- a) Based on: 1) Rapid deceler. growth; 2) Rapid growth of com. agri for export; 3) allocation of Reg. ¹⁹⁷⁸
- b) Target: GDP 72; Agri 52; Indus 102; Exports 82; Pop 2.1281 (60-76 32; 77 2.52)
- c) Looks at Target for Bangladesh will absorb some res. 4) No job creation or exports
- 1) Plan largely uncontrolled & no link to Annual Budgeting Bangladesh ^{target}
- 2) Reason of 5% of reducing reg. disparities + powerful vested com. int.
- 3) Weak admin: Min. concentrated on Bangladesh & concentrated in rural areas

1) incentives provided for dominant sep. sector
 2) incentives, also, inc. ^{Min. are highly centralized}
 3) Budget also more a reflection of past prac (priority to ^{Min. are poorly coordinated}
 large 4) job creation for rapidly expanding labor force (32 pa) not provided for
 5) Will require large inc in public & private for borrowing ^{Bangladesh) than ever needs}
 6) gain in studies (UNDP funds) of land use, mgt, indus devel;

IV Bk Program

Sharply expanding (79-83 1061 or 74-78 716) + emphasis reorientation ^{752 + no. 50; NE}
 Rates of dis. on New Style Prog + 2 New Borrowers not satis. ^{poorly allocated}
 strategy: Ref in urban rural + Reg Inc Dispar ^{502 agri}
 shift from urban & attention agri & mgt + inc growth + intensify agri ^{difficulties}
 V Emergency (no. NE. 50); Indus - China; Exports; Def Budget (402 of the budget)
 coincide with unsecured areas + incidence of poverty

PHILIPPINES

OFFICE MEMORANDUM

DECLASSIFIED

CONFIDENTIAL

DATE: April 25, 1979

APR 11 2013

WBG ARCHIVES

TO: Mr. Robert S. McNamara

FROM: S. Shahid Husain

SUBJECT: Your Visit to the Philippines

1. During your visit to Manila you will probably meet President Marcos. For background I have attempted in the following paragraphs to highlight some principal issues:

2. The Political Scene. President Marcos is now in the second decade of his rule. Compared to the standards of the previous regimes in the Philippines, his record of economic management has been impressive. From a situation which had considerable potential for chaos and violence, the Marcos Government has transformed the Philippines into a steadily growing economy which has become self-sufficient in its staple food and where impressive progress has been made in provision of basic infrastructure, employment and public services including education, health, and water supply. The Philippines' record of economic management is one of the better ones among the developing countries.

3. However, there are many clouds on the horizon. Past development has taken place in an autocratic political environment. Signs of protests culminating in the urban demonstrations during the last elections, and fatigue are becoming increasingly evident with the passing of time. First, the sheer longevity of any regime causes fatigue. This is becoming apparent in the Philippines as the growing importance of the First Lady gives rise to a widely held belief that Government is increasingly a family affair. Second, while economic progress has no doubt been impressive, there are progressively vocal questions within the Philippines and abroad about the still high incidence of poverty and the severely skewed income distribution. Thus, although income distribution has improved as a result of a deliberate shift in the terms of trade in favor of rural areas and the rapid growth in agricultural production, an estimated 40-45% of the population lives in absolute poverty, and real wages in urban areas have not increased because of the unrelenting pressure of a rapidly growing labor force. Furthermore, the well-off in the Philippines share the Latin characteristic of ostentatious living. This seems to have become increasingly galling to the people at large as rumors abound about the business interests and alliances of the First Family.

4. One of the misfortunes of the Philippines, as of many other developing countries which have experienced similar situations, is that the increasingly sophisticated technocratic structure is not supported by a viable political base: political continuity is not associated with institutions but with individuals whose potential longevity decreases with every passing day. Marcos came to power as a populist leader, but by now his identification with the masses has become tenuous. The control of the press and the suppression of the political opposition, however, render it very difficult to make meaningful predictions about the future political course. What seems certain

is that the transition from a regime as intensely personal as the present one to another regime, either personal or institutional, is unlikely to be smooth. The President has established an "elected" interim assembly, but so far it has been unable to exercise significant influence, and the proposed regional governments have yet to come into existence. While there is a high regard for the President's economic leaders and a reasonable degree of consensus on technocratic solutions to the country's problems, there is no one among either the civilian or military leaders who has a strong political following. In these circumstances, the possibility of future instability and violence cannot be ruled out.

5. The Economy. As I said earlier, by conventional measures the Philippines' record of the past eight years has been impressive. GNP has grown by 6% per annum, investment by 11%, and agricultural production by 5%. This is especially noteworthy as the Philippines was particularly hard hit by the post 1974 changes in commodity prices. Sugar, historically its principal export, still shows no signs of recovering. Considering this, the Government's efforts to maintain the momentum of growth and investment and to mobilize the necessary domestic resources have been impressive. However, implementation of the greatly expanded public investment program is now leading to a massive increase in capital expenditures (47% in 1978 and possibly an equally large increase in 1979), and consequently the budget position has become increasingly tight. Therefore, the government needs to make continued effort to mobilize domestic resources - particularly through increased direct taxation, for which there are also compelling equity arguments - and a greater effort to scrutinize new expenditure proposals carefully.

6. As the economic managers, led by Cesar Virata, are keenly aware, the overall economic record conceals great regional disparities as well as disparities between different segments of the population. Much of the development of the past decade has been concentrated in Central Luzon, and both rural and urban poverty are widespread. The Five-Year Plan inaugurated last year seeks to broaden the economic base and the participation of the various sectors of the population in the developmental process. The Government is now undertaking a vigorous regional development effort, particularly in Mindanao and the poorer areas within the Visayas. There is also concern about urban employment and productivity: at least half of the entrants to the labor force in the next ten years will have to find employment in nonagricultural sectors.

7. Both the Filipinos and we agree that, simultaneously with continued vigorous efforts to develop rural areas and the less advanced regions of the country, steps will have to be taken to expand industrial employment and exports rapidly. Despite the growth of nontraditional exports from firms producing under export processing zone arrangements, the bulk of the slowly growing industrial structure is still capital intensive, inefficient, and oriented to producing for a highly protected domestic market. To improve the sector's performance, the whole structure of industrial protection and incentives will have to be reformed. The functioning of financial markets

April 25, 1979

will also need to be improved. I am, however, impressed that Virata and his associates are keenly conscious of the need to take steps to revitalize the industrial structure and growth. We are undertaking joint studies of industrial protection, incentives and financial markets and hope that these will lead to significant reforms, including reduction of protectionism, during the next year or two.

8. Bank Operations. We are planning to lend \$357.5 million for eight projects in FY79. For FY80-84, we are planning lending of \$2,400 million. *470 m pa* Our emphasis will be on agricultural development, which will account for 40% of total lending, for projects aimed at benefiting the rural poverty target group. About 25% of total lending will be for needed public infrastructure in transportation, power and water supply and sewerage. Furthermore, I hope that the Philippines will be a country where we will get to know more about the industrial sector and through our sector work will be able to make a contribution to helping realize its very considerable potential for industrial development. Industrial lending is expected to increase to about 21% of the total. The balance of lending of about 13% would be for education, urban, and population projects.

9. Our relations with the Government are excellent. The economic managers, with whom we have an active dialogue, are very responsive to our advice. There are no major issues, but it might be helpful if you could mention to the President and Minister Virata our concerns about the need for industrial policy reform and for continued effort to mobilize public resources and ensure their efficient utilization.

SSHusain/MAGould/LEHinkle:ds

Attachments

Population: 43.3 million (mid-1976)
 Per Capita Income: \$49 (mid-1976)
 Area: 297,000 sq km
 Literacy: 75% (1974)

PHILIPPINES - ACTUAL AND PROPOSED LENDING THROUGH FY83
 (US\$ million)

		Through FY72	Actual					Current FY79	Program				Total FY69-73	Total FY74-78	Total FY78-82	Total FY79-83	
			FY73	FY74	FY75	FY76	FY77		FY78	FY80	FY81	FY82					FY83
Other Agricultural Projects		73.3															
Rural Credit III	IBRD		22.0														
Rural Credit IV	IBRD					36.3											
Rural Credit V	IBRD										30.0*						
DBP Ag. Credit I (Livestock/ Fisheries)	IBRD								45.0								
DBP Ag. Credit II (Crops/ Processing)	IBRD									30.0							
Land Bank I	IBRD							16.5									
Land Bank II	IBRD											40.0					
Grain Processing II	IBRD					11.5											
Livestock II	IBRD					20.3											
Fisheries I	IBRD	11.6															
Fisheries II	IBRD					12.0											
Irrigation (Pinaranda)	IDA		9.5														
Irrigation (Pinaranda)	IBRD		9.5														
Irrigation (Tarlac)	IBRD			17.5													
Irrigation (Magat I)	IBRD				42.0												
Irrigation (Magat II)	IBRD						150.0										
Irrigation (Magat III)	IBRD							21.0									
Irrigation (Chico)	IBRD				30.0												
Irrigation (Jalaur)	IBRD					15.0											
Irrigation (NISIP I)	IBRD					30.0											
Irrigation (NISIP II)	IBRD						65.0										
Irrigation (NISIP III)	IBRD									60.0							
Medium-scale Irrigation	IBRD									65.0*							
Irrigation (Sector)	IBRD										140.0						
Watershed Management	IBRD									35.0							
Rural Dev. I (Mindoro)	IBRD			25.0													
Rural Dev. II (Land Settlement)	IBRD				15.0												
Rural Dev. III (Samar)	IBRD									30.0							
Rural Dev. V (Land Settlement II)	IBRD											40.0					
Rural Infrastructure I	IDA						28.0										
Rural Infrastructure II	IBRD										60.0						
Tree Farming	IBRD						8.0										
Forestry I	IBRD											50.0					
National Extension	IBRD							35.0									
Support Services	IBRD									35.0							
Rainfed Agriculture I (Iloilo)	IBRD									25.0							
Rainfed Agriculture II (Mindanao)	IBRD											40.0					
FDCE I-III	IBRD	65.0															
FDCE IV	IBRD			30.0													
FDCE V	IBRD						30.0										
DBP I	IBRD		50.0														
DBP II	IBRD				75.0												
DBP III	IBRD						80.0										
PISO I	IBRD						15.0										
DFC I - Apex	IBRD									170.0							
DFC II	IBRD																
Small Industry I (DBP/IGLF)	IBRD			30.0													
Small Industry II	IBRD							25.0									
Regional Industrial Estates I	IBRD																
IGLF II	IBRD										25.0						
Education I	IBRD	6.0															
Education II	IDA		12.7														
Education III (Textbooks I)	TW				25.0												
Education III (Agricultural)	IBRD					25.0											
Education V (Ed. Radio T. A.)	IBRD							2.0									
Education VI (Fisheries/Maritime)	IBRD									35.0							
Education VII (Voc./Rural Trng.)	IBRD										25.0						
Education VIII (Textbooks/media)	IBRD											35.0					
Population I	IBRD			25.0													
Population II	IDA							40.0									
Population III	IBRD											45.0					
Power I-V	IBRD/IDA	102.7															
Power VI	IBRD			64.0													
Power VII	IBRD					58.0											
Power VIII	IBRD											100.0					
Rural Electrification I	IBRD						60.0										
Rural Electrification II	IBRD											80.0					
Other Transportation Projects	IBRD	16.5															
Highways II	IBRD		68.0														
Highways III	IBRD					95.0											
Highways IV	IBRD							100.0									
Highways V	IBRD												80.0				
Ports II	IBRD		6.1														
Ports III	IBRD										40.0						
Shipping I	IBRD			20.0													
Shipping II	IBRD										28.0						
Rural Road	IBRD										20.0						
Manila Water Supply I	IBRD	20.2															
Manila Water Supply II	IBRD							88.0									
Prov. Cities Water Supply I	IBRD					23.0											
Prov. & Rural Water Supply II	IBRD/IDA									38.0*							
Prov. & Rural Water Supply III	IBRD											80.0					
Manila Sewerage	IBRD									65.0							
Urban I (Tondo)	IBRD/TW				22.0/10.0												
Urban II	IBRD							32.0									
Urban III	IBRD									30.0							
Urban IV	IBRD											60.0*					
LENDING PROGRAM	IBRD	283.7	11.6	155.6	208.0	268.0	317.5	410.0	317.5	349.0	445.0	450.0	475.0	295.3	1359.1	1971.5	2036.5
	(TW)																
	IDA		12.7	9.5													
	Total	283.7	24.3	165.1	208.0	268.0	317.5	410.0	317.5	349.0	445.0	450.0	475.0	295.3	1359.1	1971.5	2036.5
	No.	15	2	6	7	8	8	9	8	10	7	7	7	17	28	41	39
	of which IDA		(1)	(1)				(1)	(1)	(1)				(2)	(2)	(3)	(2)

* Standby projects.

TABLE 3A
PHILIPPINES - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	PHILIPPINES			REFERENCE GROUPS (ADJUSTED AVERAGES)		
				- MOST RECENT ESTIMATE		
	1960 /b	1970 /b	ESTIMATE /b	SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
TOTAL	300.0					
AGRICULTURAL	85.6					
GDP PER CAPITA (US\$)	140.0	230.0	430.0	616.0	432.3	867.2
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	147.0	301.0	326.0	522.0	251.7	578.3
POPULATION AND VITAL STATISTICS						
TOTAL POPULATION, MID-YEAR (MILLIONS)	27.4	36.9	44.5	30.1	24.2	46.2
URBAN POPULATION (PERCENT OF TOTAL)	25.3	27.6	29.8			
POPULATION DENSITY PER SQ. KM.	91.0	123.0	148.0	156.8	42.7	50.8
PER SQ. KM. AGRICULTURAL LAND	360.0	472.0	520.0	794.8	95.0	93.3
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	45.7	45.6	42.9	40.8	44.9	42.9
15-64 YRS.	51.6	51.6	54.2	55.4	52.8	53.5
65 YRS. AND ABOVE	2.7	2.8	2.9	3.2	3.0	3.5
POPULATION GROWTH RATE (PERCENT)						
TOTAL	3.0	3.0	2.8	2.3	2.7	2.5
URBAN	4.0	4.0	3.9	5.1	8.8	4.7
CRUDE BIRTH RATE (PER THOUSAND)	45.1	44.2	43.8	34.6	42.2	37.8
CRUDE DEATH RATE (PER THOUSAND)	17.9	13.2	10.5	8.7	12.4	10.8
GROSS REPRODUCTION RATE	3.5 /f	3.3	3.1	2.6	3.2	2.5
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	191.7	750.8	..	..	..
USERS (PERCENT OF MARRIED WOMEN)	..	2.0	25.0	22.1	14.2	20.0
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1970=100)	99.1	100.0	110.8	106.8	104.3	107.3
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)						
TOTAL	83.0	86.0	87.0	108.7	99.5	105.3
PROTEINS (GRAMS PER DAY)	44.0	45.0	50.0	57.7	56.8	63.0
OF WHICH ANIMAL AND PULSE	19.0 /g	22.0	19.2	17.0	17.5	21.7
CHILD (AGES 1-4) MORTALITY RATE	9.0	6.6	7.5	4.0	7.5	8.0
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	49.4	55.6	58.5	59.0	53.3	57.2
INFANT MORTALITY RATE (PER THOUSAND)	84.6	81.0	72.0	44.0	82.5	53.9
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	36.0	50.0	21.9	31.1	56.8
URBAN	..	67.0	82.0	58.3	68.5	79.0
RURAL	..	20.0	31.0	9.8	18.2	31.8
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	57.0	56.0	28.6	37.5	30.9
URBAN	..	90.0	76.0	66.6	69.5	45.4
RURAL	..	40.0	44.0	14.8	25.4	16.1
POPULATION PER PHYSICIAN	..	..	3130.0	4103.1	9359.2	2706.8
POPULATION PER NURSING PERSON	..	3840.0	2180.0	1520.2	2762.5	1462.0
POPULATION PER HOSPITAL BED						
TOTAL	1180.0	850.0	640.0	657.1	786.5	493.9
URBAN	..	..	..	145.5	278.4	229.6
RURAL	..	..	..	1011.8	1358.4	2947.9
ADMISSIONS PER HOSPITAL BED	..	..	..	19.0	19.2	22.1
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.8	5.9	..	5.2	..	5.2
URBAN	..	6.2	..	5.2	..	5.0
RURAL	..	5.8	..	5.4	..	5.4
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	..	2.3	..	..	..	2.0
URBAN	..	2.1	..	..	2.3	1.5
RURAL	..	2.4	..	..	..	2.7
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	17.0	23.0	31.0	39.1	28.3	64.1
URBAN	..	60.4	..	..	..	67.8
RURAL	..	7.0	10.0	..	10.3	34.1

TABLE 3A
PHILIPPINES - SOCIAL INDICATORS DATA SHEET

	PHILIPPINES			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{/a}		
	1960 ^{/b}	1970 ^{/b}	MOST RECENT ESTIMATE ^{/b}	SAME	SAME	NEXT HIGHER
				GEOGRAPHIC REGION ^{/c}	INCOME GROUP ^{/d}	INCOME GROUP ^{/e}
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	95.0	114.0	105.0	95.6	75.8	99.8
FEMALE	93.0	113.0	103.0	93.7	67.9	93.3
SECONDARY: TOTAL	26.0	50.0	56.0	43.3	17.7	33.8
FEMALE	25.0	50.0	57.0	38.6	12.9	29.8
VOCATIONAL (PERCENT OF SECONDARY)	14.0	..	..	11.3	7.4	12.8
PUPIL-TEACHER RATIO						
PRIMARY	36.0	21.0	29.0	30.0	34.3	34.9
SECONDARY	27.0	31.0	31.0	25.4	23.5	22.2
ADULT LITERACY RATE (PERCENT)						
	71.9	81.6	87.0	84.0	63.7	71.8
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION						
	3.0	8.0	8.0	9.3	7.2	12.4
RADIO RECEIVERS PER THOUSAND POPULATION						
	22.0	72.0	..	97.6	71.1	104.5
TV RECEIVERS PER THOUSAND POPULATION						
	1.4	10.0	17.0	21.8	14.1	28.1
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION						
	17.0	14.0	18.0	25.9	16.3	45.2
CINEMA ANNUAL ATTENDANCE PER CAPITA						
	0.6	..	7.6	4.6	1.6	4.6
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)						
	10100.0	12400.0	15400.0	..	..	..
FEMALE (PERCENT)						
	34.4	33.1	32.7	33.7	28.0	25.7
AGRICULTURE (PERCENT)						
	61.0	55.0	52.6	48.4	54.1	46.2
INDUSTRY (PERCENT)						
	15.2	15.8	..	..	..	..
PARTICIPATION RATE (PERCENT)						
TOTAL						
	39.8	36.6	35.3	38.9	37.8	33.8
MALE						
	52.1	48.6	47.1	48.6	50.3	48.1
FEMALE						
	27.4	24.4	23.3	28.4	20.9	17.3
ECONOMIC DEPENDENCY RATIO						
	1.3	1.5	1.3	1.2	1.3	1.4
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS						
	28.8	..	..	17.3	19.5	23.6
HIGHEST 20 PERCENT OF HOUSEHOLDS						
	56.2	54.0	53.3	45.6	48.9	52.3
LOWEST 20 PERCENT OF HOUSEHOLDS						
	4.2	3.6	5.5	6.5	5.9	4.3
LOWEST 40 PERCENT OF HOUSEHOLDS						
	11.9	11.7	14.7	17.3	15.7	13.1
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN						
	..	..	250.0	140.8	155.9	191.9
RURAL						
	..	..	190.0	112.8	97.9	193.1
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN						
	..	..	132.0	..	143.7	319.8
RURAL						
	..	..	..	76.8	87.3	197.7
ESTIMATED POPULATION BELOW POVERTY INCOME LEVEL (PERCENT)						
URBAN						
	..	..	39.0	27.7	22.9	19.8
RURAL						
	..	..	44.0	40.4	36.7	35.1

.. Not available
. Not applicable.

NOTES

- ^{/a} The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.
- ^{/b} Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1973 and 1977.
- ^{/c} East Asia & Pacific; ^{/d} Lower Middle Income (\$281-550 per capita, 1976); ^{/e} Intermediate Middle Income (\$551-1135 per capita, 1976); ^{/f} 1950-55; ^{/g} Av. 1960-62.

DEFINITIONS OF SOCIAL INDICATORS

Note: The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to lack of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and poverty are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)

Total - Total surface area comprising land area and inland waters.
Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS

Total population, mid-year (millions) - As of July 1; if not available, average of two mid-year estimates; 1960, 1970, and 1977 data.

Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Population density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agriculture land - Computed as above for agricultural land only.

Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.

Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.

Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family planning - users (percent of married women) - Percentage of married women of child-bearing age (15-64 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of food production per capita (1970-100) - Index number of per capita annual production of all food commodities.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH

Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.

Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Rural hospitals, however, include health and medical care are not included. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average size of household (persons per household) - total, urban, and rural

A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of household vary.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted enrollment ratios

Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT

Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.

Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting age-sex structure of the population, and long time trend.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION

Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated absolute poverty income level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated relative poverty income level (US\$ per capita) - urban and rural - Relative poverty income level is that income level less than one-third per capita personal income of the country.

Estimated population below poverty income level (percent) - urban and rural - Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

ECONOMIC INDICATORS

GROSS NATIONAL PRODUCT IN 1977

ANNUAL RATE OF GROWTH (% constant prices)

	<u>US\$ million</u>		<u>%</u>		
			<u>1966-71</u>	<u>1971-76</u>	<u>1977</u>
GNP at Market Prices	20,602	100.0	5.1	6.6	6.3
Gross Domestic Investment	6,197	30.1	5.9	11.3	1.5
Gross National Saving	5,370	26.1	2.4	7.5	9.7
Current Account Balance	-827	-4.0	.	.	.
Exports of Goods, NFS <u>/a</u>	3,929	19.1	-0.5	5.7	25.4
Imports of Goods, NFS <u>/a</u>	4,820	23.4	4.1	5.6	5.8

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1977

	<u>Value Added</u>		<u>Labor Force</u>		<u>V. A. per worker</u>	
	<u>US\$ million</u>	<u>%</u>	<u>Million</u>	<u>%</u>	<u>US\$</u>	<u>%</u>
Agriculture	5,789	28.1	7.7	47.5	752	59.1
Industry	7,149	34.7	2.2	13.6	3,250	255.5
Services	7,664	37.2	5.4	33.3	1,419	111.6
Unemployed	.	.	0.9	5.6	.	.
Total/Average	20,602	100.0	16.2	100.0	1,272	100.0

GOVERNMENT FINANCE

	<u>General Government</u>			<u>Central Government</u>		
	<u>(P billion)</u>	<u>% of GDP</u>		<u>(P billion)</u>	<u>% of GDP</u>	
	<u>1977</u>	<u>1977</u>	<u>1971</u>	<u>1977</u>	<u>1977</u>	<u>1971</u>
Current Receipts	22.8	14.8	11.3	20.0	13.0	9.2
Current Expenditure	20.1	13.0	10.1	17.7	11.5	7.6
Current Surplus	2.7	1.8	1.2	2.3	1.5	1.6
Capital Expenditures	5.5	3.6	1.6	5.1	3.3	1.3

MONEY, CREDIT AND PRICES

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
	<u>(P billion outstanding end period)</u>					
Money Supply	6.5	7.3	9.0	10.3	12.1	14.9
Bank Credit to Public Sector	3.9	2.4	2.0	5.8	8.9	11.0
Bank Credit to Private Sector	12.6	16.2	24.2	28.5	33.6	38.0

(Percentage or Index Numbers)

Money as % of GDP	11.5	10.1	9.0	8.9	9.2	9.7
General Price Index (1972 = 100)	100.0	116.5	156.3	166.9	182.3	200.4
Annual percentage changes in:						
General Price Index	8.3	16.5	34.2	6.8	9.2	9.9
Bank Credit to Public Sector	-2.1	-38.5	-16.7	190.0	53.4	23.6
Bank Credit to Private Sector	21.7	28.6	49.4	17.8	17.9	13.1

/a National accounts data.

Note: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.
not applicable

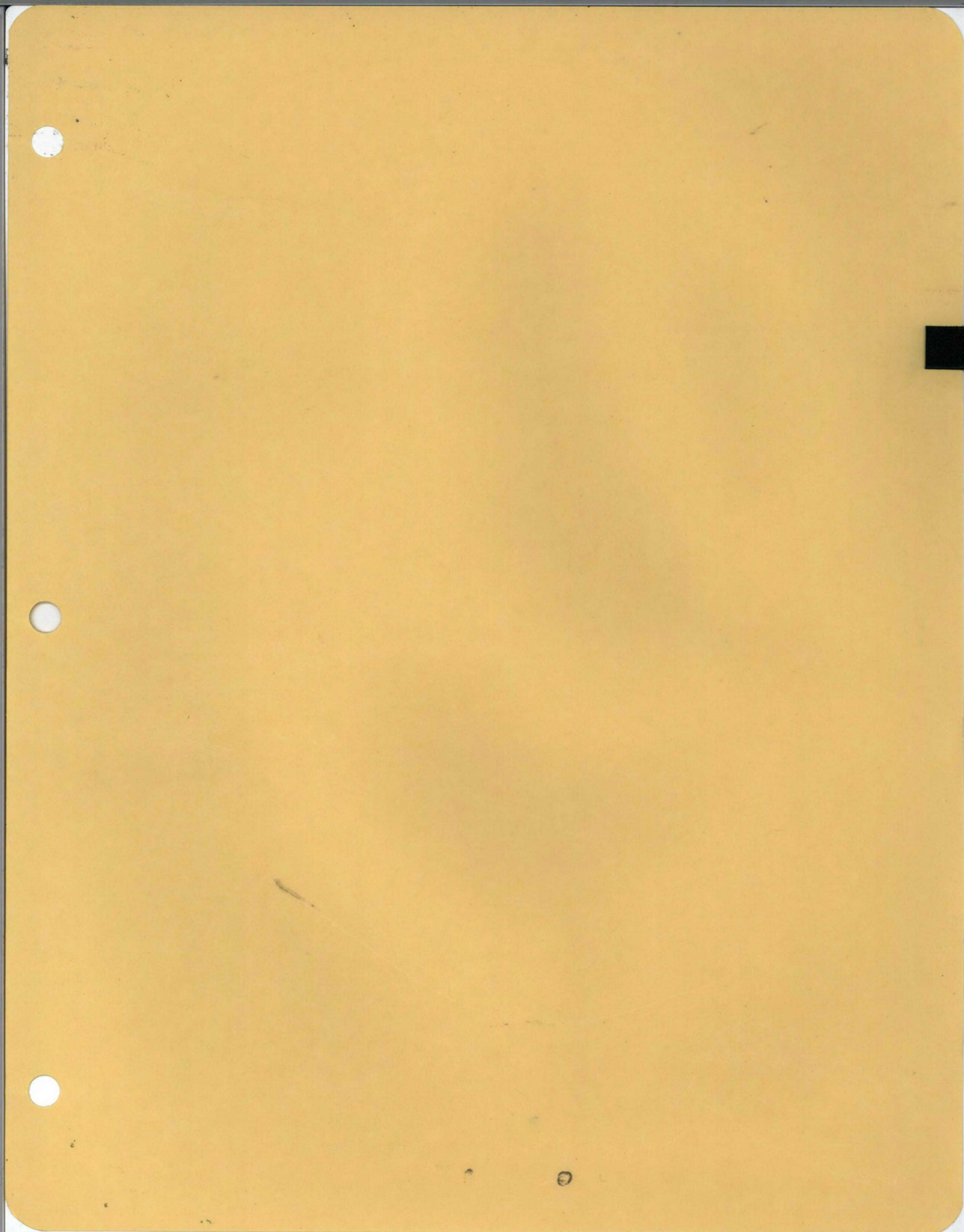
TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS	1975	1976	1977	MERCHANDISE EXPORTS (AVERAGE 1975-77)	
	(US\$ million)			US\$ million	%
Exports of Goods, NFS	3,076	3,330	4,021	Coconut Products	597 22.5
Imports of Goods, NFS	4,116	4,383	4,788	Sugar Products	536 20.2
Resource Gap (deficit = -)	-1,040	-1,053	-767	Forest Products	288 10.8
Interest Payments (net)	-53	-185	-320	Mineral Products	438 16.5
Other Factor Payments (net)	-149	-138		Fruits & Other Agric. Products	198 7.5
Net Transfers	318	269	260	Other Manufactures	598 22.5
Balance on Current Account	-924	-1,107	-827	Total	2,655 100.0
Direct Foreign Investment	125	144	216	EXTERNAL DEBT, DECEMBER 31, 1977 /c	
Net MLT Borrowing				US\$ million	
Disbursements	677	1,407	1,229	Public Debt, including Guaranteed	3,656
Amortization	318	368	544	Nonguaranteed Private Debt	2,907
Subtotal	359	1,039	685	Total Outstanding and Disbursed	6,563
Other Capital (net) /a	-80	-236	90	DEBT SERVICE RATIO FOR 1977 /d	
Increase in Reserves (+)	-521	-160	164		
Gross Reserves (end year) /b	2,080	2,206	2,263	Public Debt, including Guaranteed	7.8
Net Reserves (end year) /b	265	105	269	Nonguaranteed Private Debt	9.8
Petroleum Imports	710	801	859	Total Outstanding and Disbursed	17.6

IBRD/IDA LENDING, December 31, 1978 (US\$ million)

RATE OF EXCHANGE	Annual Averages			End Period	Outstanding and Disbursed	IBRD	IDA
	1976	1977	1978	Dec. 1978			
US\$1.00 = P	7.446	7.407	7.375	7.380	Outstanding and Disbursed	615.4	29.7
P 1.00 = US\$	0.134	0.135	0.136	0.135	Undisbursed	1,087.3	30.5
					Outstanding, incl. Undisbursed	1,702.7	60.2

- /a Includes SDRs, short-term private loans, Central Bank liabilities, use of IMF credit, and errors and omissions.
 /b Reserves of the Central Bank and commercial banking system.
 /c Excludes short-term debt and IMF standby credit and is on a disbursement basis.
 /d Ratio of Debt-Service to Exports of Goods and Nonfactor Services.



2. MAIN CHARACTERISTICS OF THE SINGAPORE ECONOMY /1

With an area of 238 square miles and a population of 2.3 million, Singapore is among the world's smallest countries. The small size, together with the virtual absence of natural resources and surplus labor, has acted as a constraint to economic development. On the other hand, Singapore has benefited from a favorable geographic position for trade between Asia and the rest of the world and the existence of a highly qualified and dedicated labor force.

Building on these comparative advantages, Singapore has expanded its role as an entrepot trade and regional financial center since the early 1960s, while at the same time developing a modern, export-oriented manufacturing sector. The success of this strategy - an economic growth rate of over 10% p.a. over the past decade - rested on Singapore's close integration with the world economy. Restraints on financial flows between Singapore and the rest of the world have been progressively removed, and the initial policy of import protection was, at an early stage of industrialization, changed into a policy of export promotion under conditions of virtual free trade. Furthermore, an active policy of attracting foreign investment accelerated the transfer of technology and the orientation of industrial development toward technically sophisticated, skilled labor-intensive and capital-intensive activities.

The economic conditions and policies are reflected in a number of noteworthy macroeconomic characteristics. The proportion of domestic exports to GDP has increased to over 70%, and that of retained imports to over 120%. Domestic savings have increased to some 30% of GDP; the high savings ratio has resulted from both substantial government savings and high private savings, partly in the form of contributions to the social security scheme. Gross fixed investment as a proportion of GDP amounted to 29% in 1977 after reaching a peak of 34% in 1974. About one third constituted public investment in infrastructure, and another third, local private investment, mainly in trade and other services; the large share of foreign investment is concentrated in manufacturing where about 55% of total equity is foreign owned and about 65% of total output is produced by foreign-owned companies.

The close integration with the world economy through trade, investment, and capital flows makes the Singapore economy highly sensitive to international influences and at the same time limits the scope for independent demand management policies, as no sustained significant deviations of domestic prices and interest rates from international trends can occur. Monetary policy affects mainly the balance of payments, i.e., the relative shares of domestic and foreign components of liquidity rather than its total. At the same time, the effectiveness of fiscal policy is weakened through the high savings and import propensities.

/1 Adapted from IMF Staff Report for the 1978 Article IV Consultation, June, 1978.

Demand, Output, and Prices

After the record of high growth and price stability was interrupted in 1974-75 by the impact of adverse international developments, Singapore regained a steady path of development, but along a more moderate trend. GDP growth, as well as the growth of manufacturing output, recovered sharply in 1976-77, supported by strong export demand and the expansion of public investment, although private investment - both domestic and foreign - lagged. For 1978, the 7-8% growth of real GDP of the previous two years, was expected to continue. Export growth is expected to slow, owing to a slowdown in market growth and an increase in protectionist measures abroad, but private investment is expected to recover, owing to proposed tax incentives and a decrease in excess capacity after two years of relatively strong output growth.

Domestic prices stabilized after the inflationary interlude in 1973-74, aided by falling import prices for foodstuffs and the general observance of wage guidelines, which provided for moderate annual increases of around 6%. There was a slight acceleration of inflation in 1977 due largely to special factors like increases in import prices of coffee and vegetables, and supply shortages of locally produced meat. In 1978, higher import prices for rice and increases in utility rates were expected to contribute to an overall price increase of some 3%.

Government Budget

Government revenues have risen in line with GDP growth. Current government expenditures have been increased cautiously, and the scope for increased government investment expenditures has in several areas been limited by the size of the economy. As a result, the government budget has regularly been in surplus.

Balance of Payments, Reserves and Exchange Rate

Over the past several years, Singapore's balance of payments has shown overall surpluses, deficits on the current account being more than offset by net inflows on the capital account and errors and omissions. Within the current account, the trade balance has been in deficit and the services account in surplus (mainly because of transportation and tourism). The overall surpluses are due mainly to consistent inflows of short-term capital. Official international reserves have remained equivalent to about five months of retained imports (which are about 80% of total imports).

The Singapore dollar, which floated from June 1973 to late 1975, has since been pegged to a trade-weighted basket of currencies of major trading partners, within margins. The effective exchange rate (trade-weighted) which had depreciated by 5% between June and September 1975 has appreciated by about the same amount since the pegging. After an increase in relative wholesale prices in 1974, Singapore's price performance has subsequently been better than that of its trading partners.

Growth Prospects

The development of the Singapore economy will depend crucially on whether it will continue to be able to take maximum advantage of a growing and changing world market. In this respect, there is a continuing need for a strong emphasis on expanding and modernizing the manufacturing sector which has suffered somewhat from adverse international developments during the past years. Various measures are being implemented to assure growth, including: enlarged rediscounting facilities for exports; further tax concessions to help revive private investment, in particular for upgrading existing facilities and expanding high-technology production; several training schemes provided by the Government to upgrade the labor force; and expansion of existing schemes to aid smaller investors. Participation of women in the labor force is being encouraged to maintain the necessary growth of the labor force. Medium-term projections indicate that an overall growth rate of 8% requires an expansion of manufacturing at a rate of about 10%. Given the expected low trend of world economic growth, such a rate requires increased export penetration by Singapore.

If the estimated medium-term growth potential is to be realized, investment will have to accelerate significantly, particularly since during the past years the marginal capital-output ratio has shown a rising trend. In view of this, a revival of private investment is crucial to Singapore's development. Although a modest revival of private investment was expected in 1978, it may be desirable to provide further tax incentives. The authorities intend to consider further incentives once an assessment has been made of the effectiveness of the recently proposed incentives.

3. COUNTRY DATA - SINGAPORE

<u>Area</u>	<u>Population</u>	<u>Density</u>
238 sq mi	2.31 million (mid-1977) Rate of growth: 1.5%	9,700/sq mi

<u>Population Characteristics (1970)</u>		<u>Health and Nutrition (1970)</u>	
Crude birth rate (per 1,000)	23	Population per physician	1,520
Crude death rate (per 1,000)	5	Population per nursing person	460
Infant mortality (per 1,000 live births)	20	Population per hospital bed	270
		Calorie intake as % of requirements	103%
		Per capita protein intake (grams/day)	63

<u>Education (1970)</u>		<u>Housing (1970)</u>	
Adult literacy rate	75%	Percent of occupied dwellings w/o piped water	20%
Primary school enrollment	105%	Access to electricity	87%
Secondary school enrollment	47%		

GNP Per Capita in 1977 US\$2,890/a

<u>Gross Domestic Product in 1977</u> (at current prices)	<u>Annual Growth Rate of GDP</u> (%, 1975 US\$)
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	<u>US\$</u> <u>million</u>	<u>%</u>		
GDP	6,595	100.0	1971-74	18.6
Gross fixed capital formation	2,182	33.1	1974-76	5.0
Increase in stocks	44	0.7	1977	9.3
Government consumption	681	10.3		
Private consumption	4,037	61.2		
Net exports	-336	-5.1		

<u>Labor Force (1970)</u>		
	<u>1,000s</u>	<u>%</u>
Agriculture	22	3.0
Industry	197	27.0
Services	438	60.0
Unemployed	73	10.0
<u>Total</u>	<u>730</u>	<u>100.0</u>

/a Atlas Methodology.

<u>Government Finance in 1977</u>	<u>S\$ million</u>	<u>% of GDP</u>	
		1972	1977
Revenue	3,885.6	22.9	24.1
Expenditure	3,090.9	16.2	19.2
Lending minus repayments	506.7	4.1	3.1
Surplus	288.0	2.6	1.8
Net borrowing	1,840.6	6.5	11.4
Use of foreign exchange	-834.0	-3.1	-5.2
Use of cash balances	-1,294.6	-6.0	-8.0

Money, Credit and Prices

(Millions of S\$ outstanding at end of period)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Money and quasi-money	6,102	6,924	8,164	9,202	9,806
Domestic credit	2,956	3,243	3,675	4,731	5,100
Claims on Government (net)	-3,186	-3,598	-4,014	-3,872	-4,414
Claims on private sector	6,142	6,841	7,689	8,603	9,514

(Percentages or Index numbers)

Money and quasi-money as % of GDP	59.8	55.2	61.0	63.0	60.9
Consumer price index (1975 = 100)	79.7	97.5	100.0	98.1	101.2
Annual percentage changes in:					
Consumer price index (1975 = 100)	26.5	22.3	2.6	-2.0	3.2
Bank credit to public sector	-34.3	-12.9	-11.6	3.5	-14.0
Bank credit to private sector	47.2	11.4	12.4	11.9	10.6

<u>Balance of Payments</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>External Debt</u>	<u>US\$</u>
	(Millions of US\$)				<u>December 31, 1977</u>	<u>million</u>
Export of goods	5,518	5,081	6,187	7,724	Public debt outstanding and disbursed	994
Import of goods	7,782	7,467	8,399	9,553		
Resource gap	-2,264	-2,386	-2,212	-1,829	IBRD Lending <u>December 31, 1978</u>	US\$ <u>million</u>
Services (net)	1,199	1,819	1,556	1,322		
Transfers (net)	-40	-38	-48	-51	Outstanding and disbursed	135.2
Balance on current account	-1,105	-605	-704	-556		
Direct investment	597	611	651	340	Undisbursed	14.3
Net MLT borrowing	75	57	116	188	Outstanding incl. undisbursed	149.5
Short term capital, n.e.i.	-173	-89	83	86		
Errors and omissions	902	432	152	235		
Increase in reserves (+)	295	407	298	293		

Exchange Rate

	<u>1976</u>	<u>1977</u>	<u>October</u> <u>1978</u>
US\$1.00 = S\$	2.47	2.44	2.17
S\$1.00 = US\$	0.40	0.41	0.46

4. THE STATUS OF BANK GROUP OPERATIONS IN SINGAPOREA. STATEMENT OF BANK LOANS AND CREDITS (as of February 28, 1978)

<u>Loan No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Bank</u>	<u>Undisbursed</u>
				<u>Amount in US\$ Million</u> (less cancellations)	
Thirteen loans fully disbursed				159.8	
964-SI	1974	Republic of Singapore	Education (II)	<u>19.5</u>	<u>13.4</u>
Total (less cancellations)				179.3	
of which has been repaid				<u>44.9</u>	
Total now outstanding				134.4	
Amount sold				14.0	
of which has been repaid				<u>7.5</u>	
				<u>6.5</u>	
Total loans now held by Bank				<u>127.9</u>	
Total undisbursed					<u>13.4</u>

B. STATEMENT OF IFC INVESTMENTS (as of December 31, 1978)

Nil

C. PROJECTS IN EXECUTION

Loan No. 964 Second Education Project; US\$19.5 Million Loan of February 14, 1974; Effective Date: April 18, 1974; Closing Date: September 30, 1980

The project finances the second phase of the relocation and consolidation of the University of Singapore at Kent Ridge. Due to earlier delays arising partly from civil works difficulties on a hilly site and partly from additional facilities proposed in October 1975, implementation is about 1-1/2 years behind schedule, but over 90% of civil works contracts have now been awarded. A final decision is awaited on the construction of the second hall of residence. The project is expected to be completed in May 1981. It will therefore be necessary to extend the closing date by one year. The central administrative facilities and library are completed and functioning.

Loan No. 1137

Environmental Control Project; US\$25.0 Million Loan
of July 2, 1975; Effective Date: August 12, 1975;
Closing Date: September 30, 1979

The project comprises construction of a solid waste incinerator of 1,200 tons/day capacity, with heat recovery and capacity for generating 10.5 MW; purchasing about 200 refuse vehicles (not financed by the Bank); setting up an accounting system; training staff; and providing for engineering consulting services. Construction is completed and the plant fully operational. All covenants are being complied with. The new accounting system is operational; operators for the plant have been trained by the Public Utilities Board, Singapore and engineers have been trained in Germany. The financial position is quite sound. The project is fully disbursed.

5. SINGAPORE - LENDING BY SECTOR
 As of December 31, 1978
 (US\$ Million)

Loan No.	Project	Approval date	Closing date	Original principal (IBRD)	Current principal (IBRD)
<u>EDUCATION</u>					
A. <u>Fully disbursed</u>					
802	Education I	2/72	6/78	9.5	9.5
B. <u>Undisbursed</u>					
964	Education II	2/74	9/80	19.5	19.5
	<u>Total</u>			<u>29.0</u>	<u>29.0</u>
<u>ENERGY & WATER</u>					
A. <u>Fully disbursed</u>					
337	Singapore Power	5/63	12/67	15.0	14.4
405	Johore River Water	1/65	6/69	6.8	6.8
473	Singapore Power II	10/66	6/68	10.0	9.5
503	Power & Water	6/67	6/73	23.0	23.0
547	Singapore Sewerage	6/68	12/73	6.0	6.0
595	Power Distribution II	4/69	4/73	20.5	20.5
918	Sewerage II	7/73	6/79	12.0	12.0
1137	Environmental Control	6/75	9/79	25.0	25.0
	<u>Total</u>			<u>118.3</u>	<u>117.2</u>
<u>INDUSTRIAL DEVELOPMENT & FINANCE</u>					
<u>Fully disbursed</u>					
658	DBS	1/70	6/73	5.0	4.1
	<u>Total</u>			<u>5.0</u>	<u>4.1</u>
<u>TRANSPORTATION</u>					
<u>Fully disbursed</u>					
462	Singapore Port	8/66	12/73	15.0	15.0
	<u>Total</u>			<u>15.0</u>	<u>15.0</u>
<u>TELECOMMUNICATIONS</u>					
<u>Fully disbursed</u>					
513	Telecommunications I	9/67	7/70	3.0	3.0
647	Telecommunications II	12/69	5/74	11.0	11.0
	<u>Total</u>			<u>14.0</u>	<u>14.0</u>
<u>Total Lending to All Sectors</u>				<u>181.3</u>	<u>179.3</u>

6. IDA MEMBERSHIP AND IMF RECLASSIFICATIONIDA Membership

During an April 19, 1973 meeting with Singapore's Minister Lee Kuan Yew, McNamara suggested that Singapore consider joining IDA. One month later he followed up with a letter (see attached letter dated May 8, 1973) which pointed out that joining IDA would not preclude receiving Bank loans. The Prime Minister replied (see attached letter dated July 21, 1973) that Singapore could not consider joining IDA until at least 60% of lower and middle managers and engineers in industrial enterprises are Singaporeans. His cabinet felt that joining IDA would put Singapore into a difficult position vis-a-vis the Asian Development Bank and other regional banks, and would have repercussions on Singapore's contribution to ASEAN (Association of Southeast Asian Nations) projects. Also, they feared donor countries (especially Japan, Australia and New Zealand) would cut back their special assistance programs to Singapore.

This issue was brought up during Annual Meetings and various visits, always with Singapore saying it could not consider joining IDA for a few more years. In March 1977 Mr. Knapp asked Mr. Husain whether the subject should be reviewed again with the Government. Mr. Husain discussed the matter during his July 25, 1977 meeting in Singapore with Mr. Hon Sui Sen, Minister for Finance. The latter said that the Government still could not join IDA, since it felt it did not belong to the high-income category of countries. In November 1978 Mr. McNamara invited Singapore to attend the IDA replenishment meeting in Paris held in December 1978, as an observer if not a future member, reiterating the invitation to join IDA (see attached letter dated November 9,

1978). The Prime Minister replied (see attached letter dated Dec. 8, 1978) that Singapore still does not consider itself a developed country, and still relies on foreign management and expertise, with Singaporean managers and engineers filling only 50% of middle positions in industrial enterprises. He declined the invitation and pointed out Singapore's ranking of priorities in its commitments for the next few years as being (1) ASEAN, (2) the Colombo Plan and Commonwealth countries, (3) Southeast Asian and Pacific member countries and (4) regional banks serving that area.

IMF Reclassification

During the 1977 Annual Meeting, IMF and Singapore had a difference of opinion concerning IMF's decision to exclude Singapore from the group of countries to which profits from the gold sales are distributed. Singapore was distressed about being reclassified as a "developed" rather than "developing" country. Its principal concern was that it would lose the preference which is given to the exports of underdeveloped countries by many developed countries, thus adversely affecting its trade. It explained that the large amount of expatriate operations in Singapore had a large effect on the national income. While according to IMF statistics the annual per capita was US\$2,500, Singapore estimated that its nonexpatriate income was only about 50% of gross national income. The Government was able over the course of the next few months to make a case to the IMF for retaining the "developing" country classification, and the IMF Board agreed in spring 1978. In January 1979 Singapore joined in the third SDR allocation.

1. THE GOVERNMENTA. System of Government

Singapore is a republic headed by a president. Its parliament is unicameral and consists of 69 members elected by secret ballot in single-member constituencies.

B. List of Government Officials

<u>President</u>	- Dr. Benjamin Henry Sheares (elected January 2, 1971; serving his second term)
<u>Cabinet</u>	
Prime Minister	- Mr. Lee Kuan Yew
Deputy Prime Minister and Minister of Defense	- Dr. Goh Keng Swee
Minister for Health	- Dr. Toh Chin Chye
Minister for Foreign Affairs	- Mr. S. Rajaratnam
Minister for Labor	- Mr. Ong Pang Boon
Minister for National Development	- Mr. Lim Kim San, DUT
Minister for Law, the Environment, and Science and Technology	- Mr. E.W. Barker
Minister for Home Affairs and Education	- Mr. Chua Sian Chin
Minister for Finance	- Mr. Hon Sui Sen
Minister for Communications and Acting Minister for Culture	- Mr. Ong Teng Cheong
Minister for Social Affairs	- Dr. Ahmad Mattar (Acting)

C. Biographical SketchHon Sui SEN - Minister for Finance

Born on April 16, 1916, in Penang. Education at St. Xavier's Institution, Penang. Later obtained a Diploma in Science (Class 1) from Raffles College, Singapore (new University of Singapore). Married with four daughters and two grandchildren.

In 1939 joined the Straits Settlements Civil Service, later the Singapore Administrative Service. Held a variety of posts; in 1959 appointed Permanent Secretary, Prime Minister's Office, and concurrently Permanent Secretary, Economic Development Division of the Ministry of Finance. In 1961 appointed First Chairman of the newly established Economic Development Board. Retired from Government service in July 1965 but continued as Chairman of the

Economic Development Board. Appointed First Chairman and President of the Development Bank of Singapore Ltd. in December 1968. In April 1970 elected Member of Parliament for the constituency of Havelock in a by-election. Chairman of nine companies in which the Government has equity participation and a Director of a tenth such company.

Alternate Governor for Singapore of the International Monetary Fund and the International Bank for Reconstruction and Development since 1966, and of the Asian Development Bank from 1966-68. Appointed Minister for Finance in August 1970.

background NOTES

Singapore

department of state * september 1978

OFFICIAL NAME: Republic of Singapore

PEOPLE

Singapore, with a population density of 3,800 per square kilometer (10,000 per sq. mi.), is one of the most densely populated countries in the world. Virtually the entire country is urban or suburban in character.

The annual rate of population growth fell from 2.5 percent in 1965 to 1.2 percent in mid-1977. The government conducts a vigorous family planning program and has offered financial incentives to smaller families. Half the population is less than 21 years of age, and one-third is less than 10 years of age.

Health standards are high, with

approximately one physician per 1,250 people (US-1/700).

Singapore has a varied linguistic, cultural, and religious heritage. Malay is the national language, but Chinese, English, and Tamil are also official languages. English is the language of administration and is widely used in professional and business circles and in schools.

The government aims to provide at least 10 years of education for every child. Primary and secondary school students number over 500,000, or nearly 25 percent of the entire population. Enrollment at the University of Singapore is 6,500, at Nanyang University 2,350, and at Singapore Poly-



technic 8,440. The overall literacy rate is more than 77 percent, and for persons under 35 years of age it exceeds 90 percent.

PROFILE

People

POPULATION: 2.3 million (1977 est.). ANNUAL GROWTH RATE: 1.2% (1977). ETHNIC GROUPS: Chinese 76%, Malay 15%, Indian and Pakistani 7%, other 2%. RELIGIONS: Buddhist, Taoist, Muslim, Hindu, Christian. LANGUAGES: English, Mandarin and Chinese dialects, Malay, Tamil. EDUCATION: Years compulsory—none. Percentage GDP to educ.—2.4%. Percentage attendance—66%. Literacy—77% (1977). HEALTH: Infant mortality rate—12 per 1,000 (US—17/1,000). Life expectancy—69 yrs. WORK FORCE: Agriculture—2%. Manufacturing—27%. Service—10%. Other 61%.

Geography

AREA: 603 sq. km. (233 sq. mi.) including reclaimed land. CAPITAL: Singapore (country is a city-state). TERRAIN: Lowland. CLIMATE: Tropical.

Government

TYPE: Parliamentary republic. DATE OF INDEPENDENCE: Aug. 9, 1965. CONSTITUTION: 1965.

BRANCHES: Executive—President (Chief of State, 4-yr. term), Prime Minister (Head of Government). Legislative—unicameral Parliament (69 Members, maximum 5-yr. term). Judicial—High Court, Court of Appeal.

POLITICAL PARTIES: People's Action Party (PAP), various opposition parties. SUFFRAGE: Universal and compulsory. DEFENSE 5.9% of GDP (1977 est.).

FLAG: Two horizontal stripes, red over white, with a white crescent and five stars in the upper left.

Economy

GNP: \$6.5 billion (1977). ANNUAL GROWTH RATE: 9.7% (1977). PER CAPITA INCOME: \$2,800. AV. RATE OF INFLATION: 2.1%. NATURAL RESOURCES: none.

AGRICULTURE: Products—poultry, hogs, orchids, vegetables, fruits. Percentage of GNP—1.1%.

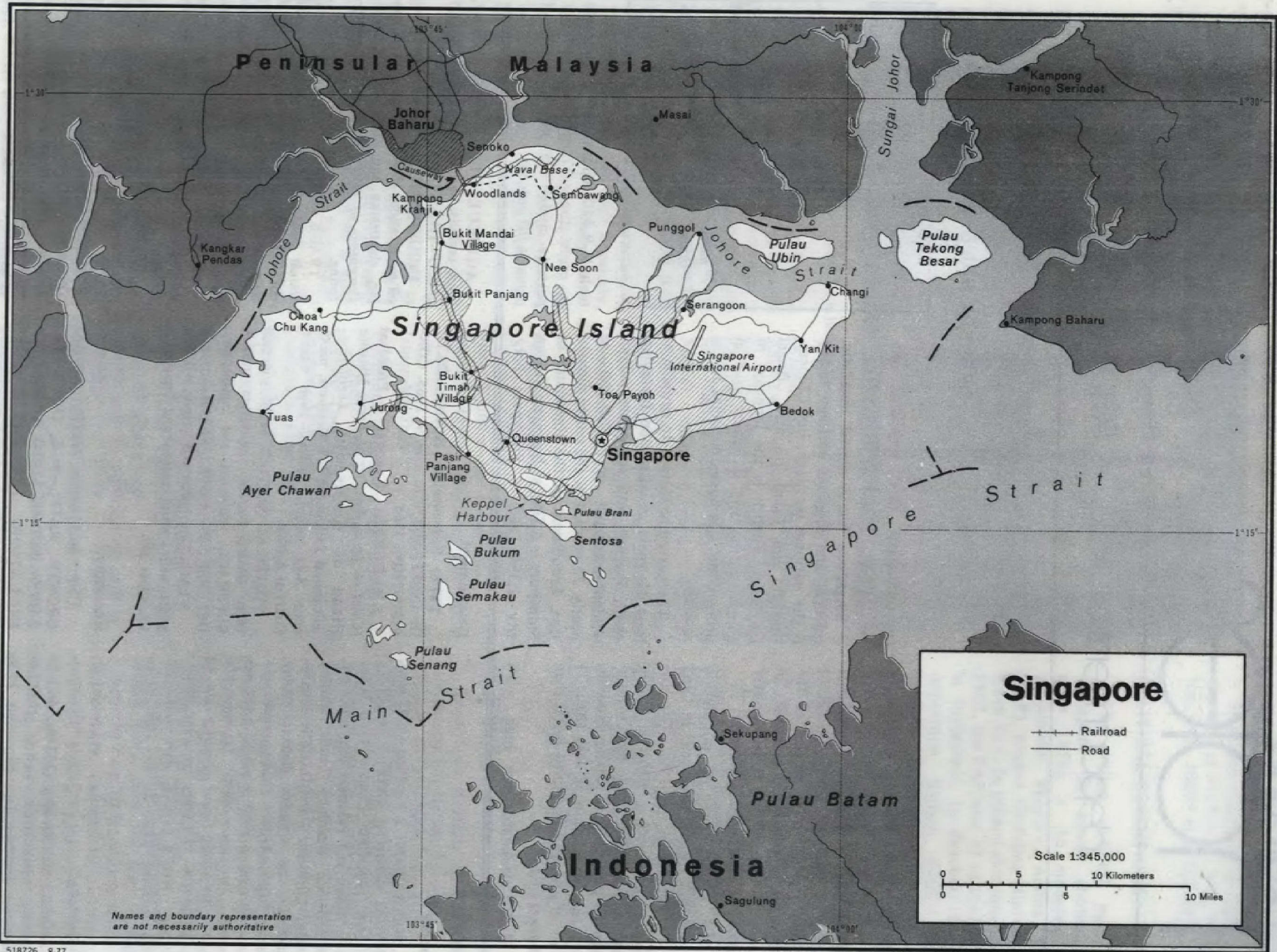
INDUSTRY: Types—petroleum refining, oil exploration, ship repair, rubber processing, electronics and other light industry. Percentage of GNP—24.9% from manufacturing.

TRADE (1977): Exports—\$8.3 billion: transit goods such as rubber, timber, and coffee; local goods such as electrical machinery, electronics, and textiles. Partners—US 15%, Malaysia 14%, Japan 9.3%. Imports—\$10.5 billion: rice, machinery, manufactured goods, petroleum. Partners—Japan 18%, Saudi Arabia 15%, Malaysia 13%, US 11%.

OFFICIAL EXCHANGE RATE: (floating since June 1973) S\$2.28=US\$1 (July 1978).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and its specialized agencies, Association of Southeast Asian Nations (ASEAN), Five-Power Defense Arrangement, INTELSAT.

Note: Singapore is over 16,000 kilometers (10,000 mi.) from Washington, D.C.



518726 8-77

There is religious freedom in Singapore. Although the country's Chinese adhere to a variety of religious faiths, all the Malays are Muslim. There are also Hindus, Sikhs, Taoists, Buddhists, Confucianists, and Christians.

HISTORY

The history of Singapore dates from the 11th century. However, Singapore did not assume importance until the 19th century. The founder of modern Singapore was Sir Thomas Stamford Raffles, who arrived there in 1819 as an agent of the British East India Company. In 1824 the British purchased Singapore Island, and by 1825 the city of Singapore had become a major port, with its trade exceeding that of Malacca and Penang (in Malaya) combined. In 1830 Singapore, Penang, and Malacca were combined as the Straits Settlements to form an outlying residency of the British East India Company, and in 1867 the Straits Settlements were made a British Crown Colony. This arrangement continued until 1946.

The opening of the Suez Canal in 1869 and the advent of steamships launched an era of prosperity for Singapore as transit trade expanded throughout Southeast Asia. In the 20th century the automobile industry's demand for rubber from neighboring countries and the packaging industry's need for tin helped make

Singapore one of the world's major ports. It is now fourth largest in the world in terms of tonnage handled annually.

Provision for Singapore's defense began in 1921 when the British constructed a naval base, which was soon supplemented by an air base. However, the Japanese succeeded in capturing Singapore in February 1942, and the island remained under Japanese occupation until September 1945 when it was recovered by the British.

In 1946 the Malay states and Penang and Malacca were united in the Federation of Malaya. Singapore remained a British Crown Colony. At the time, the British deemed it unwise to include Singapore in the union, mainly because of its predominantly Chinese population. In 1959 Singapore became internally self-governing, and in 1963 it joined with the Federation of Malaya, Sabah, and Sarawak (the latter two were former British Borneo territories) to form Malaysia.

Indonesia adopted a policy of "confrontation" against the new federation, charging that it was a "British colonial creation," and severed trade with Malaysia, a move which particularly affected Singapore, since Indonesia had been Singapore's second largest trading customer. At the end of "confrontation" in the summer of 1966, Indonesia resumed trade with Singapore.

After a period of friction between Singapore and the central government,

TRAVEL NOTES

Clothing—Lightweight clothing, such as that worn in the eastern part of the US in summer, is appropriate.

Customs—U.S. citizens who visit temporarily for business or pleasure are not required to have visas. Check with the nearest Singapore Embassy for customs, currency, and visa requirements for long-term residence. At present, a limit of \$2,000 in Singapore currency can be imported.

Health—Current yellow fever and cholera inoculations are presently required; however, no other special health precautions are necessary. *Travelers should check latest immunization requirements.* Adequate medical care and medications are available.

Telecommunications—Modern telephone and telegraph facilities are available.

Transportation—Singapore is served regularly by major airlines. The country is also linked by road and rail to Malaysia and Thailand. Taxis are readily available in the capital.

Singapore separated from Malaysia on August 9, 1965, and became an independent republic.

GEOGRAPHY

Lying at the southern extremity of Asia at the tip of the Malay peninsula, Singapore is separated from the mainland (Malaysia) by the Strait of Johore, which is traversed by a 1.2-kilometer (3/4-mi.)-long causeway carrying a road and railway, and from the Republic of Indonesia by the Singapore Strait. The country is a focal point for Southeast Asian sea routes. Its total land area includes one large island and about 55 nearby islets. The diamond-shaped main island measures 41 kilometers (26 mi.) at its broadest, from east to west, and 22 kilometers (14 mi.) from north to south.

Much of Singapore is lowland and originally consisted of swamp and jungle. Now mainly urban and industrialized land, its geographical features are built to a minor scale—the highest point on the main island, Bukit Timah (Hill of Tin), is only 177 meters (581 ft.) above sea level; the longest river is



Singapore is the fourth largest port in the world.



Singapore is a country where vegetation is lush and tropical and seasons are nonexistent.

only 14 kilometers (9 mi.) long. A central plateau of about 31 square kilometers (12 sq. mi.) contains a water catchment area and nature preserve. The main urban area lies on the southern part of the island and for the most part covers land reclaimed from swamp and sea.

Singapore's climate is characterized by high temperatures, high humidity, and copious rainfall. The average maximum temperature is 30°C (87°F); the average rainfall is 244 centimeters (96 in.). Singapore has no pronounced wet or dry seasons.

GOVERNMENT

According to the Constitution, as amended in 1965, Singapore is a republic with a parliamentary system of government. The President is elected every 4 years by the Parliament, but his position is ceremonial. Political authority rests with the Prime Minister and the Cabinet. The Prime Minister is the leader of the political party or coalition of parties which has the most seats in the Parliament.

The unicameral Parliament consists of 69 Members elected on the basis of universal adult suffrage. The maximum term of any one Parliament is 5 years. Since 1959 voting has been compulsory.

Judicial power is vested in a High Court and a Court of Appeal. The High Court exercises original criminal and civil jurisdiction and appellate

criminal and civil jurisdiction from subordinate courts. Its Chief Justice and six judges are appointed by the President. Appeal can be made from the High Court to the Court of Appeal, which exercises appellate criminal and civil jurisdiction. Further appeal can be made in certain cases from the latter court to the Judicial Committee of the Privy Council at London.

Principal Government Officials

President—Benjamin H. Sheares
 Prime Minister—Lee Kuan Yew
 Deputy Prime Minister—Goh Keng Swee

Other Ministers

Communications and National Development—Ong Teng Cheong
 Culture—Ong Teng Cheong
 Defense—Goh Keng Swee
 Education—Chua Sian Chin
 Health—Toh Chin Chye
 Environment and Law—Edward W. Barker
 Finance—Hon Sui Sen
 Foreign Affairs—S. Rajaratnam
 Home Affairs—Chua Sian Chin
 Labor—Ong Pang Boon
 Science and Technology—Edward W. Barker
 Social Affairs—Ahmad Mattar

Ambassador to the U.S.—Punch Coomaraswamy
 Ambassador to the UN—Tommy Koh
 Thong Bee

Singapore maintains an Embassy in the U.S. at 1824 R St. NW., Washington, D.C. 20009 (tel. 202-667-7555).

POLITICAL CONDITIONS

The ruling political party in Singapore (in power continuously since 1959) is the moderate and pragmatic People's Action Party (PAP), headed by Prime Minister Lee Kuan Yew. In general elections held in 1963, the PAP won 37 of the 51 seats in Parliament. In October 1966 the opposition Barisan Sosialis Party (Socialist Front, or BSP, a left-wing group that split off from the PAP in 1961) resigned from Parliament, leaving the PAP as the sole party represented in Parliament. In the April 1968 general elections the PAP won all 58 seats—51 of them without opposition.

In the September 1972 general elections the PAP again won, taking all 65 seats in the expanded Parliament. The PAP received 70 percent of the popular vote; the rest was divided among four opposition parties, including the BSP. Most recently, in December 1976, the PAP won all 69 seats at stake in the enlarged Parliament with 72 percent of the popular vote.

ECONOMY

Singapore's strategic location and industrious population have given the country an economic importance in Southeast Asia far in excess of its size. Following independence its economy expanded rapidly. Between 1965 and 1970 GNP increased by 80 percent, and during 1968-72 the growth rate averaged some 14 percent annually. The average 1972-77 annual growth rate stood at 7.8 percent (9.7 percent - 1977). In 1977, Singapore's per capita income (\$2,800) was the highest in Asia after Japan.

Foreign trade and shipping reached record levels over the past decade. Expanding from its traditional reliance on entrepôt (warehouse and transshipment) trade, Singapore has industrialized at a phenomenal rate. Shipbuilding and repair and electronics have been among the leaders in the sector. The upsurge of petroleum exploration and production in

Southeast Asia has made Singapore a center for supporting regional exploration activities. The number of tourists visiting Singapore has multiplied, and new hotel construction has paced a general building boom.

Foreign exchange reserves rose 8.9 percent to \$3.72 billion in 1977.

Singapore's principal economic roles in Southeast Asia continue to include:

-Processing, packaging, and marketing of the raw materials of the region: rubber, timber, coffee, spices, copra, and rattan;

-Distributing within the region the manufactured products of industrialized countries; and

-Conducting activities related to trade, such as banking, shipping, insurance, and storage.

Agriculture

Agricultural activity in Singapore is limited by the lack of land suitable for cultivation. Land is devoted primarily to the intensive cultivation of vegetables and other food crops. Singapore is self-sufficient in pork and poultry and is a major exporter of orchids and tropical fish.

Although rice is the principal food consumed, it is not grown domestically. All the island's rice requirements must be met with imports.

Most of the land consists of small plots that are privately cultivated. Orchids alternate with vegetables as a cash crop, and pineapples, bananas, papaya, and other tropical fruits are grown. As a result of intensive cultivation methods and the skill employed by farmers, yields are high.

Trade

In the past as much as two-thirds of Singapore's imports and exports consisted of transiting goods. With rapid industrialization, however, the relative importance of the entrepôt sector has declined. The trade pattern reflects a shift toward the importation of capital goods and raw materials for industry and the exportation of locally manufactured products.

Import and export figures listed in the Profile exclude Indonesian trade, which is not reported. In 1977 the United States ranked fourth among Singapore's sources of imports, repre-

senting about 12.6 percent of the total. Imports were mainly machinery and other manufactured products. Singapore's exports to the United States consisted mainly of crude rubber, electrical machinery, and textile products.

U.S. Investment and Assistance

U.S. private investment is playing an increasingly important role in Singapore's rapid economic expansion, particularly in the petroleum industry, in general manufacturing, electronics, and in the modernization of regional distribution facilities. U.S. firms' activities also include shipping, banking, hotels, insurance, and importing and exporting. The resident U.S. business community was estimated to be about 6,000 in 1977, including dependents. Total U.S. investment to date in Singapore is believed to exceed \$1.2 billion, with more in prospect.

The United States has no program of assistance to Singapore, although an AID investment guarantee agreement is in effect.

FOREIGN BUSINESS INFORMATION

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

Industry

Recognizing that trading alone could not provide enough new jobs for the growing population, the government's development policy throughout the past decade has placed major emphasis on industrialization. Separation from Malaysia precluded realization of a large national market and resulted in emphasis being shifted from import substitution toward export manufacturing. To support this policy the government introduced new and remarkably successful financial incentives for export-oriented industry. New labor legislation enacted in 1968 eliminated costly fringe benefits, put an end to labor unrest, provided

READING LIST

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

American University. *Area Handbook for Singapore*. Washington, DC: US Government Printing Office, 1977.

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Chan Heng-chee. *The Dynamics of One Party Dominance: The PAP at the Grass Roots*. Singapore: Singapore Univ. Press, 1976.

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Hughes, Helen, and Poh Sing You. *Foreign Investment and Industrialization in Singapore*. Madison: Univ. of Wisconsin Press, 1969.

Nair, C. Devan, ed. *Socialism That Works... The Singapore Way*. Singapore: Federal Publications, 1976.

Singapore Year Book. Singapore: Government Publications Bureau.

for wage stability, and gave employers more flexibility in hiring and firing.

Several institutions played a key role in carrying out the industrialization policy. The Development Bank of Singapore (DBS) was responsible for industrial financing. The Jurong Town Corporation was charged with developing industrial estates. Its major achievement to date is the Jurong Industrial Estate, a government-planned satellite community devoted to manufacturing, which has more than 675 new factories in production in 1976, and many others in various stages of completion. The government's Economic Development Board (EDB) has organized a massive program to promote foreign investment in Singapore and has set up a network of

offices in Europe, Japan, and the United States. (Its offices in the United States are located in New York, Chicago, and San Francisco.)

These efforts resulted in a dramatic increase in the level of both foreign and local investment. From 1962 to 1974 the manufacturing sector grew an average of 20 percent a year, and it registered an 8 percent annual average in subsequent years. During this period manufacturing has increased in importance in relation to other sectors of the economy from 9.8 to 27 percent of the total. Extensive petroleum refining operations make the petroleum industry the largest in Singapore. It is closely followed by transportation equipment and service (including ship repair), textiles, electronics, electrical machinery, and food industries.

In February 1978, Singapore and the United States signed a 4-year bilateral textile agreement which Singapore garment manufacturers hailed as a strong incentive for the industry.

Housing and building construction has been expanding rapidly in recent years, with the former concentrated in large-scale public housing projects. At present about 60 percent of Singapore's population is housed in government-built apartment complexes. A steadily growing influx of tourists has also resulted in recent years in a hotel construction boom. The growth in tourism has kept pace, however, and hotel accommodations are tight on occasion.

Singapore's efforts to industrialize have met with such remarkable success that government policy now favors capital-intensive rather than labor-intensive industries. Particular emphasis will be placed on attracting investment in an industry with modern technology to upgrade the skills and productivity of Singapore's workers.

Labor

Singapore has a work force of approximately 880,000. The National Trade Union Congress (NTUC), which is the sole trade union federation, has about 211,000 members. Extensive legislation covers general labor and trade union matters, and an Industrial Arbitration Court handles labor-management disputes. In recent years

industrial peace has prevailed in Singapore, and labor-management relations have generally been harmonious.

In the recent period of rapid economic expansion, Singapore has achieved virtually full employment, and in fact in some sectors a labor shortage exists. About 100,000 non-Singaporeans have been admitted on temporary work permits, mostly from neighboring Malaysia, to help ease this shortage.

Transportation and Communications

Situated at the crossroads of international shipping and air routes, Singapore serves as a center for transportation and communication in Southeast Asia. With the third largest harbor in the world, the port of Singapore handled a total of 58 million freight tons of cargo in 1976. In the field of civil aviation, the international airport is capable of handling any aircraft now in world service. Singapore is served by major airlines that operate in all parts of the world. The United States entered into a civil aviation agreement with Singapore in 1978 that will enhance air transport between the two countries. The country is also linked by road and rail to Malaysia and Thailand.

Telecommunications and telephone facilities are modern and comprehensive, providing high-quality communications with the rest of the world. Radio and television stations are government owned and operated. Privately owned daily newspapers are published in English, Chinese, and Malay.

FOREIGN RELATIONS

In world affairs, Singapore maintains a nonaligned posture with respect to major world powers and seeks cordial relations with all nations. As a small country heavily dependent on trade with the outside world, Singapore has a special interest in maintaining wide contacts abroad. A former British possession, it participates actively in the Commonwealth of Nations. It is also a member of the United Nations and several of the UN specialized agencies. Singapore supports the concept of Southeast Asian regionalism and has played an active

role in the Association of Southeast Asian Nations (ASEAN) from its inception in 1967.

Although it relies primarily on its own defense forces, which have been enlarged and strengthened in recent years, Singapore is also a member of the Five-Power Defense Arrangement (with Britain, Australia, New Zealand, and Malaysia). Designed to succeed the former defense role of the British in the Singapore-Malaysia area, the five-power arrangement obligates members to consult in the event of external threat and provides for the stationing of Commonwealth forces in Singapore. Small-scale New Zealand units are presently stationed in Singapore under this agreement.

U.S.-SINGAPORE RELATIONS

The United States has maintained formal diplomatic relations with Singapore since it became independent in 1965. Singapore's efforts to maintain economic growth and political stability and its active participation in regional cooperative movements are in harmony with U.S. policy in the region and form a solid basis for amicable relations between the two countries. The growth of U.S. investment in Singapore and the increasing numbers of Americans living in Singapore enhance the opportunity for contact between Singapore and the United States. Also, more and more Singaporeans are coming to the United States to study or visit.

The U.S. Government sponsors visitors from Singapore to the United States each year under the International Visitor's Program. The U.S. Government also supplements the salaries of several American professors at the University of Singapore, provides scholarships for Singapore graduate students at American universities, and sponsors occasional cultural presentations in Singapore.

Private American organizations such as the Asia Foundation, the East-West Center, and the Ford Foundation are also active in sponsoring exchanges involving Singaporeans.

The Prime Minister of Singapore, Lee Kuan Yew, has made several visits to the United States, most recently in

October 1977, when he met at the White House with President Carter.

Principal U.S. Officials

Ambassador—Richard F. Kneip

Deputy Chief of Mission—Edward C. Ingraham

Political Officer—Barbara Harvey

Economic/Commercial Officer—Arthur C. Bauman

Public Affairs Officer—Gerald Stryker

Consular Officer—Robert B. Peterson

The U.S. Embassy in Singapore is located at No. 30 Hill Street, Singapore 6 (tel. 30251).

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Harbour cruises from Clifford Pier to Sentosa and Southern Islands

PLACES OF INTEREST

- Al-Abrar Mosque ("E7)
- Armenian Church ("E8)
- Bird Concert ("C7)
- Botanic Gardens ("A4)
- Bukit Timah Nature Reserve (P15)
- Cathedral of the Good Shepherd ("E5)
- Central Park ("E5)
- Chettiar Hindu Temple ("D9)
- Chinatown ("C1)
- Chinese Garden (N16)
- Clifford Pier Harbour Cruises ("F1)
- Crocodile Farm (R15)
- Durgah Shrine (Mogore Shrine) ("E7)
- East Coast Park Lagoon (T16)
- Elizabeth Walk ("F5)
- Empress Place ("E6)
- Hajjah Fatimah Mosque ("G4)
- House of Jade ("B4)
- House of Tan Yeok Nee ("D8)
- "Inland Asia" Cultural Show (P17)
- James Mosque (Chulia Mosque) ("E7)
- Japanese Garden (N16)
- Jurong Bird Park (N16)
- Jurong Town (N16)
- Kelong (P17)
- Kranji War Memorial (D13)
- MacRitchie Reservoir (D15)
- Memorial Park Land ("F6)
- Merlion Park ("F8)
- Mount Faber Cable Cars (Q17)
- National Museum & Art Gallery ("E9)
- National Stadium ("W4)
- National Theatre ("E5)
- One Thousand Buddha Hilltop Temple (Q17)
- Orchid Garden (P14)
- Public Housing Toa Payoh (R15)
- St. Andrew's Cathedral ("E6)
- Seletar Reservoir (P14)
- Sentosa (Q18)
- Singapore River ("E8)
- Singapore Science Centre (D10)
- Song Lim Temple & Garden (R15)
- Sri Stamford Raffles Landing Site ("E9)
- Southern Islands (P16)
- Sri Mariamman Temple ("E7)
- Sultan Mosque ("F4)
- Supreme Court & City Hall ("E8)
- Tan Si Chong Si Temple ("D8)
- Telok Ayer Marhum ("E7)
- Temple of 1000 Light ("F3)
- Thian Hock Keng Temple ("E7)
- Thong Chai Medical Institution Building ("E6)
- Tiger Balm Gardens (P17)
- Van Kleeft Aquarium ("E5)
- Zoological Gardens (P14)

*denotes Map overlay



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