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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Cooperation In Agricultural Assistance: An Elusive Goal In Indonesia

From 1970 to 1978, 17 members of the donor assistance consortium for Indonesia have provided the Indonesian Government with about \$10 billion in overall assistance. An additional \$1.9 billion was provided in 1979. Much of this assistance has been aimed at reducing the country's critical rice import dependency by developing long-term food production.

The need for donor cooperation in the development process is widely acknowledged, but achieving a cooperative donor effort focused on basic, priority needs has proved elusive in Indonesia.

To alleviate Indonesia's food problems, GAO recommends that U. S. assistance--through both bilateral and multilateral programs--be made more cohesive.



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To the President of the Senate and the
Speaker of the House of Representatives

This report is a case study assessing the nature and extent of foreign donor and recipient government cooperation in the agricultural development of a food-deficit country. It examines current donor and host-country relationships in Indonesia and the factors behind the difficulties in achieving closer coordination. The report highlights the need for stronger leadership in coordinating the assistance efforts of a variety of donors, for an assessment of ways to improve Indonesia's capacity to absorb foreign assistance, for more information-sharing among donors, and for more closely relating consideration of multilateral development bank loans to other forms of U.S. assistance. The report addresses recommendations to the concerned agencies on these matters.

We are sending copies of this report to the Director, Office of Management and Budget, and to the agencies responsible for U.S. foreign assistance programs.

James B. Heath
Comptroller General
of the United States

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D I G E S T

The United States channels its foreign aid to developing countries through a variety of assistance organizations. The needs of Third World countries, compared to the amount of assistance resources available, make it essential that various sources of available assistance be directed toward the most pressing problems of developing countries.

To some extent, however, a concerted, integrated development effort focused on priority needs of developing countries has not been achieved. GAO examined the nature of donor and host-country relationships in Indonesia and the factors behind the difficulties in achieving closer cooperation in development efforts.

For the past 10 years, Indonesia has been a major recipient of foreign aid. In 1979 it received about \$1.9 billion in assistance from 17 donors of the consultative Inter-Governmental Group for Indonesia. Much of this assistance was aimed at developing the country's long-term food production potential and reducing its dependence on imported rice. (See p. 3.)

Setting specific priorities and programs for developing Indonesia's agricultural potential has proven difficult because the country's problems are complex, facts are often uncertain, and appropriate strategies are not always apparent.

Particular uncertainties are (1) the potential for continued significant increases in rice production; (2) the degree of Indonesian commitment to the promotion of non-rice food crops; (3) the appropriate emphasis for development of Indonesia's sparsely-populated outer islands through transmigration programs;

(4) the urgency of alleviating rural unemployment; and (5) Indonesia's ability to absorb projected assistance increases, given its serious shortage of trained personnel. (See p. 10.)

EFFECTIVE COORDINATION YET TO BE REALIZED

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Agricultural assistance needs to be coordinated (1) among the various ministries and agencies within the Indonesian Government, (2) among the Government and donors within the donor consultative group, and (3) within the U.S. Government interagency Development Coordination Committee set up to coordinate various U.S. foreign assistance activities. None of these coordination arrangements has operated effectively. (See p. 16.)

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Foreign donors recognize the Indonesian Government's responsibility for formulating its own development plans; however, the Government planning agency has not fulfilled its responsibility for coordinating development assistance on a sector basis. Because the Government ministries are protective of their program areas, it has been difficult to achieve coordination of development activities.

Opportunities for donor/host-government discussion and analysis of agricultural problems or for coordinated planning of agricultural aid programs have been limited. U.S. officials have advocated a stronger leadership role for the World Bank, but the Bank has not assumed this role because of opposition from some bilateral donors. The annual Inter-Governmental Group meetings provide a forum for macro-economic discussions and for pledging assistance, but they do not provide for detailed sectoral discussions. Sector meetings conducted by the World Bank and attended by working-level representatives of the Government and donors have been suggested, but little success has been achieved because bilateral donors with commercially-oriented assistance programs have opposed them. (See pp. 18-23.)

Effective coordination of various U.S. development programs has also yet to be achieved. The U.S. Development Coordination Committee has functioned primarily as a mechanism for interagency coordination rather than for program coordination. Major limitations to Committee effectiveness have been (1) the short time frame allowed for evaluations of multilateral development bank loans, (2) the late stage at which Committee involvement in the loan approval process takes place, and (3) the lack of Committee attention as to how bank loans relate to U.S. bilateral programs. (See p. 23.)

COMPLEMENTARY DONOR PROGRAMS DESIRABLE
BUT NOT ACTIVELY PROMOTED

Weak coordination has resulted in a lack of a focused and concerted donor effort rather than in duplication of donor activities; independent donor efforts seldom interrelate or reinforce each other. (See p. 26.)

Because of the limited information-sharing and coordinated planning among donors, irrigation development has not been systematically accompanied by soil conservation efforts to prevent land erosion or by development of water users associations to promote the equitable allocation of water. Transmigration efforts have not been adequately supported by soil and crop research, training, and social service programs. Other obstacles to a more closely integrated overall donor agricultural program relate to host-government limitations. (See p. 28.)

RECOMMENDATIONS

In view of (1) the need for close donor/host-government coordination for discussion of agricultural issues and for concerted planning; (2) the ineffectiveness of existing coordination arrangements in meeting this need; (3) the need for leadership in promoting such closer coordination; and (4) the position of the World Bank as the largest donor to Indonesia, GAO recommends the following. (See p. 43.)

The Secretary of the Treasury, working with the Director of the of the International Development Cooperation Agency, should

--direct the U.S. Executive Director to the World Bank to pursue with Bank officials the need for the Bank in concert with other donors to

seek a more active role in coordinating donor assistance programs and in encouraging the Government of Indonesia to promote effective coordination including periodic sector-level, problem-oriented discussions among donors;

promote Indonesian efforts to achieve closer interagency and provincial cooperation oriented toward more precisely defined development priorities and toward focusing assistance on these priority needs; and

assess ways to improve Indonesia's absorptive capacity and base increases in future Bank program levels on substantive steps to reduce absorptive problems.

--direct the U.S. Executive Directors to both the World Bank and the Asian Development Bank to promote early information-sharing on proposed bank activities so that U.S. officials will have the necessary time to evaluate the relationships between bank programs and U.S. bilateral programs.

The Secretary of State and the Director, International Development Cooperation Agency, should re-emphasize to other bilateral donors the need for both increased information-sharing and their participation in effective coordination.

GAO further recommends that the Director, International Development Cooperation Agency see that multilateral development bank loans undergo cross-program review within the Development Coordination Committee to promote mutual reinforcement among the various assistance efforts within specific countries.

AGENCY COMMENTS

The agencies basically agreed with the report's conclusions and recommendations with one exception. The International Development Cooperation Agency and the Treasury Department disagreed with the recommendation to assess ways to improve Indonesia's absorptive capacity and base increases in future program levels on substantive steps to reduce absorptive problems. These agencies said their data indicates that Indonesia "has no problem, relatively speaking," but they did not object to a study of whether there is a problem. The Treasury Department also maintains that some of the report's recommendations are unnecessary. (See pp. 44-49.)



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ABBREVIATIONS

ADB	Asian Development Bank
AID	Agency for International Development
DCC	Development Coordination Committee
IDCA	International Development Cooperation Agency
IGGI	Inter-Governmental Group for Indonesia
UNDP	United Nations Development Program



Indonesia





CHAPTER 1

INTRODUCTION

Increasingly over the past decade, foreign assistance donors and developing countries have come to recognize the need for close cooperation in the development process. There are many organizations through which the United States has channeled an increasing portion of its assistance. Because aid resources are scarce in relation to Third World needs, it is essential that these various sources of available assistance be directed toward serving developing-country priority needs. To some extent, however, the goal of achieving a concerted, integrated development effort, which focuses on priority needs, remains elusive. In this review, we examine the nature of current donor and host-country relationships in Indonesia and the varied factors influencing closer cooperation.

Many forms of donor coordination exist. An analysis of the factors that affect the degree of development cooperation in Indonesia indicates the level of increased donor participation which can be reached in Indonesia and in other developing countries which have similar problems.

WHY INDONESIA?

We selected Indonesia for study because it has consistently received extensive assistance from a variety of donors over the past 10 years and because it has a formal donor consultative group--the Inter-Governmental Group for Indonesia (IGGI), designed to serve as a basis for close coordination. We selected the agriculture sector because it receives the largest share of this assistance and because developing Indonesia's potential in this sector is essential.

Despite its position as an oil producer, Indonesia ranks among the world's poorest nations by virtually any measure of poverty. Average per capita income is estimated at \$280 a year; malnutrition, poor health, and low life-expectancy (48 years) characterize two-thirds of Indonesia's 143 million population. Population density on the islands of Java and Bali, where 85 million people live, is among the highest in the world. Unemployment or underemployment is estimated to range as high as 40 to 50 percent. The main causes of such poverty derive from the pressures of overpopulation of the land and from the resulting drain on other resources. An inadequate

supply of trained personnel to meet rapidly expanding management and entrepreneurial opportunities, and the urban-rural divisions of the economy are also factors which have contributed to poverty.

Indonesia's GNP increased an annual average of about 7 percent and per capita income increased an annual average of 4.5 percent between 1974 and 1979, but the major impetus for this growth came from the oil and industrial sectors, which did little to absorb the country's excess labor. Although consumption levels for all income groups, including the very poor, have improved, data for 1970-76 suggests that the overall income disparities between rich and poor, urban and rural, have widened.

CURRENT FOOD SITUATION

Indonesia has made impressive progress in increasing rice production in the past decade; however, overall food self-sufficiency has continually declined. Increased imports have resulted in a critical vulnerability to world food shortages, with the accompanying possibility of political unrest.

As a result of an active government program supporting the introduction of high-yield rice varieties and improved irrigation systems and fertilizer application, from 1968 to 1977, rice production increased at an annual rate of 3.5 percent (compared with population increases estimated at about 1.8 percent). Rice yields per hectare 1/ on Java are now among the highest in Southeast Asia.

Due to drought and pest problems, however, the growth rate in rice production actually declined between 1975 and 1977, and rice imports reached 10 percent of total rice consumption. That situation improved in 1978 with a 10-percent increase in the rice harvests, but import requirements for 1978-79 were still about 6 percent of total consumption. Because of a traditional dietary preference for rice in Indonesia, demand for rice is continually expanding faster, as income levels rise, than rice production increases. To meet this demand, Indonesia in the past few years has imported 20-33 percent of the world's traded rice, a situation many regard as excessively import-dependent. The Asian Development Bank (ADB) projects a 12.6 million-ton rice deficit by 1985, and states that between 1972 and 1985 import requirements will have risen by 13.6 percent.

1/a "hectare" is 2.47 acres.

Although Indonesia also produces a number of rain-fed secondary crops--such as corn, cassava, peanuts, sweet potatoes, and soybeans--the composite growth trend for these crops was only 1.6 percent over the 1968-77 period compared to the 3.5 percent growth rate for rice. Agricultural experts believe considerable potential exists for increasing secondary crop production and that, with proper marketing and support services, the rate of growth of all these crops could also be raised to 3.5 percent a year.

SIGNIFICANT AMOUNTS OF
DEVELOPMENT FUNDS AVAILABLE

In 1979 major donors including the World Bank, ADB, AID, and other bilateral donors provided a total of about \$1.9 billion in concessional assistance to Indonesia which is largely directed at helping Indonesia reduce its heavy dependence on food imports and develop its agricultural production. Over the past decade or so, Indonesia has ranked third in total World Bank assistance commitments to agriculture (after India and Mexico); second in total AID agriculture commitments (after Bangladesh); and now ranks first in ADB agricultural commitments. Overall assistance to Indonesia, by the IGGI donors is shown in Table 1.

Table I

IGGI COMMITMENTS TO INDONESIA a/ b/

<u>Member</u>	<u>1970-74</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>	
------(millions of dollars)-----							
World Bank <u>c/</u>	\$ 633.3	\$ 310.5	\$ 563.5	\$ 405.5	\$ 551.0	\$ 2463.8	
Japan	1058.2	173.0	139.8	416.5	276.8	2064.3	
ADB <u>d/</u>	185.6	78.3	109.4	136.0	198.7	708.0	
USA		AID	43.4	66.2	42.4	73.9	-
		P.L.480	46.3	94.7	91.7	122.7	-
	1314.6 <u>e/</u>	TOTAL	89.7	160.9	134.1	196.6	1895.9
Germany	209.0	60.5	18.9	72.1	150.0	510.5	
Netherlands	293.4	15.8	98.5	14.2	75.0	496.9	
Canada	103.3	16.1	50.6	8.6	64.0	242.6	
France	98.0	18.4	2.4	79.4	51.0	249.2	
Australia	130.9	31.2	25.9	35.3	40.0	263.3	
Belgium	40.5	14.6	13.5	15.7	17.0	101.3	
United Kingdom	98.8	26.4	10.3	10.0	13.0	158.5	
UNDP	23.8	11.8	8.4	8.4	10.8 <u>f/</u>	63.2	
New Zealand	5.9	5.6	3.9	0.8	5.0	21.2	
Switzerland	11.5	1.1	1.5	1.2	-	15.3	
Italy	0	-	0.1	0.2	-	0.3	
Austria	0.6	0.2	0.6	0.2	-	1.6	
Denmark	5.0	-	-	-	-	5.0	
Total	<u>\$4212.4</u>	<u>\$ 853.2</u>	<u>\$1208.2</u>	<u>\$1338.2</u>	<u>\$1648.9</u>	<u>\$9260.9</u>	

a/ Donor officials state that there is no accurate compilation by either the Indonesian Government or the donors of overall assistance -- or agricultural assistance -- provided to Indonesia. The table is a GAO estimate compiled from various sources.

b/ Figures are official development assistance.

c/ World Bank source. Loan/credit approval date is used as commitment year.

d/ ADB source. Loan/credit approval date is used as commitment year.

e/ Includes Congressional Research Service figures for P.L. 480.

f/ U.N. Development Program source.

NOTE: Unless otherwise noted, source for data is AID.

Indonesian Government development resources

Total financial resources planned for the Indonesian 1979 development budget (for April 1978 through March 1979) amounted to \$5.9 billion, or roughly half of the Government of Indonesia's total budget. Of this share, 25 percent came from foreign assistance, with U.S. assistance representing about 6 percent. In the past several years, the relative importance of foreign assistance has diminished, as the Government finances a greater percentage of its development program from its own resources (moving from 43 percent in 1970-74 to 66 percent in 1975-79).

For fiscal year 1979-80, the Government budget provided \$5.6 billion for development, of which 12 percent (about \$670 million) is allocated for agriculture and irrigation. Approximately \$1.9 billion of this total is expected to be provided on concessional terms by foreign assistance donors.

The AID Mission provided a sector breakdown of Government development budgets for the past 4 years which shows the following apparent decline in amounts allocated to the agriculture sector as a percentage of total budget allocations: 1976-77, 20 percent; 1977-78, 17 percent; 1978-79, 17 percent; and 1979-80, 12 percent. This decrease has raised some questions among donors regarding the Government commitment to agricultural programs and policies. Part of the reason for this decrease was reported to be the elimination in 1979 of government subsidies for fertilizer purchases and the separation of environment and elements of transmigration and regional development, which were previously incorporated under agriculture.

Bilateral U.S. assistance

Of AID's \$92.8 million program for Indonesia in fiscal year 1979, \$57.9 million (62 percent) was designated for agriculture and rural development projects, \$31.2 million for population and health, and \$2.3 million for education. Over the next several years AID plans to devote 65-75 percent of its Indonesia program resources to agricultural and rural development. Specifically, for agriculture and rural development, AID expects to

- play the leading assistance role in developing skilled personnel for agriculture by supporting activities involving U.S. universities under Title XII of the Foreign Assistance Act;
- become increasingly involved in agricultural research in food crops, "an area of special U.S. strength" according to AID;

- assist in improving secondary food crop marketing capabilities;
- facilitate pilot ventures demonstrating the need for soil and water conservation and reversal of serious watershed damage;
- help overcome institutional barriers at local government levels;
- continue integrated area development models; and
- continue involvement in rural infrastructure projects.

The U.S. Food for Peace Program (P.L. 480, Titles I and II) has also been a consistent component of the overall U.S. aid program in Indonesia. In size, it has been considerably larger than AID's total bilateral development program in Indonesia, as shown below.

<u>Fiscal year</u>	<u>P.L. 480 Title I</u>	<u>P.L. 480 Title II</u>	<u>AID total bilateral</u>	<u>AID agriculture rural development</u>
	----- (in millions) -----			
1978	\$ 115.4	\$ 7.3	\$ 73.9	\$ 54.6
1979	104.3	6.7	92.8	57.9
1980	101.2	6.1	83.0	53.9

The commodities provided concessionally under title I are rice (about 80 percent) and wheat (20 percent). There has been little argument within the U.S. Government over the possibility that title I concessional sales may be a deterrent to local production. Rather, it is widely agreed that Indonesia's rice needs are so great, its rice imports so high, and Indonesian Government policies already so supportive of rice production, that title I sales do not hinder local production. The extent to which the United States should promote wheat sales to Indonesia, however, has been discussed. On one hand, Indonesia has virtually no capacity to grow its own wheat, and policies which encourage consumption of wheat will lead to further import dependence. On the other hand, an import dependence on wheat may be less risky than an import dependence on rice, because the world market availability and variety of supply sources is greater for wheat than for rice.

World Bank's increasingly broad involvement

The World Bank's agricultural program in Indonesia is relatively broad, covering large-scale irrigation, estate crops, seeds, extension services, fertilizer, and transmigration and area development. Irrigation and estate rehabilitation received priority in the early years of Bank involvement and continue to receive assistance, but emphasis in the Bank's program has shifted over the years (1) from rehabilitation to development activities; (2) from support of state enterprises to small farmers; (3) geographically from Java to the outer islands; and (4) from irrigated rice production to rain-fed crop systems. In fiscal year 1979, for example, the Bank approved the following loans:

	<u>Loans</u> (millions)
<u>Agriculture and rural development</u>	
Irrigation	\$ 77
Flood control	50
Transmigration/area development	<u>157</u>
	<u>284</u>
<u>Other</u>	
Education-technical training	49
Education-agricultural schools	42
Power generation	175
Industrial development and finance	50
Technical assistance studies	10
Transportation-highways	130
Urban development	54
Water supply and sewerage	<u>36</u>
	<u>546</u>
Total	\$ <u>830</u>

ADB large-scale capital projects

ADB has funded mostly large-scale projects in Indonesia, with an increasing emphasis on agriculture. The ADB program in 1978 consisted of 3 projects in agriculture and rural development (amounting to \$55.7 million of a total 1978 program of \$198.7 million.). In one project, ADB is assisting in the rehabilitation and expansion of village irrigation systems on the central island of Bali; the second project is funding the planning for irrigation in West Java; and the third is funding integrated area development/transmigration on the outer island of Sulawesi, co-financed with the Islamic Development Fund and the European Economic Community. The rest of the ADB program in Indonesia consisted of 2 loans for electric power, 3 loans for road, airport, and port construction, and one loan for education. The ADB 1979 program envisions a 20-percent increase over 1978 funding levels for a total of about 11 projects: 6 in agriculture and rural development, including irrigation, livestock, fisheries and agro-industry; and one project each in electric power, urban development, transportation, education, and water supply.

U.N. Development Program technical assistance

The U.N. Development Program's (UNDP) First Country Program for Indonesia (1972-78) consisted of 196 projects, mostly technical assistance, totaling \$59 million in grants of which 31 percent were for agriculture, forestry, and fisheries. Recognizing that its first program was spread too thinly over too many projects, UNDP reduced the total number of projects to 67 in its Second Country Program (1979-83). Distribution to agriculture, forestry, and fisheries was reduced to 21 percent, amounting to \$14 million out of a total \$66.5 million programmed over the 5-year period.

Other bilateral donors

Several bilateral donors have programs in Indonesia as large or larger than AID's development assistance program. In 1978, for example, the size of the programs of Japan, West Germany, and the Netherlands ranked ahead of the AID assistance program. Japan's program, reported to be \$277 million for 1978, is over three times as large as the AID \$74-million program (excluding P.L. 480 programs).

SCOPE OF REVIEW

For this review, we examined documents and held discussions with officials of the U.S. Agency for International Development, and the U.S. Departments of State, Agriculture,

and the Treasury. We also spoke with Indonesian Government officials and with representatives of the World Bank, Asian Development Bank, the United Nations Development Program, the Ford Foundation, and one bilateral donor. Although we recognize that donors such as private and voluntary organizations contribute toward Indonesian development, we focused on IGGI membership activities because it is this group which provides the most significant development assistance. We also worked in Indonesia during September and October 1979.

For purposes of this review, we are defining donor coordination to mean more than simple information-sharing to avoid duplication and overlap. Rather, we believe donor coordination should also encompass concerted donor planning and problem-solving to achieve a focused and complementary overall donor effort, for the most effective use of development resources. In addition, we are defining absorptive capacity to include: available managerial and technical personnel to implement and monitor development projects; the extent to which government structures facilitate or hinder development programs; and the extent to which some development investments can proceed without related and supportive investments.

CHAPTER 2

DEVELOPMENT PRIORITIES AND PLANS LACK DETAIL

Setting specific priorities and programs for developing Indonesia's agricultural potential has proved to be a difficult task because the country's problems are complex, the facts often uncertain, and the appropriate strategies not always clearly apparent. In these circumstances, Indonesia's development plan ("repelita") is, therefore, primarily an ambitious statement of national goals, encompassing a range of sometimes disparate donor activities, rather than a specific blueprint for development serving to coordinate different donor activities.

STRATEGIC DEVELOPMENT QUESTIONS ARE NOT SUBJECT TO EASY AGREEMENT

Virtually all components of Indonesia's agriculture are vitally in need of technical and financial assistance--ranging from seed and soil research, extension-system improvements, and credit availability, to basic improvements in roads, irrigation canals, and rural electricity. Managers, essential in administering this assistance, must also be trained. Agricultural experts have not, however, been able to reach a consensus on certain strategic development questions involving the priorities of these various needs. Viable plans and close donor coordination are, therefore, limited.

Should Indonesia promote a rice policy or a food policy?

Agricultural experts disagree about the potential for continued significant increases in Indonesian rice production. The rehabilitation of pre-independence irrigation systems is entering its final stages, and initial gains made from "green revolution" ^{1/} innovations are leveling off. Future production increases on Indonesia's crowded central islands (Java, Bali, and Madura) will have to come from further increased yields rather than from extending cultivated acreage. Yet, these central islands are already so intensively cultivated that there is evidence of serious soil erosion and environmental damage to watershed areas, which in turn

^{1/}Green revolution refers to improvements in seed varieties and irrigation and fertilizer techniques which have led to increased agricultural yields over the past two decades.

has resulted in the siltation of irrigation canals. In fact, a recommendation was made by one major donor that because of the damage, some land on Java should actually be taken out of cultivation.

On the central islands, as land is divided into holdings too small to meet minimum subsistence needs, rural households must supplement their incomes from non-farm sources. Landless families in Java are already estimated at one-third of the rural population, and as urban incomes rise, a tendency has emerged toward non-farmer acquisition of farm land. In addition, lack of definitive proof of land ownership is widespread among small farmers and restricts credit availability and farmer motivation in improving the land. Thus, questions arise about whether future rice production increases can be achieved, given both the impact more intensive rice cultivation may have on land degradation and the emerging pattern of landless families.

Although some of the same limitations apply, considerable potential does exist for increasing production of Indonesia's rain-fed secondary crops--corn, cassava, peanuts, sweet potatoes, and soybeans. A gradual shift in food production and consumption patterns from rice to secondary crops would assist low-income farmers in non-irrigated areas and reduce the risks associated with excessive rice-import dependency. Because of Indonesian dietary preference and Government commitments to the goal of rice self-sufficiency, little emphasis had been given to secondary crop development in the country's first two 5-year plans although the third 5-year plan (Repelita III, 1979-83) now cites this as a priority area.

Agricultural experts agree that increased secondary crop yields will require a concerted program covering the whole spectrum of agricultural support services--including seed and soil research, extension training, marketing and support services, and production incentives.

How much emphasis should be given to outer island development?

Donors also disagree about the priority to be given to developing Indonesia's outer islands as a means of increasing Indonesian food production. Repelita III places renewed emphasis on transmigration (population resettlement) and sets ambitious targets for moving 500,000 families (2.5 million people) to outer island settlements between 1979 and 1983. The Dutch Government sponsored the movement of poor families from the overcrowded central islands to the relatively sparsely populated outer islands as early as 1905. Until this past

decade, efforts were principally motivated by a need to relieve population pressures on Java and little site preparation and support services were provided to the migrants, resulting in the movement of many migrants back to Java. Since 1969, Indonesia has shifted transmigration goals to emphasize regional development and improvement of settler welfare.

The requirements and costs of a successful transmigration program are expected to be enormous, and there is some question among foreign assistance donors as to whether some of these financial resources could be more productively used to improve the situation on Java where most of the poor now live. Although an eventual goal of the transmigration program is to develop fertile transmigration areas into food producers for Indonesia's food-deficit areas, most donors admit that just achieving food self-sufficiency in these areas will be a considerable challenge.

How can rural employment needs be met?

The problem of Indonesia's increasing rural unemployment is another area of somewhat differing donor views. Increasing agricultural productivity will probably require some technological improvements but these are likely to displace some workers. Major donors agree that alternative rural employment opportunities are needed to release the inefficient farmers from the land and absorb the growing number of new entrants to the labor force. However, the urgency of this need has been a subject of some debate within the donor community, particularly regarding whether the situation is improving, as one donor reported, or deteriorating. The AID position is that rural unemployment is a central issue which has not received the priority attention it merits.

How much foreign assistance can Indonesia effectively use?

How to provide needed assistance to Indonesia without overburdening the country's scarce managerial resources has been a difficult question for all donors. Although most donors recognize this as a problem, they have neither directly addressed the subject of the country's absorptive capacity nor determined Indonesia's absorptive limits.

The shortage of trained personnel capable of managing agricultural and rural development projects is already regarded as one of the most serious problems in Indonesia's development and in the effective use of assistance funds. The World Bank has noted that, in practice,

"Experienced project managers are difficult to obtain and when, frequently on Bank insistence, appropriate staff are found they have inevitably been taken from another task which may then suffer. Where local staff are not available the standard practice is to recruit expatriate consultants. This may be a useful device to acquire skills rapidly, but is not a permanent solution, particularly since such arrangements do not usually provide for a satisfactory training program for indigenous personnel. Other donors have had similar experiences."

Implementation bottlenecks and aid commitment pipelines were reported in the past year to be growing; yet donors have continued to propose significantly increased lending levels to Indonesia for the near future. The possible availability of more development funds than can be effectively used, in our opinion, may contribute to the alleged problem of "leakage" of funds through corruption. A Government anti-corruption drive of the past few years has only had limited success so far. We believe this is another issue which needs to be addressed in donor/Government forums.

FIVE-YEAR PLANS PROVIDE LIMITED DIRECTION

Indonesia's agricultural development strategy is set forth as part of its repelitas. These plans state Indonesia's overall objectives and goals but are not, in themselves, useful in planning what must be done, by whom, and within what time frame. On the contrary, because Indonesia's agricultural needs are so vast and because the goals and targets proclaimed in these plans are so ambitious, various donor activities can fit within these plans without apparent conflict, but also without coordinated focus. As presently formulated, these plans play only a limited role as a means for bringing about closer cooperation among donors.

In Repelita I (1969-73) and Repelita II (1973-78), the Government focused a large portion of its resources on economic stabilization and on physical needs, such as roads and irrigation canals. In Repelita I and the early years of Repelita II, the lack of such basic physical needs was viewed as a major problem in improving economic performance and as a major cause of continued widespread poverty. During Repelita II, the Government perceived a need to shift emphasis toward agriculture and rural development to improve the quality of rural life. Indonesia focused on rice production as a means of achieving self-sufficient food production, a goal it was unable to achieve under this plan.

The primary emphasis of Repelita III is on agriculture--with an expanded emphasis on secondary crops, estate crops, transmigration, and roads and irrigation canals--with continued emphasis on rice production through both intensified crop production on Java and expanded acreage on the outer islands. This plan also includes an increased emphasis on industrial activities involving processing of domestic raw materials into basic consumer items and finished goods for export.

Repelita III outlines ambitious goals but offers little guidance for further irrigated rice production, secondary crop development, population migration, and rural employment creation. The U.S. State Department and AID have taken the position that the Government needs to clarify what Indonesian programs and supportive resources will be available to enable the United States and other donors to plan their future assistance programs accordingly. For example, there was some concern among donors regarding the Government's apparently reduced 1979-80 budget allocation for irrigation in relation to the plan's target for a 20-percent increase. There was also concern that the kinds of programs called for by the plan's stated agricultural development goals lack the trained personnel for effective planning and implementation. The Government's stated migration goal of moving 500,000 families over the next 5 years is considered to be extremely ambitious in terms of available financial and management resources. Although increased emphasis on secondary crop production is also called for in the plan, there is no guide as to how the goals in this difficult area will be supported by particular Government programs, nor had any more specific plans been developed at the time of our visit in October 1979.

CLOSE COORDINATION NEEDED

Because there are still so many unknowns regarding Indonesian soil and crop potential and fertilizer and pesticide requirements, and because the range of needs in Indonesia is so vast, it is somewhat understandable that no precise, step-by-step path for development has yet been formulated. As in many countries, there are no easy solutions for developing agricultural potential, and agricultural experts hold differing opinions regarding the specific mix of policies and programs needed to develop Indonesia's food production potential. Repelita III thus does not specifically guide foreign donor activities; in fact, its broadness permits foreign aid donors the flexibility to try different approaches in different agricultural subsectors.

In Indonesia's situation, this flexibility is not necessarily undesirable, as long as there is coordination and cooperation among donors and with the Government in planning and implementation in order to share experiences, prevent duplicated efforts, and promote complementary donor programs to effectively use scarce resources.

CHAPTER 3

PLANNING AGRICULTURAL ACTIVITIES

Effective coordination of donor assistance needs to take place (1) among the various ministries and agencies within the Government; (2) among the donors within IGGI; and (3) between the Government and IGGI. Additionally, within the U.S. Government, the interagency Development Coordination Committee (DCC) has been set up to serve as a means of coordinating the various foreign assistance activities to which the United States contributes. None of these arrangements is operating effectively to promote either agricultural sector discussions or complementary donor programs.

Bappenas, as the Government planning agency, is theoretically responsible for coordinating foreign assistance programs and projects. However, it is ineffective in this role due to inadequate staff and difficulties in exerting its authority over a Government bureaucratic structure which is beset with internal fragmentation and rivalries. In 1978, a high-level Bappenas official assured U.S. officials that an individual would be appointed to coordinate development assistance, but this appointment has yet to be made.

The IGGI members have not set up an effective mechanism to coordinate different donor agricultural activities and, as a whole, IGGI has not been willing to name a lead donor to actively coordinate assistance programs. UNDP officials stated that they have not taken the lead because they view this to be the responsibility of Bappenas. U.S. officials stated that the World Bank, as the largest donor, has not assumed leadership because it would need the support of all IGGI members, which it has not so far received.

PRIORITIES NEEDED IN GOVERNMENT PLANNING AND COORDINATION

The Government takes the lead in establishing and planning its agricultural development, guided by agriculture consultants and donor studies on overall development and specific needs. Each year the Government publishes a 2-volume "List of Project Proposals" bluebook, for which it seeks donor financing. Projects are formulated for the most part by each ministry, rather than by Bappenas which lacks the staff to do this. The Ministry of Agriculture's Director of Planning told us, for example, that each of the Ministry's five directorates conducts informal discussions with the donors

and submits their proposals to Bappenas for inclusion in the bluebook. Donors then begin formal negotiations with the various directorates on the particular projects they wish to fund.

Internal problems inhibit integrated development

A Government official told us that although Indonesian policy calls for closer integration of differing agencies' projects and for closer internal coordination, this has not been feasible because of limited staff, existing bureaucratic competition, and differences in donor programs and assistance objectives. This official told us that because of implementation problems arising from the lack of internal cooperation, the Ministry of Agriculture's policies and procedures now suggest that donors deal with only one agency per project. For these same reasons, several donors who had experienced difficulties with multiagency, integrated projects told us that they now favor working with only one ministry on a project.

Because of certain absorptive problems in agriculture, the Bappenas staff recognizes the need for closer coordination within the Government and between the Government and the donors. However, Bappenas has not taken the necessary actions to achieve such closer coordination. Problems arise because (1) programs are spread throughout several ministries and (2) the ministries do not always cooperate. Consequently, Bappenas is hampered in exerting its authority to insure coordination. Coordination problems also exist within each ministry. For example, the 5 directorates now within Agriculture were consolidated under the Ministry in 1966. Each still retains considerable autonomy, however, and there is reported to be no effective body in the Ministry to coordinate policies and programs on a broad sectoral basis.

Achieving either closer interagency coordination or establishing a designated single individual or office with the authority to direct such coordination is likely to be difficult in any country with entrenched political and bureaucratic interests. It is essential to recognize that internal coordination determines the extent to which fully integrated development can be achieved.

Different donor requirements create administrative burdens

The Director of Planning, Ministry of Agriculture, said that the Government encounters project implementation problems because of the complexity of handling the various donor fiscal

years and ways of doing business. He said that each donor has its own development assistance approach which the Government must accommodate. The Ministry bureau responsible for coordinating donor projects and handling administrative procedures reportedly has excellent leadership but lacks qualified senior- and mid-level personnel to effectively handle the various requirements. Because in-depth discussions between Indonesia and the donor community have been minimal, it appears that there has been inadequate regard for how the variety of donor projects and administrative requirements might overload scarce Government managerial talents within any one agency. The Government has not actively sought to work out multidonor participation in projects partly because of the difficulties in dealing with many donors within single project areas.

Political and social factors limit grassroots participation

Government reluctance to decentralize authority and control, combined with traditional Indonesian hierarchical values and social attitudes, has meant that community participation in development planning has been minimal. Patrimonial social relationships and consensual decisionmaking effectively block communication between the central authorities and the lower social echelons. Reinforcing this relationship, of course, is an authoritarian political structure in which communication is commonly "top-down," rather than farmer- or community-initiated.

External donors have generally been discouraged by the central Government from working directly with either local community organizations or local governments. Only in the past few years have travel of donor officials in rural areas and contact with local governments become more accepted by the central authorities. In a recently developed provincial planning project, AID has been allowed to work directly with provincial officials on a trial basis and, thus, some initial progress has been achieved. Nevertheless, many donors have cited the need for the Government to obtain greater participation in development programs from provincial officials and from assistance beneficiaries, such as farmers.

DONOR PLANNING AND COORDINATION

Donors plan their development programs according to the Government "repelita," but coordinating programs and projects among the donors is minimal for the most part. The IGGI annual meeting does not function effectively as a coordinative

mechanism for sector issues. Proposals for the establishment of in-country, sector meetings for program and project coordination face opposition from some donors and, apparently, the Government. Therefore, they have not as yet been undertaken.

Donor interaction in project selection

U.N. policy gives the UNDP broad responsibility for coordinating international development assistance, but UNDP has not assumed the coordinating lead in Indonesia because it agrees with the Government that this is the Government's responsibility. UNDP, however, has been willing to share its development proposals with the donor community in the planning process. After working with various Government ministries and with Bappenas in outlining its Second Country Program for 1979-83 and in identifying projects, UNDP circulated its proposals among the donor organizations and held discussions with other interested donors. Final projects were then presented to the Government.

AID mission officials told us that they do not make a conscious effort to insure that their projects mutually support other donor efforts, and that the relatively small size of the AID program in Indonesia limits U.S. influence with both the Government and other donors. Mission officials said that AID does not use the Government bluebook to select projects for funding, but that this project book is useful to donors who have no staff in country, who do not design their own projects, and who wish to have their projects officially sanctioned as development assistance. AID employs consultants to help the Government plan its program, and mission staff also work with individual ministries in designing projects. In this way, AID has been able to get its own projects included in the book.

The World Bank has assisted the Indonesian Government in preparing its third development plan by conducting extensive studies. Once the Government has reviewed these studies and the Bank has finalized them, the Bank makes them available to other donors. Bank projects designed to conform to the *repe-lita* are identified by appraisal teams working in conjunction with government officials from the agencies having responsibility for the sector being addressed. Bank officials have noted that the problem of poor internal coordination among government bureaucracies makes dealing with multiple ministries/agencies extremely difficult. Thus, the Bank favors working with only one ministry and preferably with only one element within a ministry for each project.

Asian Development Bank officials also told us that their projects are planned in accordance with the very broad Government priorities as outlined in the *repelita*. ADB projects are identified either by teams sent to Indonesia from Bank headquarters, or are proposed to the Bank by the Government or other donors. These proposed projects are matched against the bluebook to ensure that they fall within Government development goals. In an apparent response to criticism about its lack of staff in Indonesia, ADB made a greater effort in 1979 to discuss its proposals with interested donors. AID maintains, however, that the lack of a resident ADB office in Jakarta harms both ADB project implementation and the overall coordination of donors in Indonesia.

Project selection by some bilateral donors is reported to be based generally on Indonesian requests for traditional, large-scale capital projects, rather than on the need to fund projects for the rural poor. The representative of one bilateral donor active in several agricultural areas said that his country presents its own assistance program to the Government. Several bilateral donors are reportedly reluctant to share their project proposals with other donors because their projects are either commercially oriented or because they do not want their activities criticized.

Inter-Governmental Group for Indonesia (IGGI) 1/

The IGGI's principal activity is its annual meeting, held in Amsterdam under the chairmanship of the Netherlands. These meetings are useful opportunities for holding macroeconomic discussions and for pledging assistance, but not for discussing specific issues. Described as "ritualistic affairs" with little detailed analysis or substantive discussion of specific donor programs, these meetings have not served as a forum for examining such issues as (1) Indonesia's absorptive capacity, (2) Indonesia's transmigration programs, or (3) the agricultural issues of secondary crop production and soil erosion.

These meetings, however, are generally agreed to be of some value as a process involving a degree of donor/host-government interchange. At the 1979 IGGI session, the Indonesian

1/IGGI membership includes: Austria, Australia, Belgium, Canada, Denmark, France, Germany, Indonesia, Italy, Japan, the Netherlands, Switzerland, New Zealand, the United Kingdom, the United States, the Asian Development Bank, the International Monetary Fund, UNDP, and the World Bank.

economic performance and its external financing requirements were discussed. Government officials explained the basic goals of Repelita III and their expectations for economic progress. The World Bank presented its analysis of development needs and programs, and IGGI endorsed the Government objective to accelerate investment in labor-intensive and export-oriented industries. IGGI also endorsed the World Bank recommendation that official development assistance to Indonesia reach \$2.3 billion per annum during the years 1979-83.

IGGI was formed in 1967 following the overthrow of the Sukarno Government by the military forces and establishment of the New Order under General Suharto. The original purpose of IGGI was to extend economic assistance to Indonesia to permit stabilization and rehabilitation of the country's financial position, but this has since evolved into a forum to externally finance the development program.

We were told that when IGGI was established, the World Bank did not want to assume the consortium chairmanship because of Indonesia's chaotic financial situation. The Dutch Government thus assumed this role because it was the donor most closely tied to Indonesia due to its status as former colonial ruler. Because the World Bank is now by far the largest donor to Indonesia and has shown an increasing interest in the country's development, some donors have suggested that the Bank assume the IGGI chairmanship. The Bank traditionally serves in this role in the various consortia to which it belongs; however, Bank officials stated that the Bank cannot assume this position without a request to do so from the Government. Several donor officials said that the Government, for various reasons, does not want the Bank in the chairmanship.

AID supports assistance consortia such as IGGI as "the most effective means in existence to coordinate country assistance." AID officials also note the importance of systematic in-country coordination. AID maintains that such local working-level meetings should be held to discuss particular sectoral and administrative problems. AID believes such meetings could also conserve the time of overworked Indonesian officials because they could discuss common concerns with donors all at one time.

In-country sector meetings
resisted by some donors

Because the IGGI annual meeting provides little opportunity for in-depth discussion of specific problems or for coordination of programs and projects between the Government

and donors and among donors, some donor officials have suggested that sector meetings at the technical level be held in Jakarta to address those issues. U.S. Government policy has been to promote a stronger leadership role for the World Bank in Indonesia with respect to development activities; and the United States has encouraged the Indonesian Government and the World Bank to agree to and host these sector meetings.

At the April 1979 IGGI meetings, the Dutch with strong U.S. support introduced the issue of the need for donor coordination and suggested holding such meetings in Jakarta. The French and British representatives opposed both the overall concept of coordination and the specific idea of sector meetings, as did the Japanese who qualified their position by agreeing to the possibility of attending strictly information exchange meetings. The World Bank had previously indicated to U.S. officials that it supported this coordination initiative, but after strong French criticism, the Bank refrained from supporting the proposal.

A World Bank official stated that to improve coordination with other donors, Bank officials have begun hosting monthly meetings with interested donor and Government officials to discuss development subjects. The only sector-level meeting to date, however, was held in February 1979, concerning irrigation, but Bank officials terminated it before any substantive discussion and interchange regarding the numerous problems in this area had taken place. No plans were announced at that time for additional meetings. Mention was made in the summer of 1979 of a forthcoming meeting on transmigration programs--another area where existing and potential problems need to be worked out--but as of March 1980, no specific plans had resulted.

Closer donor coordination is also hindered by the reluctance of certain bilateral donors to share their loan proposals with other donors in the planning stages or to expose them to discussion at donor meetings. Some donors are said to be more interested in the commercial benefits related to their assistance than in the priority and development impact of the projects they finance. It is also reported that to gain access to the Indonesian market some donors--Canada, France, and Japan--mix their low-interest development loans with export credits. U.S. assistance and export credit programs are presently not used in such a manner.

The Indonesian Agriculture Ministry's Director of Planning said that meetings for agricultural coordination will not work for several reasons.

- Government ministers are not available to attend.
- Indonesian personnel who are available are not usually the people who are required for the meetings.
- Donor representatives who would have to attend are not always in-country.
- Donors have their own approaches and interests regarding development assistance.

Some donor officials stated that the Government opposes the whole concept of donor coordination because it will result in more effective donor pressure on certain Government policies. Thus, the Government only tentatively agreed to the Dutch proposal at the IGGI meeting on the provision that the meetings would include no donor criticism of the Government.

With no mechanism for systematic, mutually beneficial interchange, each donor is left to individually discover and analyze the problems of other projects and programs. Although the informal, ad hoc information exchange among some donors is generally described as good, improved communication through sector-level technical meetings is desirable. This is particularly important given the rapidly increasing level of assistance and the amount now directed at basic human needs activities.

U.S. INTERAGENCY REVIEWS NEED TO RELATE
U.S. BILATERAL AND MULTILATERAL ASSISTANCE

Coordination within the U.S. Government of its bilateral assistance program to Indonesia with its consideration of World Bank and ADB lending to Indonesia has been very weak. Improving internal coordination was a principal objective of U.S. Government reorganization which resulted in a stronger interagency Development Coordination Committee (DCC) in 1978. At the time of our visit to Indonesia in October 1979, however, the effect of these headquarters-level changes had not been felt significantly at the country level, where most assistance programs are initiated and can take on their own, independent momentum. Nor had these changes resulted in an overall cross-program review of how different types of U.S. assistance can relate to each other.

DCC assumed the role of coordinating the United States' various foreign assistance activities in May 1978, under a presidential directive expanding DCC responsibilities and setting up a structure of interagency subcommittees to handle

bilateral and multilateral aid, international organization activities, and food aid programs. In a recent report, "Coordinating U.S. Development Assistance: Problems Facing the International Development Cooperation Agency" (ID-80-13, Feb. 1, 1980), we reported that this revised DCC system has functioned principally as a mechanism for independent review of each U.S.-assisted project, rather than for cross-program review to promote reinforcement among various assistance efforts within specific countries. Treasury officials confirmed that at present there is no single forum for relating the country programs of different U.S. bilateral and multilateral forms of assistance. One positive DCC exercise in the past year or so, however, was its interagency assessment of development programs in Indonesia, which did at least attempt to look at the relationship of various types of U.S. assistance.

DCC consideration of individual bank loans to Indonesia has not been even minimally oriented toward the coordination of different forms of U.S. assistance. From our examination of the minutes of DCC subcommittee meetings at which multilateral bank loans for Indonesian agricultural development were considered, we found very little interagency discussion of the development aspects of bank loans as they relate to other forms of U.S. assistance. We also found virtually no record of AID contributions to the loan discussions, even though AID does have substantive criticisms regarding several aspects of the banks' lending programs, such as with irrigation and transmigration. Although AID was represented at these meetings, the AID representative told us that the Agency finds it more effective to informally raise substantive questions on bank strategy or projects at earlier stages in the loan approval process, rather than through the DCC process. In light of the limited donor coordination in Indonesia as previously discussed, and considering the AID mission's complaints at the time of our visit that it receives no information on World Bank project proposals and limited and late ADB information, we question whether such early AID input to bank proposals is systematically being carried out.

The timing and procedures for DCC input to the multilateral bank loan approval process significantly limit U.S. Government influence over the design and direction of these loans. The Chairman of the DCC Working Group on Multilateral Assistance said it is standard procedure to forward summaries of bank proposals to the AID missions and to request comment. The AID representative to DCC over the past 2 years told us that he relies on the AID country desks and missions for his

input to working group discussions, but that he rarely receives such input in time for these discussions. The AID country desk officer for Indonesia was only vaguely aware of the DCC loan review process and said the Mission itself comments on bank loans. The AID Mission Director told us that only for ADB loans have they been asked to comment, never for World Bank loans, and that often his comments are useless because of the limited time allowed for their input. Mission staff say they do not currently spend much time commenting on ADB loans because they are familiar with the basic aspects of these loans by the time they reach them for comment.

We believe that unless the Working Group's input is brought to bank loan consideration much earlier in the loan approval process, there is little prospect for improved coordination through the DCC process. And unless the quality of substantive discussion of bank loans is improved through a more active AID role, a DCC thus positioned to have more influence over bank loans may have little to contribute in the way of program or project design, and U.S. attempts to encourage better coordination of assistance to Indonesia will continue to be frustrated.

Early DCC consideration of bank loans at the time the loan development process is begun--such as when they are published in the monthly operational bank summaries--appears to be the only way the DCC can significantly contribute to coordinated bilateral and multilateral assistance programs. Otherwise, the coordination process will remain essentially at the in-country level, and further DCC reorganization will be futile. Earlier DCC consideration of bank loans should also allow AID missions a more significant input than now occurs.

The International Development Cooperation Agency (IDCA) was created in October 1979 to improve assistance coordination. IDCA and Treasury officials told us they have established a new system for coordinating the different types of U.S. development assistance as of the end of April 1980.

CHAPTER 4

DIFFICULTIES IN ACHIEVING COMPLEMENTARY

ASSISTANCE PROGRAMS

Detrimental effects resulting from limited coordination lie mostly in a lack of a focused overall donor effort, rather than in actual duplication of donor activities. Agricultural donor activities are largely independent and disparate, but most fall easily within the Indonesian Government's 5-year development plan. In addition, detrimental effects arising from the failure to openly discuss existing problems in donor forums are likely to be revealed in the future as these problems remain unresolved.

DONOR ORIENTATION

Although the overall division of donor assistance in Indonesia's agricultural program is not entirely clearcut, a distinct pattern can be seen. AID, for example, specializes in research, agricultural training, institutional development, and small-scale, rural road and electricity projects. The World Bank has been extensively involved in large-scale irrigation and in estate crops (rubber and sugar), but has recently started emphasizing small farm programs and transmigration. ADB is mostly funding large-scale projects, but UNDP has many small projects. Other bilateral donors, particularly Japan and France, are funding more commercial ventures. Although some donors recognize the need for complementary programs, each considers the achievement of mutually supporting programs to be a Government, and not a donor, responsibility.

The AID program in Indonesia focuses, by design, on very few of Indonesia's key development problems. Because of relatively limited financial and staff resources, AID officials believe their focus should be directed toward specific project areas in which AID has specialized capability and experience, such as agricultural research and training. The AID program, thus, does not in itself integrate different development components, but rather relies on the substantial external assistance received from a variety of other donors to meet Indonesia's other needs.

The World Bank is active in a broad span of development activities; however, in a self-initiated study, the Bank found few complementary projects within its total program and little consideration given to this concept in planning its programs. For example, bank-supported transportation projects, had only a marginal relationship to Bank-financed agricultural projects.

ADB also finances a wide range of development projects planned with the Government to fit Repelita III goals, relying on the Government to integrate them with other donor projects. Apparently in response to criticisms about previously inadequate coordination arising because of their lack of resident staff in Indonesia, ADB recently made a greater effort to coordinate its programs with other donors in Indonesia.

UNDP also worked with the Indonesian Government to assure that its Second Country Program would fit Repelita III goals. Program officials consider it the Government's responsibility to direct and manage donor programs to make them complementary. At the project formulation stage UNDP, did circulate its proposals among donors and held some discussions to encourage better coordination.

UNDP officials told us that, compared to other donor programs, UNDP grant funds can be used more flexibly. For this reason, the Government prefers using them for projects which are more experimental and of higher risk than would be appropriate for banks or other donor loans. As these projects prove viable, other donors then can follow up in these areas.

DONORS WORKING IN SAME SUBSECTORS

In a number of agricultural subsectors, several donors are active. In irrigation, for example, both the World Bank and ADB fund large-scale capital projects; the Netherlands funds irrigation systems design, as well as some construction; and AID funds separate small-scale irrigation systems known as "sederhanas." The World Bank and ADB also fund large-scale projects in roads and electric power, and AID and certain other bilateral donors fund rural feeder roads and rural electricity.

In some cases, these smaller projects are consciously designed by donors to tie into larger scale projects; in other cases, donors simply finance small-scale projects, relying on the Indonesian Government to plan these in conjunction with larger projects. This is said to be the case particularly where the donor has no assistance staff in the country. In addition, in the relatively new area of direct aid to provincial government planning, first pioneered by AID, several donors have now become active.

Because Indonesia's needs are so great in each of these areas, it appears that different donor efforts in the same subsector do not overlap or duplicate each other. However, they may occasionally interfere with each other in cases where, because of differences in the size of donor programs,

the Government may alter arrangements agreed upon with some donors in order to accommodate the needs of the larger donor. This is reported to be the case in some instances when the World Bank, with its large projects, enters an area of assistance previously the province of smaller donors. With a number of donors active in the same subsectors, each with their own lending requirements, procedures, and paperwork, Indonesia's already strained bureaucracy and management abilities may be unnecessarily overburdened. There has been some discussion of the possible advantages of more distinct division of donor activities to avoid these kinds of strains on Indonesian management. But in a country where the needs are so vast in so many subsectors, each donor may want to say it is active in such vital areas as irrigation and roads, for example. Nevertheless, we believe the possibility of more distinct donor specialization needs to be explored further in order to minimize the administrative burdens on Indonesia's scarce managerial resources.

LINKS BETWEEN AGRICULTURAL SUBSECTORS:
COORDINATED PROGRAMS ARE IMPORTANT

Close links exist across the range of agricultural subsectors, with progress in one subsector dependent on improvements in other subsectors. For example (1) research results should be applied through agricultural extension efforts; (2) seeds, fertilizers, and pesticides cannot be widely used unless agricultural credit is available for small farmers; (3) crop surpluses of one area cannot be transferred to deficit areas without improved storage, distribution, and marketing systems; (4) further irrigation system development needs to be accompanied by soil conservation efforts if land erosion and canal siltation is to be avoided; (5) transmigration efforts should be supported by a variety of soil and crop research, training, and social service programs if migrants are to be successfully integrated in new regions; and (6) secondary crops need to be provided with the whole range of agricultural support services now available only to rice farmers.

However, because of the lack of a comprehensive, closely integrated development effort and limited donor interaction in planning, we question whether some agricultural improvements are, in fact, being supported by advances in other, interdependent areas. For example, there is no certainty that the results of AID-assisted research will be applied through improved, Bank-assisted extension programs. As a World Bank study noted, even some projects intended to reinforce each other remained isolated. For example, a rain-fed food crops research and extension center was placed on Java adjacent to a rice center, instead of on the outer islands where it is

urgently needed to provide practical research support to Bank-financed transmigration projects. As another example, the Bank study noted that farm extension and input supply services had not been keeping pace with irrigation services, with the result that additional irrigation water was partly wasted and reinforcement between the two Bank projects was weak. A conclusion of this Bank study is that the desirability of complementary programs received too little attention at the Bank's program planning, project appraisal, or supervision stages.

In addition to inadequate donor coordination, other obstacles to more closely supportive agricultural aid programs relate to limitations in governmental capability and organization. For example, the World Bank has financed seed and fertilizer projects, but small farm credit programs, which have been a principal province of the Indonesian Government, have not been able to reach most of the poorest farmers. Delivery systems for these essential "green revolution" components, mostly Government agencies and newly organized cooperatives, have also not been as effective as desirable in terms of timely distribution of seeds and fertilizer. Donors have generally not been very active in providing assistance in these areas, however, because of difficulties which only policy changes can correct.

We studied several agricultural subsectors where there is a recognized interdependence between development components, including the following:

- in irrigation, between canal construction, development of water user associations, and watershed management programs to address serious soil erosion problems;
- in transmigration, between the movement of migrants, area development, and the provision of social support services; and
- between policies and programs needed to develop secondary crop production.

In each area we have tried to identify the major factors affecting donor coordination and the extent to which donor programs are complementary.

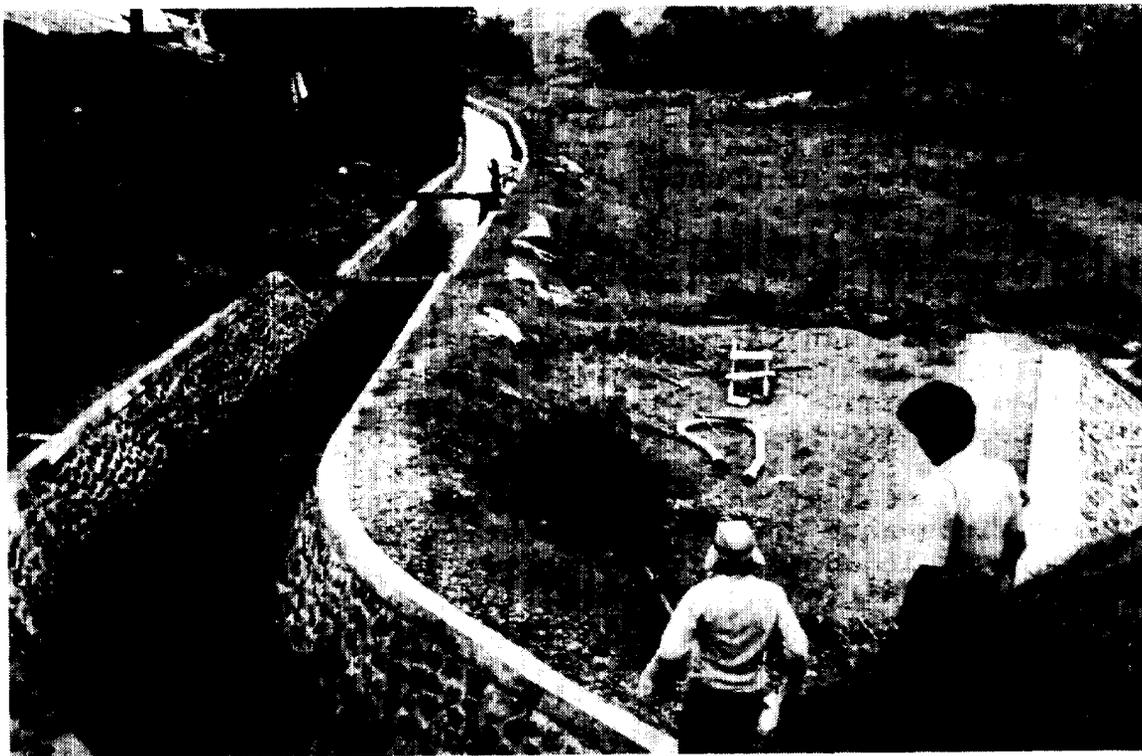
Irrigation

The largest proportion of donor funds has been used for irrigation, but potential benefits from these sizeable investments in canal construction have not been realized because of

insufficient attention to the need for numerous agricultural support services to accompany the physical construction of canals. Specific reasons for these disappointing results are reported to be (1) delay in constructing the smaller canals reaching farmers' plots and the final drainage systems, resulting in serious flooding in some areas; (2) inadequate farmer participation in constructing these tertiary canals; (3) failure to organize farmers to sustain and repair the canals; and (4) insufficient support by Indonesia for programs to improve watershed management and retard soil erosion. In addition, future progress from irrigation development is expected to depend on comparable expansion of services to irrigated farms, such as technical advice, seed and fertilizer supplies, and credit. Successful irrigation must, therefore, go beyond the physical construction of canals. Although major donors recognize the interdependence of these different elements, they have not been able to coordinate their development. Reasons for this lie partly with lack of donor coordination and partly with factors outside direct donor control.

In the case of canal system construction, donor assistance has mostly been for the larger primary and secondary canals. Development of the tertiary canals which reach individual plots, was left to the farmers. The farmers, however, were unable or unwilling to build these smaller canal systems, and many of the benefits of donor assistance did not reach individual farmers. Farmers were unable to build the canals because of (1) lack of technical knowledge, (2) insufficient funds, (3) difficulties in securing right-of-way through farmer plots, and (4) inadequate organization among beneficiary farmers.

After recognizing its failure to ensure the distribution of water from primary and secondary canals, the World Bank began funding tertiary canal construction in 1974. The Government still maintains that tertiary canal construction is a farmer responsibility. AID contends that because the farmers are ultimately responsible for the operation and maintenance of these canals, success requires their commitment, which is most likely to be obtained if they construct the canals. In a sense, then, to speed canal construction, the World Bank has assumed traditional community responsibilities instead of undertaking active programs which address the financial, social, and administrative limitations which farmers face in achieving community involvement and responsibility for maintenance. Thus, the tertiary canal construction has come to be systematically integrated in irrigation programs, but is not being addressed as thoroughly as it still needs to be.



AID-FUNDED SEDERHANA IRRIGATION PROJECTS. PHOTOGRAPHS COURTESY OF AID.

Another crucial component of a successful irrigation effort not being effectively carried out is the task of operating and maintaining these tertiary canals once they are built. As a result, these canals have needed extensive rehabilitation and water allocation has been inequitable, with farmers nearest to the canals receiving ample water and those downstream receiving little or none.

Donors are limited in this particular area by factors largely beyond their control or direct influence. Many of the irrigation problems are said to lie at the village level, where farmer organizations are generally too weak, too political, or too corrupt to achieve efficient or equitable water management. Water for irrigation is one of the most valuable resources in Indonesia, as in many developing countries, and decisions on its allocation are necessarily political ones. The need to deal at the village level with these problems of canal maintenance and water allocation raises sensitive questions regarding donor involvement in local political structures. In addition to the sensitivity of this problem, there is real uncertainty as to how effective water associations can be developed because--in a country as culturally varied as Indonesia--an approach found to be effective in one community may have little success in another community.

Soil conservation and careful watershed management are now also recognized as essential components of a successful irrigation program. Years of intensive rice cultivation on the crowded and hilly central islands have caused alarming damage to watersheds. Flooding, siltation of canals and river basin fisheries, destruction of arable land, and contamination of potable water supplies have resulted.

Although foreign donor soil conservation activities have occasionally been approved, this component is not systematically being addressed in current donor irrigation programs. AID for example, has included a watershed improvement element in one agricultural project, but has chosen not to go ahead yet with a proposed project of wider scope. At this point, AID does not want to fund single, limited-scope watershed projects, but believes that because enough is now known about how to design and implement such programs, the present need is for a strong, nationwide program for soil conservation and watershed management.

According to AID officials, the existing divisions of authority and the accompanying jurisdictional disputes between agencies have made a strong national program difficult to achieve. AID has suggested to the Government that to increase the emphasis on this subject, soil conservation

responsibilities should be consolidated into one ministry. AID also raised this general subject at the April 1979 IGGI, but no coordinated donor approach has yet been made to the Government as a means of demonstrating donor concern in this particular area.

A Ministry for Environmental Control responsible for coordinating a variety of environmental programs has been formed. This Ministry, however, is reported to be of such limited size and influence that it cannot at present overcome the entrenched interests of other agencies and direct the integration of environmental concerns such as soil conservation into programs led by other agencies.

Transmigration

Responding to the Government emphasis on transmigration as a means of developing cultivable land on the sparsely populated outer islands is considered an extremely complex and expensive undertaking, involving not only the selection and movement of people but also the provision of agricultural and social services. Coordination within the Government and among the donors, in terms of information-sharing, agreement on strategy, and complementary activities, needs to be greatly improved if these expensive transmigration efforts are to be successful.

In Repelita III, the Indonesian Government has placed high priority on transmigration and has sought large levels of foreign assistance to help meet its goal of moving 100,000 families a year over the next 5 years--a goal considered extremely ambitious in view of the fact that in the past 75 years a total of only 750,000 persons have migrated or been moved to the outer islands.

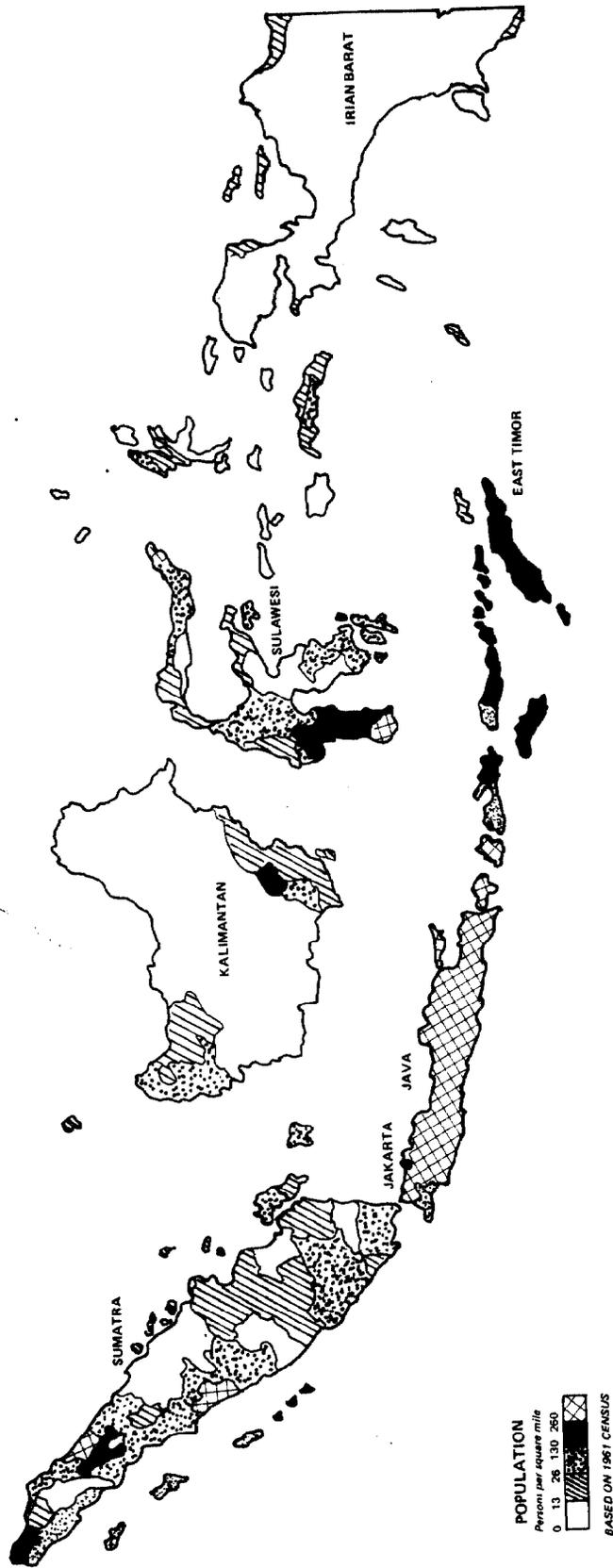
The World Bank is the major donor assisting the Indonesian Government in its transmigration program. Between 1976 and 1979, the Bank has financed 2 transmigration projects totaling \$95 million for resettlement on Sumatra, has included transmigration components in several of its other loans, and has tentatively planned continued funding of a series of transmigration projects over the next few years. ADB has also assisted in transmigration through a \$720,000 loan in 1975 and a \$35 million loan in 1978-79 for integrated area development in South-east Sulawesi, co-financed by the European Community Economic Fund and the Islamic Development Fund. Certain other donors are also providing technical assistance.

Some disagreement about the priority being given to this difficult area appears to be affecting the extent to which transmigration is a closely coordinated effort. At the time the World Bank's 1976 loan was being reviewed, a number of Bank Board members, including the U.S. Executive Director, expressed concern about the degree of Bank commitment to this inherently difficult and costly program. The U.S. Treasury Department has been particularly critical of the opportunity cost for such enormous sums of money, which it feels may be more productively used. The Treasury Department notes, for example, that the World Bank's \$500 million in transmigration projects in the pipeline would affect only .5 percent of Indonesia's population. AID and State are also concerned that transmigration may proceed at the neglect of urgent rural development needs on Java, and reportedly there is already some resentment in Java about neglect of vital rural development as a result of the transmigration emphasis. Apparently as a result of such discussions, the Bank sought to be very thorough in planning its second transmigration project. The overall U.S. position is to reinforce the concern of Bank management about the problems inherent in an expanded transmigration program, to assure that only viable projects with a good chance of success will be approved.

Although AID is supporting an integrated area development project (at Luwu in South Sulawesi), it is careful to note that its effort is largely one of relocating families already living in the area, and that AID has no plans to get directly involved in transmigration. Because of potential problems that may develop and the large financial costs associated with transmigration, AID has avoided direct involvement in such projects. Problems experienced by another bilateral donor led it to discontinue direct assistance for transmigration.

Some problems which need careful attention are (1) potential conflict between migrants and indigenous ethnic groups, (2) adequate soil and crops research and appropriate site selection and land-clearing techniques, and (3) need for organizational improvements within the Indonesian Government to effectively coordinate migration and land-clearing activities with the supporting social services.

Potential friction between transmigrants and the indigenous population may result if these local populations do not share in program benefits. Land rights are also a major issue, and it is doubtful that many transmigrants will obtain title to their lands. This is in part because land on the outer islands is sometimes held communally rather than individually, and attempts to legitimize private ownership could lead to political conflict with the indigenous population.



Given the Indonesian Government's ambitious short-term targets, there is also concern whether soil analyses and land surveys can be done thoroughly enough to avoid damage (1) to the outer islands' ecological balance through rapid deforestation and (2) to topsoil layers through the use of inappropriately heavy machinery. We were told that there is already some possibility that rainfall patterns have changed over Sumatran development areas and that areas selected for rain-fed crops may not receive the anticipated rain.

In addition, there is serious concern about whether the Government is capable of managing such an extensive and complex program. It is estimated that over 50 Indonesian Government agencies are in some way involved in transmigration; and although the Government has initiated some bureaucratic reorganization, many donors are skeptical that these new procedures can adequately direct the major organizational and financial effort of providing supportive services to transmigration areas. Many donors believe that if the movement of migrants is to be accompanied by the provision of essential social support services, the Indonesian Government will have to significantly improve its internal interagency coordination.

Although there are numerous opportunities for complementary donor efforts in providing the wide range of needed support services, there is little evidence so far that different donor programs are directly reinforcing each other. In a study of its agricultural programs in Indonesia, the World Bank noted the need for more closely complementary programs in transmigration, particularly the need for sharply focused agricultural research to accompany transmigration. The Bank noted that such research would benefit its transmigration projects on Sumatra but that neither the Bank nor AID, which both fund research programs, deliberately planned their research to support Sumatran transmigration. (One of several AID research stations, however, did happen to be located near a transmigration site.)

AID cites its agricultural research, education, and malaria control programs as benefiting outer island development and thus being complementary to transmigration, but AID also told us that it presently is not planning its programs in conjunction with the Bank's transmigration efforts. In fact, an AID official told us that AID assumes the World Bank's projects to be thoroughly planned to include all needed physical facilities and social support services, and that AID suggestions on the possible need for support programs might

be construed by the Bank to be critical of Bank planning abilities. In fact, to some extent, it appears that in transmigration, donors have divided the country geographically with the World Bank in Sumatra; the ADB in Southeast Sulawesi; and AID in Central Sulawesi.

In view of the enormous requirements of transmigration and the strong Government commitment to it, we believe there is a crucial need for donors to initiate sector-level meetings (see chapter 3) which would permit candid discussion and remedy of the problems already emerging, and would facilitate more complementary programs.

Secondary crops

Since 1976-78, as the rate of growth in rice production slowed, there has been increased discussion of the Government need to shift from its policy of rice self-sufficiency to one of food self-sufficiency. Although Repelita II recognized the need for secondary crop development, it is widely admitted that little progress was made. The lack of attention to non-rice food crops is evidenced by a marked reduction in areas harvested during Repelita II and only small yield increases. In fact, corn, the most important of these secondary crops in terms of area harvested, showed a sharp 32-percent decline in production from 1974 to 1976.

Transition from a rice policy to Repelita III's stated food self-sufficiency policy is expected to require a concentrated, multifaceted effort, including research, extension, input provision, and storage and marketing facilities. In addition, a Government policy of price guarantees for crops is needed to encourage farmers to plant these crops and to keep the prices low enough relative to rice prices, to overcome the traditional Indonesian preference for rice. A floor price for corn was recently set as an experiment in East Java, but it was not successful because of inadequate storage facilities and crop disease.

Due to the lack of a specific Government strategy addressing secondary crops there had been, as of late 1979, only minimal, scattered, and uncoordinated donor assistance in this area. Thus, in this important area, coordination had been limited by the absence until recently of any real Government initiative. More active donor involvement is likely to await Government adoption of basic policies which support secondary crop development, such as price supports and supplies such as seeds, fertilizers, pesticides, and storage facilities, as it has done for rice so enthusiastically over the past decade.



Reaching agreement between the Government and the various donors on a precise strategy and set of priorities may be difficult. In late fall 1979 a team of agricultural experts funded by the U.S. Department of Agriculture conducted a study of secondary crop development needs which AID hopes can be used as a guide for future donor and Government projects. Once agreement is reached concerning an operational strategy, closer coordination will become essential both in terms of information-sharing and in terms of complementary projects, especially given the scarcity of resources relative to need.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Although, in principle, supported by most donors, the goal of achieving a closely coordinated development effort focused on Indonesia's priority needs has, in reality, proved very difficult. In Indonesia, agricultural needs are vast and the precise set of priorities and courses of action have not been so apparent as to be easily agreed upon or formulated into a national development plan. Donor organizations have their own "specialties" and restrictions governing the kinds of projects they fund, as with AID's concentration on basic human needs or the multilateral development banks' concentration on "bankable" projects, which may not always intermesh, or which some donors do not want to expose to other donors' criticism. The Indonesian Government has been reluctant to encourage the kind of close donor coordination which might expose it to donor pressures. Further, some donors have resisted close coordination because of the sensitivities of the Government or because their assistance programs have been instruments of their own narrow commercial policies.

External donors appear to be closely observing the "principle" of North-South relations that developing countries are responsible for formulating their own development plans, while donors play the secondary role of providing advice, expertise, and financing. In Indonesia, where top-level Government officials are highly trained and well-regarded and where oil resources provide both independent revenues and international political importance, donors are particularly cautious about infringing on host-government prerogatives and sensitivities. Virtually all donors expressed the view that it is the Indonesian Government, and not any single donor or group of donors, that rightly assumes the task of directing and coordinating all donor activities. Thus, the single focal point for coordinating development assistance is Bappenas, and not IGGI, UNDP, World Bank, or AID.

In Indonesia, however, there is no single agency, including Bappenas, which directs and coordinates the activities of other Government agencies or, at a minimum, even collects information on all donor activities. Each ministry controls donor activities within its jurisdiction. Because these ministries protect their program responsibilities, it has been difficult to achieve the kind of close coordination necessary to integrate development activities, particularly efforts involving more than one ministry.

Under these circumstances, the existing coordination mechanisms have not been effective in achieving an overall development effort in which different donor activities closely support or reinforce each other. IGGI has provided a means of communication for macroeconomic issues, but there is no means for detailed discussions. Informal in-country contacts among donors have served to permit information exchange on specific activities, but these meetings, often social occasions, have not served as opportunities for comprehensive analysis and decisionmaking. Somewhat more structured meetings attended by working level representatives of the Government and active donor organizations have been suggested, but very little success has been achieved so far with these because of Government and donor resistance.

Related to the subject of donor coordination, but rarely discussed openly, is the question of donors working together to promote changes in existing governmental policies, practices, and development emphases. Although donors have been cautious in Indonesia about appearing to interfere in domestic decisions, we believe there is a need for donors to identify more directly the appropriate role for foreign assistance in a situation where needed institutional change, as well as transfer of funds, is the problem. In a previous report to the Congress, 1/ we identified and addressed these same issues. We believe that unless these and other development questions are more openly discussed with the Indonesian Government, such as the difficulties of working with different bureaucracies on multisectoral programs, of working at lower government levels and of alleged leakage of funds through corruption, the extent to which the development effort can be made more effective will be limited.

This is not a situation in any way unique to Indonesia, as noted in the ADB "Second Asian Agricultural Survey." With regard to all countries of South and Southeast Asia, ADB reported that over the last decade

"Reforms, limited in scope though these have been, were mostly frustrated because governments had neither the political will nor the administrative capability for successful implementation."

1/"Disincentives to Agricultural Production in Developing Countries," (ID-76-2, November 26, 1975).

AID and the Embassy have sought closer coordination both with the Government and with other donors in IGGI and at the country level. We believe the task of promoting improvements in donor coordination should not rest solely with the U.S. Mission, particularly in countries such as Indonesia where AID is a relatively small donor. We believe, rather, that the World Bank, as the largest donor and as a nonpolitical, independent multilateral organization, should be more active in working with the Government to coordinate donor programs and conduct in-country donor discussions and policy analyses.

Significant increases in assistance are being planned for Indonesia, despite reports that Indonesia is having difficulties absorbing current assistance. Donor officials were reluctant to explore this problem thoroughly in discussions with us, and we found little evidence that they had examined it in any detail among themselves or with the Government. There also was no record of any consideration of Indonesia's absorptive capacity within the U.S. interagency DCC for discussion of proposed bank loans. We believe that the U.S. executive directors to the multilateral development banks should initiate thorough discussion and analysis of this subject and of the banks' proposed future lending, and should provide reports for U.S. interagency consideration.

Because country needs, balance-of-payments, and debt-service considerations are primary criteria behind donor lending decisions, absorptive problems, such as Indonesia's shortage of senior- and mid-level managers, tend to be handled superficially through the use of foreign consultants and contractors. We believe AID's emphasis on agricultural and management training is very appropriate, and that this is an area where all donors should be active. In addition, we believe donors should explore ways to minimize burdens on Indonesia's management of working with donors' different lending requirements.

Presence of donors' resident staffs with country expertise and decisionmaking authority is generally viewed as an optimal arrangement, particularly for basic human needs programs in a country short of trained managers, and it certainly facilitates communication and coordination among donors. The question of whether ADB should set up resident offices in Asia, however, involves factors outside the scope of this review, such as administrative costs and choice of country considerations.

What is important, in our view, is that major donor assistance programs be revealed and openly discussed early in their proposal stages, so that potential problems are fully

understood and possibilities for complementary donor efforts are identified. We believe that the U.S. executive directors should request, and be provided earlier, more extensive information on proposed bank projects. We also believe that to more closely relate AID and bank programs, the new IDCA Director should share this information with the AID missions and with DCC representatives. In this context, we believe that AID should become more active in the DCC loan approval discussions. Further, we believe that mission analysis of bank loans, once this can be done more thoroughly earlier in the loan approval process, should be routinely required and more effectively used.

In addition, to encourage other bilateral donors to share information on their assistance programs and to work more closely with other donors in planning the overall assistance effort in Indonesia, we believe the Secretary of State and the Director of IDCA should forcefully encourage close donor cooperation in international development forums.

RECOMMENDATIONS

In view of (1) the need for close donor/host-government coordination for discussion of agricultural issues and for concerted planning; (2) the ineffectiveness of existing coordination arrangements in meeting this need; (3) the need for leadership in promoting such closer coordination, and (4) the position of the World Bank as the largest donor to Indonesia, we recommend that the Secretary of the Treasury, working with the Director of the International Development Cooperation Agency

--direct the U.S. Executive Director to the World Bank to pursue with Bank officials the need for the Bank in concert with other donors to

seek a more active role in coordinating donor assistance programs and in encouraging the Government of Indonesia to promote effective coordination, including periodic sector-level, problem-oriented discussions among donors;

promote Indonesian efforts to achieve closer interagency and provincial cooperation oriented toward more precisely defined development priorities and toward focusing assistance on these priority needs; and

assess ways to improve Indonesia's absorptive capacity and base increases in future Bank program levels on substantive steps to reduce absorptive problems.

--direct the U.S. Executive Directors to both the World Bank and the Asian Development Bank to promote early information-sharing on proposed bank activities so that U.S. officials will have the necessary time to evaluate the relationships between bank programs and U.S. bilateral programs; and

The Secretary of State and the Director, IDCA should re-emphasize to other bilateral donors the need for both increased information-sharing and their participation in effective coordination.

We further recommend that the Director, International Development Cooperation Agency, see that multilateral development bank loans undergo cross-program review within the DCC to promote mutual reinforcement among the various assistance efforts within specific countries.

AGENCY COMMENTS AND OUR RESPONSE

AID officials agreed with our conclusions and recommendations and complimented the report's constructiveness. State Department program officials agreed with the report but wanted us to note that State and AID have made a major effort over the past year to encourage other bilateral donor coordination but that this effort was not favorably received, largely because many bilateral donor programs are commercially oriented. State Department officials also noted that the relatively small size of the U.S. assistance program in Indonesia limits the State Department's ability to encourage bilateral donor coordination. The Department of Agriculture representative said that his agency had no comments on the report.

IDCA agreed with the report's recommendations, with the exception of the recommendation dealing with absorptive capacity problems. Treasury Department officials also objected to this recommendation. IDCA and Treasury officials said that the report does not show the existence of an absorptive problem in Indonesia. Treasury officials stated that (1) they do not know in fact that there is an absorptive problem; (2) if there is an absorptive problem, its magnitude and exact nature are not known; and (3) the report prejudices the existence of an absorptive problem, and does not support the need for

our recommendation. Treasury officials also said the report discussed the issue only in three paragraphs. They stated that although they had not examined the absorptive capacity issue in an overall analysis of project proposals for Indonesia, World Bank data indicates that Indonesia "has no problem, relatively speaking;" they did not, however, object to a study being made to determine if an absorptive problem exists.

Treasury officials also stated that the World Bank has already actively sought a leadership role in the donor community. Further, they felt greater coverage should have been given to the DCC interagency review of Indonesia and to the revised interagency system for reviewing bank loan proposals. In addition to its oral comments, the Treasury Department provided written comments on our recommendations which are included as an appendix.

Although not specifically labeled as such, factors affecting Indonesia's effective use of assistance are discussed in each chapter of the report. In addition to the specific section on absorptive problems, the report shows throughout that managerial, technical, and personnel problems exist as well as bureaucratic and social and political constraints to development progress. We agree that the extent and type of the absorptive problem needs further defining, but as an inherent part of an assessment as to how Indonesia can be helped and not as an isolated study. We have not stated that the country has reached its absorptive limit as maintained by Treasury. We have shown that a variety of factors limit effective use of assistance, and concluded that increases in future Bank program levels should be based on steps to reduce absorptive problems. Significant progress has not been made in coordinating and leading donor activities, and we are encouraging the Bank to actively seek a leadership role.

With regard to the DCC interagency review of Indonesia, we have stated this was a positive step. As Treasury officials are aware, the study is not further discussed in this report because of its classification. In our opinion, however, this review did not go much beyond concluding that inadequate donor coordination exists, and in any case, it did not serve as the kind of forum needed for examining donor agricultural programs and proposals.

With regard to the Treasury's establishment of a new system for reviewing the development banks' loan proposals, we did not find any evidence of its operation at the time of our visit to Indonesia in October 1979. As mentioned earlier,

AID Mission officials stated they had never had been asked to evaluate World Bank project proposals for DCC loan proposal consideration. IDCA told us the system was to be put into operation in April 1980. Although Treasury officials assured us their revised system will operate effectively, we have not seen the effects of that system, and we believe a continued effort is needed on the part of the U.S. Executive Directors to ADB and more particularly the World Bank, to actively promote early information-sharing and improved in-country coordination.



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

May 2, 1980

Dear Mr. Fasick:

On behalf of Secretary Miller, I am writing to comment on GAO's draft report entitled "Donor Cooperation in Agricultural Assistance: The Case in Indonesia."

In the draft report of February 18, the GAO recommends that the U. S. Executive Director to the World Bank "pursue with Bank officials the need of the Bank in concert with other donors to: assess ways to improve Indonesia's absorptive capacity, and base increases in future Bank program levels on substantive steps to reduce absorptive problems." The Treasury Department strongly objects to, and disagrees with, this recommendation.

First, there is no evidence in the text of the GAO report, other than anecdotal statements, that there is an absorptive capacity problem in Indonesia. The report also states on p. 52 that none of the donors nor the Government of Indonesia has examined the "problem" in any detail. The fact that GAO recommends that the Bank undertake the study confirms that the GAO has not done such a study. Thus, the GAO is assuming an absorptive capacity problem which has not been investigated or demonstrated by anyone and offers no evidence of its own to substantiate this claim.

The Treasury Department fully concurs with the recommendation that the World Bank undertake an assessment of Indonesia's absorptive capacity, to determine whether there is a problem, and, if so, its magnitude and exact nature. However, recommending that the Bank "base future program levels on substantive steps to reduce absorptive problems" prejudices the outcome of any proposed assessment and would undermine the undertaking of an objective study.

Secondly, at least some of the evidence suggests that Indonesia is not at its absorptive capacity limit. A more detailed disbursement analysis by year of original commitment (Attachment A) shows Indonesia comparing favorably with World Bank lending operations as a whole. While Indonesian projects generally start slowly, they pick up about the third year and overtake the Bank average around the fourth year of implementation.

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Finally, difficulties in project implementation do not necessarily mean that a country is at its absorptive capacity limit. To restrict Bank lending on that assumption, as this recommendation implies, would only result in even more serious development difficulties for Indonesia. Bank operations in all countries are designed in the full knowledge of each country's managerial and technical manpower resource constraints and, for that reason, include substantial technical assistance and training components. Overcoming such bottlenecks is a major objective of the Bank's work and is an integral part of the development process.

I believe the GAO may be far afield in concluding that Indonesia is at its absorptive capacity limit. The Treasury Department is more than willing to request that the Bank undertake a review of Indonesia's absorptive capacity, but it cannot accept a recommendation which prejudices the results of that study. Accordingly, we request that the recommendation be changed to read as follows:

- (1) the Secretary of the Treasury, working with the Director, International Development Cooperation Agency.
 - (a) direct the U. S. Executive Director to the World Bank to pursue with Bank officials the need for the Bank in concert with other donors to:
 - undertake an assessment of Indonesia's absorptive capacity, particularly its managerial capabilities, and review future program levels on the basis of the findings of such an assessment.

I understand that Treasury staff has given GAO staff a number of additional comments on other sections of the draft report including the issues of interagency country review and the loan review process. In this regard, I believe you have the Interagency Development Coordination Committee study of Indonesia including recommendations, and a paper describing in detail a new system ("early warning system") which has been established in order to assure thorough interagency coordination of MDB loan review, including the availability of the information necessary for the effective coordination of U.S. bilateral and multilateral programs.

- 3 -

Although there is now passing reference to the DCC Indonesia Review and the "early warning system" in the body of the report, none of this has been reflected in the recommendations or the cover summary. For example it is recommended (1(d)) that the U.S. promote early information sharing. This has been underway since last fall through Treasury and IDCA's establishment of the new "early warning system". The cover summary states that "GAO's recommendations focus on bringing coherence to U.S. assistance . . .", without mentioning in that summary or anywhere in the recommendations, the major efforts which have been underway over the past one and a half years, to bring about such coherence, including the DCC Indonesia study, the "early warning system", and the creation of IDCA itself.

Finally, the first recommendation -- that the U.S. urge the Bank to continue to seek an active role in aid coordination -- would seem unnecessary. For over a year and a half the United States has sought a more active role for the Bank in Indonesian aid coordination and the Bank is not adverse to assuming such a role. In 1978, as a result of a recommendation in the DCC Indonesia Review, the United States formally proposed with the World Bank's concurrence, that the Bank chair the Inter-Governmental Group on Indonesia. We were opposed in this proposal by other donors, notably Japan and France. Nevertheless, our position remains that the World Bank should assume a more active aid coordinating role in Indonesia. In light of this, I believe the first recommendation is both misleading and unnecessary.

Thank you for the opportunity to comment on your draft report.

Sincerely,



C. Fred Bergsten

Mr. J. K. Fasick, Director
International Division
United States General
Accounting Office
Washington, D. C. 20548

Attachment A

IBRD/IDA
Lending to Indonesia
Cumulative Disbursements at Fiscal Year Ends
As Percentage of Amounts Approved

FY of Approval		Original Principal	Y P A R									
			0	1	2	3	4	5	6	7	8	9
1969	Indonesia	100.00	0.61	5.63	31.92	65.18	88.53	93.92	97.76	99.33	99.61	
	World Bank	100.00	1.90	14.40	38.40	59.05	72.87	82.15	87.25	90.40	92.18	92.75
1970	Indonesia	100.00	-	3.13	10.77	36.33	73.23	91.01	96.47	99.04	99.85	99.89
	World Bank	100.00	1.67	14.77	37.36	56.79	72.51	83.94	90.49	93.05	94.27	95.37
1971	Indonesia	100.00	0.75	3.44	15.60	36.32	68.28	90.05	94.25	96.63	99.08	
	World Bank	100.00	0.65	8.94	26.75	50.50	68.01	79.86	86.42	92.30	94.55	
1972	Indonesia	100.00	-	2.52	14.02	36.83	64.31	83.01	89.44	94.36		
	World Bank	100.00	1.27	11.42	33.81	55.90	73.80	83.39	88.96	92.32		
1973	Indonesia	100.00	-	0.83	8.56	45.29	75.47	84.49	89.12			
	World Bank	100.00	0.82	8.16	27.65	49.73	66.24	76.30	83.25			
1974	Indonesia	100.00	-	1.64	10.58	33.86	55.55	63.74				
	World Bank	100.00	1.57	14.27	33.38	51.37	65.73	74.65				
1975	Indonesia	100.00	3.16	36.09	55.05	68.14	76.41					
	World Bank	100.00	0.82	12.64	32.80	50.13	64.73					
1976	Indonesia	100.00	1.30	17.69	32.06	44.91						
	World Bank	100.00	2.32	11.59	26.82	45.20						
1977	Indonesia	100.00	2.15	12.96	27.48							
	World Bank	100.00	0.73	9.68	23.21							
1978	Indonesia	100.00	0.24	4.49								
	World Bank	100.00	0.36	8.86								

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