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REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO
THE REPUBLIC OF INDONESIA
FOR A
FOURTH EDUCATION PROJECT

March 16, 1976

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|------------------|---|------------------------|
| Currency Unit | = | Indonesia Rupiah (Rp.) |
| US\$1.00 | = | Rp 415 |
| 1 Rupiah | = | \$0.0024 |
| 1 million rupiah | = | \$2,410 |

Government of Indonesia

Fiscal Year April 1 - March 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN
TO THE REPUBLIC OF INDONESIA
FOR A FOURTH EDUCATION PROJECT

1. I submit the following report and recommendation on a proposed loan to the Republic of Indonesia for the equivalent of \$37.0 million to help finance the Fourth Education Project. The loan would have a term of 25 years, including six years of grace, with interest at 8-1/2 percent per annum.

PART I - THE ECONOMY

2. The latest economic report on Indonesia "Indonesia: Development Prospects and Needs" of April 15, 1975 (708-IND) described and analyzed the structure of production and incomes, the recent changes in the availability of resources, and the medium and longer-term outlook for the Indonesian economy. Country data are shown in Annex 1.

3. In 1969, at the start of Indonesia's First Five-Year Plan, the per capita income of the Indonesian population was probably no higher than half a century ago. A majority of the population lived below a minimum welfare standard, especially on Java. Most were dependent exclusively or primarily on agriculture, where farms were generally very small. Underemployment was widespread. While the inflation of the mid-1960s had been overcome, infrastructure was still in very poor condition.

4. The Government's efforts during the First Five-Year Plan period (April 1, 1969 - March 31, 1974) were successful in putting the economy on the road towards development. Most physical objectives were achieved or nearly so, and there was very substantial rehabilitation of run-down infrastructure and Government enterprises in agriculture and manufacturing. Foodgrain production increased by 4 million tons during the Plan period at an average rate of 5 percent per annum. Investments increased at a very fast rate, rising from 9 to 19 percent of GNP. While 57 percent of Government development expenditures were financed from abroad, the reliance on foreign financing was much less than the level of nearly 80 percent foreseen in the Plan. Real GDP increased at an annual rate of over 7 percent. GNP per capita in current prices reached about \$130 1/ in 1973. The Government programs for the labor intensive rehabilitation of infrastructure and other measures created substantial incomes and employment. However, given the annual increase in the labor force of about one million, one cannot be confident that the employment situation improved during the First Plan period, and from available information it is difficult to judge the extent to which the poorest section of the population shared in the gains of development.

1/ World Bank Atlas basis.

5. The Second Five-Year Plan (April 1, 1974 to March 31, 1979) builds on the achievements of the First Plan. While the First Plan dealt mainly with the urgent needs for stabilization and rehabilitation under conditions of great scarcity of resources, progress has been such that the Second Plan can give much more weight to such problems as employment, increasing the productivity and incomes of the poorest sections of the population and the poorest regions, population control, education and health. The Plan identifies a number of specific low-income target groups and, in general, adopts an employment oriented development strategy. It aims at a continued growth in investment, needed both because capital intensity will tend to increase as the rehabilitation phase draws to an end, and because more socially-oriented investments will be made. Overall, the Plan expects GDP to grow at 7.5 percent per annum.

6. Over the decade 1961-71, Indonesia's population grew by 2.1 percent a year. However, as a result of changes in the age, distribution and declining mortality, the current growth rate is estimated at 2.5 percent. Even under the most optimistic assumptions with regard to a decline in fertility, the growth rate would come down only gradually, and the population would nearly double by the end of the century. While Indonesia still has substantial unutilized land reserves in the Outer Islands, these are limited in relation to the expected population increase. Since 1969, the Government has been operating and gradually extending a successful family planning program. The number of acceptors has been increasing rapidly. The Second Plan foresees a progressively more vigorous and comprehensive attack on the population problem.

7. During the years 1976-79, average annual additions to the labor force are estimated at 1.2 million, increasing to more than 1.4 million in the years 1980-85. In addition, substantial underemployment exists, and there is the risk that even relatively simple technological improvements may adversely affect existing employment. The Second Plan's projections show that employment growth would approximately keep pace with the growth in the labor force, but even this may be too optimistic. Thus, the magnitude and the employment content of the investment program needs to be further enlarged and strengthened if an appreciable increase in employment and the real earnings of labor - and thus a wider spread of the benefits of development - is to be attained.

8. Towards the end of 1973, when the Second Plan was being finalized, prospects for resource availability improved dramatically. In line with other OPEC countries, the Government raised the export price of oil in successive stages from \$3.70 per barrel in April 1973 to \$12.60 per barrel in July 1974. Early in 1974 (and again in 1975) the Government also successfully renegotiated the contracts with foreign oil companies, enabling it to retain a greater share of the oil income. As a result, the net contribution of the oil sector to the balance of payments and Government revenues was expected to increase very considerably; a large increase in foreign exchange reserves and a budget surplus were anticipated for 1974/75.^{1/}

^{1/} Indonesian fiscal year April 1, 1974 - March 31, 1975.

9. By October 1974, foreign exchange reserves had risen by \$650 million from nearly \$1.0 billion at the beginning of 1974/75 and Government revenues were exceeding the levels originally estimated. The Government authorized much higher levels of expenditures, mainly for development, which reflected the improved revenue prospects. However, the recessionary conditions in the industrial countries began to affect the volume of oil exports and production by the middle of the year. Indonesia's high quality oil tended to become overpriced ^{1/} as world oil demand slackened and output declined from an average of 1.45 million barrels per day (bpd) in the first half of 1974 to 1.31 million bpd in the second half. Proceeds from non-oil exports also started to decline as prices, and in some cases export quantities, fell.

10. In October 1974 also, the first signs appeared of what turned out to be a substantial financial overextension by PERTAMINA, the national oil company. PERTAMINA had undertaken a large and diversified investment program financed to a substantial extent by short-term borrowing. In the third quarter of 1974/75, it started withholding part of the corporate oil tax it had collected on behalf of Government from the foreign oil companies; by the end of the fiscal year a total of Rp 346 billion (\$830 million) had been so withheld and used to meet PERTAMINA's financial obligations. Early in 1975, PERTAMINA failed to meet payments due to some foreign banks and the Government stepped in and took decisive action. It banned all independent foreign borrowing by PERTAMINA and other Government enterprises and gave Bank Indonesia the sole authority to contract foreign obligations, instructed Bank Indonesia to provide the funds needed to meet PERTAMINA's external obligations, undertook a comprehensive review of the oil company's investment projects and began the process of reducing and re-planning the company's investment program and of cancelling and renegotiating many of the related procurement contracts.

11. The combination, in the last half of 1974/75, of slackening receipts from exports of oil and other products and of the need to meet PERTAMINA's short-term obligations resulted in a loss of the foreign exchange reserves gained in the first half of the fiscal year. By March 31, 1975, these reserves were at the same level as at the beginning of April 1974.

12. The balance of payments situation did not improve in the first half of 1975/76. With continuing recessionary conditions in Indonesia's principal markets, exports failed to increase while imports rose again (about 30 percent on an annual basis). Debt service payments on behalf of PERTAMINA were very large (about \$1.0 billion). As a result, Indonesia's foreign exchange reserves declined by a further \$480 million, despite substantial capital inflows, including two syndicated public cash borrowings (totalling \$575 million) from the international capital market.

^{1/} The premium on Indonesian oil has recently been reduced by the Government's decision to raise the price of its main crude by 1.5 percent (to \$12.80) as compared with the 10 percent increase in the price of Saudi Arabian light crude agreed at the meeting of OPEC in September 1975.

13. For 1976, balance of payments prospects appear distinctly more favorable. Signs of recovery from the recession have appeared in some industrialized countries, commodity prices seem to have bottomed out and oil exports from Indonesia have increased in recent months. Rice import needs are smaller and fertilizer imports have been stopped due to the sizeable stocks now on hand. Prices of some other imported commodities have fallen. Service on PERTAMINA's debt is much smaller and the Government has recently raised another cash loan amounting to \$425 million. Some build-up of foreign exchange reserves is expected in the second half of the fiscal year.

14. Budgetary revenues in 1974/75 were much lower than had been anticipated at the middle of the year, partly due to the withholding of oil revenues by PERTAMINA and partly to the shortfall in oil exports in the second half of the year. The budget was, however, still in balance by year's end as the Government reduced or deferred expenditures. The budget for 1975/76 is balanced. Revenues, as well as current and domestically financed development expenditures, are now expected to be about 10 percent lower than originally budgeted, but still about 30 percent higher than in the previous year.

15. In spite of the shortfall in budgetary revenues, and the administrative difficulties involved in implementation of some projects, total development expenditures in 1974/75 were Rp 770 billion (\$1.9 billion) double that in the previous year. In 1975/76 they are expected to reach Rp 1.4 trillion (\$3.3 billion), including foreign financing of projects, totalling about \$1.0 billion and fertilizer subsidies amounting to \$350 million. This is about three times the actual expenditure in 1973/74; even when adjusted for price changes this represents a near doubling.

16. Preliminary figures indicate that the high growth rate achieved during 1969-73 was maintained in 1974. At constant 1973 prices, gross domestic product rose by 7.5 percent in 1974. Partial indicators seem to point to slower growth of output in 1975. The inflation rate was very high in the first part of 1974 as, among other factors, world inflation was transmitted through both export and import channels, but abated somewhat later in the year, partly as a result of the Government's stabilization measures in April 1974. Nevertheless, for the year as a whole it reached 40 percent. While still considerable, the average inflation rate for 1975 is expected to be only half of 1974's, or about 20 percent.

17. In the aftermath of the PERTAMINA development, the Government is faced with problems which, although serious, are surmountable. The review of PERTAMINA's projects has resulted in cancellation or renegotiation of many contracts and reductions in project scope and size.^{1/} The Government

^{1/} The planned capacity of the Krakatau Steel plant, for example, was reduced from 2,000,000 to 500,000 tons per year and the existing supply contracts were reduced by \$750 million.

has more recently undertaken a broader review of projects initiated by various Government departments and other State entities in an effort to bring future expenditures in line with available resources and the priorities set out in the Second Plan. It is screening very carefully any major new programs or projects, since considerable resources will be needed in the next year or two for the completion of projects already initiated.

18. A longer-term effect of the recent financial difficulties will be on the country's external public debt service obligations during the rest of the decade. Debt service payments over the next several years will be much larger than previously envisaged, as a result of the large borrowings by the Government in the current fiscal year. Debt service in 1975/76 is now estimated at \$500 million, which would be more than 10 percent of officially projected net oil and other exports. Debt service payments on all loans contracted to December 31, 1975 may reach about one billion dollars by 1978 before declining as shorter-term maturities are paid off. This is about \$500 million more per year than the payments projected on the basis of debt outstanding at the end of 1974. With debt service obligations on these borrowings substantially higher than expected earlier (about 12 percent of exports in 1978), the margin for further borrowing on other than semi-concessional terms has now become much more limited. The amounts, terms and purposes of future borrowing therefore need to be kept under continuous careful review.

19. While the recent balance of payments and budgetary difficulties have upset some of the Government's plans, the long-term prospects for Indonesia's development remain good. The country has a substantial potential for further productive investment, employment and income growth. In agriculture, a vigorous pursuit of on-going programs in irrigation, development of new plant varieties and technical services, provision of credit and current inputs, etc., promises to yield high returns. In addition, there are opportunities for the development of new areas, of food and tree crops - partly in conjunction with a rapidly growing transmigration program. The industrial potential is good, both for modern capital-intensive natural resource-based activities and for more labor-intensive, partly export-oriented industries.

PART II -- BANK GROUP OPERATIONS IN INDONESIA

20. As indicated in Part I, Indonesia's plans emphasize a need to undertake a large investment and development program designed to provide productive work opportunities (with resultant increased incomes) for its presently underemployed and growing labor force. Substantial external financing, on concessional and semi-concessional terms, as well as a considerable volume of technical assistance, is also required. The Bank is planning to increase its lending to Indonesia and, in particular, to support projects designed to: improve agricultural credit, research and extension; rehabilitate and expand irrigation systems; increase the production and distribution

of fertilizer; assist transmigration and nucleus estates; increase non-agricultural employment in small towns and rural areas by the establishment of small-scale industries; and rehabilitate and expand urgently needed transportation and other infrastructure.

21. As of March 15, 1976, Indonesia had received 37 IDA credits totaling \$561.8 million and 10 Bank loans amounting to \$461.0 million. At that date, IFC investments totalled \$58.4 million. At the end of 1974 the Bank Group accounted for about 4 percent of Indonesia's total outstanding public debt; by 1978 it is expected to account for 12 percent of total outstanding public debt and 5 percent of public debt service obligations. A summary statement of IDA credits, Bank loans and IFC investments as of January 31, 1975 and notes on the execution of ongoing projects, are contained in Annex II. This is the fourth loan proposed for Indonesia this year and, if approved, along with the proposed fourth highway project, would bring total IBRD commitments since June 30, 1975 to \$270 million.

22. To date, agriculture accounts for just over one-third of all Bank lending to Indonesia, including four IDA credits for estate rehabilitation, six for the rehabilitation and expansion of the irrigation systems, two for fisheries, and one each for seeds, beef cattle, sugar and smallholder tea and rubber. In the industrial sector, the Bank Group has assisted in three projects to expand PUSRI's fertilizer production capacity, three for development finance companies (Government-owned and private) which play a major role in fostering the growth of industrial enterprises, and one for the Pulo Gadung industrial estate. Loans and credits have also been extended to the transportation, education, telecommunications, tourism, power, population, urbanization and water supply sectors, and four credits have been made for technical assistance to aid the Government in preparing and formulating its development programs and projects.

23. In the field of education Indonesia has received three credits totalling \$24.4 million for projects with manpower development and equity objectives. The first credit made in 1970 financed the construction of five centralized workshops (TTC) to strengthen practical instruction for fifteen satellite senior secondary schools. The Second Education Project (1972) aims at upgrading and expanding middle level agricultural training. The third project (1973) will contribute to the improvement of basic education through the testing, production and distribution of 138 million primary school textbooks and the training of teachers. Although there have been some delays in the implementation of these projects, the first project will be completed on schedule and the overall progress on the remaining two is generally satisfactory. Details of the implementation of these projects are given in Annex II.

24. Bank lending to Indonesia started with an IDA Credit in 1968 for irrigation rehabilitation; almost half of all loans and credits have been made since mid-1972, with lending on Bank terms commencing in June 1974. Disbursements on loans and credits are prevailing at satisfactory levels. The Indonesian authorities have become increasingly aware of the delays

in project execution caused by cumbersome procedures and the need to establish an effective control system in BAPPENAS (The National Development Planning Agency). At the Government's request, the Bank has arranged for assistance under the Fourth Technical Assistance Credit (Cr. 451-IND) to help set up a monitoring and control system which it is hoped will lead to better project administration.

25. Future Bank lending gives high priority to the agricultural sector through support of projects to increase rice and other crop production in the Inner and Outer Islands, and the expansion of resettlement efforts on the latter. In addition, the program provides for further socially-oriented projects in the fields of urban development and population. Projects for agricultural extension, power, shipping, ports, sugar, fertilizer production, irrigation and nutrition are expected to be ready for presentation in the next few months.

PART III - TECHNICAL AND VOCATIONAL EDUCATION IN INDONESIA

26. In Indonesia the formal education system comprises six years of primary education, six years of secondary education divided into a lower and upper cycle and three to five years of higher education. The Presidential Decree No. 34/72 has delegated the authority for formal education to the Department of Education and Culture, whereas the Department of Manpower, Transmigration and Cooperatives is responsible for non-formal training, and the National Institute of Administration (LAN) is in charge of civil service training.

27. The technical education and vocational training system comprises four levels ranging from training of semi-skilled workers to graduate engineers. At the professional level engineers are trained in the engineering faculties of 18 universities and in two institutes of technology. Sub-professional training of technicians has been conducted so far at eight technical academies (Grades 13-15) and eleven business study academies (Grades 13-15), all scheduled to be closed shortly. Skilled workers are trained at 440 senior secondary technical schools (STM, Grades 10-12) and eight secondary technical schools (Grades 9-12). These institutions are under the jurisdiction of the Department of Education and Culture. Semi-skilled workers and operatives are trained in vocational training centers (PLK) and mobile training units (MTU) (both without grade structures) under the jurisdiction of the Department of Manpower, Transmigration and Cooperatives. Technical secondary teachers are trained in ten technical faculties (FKIT, Grades 13-17) of teacher training institutes.

28. Indonesia's technical and vocational education and training system presently fails to produce properly trained technicians, and has inadequate supply capacities at skilled and semi-skilled worker levels. Rural out-of-school youth particularly lack access to enough skill training. Technical and vocational training also suffers from low quality because of under-qualified

teachers, inadequate curricula and lack of appropriate facilities. Two-thirds of the teachers in secondary technical schools and 90 percent of teaching staff in technical academies are on a part-time basis. The root cause of this low quality is inadequate expenditure. Recurrent expenditures per student in Indonesian technical/vocational schools have been among the lowest in the world. The Government increased base salaries of teachers ninefold between 1971 and 1975. The budgeted expenditures for the Department of Education and Culture are Rp. 436 billion under the Second Five Year Plan as compared to Rp. 37 billion allocated for the preceding five year period. However, the accumulated effects of many years of budgetary stringency can be overcome only gradually.

29. An essential condition for the success of Indonesia's development efforts would be an adequate supply of qualified manpower at skilled worker, technician and engineer/technologist levels and, at the base of the manpower pyramid, a work force commanding basic vocational skills. The strengthening and expansion of the Government's resource management capabilities, which would require an effective public service training system, is considered another necessary condition for carrying out the large industrial and infrastructure investment programs Indonesia is envisaging. The existing National Institute of Administration (LAN) is not able at present to provide such training to public servants and would have to be strengthened if it is to fulfill its triple role of research and development, monitoring and central training agent in the field of public administration training.

30. The detailed manpower and training implications of Indonesia's planned ambitious growth have not yet been articulated. However the following generalizations can be made on the basis of a broad comparison of the likely manpower needs by major skill categories and the available training capacities:

- (a) the total number of university graduates in engineering/technology would exceed slightly the available jobs (although there may be shortages in certain fields) whereas properly trained technicians would be in short supply owing to the virtual absence of relevant training institutions;
- (b) the training capacity for skilled workers would be insufficient, leading to large-scale upgrading from the semi-skilled worker level. This in turn would require an expansion of training facilities for basic vocational skills to make up for these losses and also to allow for an increased demand for semi-skilled workers.

31. The Government has identified and is dealing with the shortcomings of technical education. During the first Five Year Plan period (1969-74) it introduced the new concept of centralized workshops and developed new curricula for secondary technical education. For the period of the Second Plan (1974-79) and beyond, the following developments are envisaged:

- (a) engineering education would be selectively expanded and efforts would be made to increase its internal efficiency;
- (b) technical teacher training would be concentrated and strengthened;
- (c) senior secondary technical schools (STM) would have their facilities upgraded and re-equipped. In major urban areas centralized workshops would serve groups of STMs. Senior secondary technical education would also profit from better teacher training and the introduction of new curricula;
- (d) junior secondary technical schools would by 1978 be converted into general schools;
- (e) the network of vocational training centers and mobile training units would be expanded to cover all provinces.

PART IV - THE PROJECT

General

32. With a view to improving its long-term planning for education and formulating appropriate strategies, the Government undertook a "National Assessment Study on Education" in 1969-73 with the help of the Ford Foundation and requested Bank assistance to identify projects for priority implementation. An Education Sector Survey Mission visited Indonesia in late 1973 and its report "Indonesia Education Sector Survey Report" (No. 443a-IND), dated February 5, 1975 identified projects for financing from local and external resources. The proposed project is based on the recommendations of this Sector Survey Report and was prepared by a team of experts supplied by UNESCO. A preparatory assistance mission under the leadership of the Bank with participation from UNESCO, ILO, and UNOTC (United Nations Office of Technical Cooperation) and financed by UNDP formulated a detailed program of technical assistance. The project was appraised in February/March 1975. Negotiations were held on October 28-31, 1975 in Washington, D.C.; Mr. Soelaeman Soemardi, Chief, Bureau of Education, Law and Religion of BAPPENAS led the Government delegation.

33. The proposed project would have the following main objectives:
- (a) to help meet the country's requirements of skilled and semi-skilled manpower;
 - (b) to provide disadvantaged rural and urban groups with skills that would enable them to earn additional income.
 - (c) to contribute towards an improvement in civil service training.

The project items (with their locations shown on the attached map) would be as follows:

| | <u>Grades</u> | <u>Enrollment Capacity</u> | | | <u>Additional Output per annum</u> |
|--|---------------|----------------------------|--------------|--------------|------------------------------------|
| | | <u>Existing</u> | <u>Added</u> | <u>Total</u> | |
| <u>Department of Education</u> | | | | | |
| (a) Construction of and equipment for | | | | | |
| - two technical teacher training faculties (FKIT) | 13-17 | 3,500 /a | 2,050 | 2,050 | 550 |
| - four centralized work-shops (Technical Training Centers) (TTC) | 10-12 | 14,800 | 11,900 | 26,700 | 3,600 |
| <u>Department of Manpower</u> | | | | | |
| (a) Construction of and equipment for | | | | | |
| - seventeen vocational training centers (PLK) | n.a. | 8,370 | 11,610 | 19,980 | 11,610 |
| (b) Equipment for | | | | | |
| - one instructor training center | n.a. | 150 | 150 | 300 | 150 |
| - twenty rural and five urban mobile training units (MTU) | n.a. | 6,840 | 9,300 | 16,140 | 9,300 |
| <u>National Institute of Administration (LAN)</u> | | | | | |
| - construction and equipping of new facilities | n.a. | 2,340 | 1,100 | 3,440 | 1,000 |

Technical Assistance

A total of 104 man-years of specialist services (at a cost of about \$52,000 per man-year) and 61 man-years of fellowships for the three government agencies mentioned above.

/a Eight of the ten existing FKIT's will be used for other forms of teacher training.

Project Institutions

34. (a) Department of Education

Technical Teacher Training Faculties (FKIT): The present low quality of technical teacher training would be raised by consolidating and strengthening training at two FKIT in Jogjakarta and Padang. The proposed project would construct, furnish and equip new facilities at these institutions sufficient to enroll 2,050 students. The required staff of 120 teacher-trainers would be obtained through in-service upgrading of present FKIT personnel, initially with the help of technical assistance specialists. Internal efficiency would be improved through careful selection of entrants by means of an examination open to general and technical senior secondary school graduates. In order to simplify the curricula, reduce equipment needs and lower recurrent expenditure of the FKITs, their entrance requirements in workshop practice would be set equivalent to the level of a graduate from a high-quality senior secondary technical school. To avoid creating a dual system of secondary technical teachers, all technical teacher training will be concentrated, by 1980, in the two FKITs included in the project and eight of the existing FKIT's which are poorly equipped and have low standards will be used for other forms of teacher training (Section 4.09 of the Loan Agreement).

Centralized Workshops (TTC): Centralized workshops appear to be the most expeditious and economical way of improving the quality of technical schools in major urban areas. Five such TTCs are being financed under Credit 219-IND. These are located in Bandung, Jakarta and Surabaya, in Java, Medan in Sumatera and Ujung Pandang in Sulawesi. The proposed project includes the establishment of four more centralized workshops in Jogjakarta and Semarang in Java, as well as Padang and Palembang, in Sumatera. They would serve eleven existing feeder senior secondary technical schools (STM) with a total enrollment of 11,900 students and an annual output of almost 4,000 skilled workers, almost 10 percent of the country's estimated requirements. The 340 instructors needed for the workshops would be recruited from teachers already in service who would receive in-service training.

35. (b) Department of Manpower

Vocational Training Centers (PLK): The proposed project would help expand non-formal skill training by establishing 17 new vocational training centers, four in major urban areas, seven in mid-sized towns and six, which would serve as operational bases for the mobile training units, in small towns. The 17 centers would enroll 11,600 trainees per annum, mostly unemployed youths between 18 and 25 years old, preparing them for jobs as for example semi-skilled construction workers, welders, plumbers, motor mechanics, carpenters and electricians. Curricula materials have already been developed under the ILO modular system. The 400 instructors required would come from the special training centers in Bandung and Singosari in Java.

Instructor Training Center: The proposed loan would help finance furniture and equipment at the Instructor Training Center in Singosari required to strengthen its teaching program. The equipment would enable up

to 150 instructors to be trained properly per annum. The vocational training centers and mobile training units in the proposed project would require more than 600 instructors. The combined annual output of the existing Instructor Training Center at Bandung and the Singosari center (300) would be sufficient to meet this demand over a three-year period and to allow for the replacement requirements of the existing vocational training centers and units, presently estimated at 100 per year.

Mobile Training Units (MTU): The proposed project would expand the capacity of mobile training units by 9,300 trainees, more than doubling the existing capacity. It would establish 25 new units, 20 for rural areas and five for major urban areas. The 25 units would use vocational training centers as operational bases. About 220 additional instructors would be required and would be recruited from the instructor training centers in Bandung and Singosari. Curricula, following the ILO modular pattern, have already been developed. The MTUs would provide rural and urban, mainly unemployed youths, with basic agricultural and industrial/artisan skills.

36. (c) National Institute of Administration (LAN)

The proposed project would construct training and auxiliary facilities (library and accommodation for 200 boarders) sufficient to enable the consolidation of all LAN's training activities in one location. Enrollment would increase by 1,100 places, or about 50 percent and training would include these major courses: (a) in-service training for senior civil servants, (b) pre-service training for Government officers, (c) training of instructors for Government agencies and (d) specialized language and secretarial courses. The future training activities would emphasize functions that have arisen out of the Government's increased involvement in the process of economic and social development (such as general planning, financial analysis, program/project design, implementation and evaluation), rather than the traditional regulatory functions. Curricula, including Indonesian case studies, would be developed as an integral part of the project. The development of a plan for civil service training is urgently required. Disbursement for civil works, furniture and equipment for LAN would therefore be contingent upon the preparation and submission to the Bank for comment of such a plan (Part 4 (f) of Schedule 1 of the Loan Agreement).

Technical Assistance

37. A total of 104 man-years of specialist services and 61 man-years of fellowships would be needed for strengthening management capability, program development and staff training. Of this total UNDP is financing four man-years of specialist services for initial implementation and agreement has been reached for aid from the U.K. Government to provide 24 man-years of specialist services for the centralized workshops. The remaining technical assistance would be financed out of the proceeds of the loan, as follows:

- (a) Department of Education: 30 man-years of specialist services for curriculum and staff development and 41 man-years of fellowships;
- (b) Department of Manpower: 35 man-years of specialist services and 14 man-years of fellowships for strengthening management and supervision capability; and
- (c) National Institute of Administration: 11 man-years of specialist services and six man-years of fellowships to develop curricula and a civil service training plan and to train staff.

Specialist services would cover three phases: (a) the initial preparation of work programs (6 months); (b) assistance in establishment of institutions (2-3 years); and (c) assistance in initial operation of the institutions (2-3 years).

Cost Estimates

38. The estimated costs of the various project items are given in detail in Annex III. The total cost (including contingencies and projected price increases) would be about \$65.0 million, of which about \$37.8 million, or about 58 percent, would be in foreign exchange. Physical contingencies and projected price increases would amount to about \$19.2 million (or about 30 percent of the total project cost).

Financing Plan

39. The proposed financing plan provides for Bank assistance to finance 98 percent of the foreign exchange component of the project; the remaining foreign requirements would be financed by the U.K. Government. The details of the financing plan are shown below:

| | <u>Gov't.</u> | <u>Bank</u> | <u>UK</u> | <u>Total</u> |
|--|---------------|-------------|-------------------|----------------|
| | -\$ million- | - | <u>& UNDP</u> | <u>All</u> |
| | | | --- | <u>Sources</u> |
| | | | --- | --- |
| | | | --- | --- |
| A. <u>Department of Education</u> | 12.90 | 14.60 | - | 27.50 |
| B. <u>Department of Manpower</u> | 10.88 | 14.30 | - | 25.18 |
| C. <u>National Institute of Administration (LAN)</u> | 2.67 | 1.60 | - | 4.27 |
| Total Capital Costs | 26.45 | 30.50 | - | 56.95 |
| D. <u>Technical Assistance (TA)</u> | 0.73 | 6.50 | 0.80 | 8.03 |
| TOTAL PROJECT COSTS | 27.18 | 37.00 | 0.80 | 64.98 |

Project Implementation

40. Administration. The existing project unit in the Department of Education charged with implementation of the first education project (Credit 219-IND) would be responsible for administration, financial control and liaison with the Bank for the components under the Department of Education. To carry out the additional workload, the Government has appointed additional staff to the unit.

41. A project unit recently established in the Department of Manpower would be responsible for the implementation of the components under the Department of Manpower. The Deputy Chairman of LAN has been appointed Project Implementation Officer for the LAN component and would be supported by a committee of LAN staff.

42. Financing and Execution of Technical Assistance. A 12-month preparatory assistance project, covering the salaries of a project coordinator and three team leaders, was started in January 1976 financed by UNDP with the Bank as Executing Agency. Agreement had been reached in principle that the preparatory assistance would be followed by UNDP financing of the full technical assistance program. However, recent financial constraints have prevented UNDP from funding the full project and the required technical assistance would therefore be financed from the proposed loan. Should UNDP funds become available for this purpose at a later date the corresponding amount of the loan will be cancelled. It is expected that the technical assistance component would be administered through UNESCO, ILO and UNOTC for the project components related to the Departments of Education, Manpower and LAN respectively. Completion of these agreements satisfactory to the Bank would be a condition of disbursement for the respective project component. (Paragraphs 4 (b) (c) and (d) of Schedule 1 of the Loan Agreement).

43. Professional Services. The Departments of Education, Manpower and LAN (in consultation with the Department of Public Works and Power), have appointed qualified consultants on terms and conditions acceptable to the Bank to carry out design and supervision of civil works. The consultants would work under the supervision of the respective project units through the project architects.

44. Sites. The sites for the proposed project institutions have already been selected and most of them purchased; the acquisition of the remaining lands is expected to be completed soon by the Government.

45. Performance Monitoring. The Government would establish a performance monitoring system in all the project institutions to collect information, in accordance with guidelines agreed with the Bank, on the following aspects (Section 3.06 of the Loan Agreement):

- (a) external performance: employment status of graduates/trainees including data on occupation sector and place of employment;

- (b) internal performance: dropout-repetition rates, results of trade tests or other skill measurements;
- (c) course demand: application/admission ratios, requests by industry and Government agencies for courses; and
- (d) workshop discipline: accident rates.

46. Implementation Schedule. In order to ensure that the proposed project will be executed without delay, the agreement of the Government has been obtained to an initial implementation schedule with specified timing of critical steps in project implementation. The project is expected to be completed by 1980.

Procurement

47. Contracts for civil works (excluding those for the sub-project of the Department of Manpower) and equipment and furniture (except those below US\$50,000 equivalent) would be awarded following international competitive bidding in accordance with the Bank's Guidelines. In bid comparison, domestic suppliers of equipment, furniture and vehicles would be allowed a preferential margin of 15 percent or the actual customs duty, whichever is lower. In addition, a 7-1/2 percent margin of preference would be given to domestic contractors for purposes of bid comparison for civil works. Small contracts for equipment and furniture and the contracts for civil works for the smaller and often more remote Department of Manpower schools would be awarded on the basis of competitive bidding advertised locally following Government's normal procurement procedures which are satisfactory to the Bank. Some items will be purchased off-the-shelf on the basis of a minimum of three price quotations. The details of the arrangements for procurement are given in Annex III.

Disbursement

48. The proposed loan of \$37.0 million would be disbursed on the basis of the following percentages:

- (a) 100 percent of the foreign expenditures for directly imported equipment and vehicles;
- (b) 95 percent of the ex-factory cost of locally manufactured equipment and vehicles, excluding sales taxes;
- (c) 65 percent of the total cost of imported and locally procured equipment purchased off-the-shelf;
- (d) 100 percent of the foreign expenditures on technical assistance;
- (e) 40 percent of total expenditures on civil works;

- (f) 40 percent of total expenditures on consultants' services; and
- (g) 30 percent of the total expenditures on furniture.

The estimated disbursement Schedule is shown in Annex III. Disbursement is expected to be completed by the end of 1980.

49. In order to speed up project implementation, consultant architects have already been appointed; it is therefore proposed that expenditures for their services after December 1, 1975 be reimbursed from the loan. The total amount of retroactive financing would not exceed \$100,000 (Paragraph 4(a) of Schedule 1 of the Loan Agreement).

Benefits and Justification

50. The proposed project would aid the development of technical manpower in Indonesia by:

- (a) increasing the output of skilled workers through the provision of four centralized workshops for senior secondary technical schools, and by assuring the necessary supply of qualified technical teachers through the simultaneous improvement of two technical teacher training faculties;
- (b) expanding the capacity for non-formal vocational training at the semi-skilled worker level through the provision of 17 vocational training centers (PLK), and by assuring the necessary supply of qualified instructors through the re-equipping of an instructor training center;
- (c) providing through the MTUs the basic skills for disadvantaged rural and urban groups that would enable them to earn additional incomes to improve their livelihoods; and
- (d) strengthening LAN to increase the supply of better trained civil servants at national and provincial levels, and thus provide for more effective and efficient operation of public administration.

51. Quantitatively, the project institutions would train each year:

- (a) about 3,600 skilled workers, or about 10 percent of the estimated requirements; and
- (b) about 11,600 workers at the upper range of the semi-skilled level, thus more than doubling the existing annual training potential.

52. The annual capacity of the rural and mobile training units would increase from about 7,000 to over 16,000 participants. Moreover, the demonstration effect of the training would spread beyond the group of direct participants.

53. The proposed improvement and expansion of LAN would provide training annually to 270 civil servants in the top category and those to be promoted into it. It would reach through pre-service training another 800, about 10 percent of the estimated training requirements for the annual entrants into the intermediate levels.

54. Despite this expansion of specific segments of the education and training system, training deficits at skilled and semi-skilled worker levels will persist. Since an immediate large-scale replication of the relevant items in the proposed project is ruled out by staff and financial constraints, the economy would have to rely on alternative means to supply the necessary manpower. The upgrading of semi-skilled workers would mainly be used to reduce the present deficit of skilled workers; the vocational training centers could support this process by concentrating on training workers who are already employed. This would mean that the initial training of semi-skilled workers would have largely to be carried out by private enterprises, with the mobile training units as a supply source for basic skills. These temporary training deficits should not detract from the important contribution that the proposed project would make to manpower development in Indonesia, by laying the foundation for a modern and efficient system of technical education and vocational training.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

55. The draft Loan Agreement between the Republic of Indonesia and the Bank, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank, and the text of a draft resolution approving the proposed loan are being distributed to the Executive Directors separately. Items in the Loan Agreement of special interest are referred to in paragraphs 36, 38, 44, 47 and 51 of this report. The draft Loan Agreement follows the general pattern of loan agreements relating to education projects.

56. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

57. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Washington, D.C.
March 16, 1976

TABLE 3A
- SOCIAL INDICATORS DATA SHEET

| LAND AREA (THOU KM ²) | INDONESIA | | | REFERENCE COUNTRIES (1970) | | |
|---|---------------|-----------------|----------------------|----------------------------|-------------------|-----------------|
| | 1960 | 1970 | MOST RECENT ESTIMATE | BANGLADESH | INDIA | PHILIPPINES ** |
| TOTAL | 1904.3 | | | | | |
| ARABLE | 167.0 | | | | | |
| GNP PER CAPITA (US\$) | 60.0 | 100.0 | 130.0 | 80.0 | 110.0 | 220.0 |
| POPULATION AND VITAL STATISTICS | | | | | | |
| POPULATION (MID-YR, MILLION) | 95.4 | 115.6 | 124.4 | 70.8 | 538.1 | 36.9 |
| POPULATION DENSITY | | | | | | |
| PER SQUARE KM. | 50.0 | 61.0 | 65.0 | 496.0 | 168.0 | 123.0 |
| PER SQUARE KM. ARABLE LAND | .. | .. | 745.0 | 840.0 | 350.0 | .. |
| VITAL STATISTICS | | | | | | |
| CRUDE BIRTH RATE PER THOUSAND | 43.0 | <u>a,b</u> 42.0 | 42.0 | 44.0 | 38.0 | 45.0 |
| CRUDE DEATH RATE PER THOUSAND | 21.0 | <u>a,b</u> 21.0 | 21.0 | 21.0 | 16.0 | 12.0 |
| INFANT MORTALITY RATE (/THOU) | 125.0 | <u>a,b</u> .. | .. | 140.0 | 130.0 | 80.0 |
| LIFE EXPECTANCY AT BIRTH (YRS) | 48.0 | 47.0 | 51.0 | 48.0 | 50.0 | 56.0 |
| GROSS REPRODUCTION RATE | 2.8 | 3.2 | 3.1 | 3.1 | 2.9 | 3.3 |
| POPULATION GROWTH RATE (%) | | | | | | |
| TOTAL | 2.1 | 2.0 | 2.0 | 2.7 | 2.3 | 3.0 |
| URBAN | .. | 3.6 | 3.2 | .. | 4.0 | 4.0 |
| URBAN POPULATION (% OF TOTAL) | | | | | | |
| | 15.0 | 17.0 | 18.0 | .. | 20.0 | 32.0 |
| AGE STRUCTURE (PERCENT) | | | | | | |
| 0 TO 14 YEARS | 42.1 | 44.1 | 44.1 | .. | 42.0 | 43.1 |
| 15 TO 64 YEARS | 55.4 | 53.4 | 53.4 | .. | 55.0 | 53.4 |
| 65 YEARS AND OVER | 2.5 | 2.5 | 2.5 | .. | 3.0 | 3.5 |
| AGE DEPENDENCY RATIO | | | | | | |
| | 0.8 | 0.9 | 0.9 | .. | 0.8 | 0.9 |
| ECONOMIC DEPENDENCY RATIO | | | | | | |
| | 1.3 | .. | 1.5 | .. | 1.2 <u>a</u> | 1.5 |
| FAMILY PLANNING- ACCEPTORS (CUMULATIVE, THOU) USERS (% OF MARRIED WOMEN) | | | | | | |
| | .. | 234.2 | 4808.2 | .. | .. | 276.9 |
| | .. | .. | .. | .. | .. | 8.0 |
| EMPLOYMENT | | | | | | |
| TOTAL LABOR FORCE (THOUSAND) | 34600.0 | .. | 40100.0 | 22300.0 | 221000.0 <u>b</u> | 12300.0 |
| LABOR FORCE IN AGRICULTURE (%) | 68.0 | .. | 62.0 | 71.0 | 71.0 | 51.0 |
| UNEMPLOYED (% OF LABOR FORCE) | 5.4 | 2.0 <u>a</u> | 5.4 <u>a</u> | .. | 3.0 <u>c</u> | 7.0 |
| INCOME DISTRIBUTION | | | | | | |
| % OF PRIVATE INCOME REC'D BY- | | | | | | |
| HIGHEST 5% OF POPULATION | .. | .. | .. | 16.7 <u>a</u> | 25.0 <u>d</u> | .. |
| HIGHEST 20% OF POPULATION | .. | .. | .. | 42.3 <u>a</u> | 53.1 <u>d</u> | .. |
| LOWEST 20% OF POPULATION | .. | .. | .. | 7.9 <u>a</u> | 4.7 <u>d</u> | .. |
| LOWEST 40% OF POPULATION | .. | .. | .. | 19.6 <u>a</u> | 13.1 <u>d</u> | .. |
| DISTRIBUTION OF LAND OWNERSHIP | | | | | | |
| % OWNED BY TOP 10% OF OWNERS | 48.0 | <u>b</u> .. | .. | 34.0 | .. | .. |
| % OWNED BY SMALLEST 10% OWNERS | 3.0 | <u>b</u> .. | .. | 1.0 | .. | .. |
| HEALTH AND NUTRITION | | | | | | |
| POPULATION PER PHYSICIAN | 41000.0 | 27650.0 | 23880.0 | 7600.0 <u>b</u> | 4800.0 | .. |
| POPULATION PER NURSING PERSON | .. | 8010.0 | 6960.0 | 72030.0 <u>b</u> | 5110.0 | .. |
| POPULATION PER HOSPITAL BED | 1350.0 | 1720.0 | 1450.0 | 8120.0 <u>c</u> | 1620.0 | 850.0 |
| PER CAPITA SUPPLY OF - | | | | | | |
| CALORIES (% OF REQUIREMENTS) | 89.0 | 89.0 | 83.0 | .. | 93.0 | 85.0 |
| PROTEIN (GRAMS PER DAY) | 43.0 | 43.0 | 38.0 | .. | 53.0 | 45.0 |
| - OF WHICH ANIMAL AND PULSE | 15.0 <u>c</u> | 14.0 | .. | .. | 16.0 | 22.0 |
| DEATH RATE (/THOU) AGES 1-4 | | | | | | |
| | .. | .. | .. | .. | .. | 7.0 |
| EDUCATION | | | | | | |
| ADJUSTED ENROLLMENT RATIO | | | | | | |
| PRIMARY SCHOOL | 60.0 <u>a</u> | 71.0 | 80.0 | 50.0 <u>d</u> | 79.0 | 119.0 |
| SECONDARY SCHOOL | 6.0 <u>a</u> | 12.0 | 18.0 | 15.0 <u>d</u> | 28.0 | 45.0 |
| YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL) | | | | | | |
| | 12.0 | 12.0 | 12.0 | 10.0 <u>e</u> | 12.0 | 10.0 |
| VOCATIONAL ENROLLMENT (% OF SECONDARY) | | | | | | |
| | 20.0 <u>a</u> | 28.0 | 28.0 | 1.0 | 6.0 <u>e</u> | 10.0 <u>a,b</u> |
| ADULT LITERACY RATE (%) | | | | | | |
| | 47.0 | .. | 60.0 <u>b</u> | .. | .. | .. |
| HOUSING | | | | | | |
| PERSONS PER ROOM (AVERAGE) | | | | | | |
| OCCUPIED DWELLINGS WITHOUT PIPED WATER (%) | .. | .. | 44.0 <u>c</u> | .. | .. | 66.0 <u>b</u> |
| ACCESS TO ELECTRICITY (% OF ALL DWELLINGS) | | | | | | |
| | .. | .. | 64.0 | .. | .. | 23.0 <u>b</u> |
| RURAL DWELLINGS CONNECTED TO ELECTRICITY (%) | | | | | | |
| | .. | .. | 39.0 | .. | .. | 6.0 <u>b</u> |
| CONSUMPTION | | | | | | |
| RADIO RECEIVERS (PER THOU POP) | | | | | | |
| | 7.0 | 114.0 | .. | 6.0 | 21.0 | 45.0 |
| PASSENGER CARS (PER THOU POP) | | | | | | |
| | 1.0 | 2.0 | 3.0 | 1.0 | 1.0 | 8.0 |
| ELECTRICITY (KWH/YR PER CAP) | | | | | | |
| | 19.0 | 20.0 | 23.0 | 11.0 | 111.0 | 235.0 |
| NEWSPRINT (KG/YR PER CAP) | | | | | | |
| | 0.2 | 0.2 | 0.2 | .. | 0.3 | 1.2 <u>c</u> |

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1971 & 1973.

** The Philippines has been selected as an objective country for its geographical similarity and because of its apparent advanced stage of economic development.

| | | |
|--------------------|------------------------------|--|
| <u>INDONESIA</u> | <u>1960</u> | <u>/a</u> Excludes West Irian; <u>/b</u> 1963; <u>/c</u> 1961-63. |
| | <u>1970</u> | <u>/a</u> Registered applicants for work. |
| | <u>MOST RECENT ESTIMATE:</u> | <u>/a</u> Unemployed workers seeking their first job; <u>/b</u> 10 years and over, ability to read and write in either Latin or non-Latin characters; <u>/c</u> Inside only. |
| <u>BANGLADESH</u> | <u>1970</u> | <u>/a</u> 1966-67, households; <u>/b</u> Registered, not all practicing in the country; <u>/c</u> Government hospital establishments only; <u>/d</u> Approximate enrollment as percentage of population in 6-10, and 11-15 age groups respectively; <u>/e</u> Up to end of second level. |
| <u>INDIA</u> | <u>1970</u> | <u>/a</u> Ratio of population under 15 and 60 and over to labor force age 15-59 years; <u>/b</u> AID estimate of labor force in age group 15-59. IBRD report gives a figure of 180.4 million based on 1971 population census. The difference is due to changes in the definition of a worker. In the 1971 census, persons were classified only on the basis of their main activities. This led to the exclusion of several categories such as housewives; <u>/c</u> Registered applicants for work; <u>/d</u> 1967-68, households; <u>/e</u> 1965. |
| <u>PHILIPPINES</u> | <u>1970</u> | <u>/a</u> Public education only; <u>/b</u> 1967; <u>/c</u> Imports only. |

R9 March 17, 1976

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

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

GNP per capita (US\$) - GNP per capita estimates at market prices, calculated by same conversion method as World Bank Atlas (1972-74 basis).

Population and vital statistics

Population (mid-yr. million) - As of July first; if not available, average of two end-year estimates.

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

Population density - per square km of arable land - Computed as above for arable land only.

Vital statistics

Crude birth rate per thousand - Annual live births per thousand of mid-year population, usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Crude death rate per thousand - Annual deaths per thousand of mid-year population; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

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

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

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

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70, and 1960 to most recent year.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

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

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

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

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

Family Planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

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

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of population.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

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

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

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

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

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

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

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

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

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

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

Housing

Persons per room (average) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

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

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

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

ECONOMIC INDICATORS

| | <u>GROSS NATIONAL PRODUCT IN 1974</u> | | <u>ANNUAL RATE OF GROWTH (% , constant prices)</u> | | |
|---------------------------|---------------------------------------|----------|--|-----------------|-------------|
| | <u>US\$ Mln.</u> | <u>%</u> | <u>1960 -65</u> | <u>1965 -70</u> | <u>1974</u> |
| GNP at Market Prices | 22479 | 100.0 | 1.9 | 4.9 | 5.6 |
| Gross Domestic Investment | 4330 | 19.3 | 3.3 | 11.5 | 19.2 |
| Gross National Saving | 4336 | 19.3 | 5.8 | 5.1 | 64.8 |
| Current Account Balance | 6 | 0.0 | | | |
| Exports of Goods, NFS | 6755 | 30.0 | 1.5 | 7.8 | 0.5 |
| Imports of Goods, NFS | 5527 | 24.6 | 0.2 | 10.9 | 33.2 |

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1971

| | <u>Value Added^{1/}</u> | | <u>Labor Force^{2/}</u> | | <u>V. A. Per Worker</u> | |
|---------------|---------------------------------|----------|---------------------------------|----------|-------------------------|----------|
| | <u>US\$ Mln.</u> | <u>%</u> | <u>Mln.</u> | <u>%</u> | <u>US \$</u> | <u>%</u> |
| Agriculture | 4221 | 44.8 | 30.5 | 69.0 | 138 | 65 |
| Industry | 1915 | 20.3 | 3.0 | 6.8 | 638 | 300 |
| Services | 3279 | 34.9 | 8.3 | 18.8 | 395 | 185 |
| Unallocated | - | - | 2.4 | 5.4 | . | . |
| Total/Average | 9415 | 100.0 | 44.2 | 100.0 | 213 | 100.0 |

GOVERNMENT FINANCE

| | <u>Central Government</u> | | |
|---------------------------|---------------------------|-----------------|-------------|
| | <u>Rp Mln.</u> | <u>% of GDP</u> | |
| | <u>1974/75</u> | <u>1974</u> | <u>1973</u> |
| Current Receipts | 1759 | 17.9 | 15.0 |
| Current Expenditure | 1001 | 10.2 | 10.8 |
| Current Surplus | 758 | 7.7 | 4.2 |
| Capital Expenditures | 966 | 9.8 | 7.3 |
| External Assistance (net) | 234 | 2.4 | 3.2 |

| <u>MONEY, CREDIT and PRICES</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> |
|---------------------------------|-------------|---|-------------|-------------|-------------|-------------|
| | | <u>(Billion Rp. outstanding end period)</u> | | | | <u>June</u> |
| Money and Quasi Money | 330 | 469 | 695 | 987 | 1452 | 1776 |
| Bank credit to Public Sector | 57 | 129 | 58 | 37 | 2 | 29 |
| Bank Credit to Private Sector | 306 | 451 | 555 | 936 | 1126 | 1837 |

(Percentages or Index Numbers)

| | | | | | |
|-------------------------------------|-------|-------|--------|--------|------|
| Money and Quasi Money as % of GDP | 9.9 | 12.8 | 15.2 | 14.6 | 14.8 |
| General Price Index(Sept. 1966=100) | 612 | 638 | 680 | 891 | 1253 |
| Annual percentage changes in: | | | | | |
| General Price Index | 12.3 | 4.2 | 6.6 | 31.0 | 40.6 |
| Bank credit to Public Sector | - 5.0 | 126.3 | - 55.0 | - 36.2 | . |
| Bank credit to Private Sector | 77.9 | 47.4 | 23.0 | 68.6 | 20.3 |

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

^{1/} Conversion at an exchange rate of Rp. 390 = US\$1.

^{2/} Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

.. not available
. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

| | <u>1972</u> | <u>1973</u> | <u>1974</u> |
|-----------------------------|-----------------------|-------------|-------------|
| | (Millions US \$) Est. | | |
| Exports of Goods, NFS | 1757 | 2957 | 6755 |
| Imports of Goods, NFS | 1875 | 3170 | 5527 |
| Resource Gap (deficit = -) | - 118 | - 213 | 1228 |
| Interest Payments (net) | - 46 | - 50 | - 106 |
| Workers' Remittances | - | - | - |
| Other Factor Payments (net) | - 318 | - 543 | - 1116 |
| Net Transfers | - 364 | - 593 | - 1222 |
| Balance on Current Account | = 482 | - 806 | + 6 |
| Direct Foreign Investment | 258 | 290 | 471 |
| Net MLT Borrowing | | | |
| Disbursements | 447 | 624 | 1072 |
| Amortization | - 70 | - 138 | 231 |
| Subtotal | 377 | 486 | 841 |
| Capital Grants | .. | .. | .. |
| Other Capital (net) | 181 | 208 | - 628 |
| Other items n.e.i | 98 | 147 | .. |
| Increase in Reserves (+) | 432 | 325 | 690 |
| Gross Reserves (end year) | 574 | 806 | 1473 |
| Net Reserves (end year) | 458 | 783 | 1473 |
| Fuel and Related Materials | | | |
| Imports | 4 | 4 | 4 |
| of which: Petroleum | 2 | 2 | 1 |
| Exports | 877 | 1348 | 4556 |
| of which: Petroleum | 877 | 1348 | 4556 |

RATE OF EXCHANGE

| <u>Through July 1971</u> | <u>Since August 1971</u> |
|--------------------------|--------------------------|
| US \$ 1.00 = Rp. 375 | US \$ 1.00 = Rp. 415 |
| 1.00 = US \$ 0.0027 | 1.00 = US \$ 0.0024 |

MERCHANDISE EXPORTS (AVERAGE 1972-74)

| | <u>US \$ Mln</u> | <u>%</u> |
|-----------------------|------------------|----------|
| Oil | 2260 | 59.1 |
| Rubber | 359 | 9.4 |
| Timber | 513 | 13.4 |
| Palm Oil | 93 | 2.4 |
| Tin | 104 | 2.7 |
| Coffee | 84 | 2.2 |
| All other commodities | 410 | 10.8 |
| Total | 3823 | 100.0 |

EXTERNAL DEBT, DECEMBER 31, 1974

| | <u>US \$ Mln</u> |
|---|------------------|
| Public Debt, incl. guaranteed | 5895 |
| Non-Guaranteed Private Debt | .. |
| Total outstanding & Disbursed | .. |
| <u>DEBT SERVICE RATIO for 1974^{1/}</u> | <u>%</u> |
| Public Debt, incl. guaranteed | 7.7 |
| Non-Guaranteed Private Debt | .. |
| Total outstanding & Disbursed | .. |

IBRD/IDA LENDING, (Jan. 31, 1976) (Million US \$):

| | <u>IBRD</u> | <u>IDA</u> |
|-------------------------------|-------------|------------|
| Outstanding & Disbursed | 61.6 | 315.7 |
| Undisbursed | 386.4 | 246.1 |
| Outstanding incl. Undisbursed | 448.0 | 561.8 |

^{1/} Ratio of Debt Service to Exports of Goods and Non-Factor Services, with oil exports net of factor payments and imports of the oil sector

.. not available

.. not applicable

March 19, 1976

THE STATUS OF BANK GROUP OPERATIONS IN INDONESIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of January 31, 1976)

| <u>Loan/ Credit Number</u> | <u>Fiscal Year</u> | <u>Purpose</u> | <u>US\$ Million</u> | | |
|------------------------------------|------------------------|---|-----------------------------------|-------------|------------------------|
| | | | <u>Amount (less cancellation)</u> | <u>Bank</u> | <u>IDA Undisbursed</u> |
| Three credits fully disbursed | | | 11.0 | | |
| 154 | 1969 | Highway | 28.0 | | 0.2 |
| 155 | 1969 | Agricultural Estates | 16.0 | | 0.2 |
| 165 | 1970 | Electricity Distribution | 15.0 | | 0.2 |
| 193 | 1970 | PUSRI Fertilizer | 35.0 | | 0.1 |
| 194 | 1970 | Second Agricultural Estates | 17.0 | | 2.6 |
| 195 | 1970 | Second Irrigation Rehabilitation | 18.5 | | 1.0 |
| 210 | 1971 | Telecommunications Expansion | 12.8 | | 0.2 |
| 211 | 1971 | Fisheries | 3.5 | | 0.2 |
| 219 | 1971 | Education | 4.6 | | 0.7 |
| 220 | 1971 | Third Irrigation Rehabilitation | 14.5 | | 2.0 |
| 246 | 1971 | Seeds | 7.5 | | 2.7 |
| 259 | 1971 | Tea | 15.0 | | 4.3 |
| 260 | 1971 | Second Highway | 34.0 | | 5.5 |
| 275 | 1972 | Third Technical Assistance | 4.0 | | 1.0 |
| 288 | 1972 | Second Education | 6.3 | | 5.6 |
| 289 | 1972 | Fourth Irrigation Rehabilitation | 12.5 | | 2.3 |
| 300 | 1972 | Population | 13.2 | | 8.2 |
| 310 | 1972 | Development Finance Co. (BAPINDO I) | 10.0 | | 1.5 |
| 318 | 1972 | Inter-Island Fleet Rehabilitation | 8.5 | | 4.3 |
| 319 | 1972 | Fourth Agricultural Estates | 11.0 | | 6.8 |
| 334 | 1973 | Second Electricity Distribution | 40.0 | | 17.1 |
| 355 | 1973 | Beef Cattle Development | 3.6 | | 2.8 |
| 358 | 1973 | North Sumatera Smallholder Development | 5.0 | | 3.1 |
| 387 | 1973 | Third Education | 13.5 | | 11.1 |
| 388 | 1973 | Third Highway | 14.0 | | 7.7 |
| 399 | 1973 | West Java Thermal Power | 46.0 | | 36.2 |
| 400 | 1973 | Smallholder and Private Estate Tea | 7.8 | | 7.4 |
| 405 | 1973 | Sugar Industry Rehabilitation | 50.0 | | 32.5 |
| 428 | 1974 | Pulo Gadung Industrial Estate | 16.5 | | 14.9 |
| 436 | 1974 | Private Development Finance Co. (PDFCI) | 10.0 | | 8.2 |
| 451 | 1974 | Fourth Technical Assistance | 5.0 | | 4.4 |
| 479 | 1974 | Bali Tourism | 16.0 | | 15.3 |
| 480 | 1974 | Fisheries Credit | 6.5 | | 6.3 |
| 514 | 1975 | Jatiluhur Irrigation Extension | 30.0 | | 29.5 |

(Continued)

| <u>Loan/ Credit Number</u> | <u>Fiscal Year</u> | <u>Purpose</u> | <u>US\$ Million</u> | | | |
|------------------------------------|---|---|-----------------------------------|--------------|--------------|--------------------|
| | | | <u>Amount (less cancellation)</u> | <u>Bank</u> | <u>IDA</u> | <u>Undisbursed</u> |
| 1005 | 1974 | Railway | | 48.0 | | 47.0 |
| 1040 | 1975 | Jakarta Urban Development | | 25.0 | | 20.2 |
| 1049 | 1975 | Five Cities Water Supply | | 14.5 | | 13.6 |
| 1054 | 1975 | Development Finance Co. (BAPINDO II) | | 50.0 | | 46.5 |
| 1089 | 1975 | Second Fertilizer Expansion | | 115.0 | | 67.1 |
| 1100 | 1975 | Sixth Irrigation | | 65.0 | | 64.7 |
| 1127 | 1975 | Fourth Power | | 41.0 | | 41.0 |
| 1139 | 1976 | Fertilizer Distribution | | 68.0 | | 64.8 |
| 1179 /a | 1976 | Agricultural Research & Extension | | <u>21.5</u> | | <u>21.5</u> |
| | Total | | | 448.0 | 561.8 | 632.5 |
| | of which has been repaid | | | <u>-</u> | <u>-</u> | <u>-</u> |
| | Amount Sold | 0.1 | | 448.0 | 561.8 | |
| | of which has been repaid | <u>0.0</u> | | <u>0.1</u> | | |
| | Total now held by Bank and IDA (prior to exchange adjustment) | | | <u>447.9</u> | <u>561.8</u> | |
| | Total undisbursed | | | <u>386.4</u> | <u>246.1</u> | <u>632.5</u> |

/a Became effective February 23, 1976.

STATEMENT OF IFC INVESTMENTS (as of January 31, 1976)

| <u>Fiscal Year</u> | <u>Obligor</u> | <u>Type of Business</u> | <u>US\$ million</u> | | |
|------------------------|--------------------------------------|--|---------------------|---------------|--------------|
| | | | <u>Loan</u> | <u>Equity</u> | <u>Total</u> |
| 1971 | P.T. Semen Cibinong | Cement | 10.6 | 2.5 | 13.1 |
| 1971 | P.T. Unitex | Textiles | 2.5 | 0.8 | 3.3 |
| 1971 | P.T. Primatexco Indonesia | Textiles | 2.0 | 0.5 | 2.5 |
| 1971 | P.T. Kabel Indonesia | Cables | 2.8 | 0.4 | 3.2 |
| 1972 | P.T. Daralon Textile Manuf. Corp. | Textiles | 4.5 | 1.5 | 6.0 |
| 1973 | P.T. Jakarta Int. Hotel | Tourism | 11.0 | - | 11.0 |
| 1973 | P.T. Semen Cibinong | Cement | 5.4 | 0.7 | 6.1 |
| 1974 | P.T. Primatexco Indonesia | Textiles | 2.0 | 0.3 | 2.3 |
| 1974 | P.T. Monsanto Pan Electronics | Electronics | 0.9 | - | 0.9 |
| 1974 | P.T. PDFCI | Devlp. Fin. Co. | - | 0.5 | 0.5 |
| 1974 | P.T. Kamaltex | Textiles | 2.4 | 0.6 | 3.0 |
| 1974 | P.T. Semen Cibinong | Cement | <u>5.0</u> | <u>1.5</u> | <u>6.5</u> |
| | | Total | 49.1 | 9.3 | 58.4 |
| | | Less: sold or repaid and cancelled | <u>20.2</u> | <u>1.5</u> | <u>21.7</u> |
| | | Total now held | <u>28.9</u> | <u>7.8</u> | <u>36.7</u> |
| | | <u>Undisbursed</u> | | | |
| | | (including parti- cipant's portion) | 5.4 | 1.5 | 6.9 |

PROJECTS IN EXECUTION 1/

Cr. No. 127: Irrigation Rehabilitation: US\$5 Million Credit of
September 6, 1968; Effective Date: March 25, 1969;
Closing Date: December 31, 1976.

It is expected that all civil works will be completed by March 1976. Additional drainage work will be carried out under Loan 1100-IND and tertiary development under the proposed Irrigation VII Project. The closing date has been postponed by one year to allow for payment of late accounts. The adequacy and timeliness of operation and maintenance of completed irrigation rehabilitation projects is presently under discussion with the Government.

Cr. No. 154: Highways: US\$28 Million Credit of June 20, 1969;
Effective Date: October 2, 1969; Closing Date:
December 31, 1975.

Rehabilitation work, of acceptable quality, has been completed. The work accomplished exceeded the project's original target. The program for improved highway maintenance included in the project has been completed. A project completion report is being prepared for issuance before June 30, 1976.

Cr. No. 155: Agricultural Estates: US\$16 Million Credit of June 20,
1969; Effective Date: December 10, 1969;
Closing Date: December 31, 1976.

With improvements in management and much higher international prices, particularly for palm oil, prevailing in 1974, the financial position of the estate groups has improved. The field and factory standards have now been raised to a good technical level and the managements have been advised to concentrate on cost control in order to prepare for the time when produce prices may become less attractive. The combined efforts of the management, consultants and IDA missions to review project implementation are yielding good results. The closing date has been postponed to December 31, 1976 to enable payment to consultants for services for other rubber estates.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 165: Electricity Distribution: US\$15 Million Credit of
October 29, 1969; Effective Date: June 1, 1970;
Closing Date: December 31, 1975.

The closing date was postponed to December 31, 1975, to allow for payment of small amounts outstanding. The project completion report will be prepared in conjunction with that for Credit No. 334.

Cr. No. 193: PUSRI Fertilizer: US\$35 Million Credit of June 15,
1970 (as amended May 21, 1973); Effective Date:
January 15, 1971; Closing Date: December 31, 1976.

The urea plant has successfully passed its performance test and is operating at close to rated capacity. The gas gathering and transmission system is also completed and sufficient gas is being delivered to the plant. The closing date has been postponed to December 31, 1976 to allow for delivery and installation of remaining equipment.

Cr. No. 194: Second Agricultural Estates: US\$17 Million Credit of
June 15, 1970; Effective Date: February 9, 1971;
Closing Date: June 30, 1976.

After initial delays, there have been considerable improvements in management and these, combined with high prices, particularly for palm oil, have resulted in the two estate groups being put in a much stronger financial position. On the rubber group (PNP IV) more effort is necessary to improve agricultural standards and tapping methods. With the rapid expansion of investment of the palm oil group (PNP VI), there is a need to employ expertise in financial planning, control and management, which are now the main constraints to efficient development. This estate group is undertaking action in this respect. The closing date has been postponed by one year to allow payment for remaining equipment, civil works and consultants' contracts.

Cr. No. 195: Second Irrigation Rehabilitation: US\$18.5 Million Credit
of June 15, 1970; Effective Date: December 31, 1970;
Closing Date: November 30, 1976.

Problems of quality and progress of construction still exist, but the project entity assisted by the consultants are tackling these vigorously, and the situation is improving, although not sufficiently to make up for earlier delays. Costs are likely to be double the overall appraisal estimate, due to inflation, but the Government will provide any additional funds required. Completion of disbursements will be about two years behind the original schedule.

Cr. No. 210: Telecommunications Expansion: US\$12.8 Million Credit of July 13, 1970; Effective Date: February 18, 1971; Closing Date: June 30, 1976.

Contracts for all equipment have been awarded. The physical work has been substantially completed. The troposcatter system and the telex installation has been completed. Although Government has increased tariffs, PERUMTEL's financial results are not satisfactory and a review of its financial position is required. The closing date, which had been postponed by 18 months due to delays in the delivery of goods, has been postponed by another six months to allow for payments of outstanding contracts.

Cr. No. 211: Fisheries: US\$3.5 Million Credit of July 13, 1970; Effective Date: January 15, 1971; Closing Date: June 30, 1976.

The credit helps finance the construction of 30 fully equipped skipjack boats, auxiliary facilities and technical assistance. The project is about two years behind the original schedule due to delays in engaging consultants and in executing contracts for the shore facilities. There has been a substantial project cost increase but the project is still expected to be financially viable due to the greatly increased skipjack prices. Government plans to replace the present project management and seek early allocation of the additional funds necessary for full operation.

Cr. No. 219: Education: US\$4.6 Million Credit of November 6, 1970; Effective Date: January 29, 1971; Closing Date: December 31, 1976.

Project implementation in the Department of Education is satisfactory. Civil works for the five Technical Training Centers (TTCs) have been completed. About 90 percent of the equipment has been purchased and about 60 percent delivered and installed. All TTCs will operate at full capacity by January 1976 when the new academic year begins. Over 500 technical teachers have completed or are about to complete their training. Technical assistance financed by the U.K. for the project is also satisfactory. Disbursement has improved considerably. Revised total project cost is now about 40 percent above appraisal estimate. The Government will finance the cost overrun. The project is expected to be completed about three months ahead of schedule.

Cr. No. 220: Third Irrigation Rehabilitation: US\$14.5 Million Credit of November, 1970; Effective Date: May 28, 1971; Closing Date: June 30, 1977.

Construction remains about two to three years behind schedule. The problems which caused this delay - difficulties in preparation of contract document, late financial allocations, heavy rains in the 1973 construction season and, more recently, slow response by GOI to high inflation rates and consequent civil works costs overruns - have been mainly overcome,

but time lost cannot be regained. Estimated project cost is 50 percent above the appraisal estimate, but with higher rice prices on the world market, the project's economic rate of return remains over 20 percent. The closing date has been postponed by 18 months as a result of project delay.

Cr. No. 246: Seeds: US\$7.5 Million Credit of May 19, 1971;
Effective Date: December 7, 1971; Closing Date:
September 30, 1977.

Significant progress has been made in the construction of the irrigation infrastructure and in land development at the National Seeds Corporation (NSC). Construction is proceeding satisfactorily and is now 70 percent completed. The inadequacy of NSC management at the operational level is reflected in technical production problems, low yields of seed and high costs of production. Increasing nation-wide production problems caused by prevalent disease, pests and insect losses has resulted in government authorities now giving certified seed production high priority.

Cr. No. 259: Tea: US\$15 Million Credit of June 24, 1971; Effective
Date: September 17, 1971; Closing Date: June 30, 1978.

Agricultural achievements to date have far exceeded appraisal expectations necessitating construction and rehabilitation of three additional factories. Project completion, estimated for December 1977, can probably be advanced by up to one year. Rising costs are creating pressure on available funds and the main challenge for the two PTPs will be to reduce working capital requirements, as well as overhead and indirect costs, and improve labor productivity.

Cr. No. 260: Second Highway: US\$34 Million Credit of June 24, 1971;
Effective Date: August 10, 1971; Closing Date:
December 31, 1976.

Construction work is about 80 percent finished and should be completed by August 1976, about one and a half years behind schedule. The delay was caused largely by slow progress in mobilizing contractors, difficulties in equipment delivery, heavy rains and landslides. The closing date has therefore been postponed to December 31, 1976. Design standards for the road sections have been slightly lowered and some savings have been achieved, which, together with other savings have partly offset construction cost increases.

Cr. No. 275: Third Technical Assistance: US\$4.0 Million Credit of
December 29, 1971; Effective Date: February 25,
1972; Closing Date: December 31, 1976.

Progress on this project is satisfactory. The closing date has been postponed by another year to complete disbursements for ongoing studies.

Cr. No. 288: Second Education: US\$6.3 Million Credit of March 9, 1972; Effective Date: June 7, 1972; Closing Date: December 31, 1976.

This agricultural training project, being implemented by the Department of Agriculture, is about 16 months delayed because of late appointment of consultant architects, lack of counterpart funds, delays in bid analysis and in awarding contracts. As a result, civil works, which were to be completed already, have not commenced. Furniture and equipment procurement have therefore been deferred. Unlike the physical aspects of the project, the educational aspects are generally on schedule. Total project costs are now estimated to be 90 percent higher than the original estimate. Government has budgeted for the cost overrun. Disbursement, which has been slow, should improve since civil works contracts have now been awarded.

Cr. No. 289: Fourth Irrigation Rehabilitation: US\$12.5 Million Credit of March 9, 1972; Effective Date: May 5, 1972; Closing Date: June 30, 1977.

Civil Works and equipment purchases for the main project, Pekalen-Sampean, are proceeding but completion of civil works will be about two years behind schedule. Due to inflation, project costs are likely to be substantially higher than appraisal estimates. Consultants for the various studies are at work with their counterparts. Groundwater investigations have been delayed due to procurement difficulties. The rehabilitation and storage feasibility studies are on schedule. Disbursements are also on schedule.

Cr. No. 300: Population: US\$13.2 Million Credit of April 20, 1972; Effective Date: November 2, 1972; Closing Date: June 30, 1978.

Progress of this project is generally satisfactory. Steps are being taken to improve preparation and implementation of project components concerned with communications, research and evaluation. All vehicles have been procured and good progress is being made with equipment procurement. The civil works section of the Project Implementation Unit functions well but is underutilized because of delays in making policy decisions. Construction costs will exceed appraisal estimates by 135 percent. Population Education is now being introduced into school curricula after a successful trial. Despite its limitations, the national family planning program, of which the project is an integral part, is expanding annually.

Cr. No. 310: Development Finance Co. (BAPINDO I): US\$10 Million Credit of June 7, 1972; Effective Date: August 10, 1972; Closing Date: December 31, 1976.

This credit is fully committed.

Cr. No. 318: Inter-Island Fleet Rehabilitation: US\$8.5 Million Credit of June 28, 1972; Effective Date: October 19, 1972; Closing Date: September 30, 1976.

Progress on this project is generally satisfactory.

Cr. No. 319: Fourth Agricultural Estates: US\$11 Million Credit of June 28, 1972; Effective date: January 30, 1973; Closing Date: June 30, 1981.

The physical progress of the project is ahead of the appraisal schedule. The financial position of the estate group is difficult due to an unsatisfactory debt/equity ratio. Measures to improve the situation are under review.

Cr. No. 334: Second Electricity Distribution: US\$40 Million Credit of September 29, 1972; Effective Date: March 12, 1973; Closing Date: December 31, 1976.

The Jakarta distribution program financed from Credits 165-IND and 334-IND (together \$55 million) encountered implementation delays due to procurement problems and cumbersome management procedures. As a result the project is two years behind the original schedule. These difficulties have been resolved and recent progress is encouraging. No further delays are therefore expected.

Cr. No 355: Beef Cattle Development: US\$3.6 Million Credit of January 31, 1973; Effective Date: May 30, 1973; Closing Date: March 31, 1980.

Several problems have seriously delayed project implementation. Land acquisition and procurement of cattle and goods have been difficult. Government's budget allocation has been insufficient; and financial management and coordination have been weak. The last supervision mission undertook a thorough project review and its recommendations, which include major changes in project scope and objectives, are presently under discussion with Government.

Cr. No. 358: North Sumatra Smallholder Development: US\$5 Million Credit of February 14, 1973; Effective Date: August 13, 1973; Closing Date: December 31, 1981.

Project performance, which had suffered from severe financial and organizational difficulties, has improved greatly. Physical progress is encouraging; rubber planting and rice intercropping are now on schedule. There is some room for improvement in financial management, in which consultants are assisting. Total project costs are now estimated at about three times the original estimate of US\$10 million. Disbursements are expected to be completed ahead of schedule.

Cr. No. 387: Third Education: US\$13.5 Million Credit of June 1, 1973; Effective Date: August 29, 1973; Closing Date: December 31, 1981.

The project is about 10 months behind schedule, mainly due to insufficient top management staff and paper shortages last year. The paper shortage has been overcome and about 32 million text books will be printed by January 1976, about four months behind schedule. Steps are being taken to strengthen project management and to improve arrangements for expert services. Measures to improve project implementation have been discussed and agreed with the Government. The book testing and teacher training programs are on schedule, but their results have not yet been evaluated. Procurement of instructional equipment will be completed by early 1976.

Cr. No. 388: Third Highways: US\$14 Million Credit of June 1, 1973; Effective Date: June 25, 1973; Closing Date: June 30, 1977.

Construction work on the two North Sulawesi road sections in the project was started early in 1974 under two contracts and is now 35 percent completed. Contractors have been delayed mainly because of long mobilization periods and heavy rains. Project costs will likely exceed original estimates (including contingencies) by 57 percent mainly due to sharply escalated prices. The training program has been completed successfully.

Cr. No. 399: West Java Thermal Power: US\$46 Million Credit of June 22, 1973; Effective Date: August 28, 1973; Closing Date: June 30, 1978.

Bids received for the first two 100 mw units at Muara Karang were about 65 percent higher than estimated at the time of appraisal. This, together with construction cost increases, has resulted in an increase in the total project cost of more than 100 percent. Government will provide the additional funds required. PLN has satisfactorily met the initial targets in its financial recovery plan provided for under the terms of the Credit Agreement.

Cr. No. 400: Smallholder and Private Estate Tea: US\$7.8 Million Credit of June 22, 1973; Effective Date: November 30, 1973; Closing Date: March 31, 1982.

Planting is presently slightly behind schedule but it is expected that targets will be achieved or even exceeded by the end of the 1975/76 planting season. Project nurseries are well organized and field work is proceeding well. Also non-participating farmers have benefitted from the project. Total project costs are estimated to be double the amount originally envisaged and project management is attempting to achieve cost reductions. Due to the high prices for tea (about twice the level expected at the time of appraisal), the economic rate of return is still satisfactory.

Cr. No. 405: Sugar Industry Rehabilitation: US\$50 Million Credit of June 26, 1973; Effective Date: April 22, 1974; Closing Date: June 30, 1979.

In view of the rapid and continuing increase in the cost of sugar factory machinery and the more recent shortage of budgetary funds, the scope of the above-mentioned project has been reduced by the deletion of six minor rehabilitations from the project description. The revised project consists of the major rehabilitation of two factories and the construction of a new factory. Credit funds have been reallocated from the minor to the major rehabilitation and to the new construction.

Cr. No. 428: Pulo Gadung Industrial Estate: US\$16.5 Million Credit of September 14, 1973; Effective Date: November 13, 1973; Closing Date: December 31, 1978.

Despite an increase in construction costs, the project remains financially viable because revenues from the sale of plots has risen proportionately. Construction has fallen behind schedule due to land acquisition problems, but developed land is being occupied as fast as it is made available. While there is still a backlog of applications for industrial plots, the rate of new applications has fallen off during recent months and the estate is intensifying its promotional efforts.

Cr. No. 436: Private Development Finance Company of Indonesia (PDFCI): US\$10 Million Credit of November 2, 1973; Effective Date: March 6, 1974; Closing Date: December 31, 1978.

After a long start-up period and difficulties in finding and recruiting qualified local staff, PDFCI has now reached the operating stage. Commitments have started and are expected to increase rapidly as PDFCI's own operational capability improves.

Cr. No. 451: Fourth Technical Assistance: US\$5 Million Credit of January 2, 1974; Effective Date: February 15, 1974; Closing Date: December 31, 1976.

Progress under the project is satisfactory.

Cr. No. 479: Bali Tourism: US\$16.0 Million Credit of June 14, 1974; Effective Date: December 4, 1974; Closing Date: August 31, 1979.

Project implementation has improved after initial difficulties. Tender documents for all major infrastructure works were issued in January 1976. The earliest possible completion date has shifted from February 1979 to October 1979. Budgetary allocations as requested by the Bali Tourism Development Corporation for FY76/77 are satisfactory. Negotiations with one group of investors are in progress but otherwise investor interest appears to be low. Promotional efforts to attract additional investors will be intensified in 1976.

Cr. No. 480: Fisheries Credit: US\$6.5 Million Credit of June 14, 1974;
Effective Date: January 8, 1975; Closing Date: June 30, 1979.

After initial delays in project organization and preparation by Bank Rakyat Indonesia (BRI), the project is progressing well. Physical progress is encouraging and lending started in October 1975. Disbursements are therefore expected to be on schedule soon.

Cr. No. 514: Jatiluhur Irrigation Extension: US\$30 Million Credit
of October 3, 1974; Effective Date: January 10, 1975;
Closing Date: December 31, 1980.

The consultants are designing works and preparing contract documents. The first civil works contract is expected to be let in May 1976, about nine months behind the original schedule.

Loan No. 1005: Railway: US\$48.0 Million Loan of June 14, 1974;
Effective Date: August 16, 1974; Closing Date:
December 31, 1978.

Procurement of material and equipment, which had been slow due to poor organization and inadequate budget allocation, has now improved. Bids have been received for most items and the bulk of the contracts should be signed soon. Passenger traffic in 1975 is slightly lower than in 1974, but still higher than forecast; freight traffic has continued to decline due mainly to poor maintenance and inadequate motive power, which should improve towards the end of 1976. Although tariffs were raised in May 1975, increasing passenger revenues by about 25 percent and freight revenues by about 10 percent, the operating ratio is likely to deteriorate further, as operating costs have continued to rise at a faster rate.

Loan No. 1040: Jakarta Urban Development: US\$25 Million Loan of
September 27, 1974; Effective Date: January 15, 1975;
Closing Date: December 31, 1977.

Progress on the Kampung Improvement Program has been very good; costs were less than estimated, allowing additional work to be undertaken. Execution of the Klender Sites and Services Scheme is a year behind schedule due to disagreements about site boundaries. Most consultant contracts commenced early in 1976.

Loan No. 1049: Five Cities Water Supply: US\$14.5 Million Loan of
October 31, 1974; Effective Date: May 21, 1975;
Closing Date: June 30, 1980.

Due to administrative and managerial problems the project is running 8-10 months behind schedule. This delay together

with higher rates of inflation than anticipated is expected to increase project costs 20-25 percent above the appraisal estimate. Water Enterprises have now been established in each of the five cities and good progress has been made in their staffing. The anticipated interdepartmental decree which would govern the relationship of the Water Enterprises to the Central Government's Directorate of Sanitary Engineering has not been issued; it is now proposed to clarify this relationship in a Presidential Decree which is being drafted.

Loan No. 1054: Development Finance Co. (BAPINDO II): US\$50 Million Loan of November 20, 1974; Effective Date: January 14, 1975; Closing Date: December 31, 1978.

Commitments and disbursements initially were slower than expected, but they should increase in the second half of FY76. The progress of this project is satisfactory.

Loan No. 1089: Second Fertilizer Expansion: US\$115 Million Loan of February 28, 1975; Effective Date: April 29, 1975; Closing Date: August 31, 1978.

Work on the PUSRI III project is proceeding according to schedule. Work on the related gas pipeline is experiencing delay, but steps are being taken to expedite implementation.

Loan No. 1100: Sixth Irrigation: US\$65 Million Loan of April 10, 1975; Effective Date: June 20, 1975; Closing Date: June 30, 1982.

Consultants for the project and technical assistance advisors have been selected. Construction work is about five months behind schedule due to the delay in selection of consultants.

Loan No. 1127: Fourth Power: US\$41 Million Loan of June 17, 1975; Effective Date: October 23, 1975; Closing Date: June 30, 1980.

The options for a third 100 MW unit at Muara Karang, which were included in the tenders for the first two units financed under Credit 399, have been exercised. The project is on schedule and expected to be completed during 1978.

Loan No. 1139: Fertilizer Distribution: US\$68 Million Loan of July 10, 1975; Effective Date: August 28, 1975; Closing Date: December 31, 1978.

Progress design is satisfactory. About 60 percent of the equipment and materials required for the project have been procured.

Loan No. 1179: Agricultural Research and Extension: US\$21.5 Million
Loan of December 19, 1975; Closing Date:
December 31, 1981.

This loan became effective on February 23, 1976.

Loan No. 1197: National Resource Survey and Mapping Project: US\$13.0
Million Loan of February 5, 1976; Closing Date:
December 31, 1981.

This loan is expected to be effective by May 1976.

INDONESIA - FOURTH EDUCATION PROJECT
LOAN AND PROJECT SUMMARY

- Borrower: Republic of Indonesia
- Amount: \$37.0 million
- Terms: 25 years including six years of grace, at an interest rate of 8-1/2 percent per annum.
- Project
Description:
- (i) the construction of and equipment for:
 - two technical teacher training facilities and four centralized workshops under the Department of Education;
 - seventeen vocational training centers under the Department of Manpower;
 - new facilities for the National Institute of Administration; and
 - (ii) equipment for one instructor training center and twenty rural and five urban mobile training units under the Department of Manpower.
- Project Costs: The table below summarizes the costs of the project:

| | Number of Institutions | Rupiah (billion) | | | \$ (million) | | |
|--------------------------------------|---------------------------|------------------|--------------|--------------|--------------|--------------|-----------------|
| | | Local | Foreign | Total | Local | Foreign | Total |
| A. Department of Education | | | | | | | |
| Tech. Tchr. Trg. | 2 | 1.12 | 0.94 | 2.06 | 2.70 | 2.26 | 4.96 |
| Centralized Workshops | 4 | <u>2.48</u> | <u>3.32</u> | <u>5.80</u> | <u>5.99</u> | <u>8.00</u> | <u>13.99</u> |
| Sub-total | | 3.60 | 4.26 | 7.86 | 8.69 | 10.26 | 18.95 |
| B. Department of Manpower | | | | | | | |
| Vocational Trg. Centers | 17 | 2.90 | 3.08 | 5.98 | 6.97 | 7.44 | 14.41 |
| Instructor Trg. Centers | 1 | 0.02 | 0.14 | 0.16 | 0.05 | 0.34 | 0.39 |
| Mobile Training Units | 25 | <u>0.14</u> | <u>0.96</u> | <u>1.10</u> | <u>0.34</u> | <u>2.31</u> | <u>2.65</u> |
| Sub-total | | 3.06 | 4.18 | 7.24 | 7.36 | 10.09 | 17.45 |
| C. Nat. Inst. of Admin. (LAN) | | | | | | | |
| Base Cost Estimate | 1 | <u>0.74</u> | <u>0.45</u> | <u>1.19</u> | <u>1.79</u> | <u>1.08</u> | <u>2.87</u> |
| Contingencies | | | | | | | |
| - Physical (10%) | | 0.74 | 0.89 | 1.63 | 1.78 | 2.14 | 3.92 |
| - Price Increases | | <u>2.82</u> | <u>2.89</u> | <u>5.71</u> | <u>6.79</u> | <u>6.97</u> | <u>13.76</u> |
| TOTAL CAPITAL COST | | 10.96 | 12.67 | 23.63 | 26.41 | 30.54 | 56.95 |
| D. Technical Assistance /a | | | | | | | |
| (i) Dept. of Education | | 0.10 | 0.95 | 1.05 | 0.26 | 2.26 | 2.54 |
| (ii) Dept. of Manpower | | 0.10 | 0.87 | 0.97 | 0.23 | 2.11 | 2.34 |
| (iii) Nat. Inst. of Admin. | | <u>0.04</u> | <u>0.32</u> | <u>0.36</u> | <u>0.09</u> | <u>0.77</u> | <u>0.86</u> |
| T.A. Base Cost Estimate | | 0.24 | 2.14 | 2.38 | 0.58 | 5.16 | 5.74 |
| Contingencies | | <u>0.06</u> | <u>0.56</u> | <u>0.62</u> | <u>0.15</u> | <u>1.34</u> | <u>1.49</u> |
| Sub-total | | 0.30 | 2.70 | 3.00 | 0.73 | 6.50 | 7.23 |
| TOTAL PROJECT COST | | <u>11.26</u> | <u>15.37</u> | <u>26.63</u> | <u>27.14</u> | <u>37.04</u> | <u>64.18</u> /a |

/a Excluding technical assistance financed by the U.K. and the UNDP (\$800,000).

Financing Plan: The proposed loan of \$37.0 million would finance 98 percent of the foreign exchange cost, or about 58 percent of the project; the U.K. Government and the UNDP would finance the remaining foreign exchange cost (\$800,000). The Government's contribution would amount to about \$27.2 million.

Estimated
Disbursements:

| <u>Bank FY</u> | (\$ Millions) | | | | | <u>Total</u> |
|----------------|---------------|-------------|-------------|-------------|-------------|--------------|
| | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | |
| Annual | 2.1 | 9.0 | 18.1 | 6.5 | 1.3 | 37.0 |
| Cumulative | 2.1 | 11.1 | 29.2 | 35.7 | 37.0 | |

Procurement:

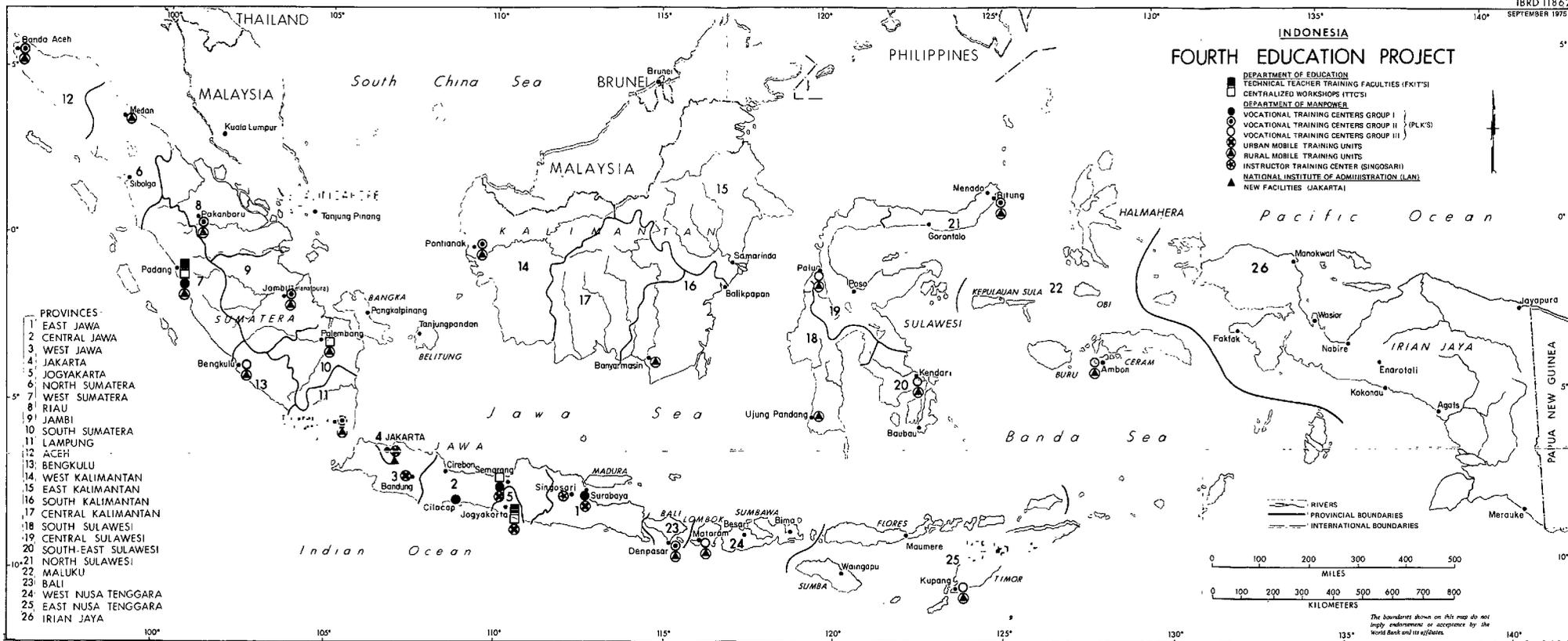
Contracts for civil works would be awarded following international competitive bidding in accordance with the Bank's Guidelines in the case of all Department of Education project institutions and of LAN (which are all in central locations and for which civil works costs excluding contingencies exceed \$1.5 million). In bid comparison, domestic contractors would be given a 7-1/2 percent preference. In the case of the smaller and often more remote project institutions administered by the Department of Manpower (with civil works costs ranging from \$200,000 to \$800,000), contracts for civil works would be awarded on the basis of competitive bidding following Government's normal procurement procedures, which are satisfactory to the Bank. Equipment and furniture contracts over \$50,000 equivalent would be awarded on the basis of international competitive bidding in accordance with the Bank's Guidelines. In bid comparison, domestic manufacturers would be allowed a preferential margin of 15 percent or existing customs duty, whichever is lower. Direct Government imports are exempt from customs duties and taxes. Equipment and furniture purchases which cannot reasonably be grouped to form contracts of at least \$50,000 equivalent, subject to an aggregate total of \$1.8 million equivalent, could be awarded on the basis of competitive bidding advertised locally following usual Government procedures. Off-the-shelf items, in contracts costing less than \$10,000 equivalent subject to an aggregate total not exceeding \$200,000 equivalent could be purchased on the basis of a minimum of three price quotations.

Technical
Assistance:

A total of 104 man-years of specialist services and 61 man-years of fellowships would be needed. The U.K. and the UNDP would provide a total of 28 man-years for the Department of Education and for initial implementation. Technical assistance financed under the loan would be divided as follows:

- (a) Department of Education: 30 man-years of specialist services for curriculum and staff development and 41 man-years of fellowships;
- (b) Department of Manpower: 35 man-years of specialist services and 14 man-years of fellowships for strengthening management and supervision capability;
- (c) National Institute of Administration: 11 man-years of specialist services and six man-years of fellowships to develop curricula and a civil service training plan and train staff.

Appraisal Report No. 875-IND dated March 10, 1976.
East Asia & Pacific Projects Department.



- 1 EAST JAWA
- 2 CENTRAL JAWA
- 3 WEST JAWA
- 4 JAKARTA
- 5 JOGYAKARTA
- 6 NORTH SUMATERA
- 7 WEST SUMATERA
- 8 RIAU
- 9 JAMBI
- 10 SOUTH SUMATERA
- 11 LAMPUNG
- 12 ACEH
- 13 BENGKULU
- 14 WEST KALIMANTAN
- 15 EAST KALIMANTAN
- 16 SOUTH KALIMANTAN
- 17 CENTRAL KALIMANTAN
- 18 SOUTH SULAWESI
- 19 CENTRAL SULAWESI
- 20 SOUTH-EAST SULAWESI
- 21 NORTH SULAWESI
- 22 MALUKU
- 23 BALI
- 24 WEST NUSA TENGGARA
- 25 EAST NUSA TENGGARA
- 26 IRIAN JAYA