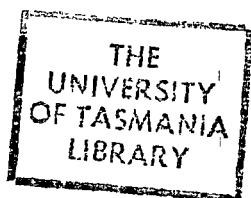


THE ADMINISTRATION OF FOREIGN AID
IN INDONESIA, 1969/70 - 1982/83

by

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ABBREVIATIONS

ADAB	Australian Development Assistance Bureau
ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BFTC	Bureau of Foreign Technical Cooperation (Biro Kerjasama Teknik Luar Negeri)
BIES	Bulletin of Indonesian Economic Studies
BIR	Bureau of International Relations LIPI (Biro Hubungan Internasional LIPI)
CCFTC	Coordinating Committee for Foreign Technical Cooperation (Panitia Koordinasi Kerjasama Teknik Luar Negeri)
DAC	Development Assistance Committee
DBC	Division of Bilateral Cooperation LIPI (Bagian Kerjasama Bilateral LIPI)
DIC	Division of International Cooperation (Bagian Kerjasama Internasional LIPI)
GNP	Gross National Product
IDRC	International Development Research Centre
IGGI	Inter Governmental Group on Indonesia
IUD	Intra Uterine Device
JICA	Japan International Cooperation Agency
JSPS	Japan Society for the Promotion of Science
KAIST	Korea Advance Institute of Science and Technology
NIE	National Institute for Electronique LIPI (Lembaga Elektronika Nasional LIPI)
NIEO	New International Economic Order
NTIS	National Technical Information Service
ODA	Official Development Assistance

OECD	Organisation for Economic Cooperation and Development
ORR	Office of Resident Representative - UNDP
R & D	Research and Development
S & T	Science and Technology
TCDC	Technical Cooperation Amongst Developing Countries
TOR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
US AID	United States Agency for International Development

INDONESIAN ABBREVIATIONS AND ACRONYMS

Baṗṗenas	Badan Perencanaan Pembangunan Nasional (Agency for National Development Planning)
GBHN	Garis-garis Besar Haluan Negara (The Guidelines of State Policy)
IPB	Institut Pertanian Bogor (Bogor Agriculture University)
LIPI	Lembaga Ilmu Pengetahuan Indonesia (Indonesian Institute of Sciences)
Pelita	Pembangunan Lima Tahun (Five Year Development)
PKTLN	Panitia Koordinasi Kerjasama Teknik Luar Negeri (Coordinating Committee for Foreign Technical Cooperation)
PUSKESMAS	Pusat Kesehatan Masyarakat (Public Health Centre)
RAPBN	Rencana Anggaran Pendapatan dan Belanja Negara (National Estimate of Income and Expenditure)
Repelita	Rencana Pembangunan Lima Tahun (Five Year Development Plan)
Rp	Rupiah (Indonesian Currency)
Set Kab	Sekretariat Kabinet (Cabinet Secretariat)
Tabanas	Tabungan Pembangunan Nasional (National Saving for Development)
UGM	Universitas Gadjah Mada (Gadjah Mada University)

INTRODUCTION

At the time Indonesia proclaimed her Independence the concept of a Welfare State was already part of the ethos of Indonesian nationalism. This idea implicates the State Ideology "Pancasila"¹, which was incorporated in the last paragraph of the preamble of the 1945 Constitution. Welfare for the entire people particularly refers to the principles of Social Justice. To achieve this the government has launched many development programmes. In particular, since 1969/70 the New Government has implemented a series of Five Year Development Plans (Repelita). These provide directives for general development, based on priorities to be achieved. Each concrete programme, however, is formulated in the development project section of the annual budget.

The implementation of these programmes has not been easy. It has required not only skill and expertise in various sectors but also considerable funds. Because domestic resources were insufficient to create savings to finance economic development it was clear that foreign aid was needed. The success of the stabilisation programme and the rate of early economic progress improved the international credit rating of Indonesia and much more aid was given. With the increase in the amount of foreign aid received one of the arguments which emerged was whether the existing administrative structure was capable of coping with the overall programme. Clearly foreign aid itself is not a panacea for economic development if it is not used

1. Pancasila consists of five principles, i.e. Belief in the One Deity, National Unity, Humanitarianism, Democracy and Social Justice.

properly. The existing administrative structure, the bureaucracy and the availability of qualified personnel all play an important role in determining the effectiveness of foreign aid.

The main aims of this study is to examine the administration of foreign aid in Indonesia. Particularly the way in which foreign aid has been administered in order to achieve development goals. So that the administration of foreign aid can be understood it will also be necessary to briefly discuss the role of foreign aid in the economic development of Indonesia. This is reflected particularly in the changes in its relative position as a proportion of total development spending.

Because the total scope of the administration of foreign aid is very broad, this study will be limited to the administration of foreign aid in those government sectors which are administered under the directive of the Coordinating Committee for Foreign Technical Cooperation (Panitia Koordinasi Kerjasama Teknik Luar Negeri = PKTLN). Particular emphasis will be given to the experience of the Indonesian Institute of Sciences (Lembaga Ilmu Pengetahuan Indonesia = LIPI).

Government publications and other reports as well as individuals interested in foreign aid are used as primary sources to illustrate the contribution of foreign aid to National Development. In analyzing the available material a descriptive approach will be applied throughout the study.

The overall structure of the thesis is arranged as follows:

Introduction

Chapter I : Development and Objectives of Foreign Aid

Chapter II : Foreign Aid and National Development

1969/70 - 1982/83

Chapter III : The Administration of Foreign Aid

Chapter IV : Profile of the Indonesian Institute of
Sciences (LIPI)

Chapter V : Conclusions

Chapter I deals with the development and objectives of foreign aid in general. This is discussed both theoretically and in terms of what was actually happening in Indonesia. In theory foreign aid is needed either as a supplement to or substitute for domestic funds. The basic expectation in Indonesia is that foreign aid is a supplement to domestic funds albeit this only occurred after the last year of Repelita I.

Chapter II of this study will firstly provide background information especially about political changes and problems faced during the first three years of the New Order Government. It is followed by discussion about government policies particularly Repelita (Rencana Pembangunan Lima Tahun = Five Year Development Plan), which lead to the achievement of development goals. Finally the discussion will canvass the role of foreign aid in national development because foreign aid constitutes a relatively large proportion of development funds.

Chapter III examines the administrative setting of foreign aid. It will include discussion about the official channels for

securing foreign aid, namely active and passive processes. Every year the government proposes foreign aid to donors. Consequently and in many cases without waiting for an official offer, project proposals have to be prepared by the executing agency. In some cases donors may offer such funds only for a particular field and therefore specific project proposals will only be made after the offer is received. These two techniques however, follow the same cycle.

Chapter IV discusses the tasks and functions of the Indonesian Institute of Sciences (LIPI), particularly its administrative structure and the way in which contribute to the national development effort. The key constraints on the achievement of development goals in Indonesia, as in other developing countries are, inter alia, an inadequate budget for science and technology; dearth of qualified or skilled scientists and technologists. Further, existing science and technology activities may not support development endeavours. This poses a dilemma as science and technology can provide important inputs to decision making processes in particular how to find a short cut in the achievement of development goals.

Chapter V, the last chapter, will summarise the more important findings of the study. It will show that foreign aid in Indonesia has played an important role in achieving development goals. For example during the stabilisation periods and the first four years of Repelita I it was indispensable. The administration of foreign aid has greatly affected the quality of the foreign aid implementation process. This is partly because the aid administration process is so lengthy both in donor and recipient countries. The shortening of the

administration of the aid processes could provide a basis for simplification leading to greater efficiency and should bring about improvement in the quality of implementation. On the other hand great centralisation and heavy administrative burden will continue to consume time and energy. As a result, it would disturb the overall aid implementation process and greatly hamper its effectiveness.

CHAPTER I

DEVELOPMENT AND OBJECTIVES OF FOREIGN AID

Like other developing countries one of the main problems faced by Indonesia in financing development programmes is the scarcity of development funds. In other words, there is a resources gap in Indonesia which makes it difficult to implement development programmes in order to achieve the economic growth rate targeted in the development plan. To fulfil this resources gap the government has secured funds from abroad. This is known as foreign aid.

Foreign aid may take a number of forms. It can be classified as bilateral or multilateral. It may be offered as grants or loans which may be tied or untied to specific purposes and may be made under specific conditions. It may also be in project, programme, financial, commodity or technical aid. The particular form of aid will be partly dependent upon the result of discussion between officials of both donor and recipient countries. Each side has its own viewpoint and policies which requires the formation of an acceptable compromise. In brief, aid diplomacy plays an important role in determining foreign aid not only the amount of aid needed but also its type and the conditions under which it provided. Before examining the types and sources of foreign aid this chapter will discuss the development and objectives of foreign aid. The country of origin and the types of foreign aid obtained will also be discussed.

1. Development of Foreign Aid

The Second World War damaged the economic of the the European Countries. The United States of America used the famous

Marshall Plan to extend foreign aid to both her allies and her former enemies in Europe in order to enable them to survive the early post war years. Extensive aid was given to European countries and their economies generally began to rapidly recover. Over time they gradually became donor countries. In particular the Federal Republic of Germany, France, the United Kingdom, the Netherlands and the Scandinavian countries. Most of them became members of the Development Assistance Committee (DAC)² of the Organisation for Economic Cooperation and Development (OECD).

The success of the Marshall Plan in European countries helped inspire the United States of America to assist Developing Countries in Asia, Africa and Latin America. However, the problems faced by post-war European countries and those of Developing Countries were completely different. Before the Second World War European countries were mature both culturally and economically. Institutions and skilled personnel required for economic development were already available. So after the war main shortfall was in capital funds to repair the physical damage of the war. Consequently when resources became available from the United States they relatively quickly restored their economies and set them on the path of self sustaining growth.

The situation and condition of the Developing Countries were considerably different. Most of them were newly independent states and many lacked political stability and cultural continuity. Their economies not only lacked capital but were deficient in institutional

2. DAC is the donors' club and has no representatives from Developing Countries.

structure, professional skill, managerial expertise and most other factors needed for accelerating economic development. In some cases they did not exist at all. In addition available financial and human resources were mainly directed towards the achievement of political stability. In essence, political and economic conditions were not conducive to development. When the Marshall Plan approach of giving capital goods and funds was tried the results were disappointing.

In 1960 the United Nations embarked upon a development programme. The first decade of this development programme was 1961-1969. It emphasized the importance of foreign aid in promoting development endeavours. However, the results were not encouraging. Recognising the failure of the first decade, the Second decade of development was launched in 1971-1980. One of the most important ideas of this programme associated with foreign aid was that it was suggested that the Developed Countries should transfer up to 1% of their GNP to Developing Countries. 0.7 of this should be in the form of Official Development Assistance (ODA). This target, however, was not achieved in any instance.

Most Developing Countries became aware that the obstacles to achieving development goals were not only the scarcity of capital but also, and probably more importantly, the world economic structure. Many Developing Countries came to believe that the structure of the world economic system impeded their development efforts. For example in equality of distribution of the world resources. The minority living in Developed countries consume 75% of world resources, control about 88% of the gross world product, 80% of world trade and

investment, 93% of its industry and almost 100% of its scientific and technological research.³ It is clear that developed countries dominate world economic structure. Developing countries on the other hand have little opportunity to equally participate in the world economy. Their bargaining position has been very weak. Efforts to increase the competitiveness on international market have to be made. For example Indonesia has been using influence amongst Developing Countries to promote joint action. This kind of activity will hopefully improve the bargaining position of the Developing Countries.

Such countries have made an attempt to examine the need to restructure the international economic system by creating an organisation they called the New International Economic Order (NIEO). One of the important programmes of NIEO was the fostering of Technical Cooperation amongst Developing Countries (TCDC). This arose because it seemed that development problems faced by Developing Countries are similar. It, therefore appeared that cooperation amongst themselves would be beneficial. This was because they could exchange experiences and hence try to avoid the mistakes made in other similar countries. Furthermore, social and cultural conditions amongst Developing Countries are also similar and this should also enable them to encourage and strengthen cooperation. The aims of the cooperative activities include:

- to strengthen Developing Countries themselves in order to

3. Rollason, Russel G. The New International Economic Order and implication for Australia. Chippendale, Alternative Publishing Co-operative Limited, 1981. p.1.

- find appropriate solutions to their own development problems;
- to complement the conduct of existing development programmes and hence strengthen the position of Developing Countries in the world economic system;
- to increase technical capability in each country and so reduce their dependence upon developed countries.

In Indonesia, discussions about the importance of foreign aid for economic development was already understood at the time of independence. According to Hatta, as cited by F.W. Weinstein, "the Indonesian leaders were fully aware that they would need foreign aid for many years to come in order to build our country"⁴. This was true even for the late President Sukarno, who claimed that his policies were drawn up without any expectation of foreign aid and who became known for his shibboleth, "Go to hell with your aid". In fact his actual practises stressed the importance of foreign aid for development. For instance in a February 1950 speech, he explicated this idea.⁵ Foreign aid was needed to cover the balance of payment deficit, to finance development projects and to facilitate the purchase of necessities such as rice, pharmaceuticals and cheap clothing. So it was clear that in fact he didn't oppose foreign aid in practice.

Recognising the importance of foreign aid, various discussions with foreign countries and international agencies were

4. Weinstein, F.W. Indonesian Policy and Dilemma of Dependence from Sukarno to Soeharto. Ithaca and London, Cornell University Press, 1976, p.207.

5. Weinstein, F.W. *ibid* pp.207-208.

organised to secure foreign aid. In the early years more than 50% of foreign aid was obtained from Communist Countries. This is shown in Table I.1, Foreign Debt at 31 December 1965.

Table I.1

Indonesian Foreign Debt at 31 December 1965 (US \$000)

Aid Sources	Amount
1. Communist Countries	1,404
2. Western Countries	587
3. Asian Countries	261
4. African Countries	4
5. International Agencies	102
Total	2,358

Source : Survey of Recent Developments, BIES, No.4,
June 1966

Although foreign aid was needed for promoting economic development it was diverted to be primarily used for political prestige expenditure which would strengthen the continuation of the existing regime. As a result, most aid was spent on non productive civil expenditure and to buy military hardware. The only industrial base activity financed by foreign aid funds was the "Cilegon" Steel Plant. Originally, however, this was regarded as a political goal rather than economic objective. Financial assistance for this project mainly came from the Soviet Union. This project was not completed.

With the emergency of the Inter-Governmental Group on

Indonesia (IGGI) in February 1967, foreign aid ceased to be widely misused. Thereafter the extent of foreign aid needed by Indonesia was discussed and settled in the international setting of IGGI meetings. IGGI is not a broad international organisation, but a limited consortium of representatives from governments which are interested in assisting Indonesia. The structural organisation of IGGI is informal. The IGGI meeting is followed by a Bilateral meeting between representatives of Indonesia and particular countries prepared to donate aid.

In 1967 Indonesia was re-admitted to the World Bank.⁶ The involvement of the World Bank in Indonesia economic development came into effect in June 1968 when Robert McNamara, President of the World Bank, visited in Indonesia. Since then the World Bank, in addition to IGGI, has also been playing a significant role in the overall arrangements for securing foreign aid. The World Bank has a Representative in Jakarta and has assisted the Indonesian government in arranging foreign aid from the non bank sources as well as from the bank. It has been concerned with a much wider range of technical assistance to the Indonesian Government than merely help in preparing proposals for investment projects. Based on a joint report drawn up by the World Bank and Bappenas, the overall quantities and type of foreign aid required were then decided.

Because the Indonesian economy was still regarded as weak, most foreign aid secured was in the form of soft loan. These known

6. Indonesia joined the World Bank in 1954, withdrew in 1965 and was re-admitted in 1967.

as Official Development Assistance (ODA) loans. Their characteristics are as follows:

- the rate of interest was low : 3 - 3.4% annually;
- the grace period before the first repayment were due was between 7 to 10 years;
- the period of repayment was long : between 30 - 40 years.

The government has also made continual attempts to obtain adequate foreign resources to allow it to maintain a balanced budget whilst achieving its development investment goals. The latest example of this is the sale of bonds abroad.⁷ In this case Indonesian bonds were sold in the Federal Republic of Germany and in Japan. This meant that development funds have been obtained in the form of loans from foreign corporations and individuals rather than their governments. Such commercial funds raising has strict requirements. Characteristically these are as follows:

- the period of repayment is ten years; and
- the rate of interest is high : 7% and 7.5% annually for bonds sold in Germany and Japan respectively.

A question which emerged was : "Why did Germans and Japanese buy Indonesian bonds?" Apparently it was because the international credit rating of Indonesia has improved particularly in comparison with other third world borrowers. It is therefore,

7. For further details see "Kompas" editorial of 25 February 1981 and "Sinar Harapan" editorial of 26 February 1981.

the obligation of the Indonesian people in general and the government in particular to ensure that development funds are efficiently managed and used so that repayment will not become a burden for the next generation. Because the funds do not only come from domestic resources only but also from foreign countries in the form of grants, loans from governments, international agencies and even societies.

2. Objectives of Foreign Aid

There are many reasons why advanced countries believe they should give aid to the developing countries. Even so, their official statements of why they give aid are often confusing or even contradictory. Some countries apparently feel obliged to give aid to former colonial territories. For instance, most British aid goes to Commonwealth countries, most Australian aid goes to Papua New Guinea and most French aid is to former colonies. The biggest proportion of aid to Indonesia, which was formerly a Dutch colony, comes from Japan and the United States (See Table I.2). However, being a small country the Netherlands is still generous to Indonesia. In addition, the Dutch Minister for Economic Cooperation has always acted as chairman of IGGI.

For other countries, moral obligation is an important motivator and some overtly foresee an ultimate commercial advantage. According to R.D. Beckwell⁸, however, many analysts see the principal motives of aid donors as based on consideration that are strategic,

8. Backwell, R.D. Foreign Aid - A Discussions Paper.
Australian Outlook 35(3), Dec. 1981, p.60.

TABLE I.2

AID TO INDONESIA FROM SELECTED COUNTRIES (in US \$ million)

		1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Australia	G.	12.7	18.0	17.1	24.4	26.4	32.2	33.2	29.5	26.7	36.0	44.2
	L.	-	-	-	-	-	-	-	-	-	-	-
France	G.	-	-	3.5	3.4	-	2.4	1.6	1.3	0.7	0.9	2.3
	L.	17.3	14.8	24.0	9.6	24.5	28.5	34.9	25.6	12.0	29.8	22.5
Germany, Fed. Rep.	G.	5.9	6.7	10.0	9.7	14.4	19.1	14.2	14.5	16.5	17.7	26.5
	L.	2.6	17.9	34.0	50.3	32.2	38.5	29.8	21.1	28.0	8.4	3.5
Japan	G.	8.9	27.0	14.9	11.5	10.7	16.2	10.8	12.9	24.2	39.3	43.6
	L.	56.9	98.8	97.0	91.7	132.2	204.9	187.2	187.6	124.2	188.3	183.3
Netherlands	G.	9.0	25.6	27.1	38.6	41.8	33.2	19.2	25.8	17.0	21.5	53.2
	L.	6.9	21.4	17.7	14.7	25.8	20.9	25.0	13.9	27.2	21.6	22.6
United Kingdom	G.	0.4	0.5	4.2	1.5	1.6	1.8	4.0	4.0	5.2	11.5	80.0
	L.	5.0	5.8	10.0	15.4	18.0	13.8	9.1	3.3	3.5	0.8	1.5
U.S.A.	G.	16.0	15.0	9.0	14.0	8.0	19.0	11.0	6.0	10.0	16.0	22.0
	L.	135.0	171.0	218.0	144.0	150.0	63.0	80.0	121.0	192.0	126.0	159.0

G : grant

L : loan

Source : OECD, Geographical Distribution of Financial Flow to Developing Countries,
1976 and 1980.

commercial, political and cultural rather than altruistic, though altruism does play a part.

Intellectual debate about foreign aid theory is basically divided into theories about transaction and transfer of resources. John White⁹, for example, argues that transaction theories are characterised as political theories while transfer theories are characterised as economic theories. Each theory has its own emphasis. Political theories are of two kinds. One theory stressed the donor as the aid user. Foreign aid is regarded as an instrument of foreign policy. Donors are seen as having interest in foreign aid primarily because it augments their foreign policy. The other theory is recipient oriented. It concentrates on the recipient as aid user. As it is concerned with aid as an instrument of domestic policy.

Economic theories about foreign aid can be divided into two groups. The first group pays attention to the vital role of domestic resources for economic development. Foreign aid is seen as relevant only if domestic resources are insufficient. The second group of theories departs from the assumption that foreign aid is an alternative resource for economic development. Although domestic resources for development are available foreign aid may also be secured on the ground that it will be of benefit to the country as it will accelerate the rate of growth.

9. White, John, *The Politics of Foreign Aid*. London, The Bodley Head, 1974, p.104.

In Indonesia the objective of foreign aid likely falls into this first category. Foreign aid needed to supplement internal sources. However, the implementation of this principle became possible only since the last year of Repelita I. Most development programmes are now financed by indigenous government funds. Further details of this will be discussed in Chapter II.

3. Source and Form of Foreign Aid

Foreign aid may be secured in bilateral or multilateral programmes. Each of these has its own advantages and disadvantages. Bilateral aid programmes involve only single donor country. The most dominant factors within bilateral aid are political, strategic and commercial. The donor countries believe that they can further their foreign policy objectives by giving aid. In other words, foreign aid is used to implement foreign policy. The donors consequently prefer to extend their aid on tied project basis and rather on untied loans or grants. The main argument which are usually put forward by the donor is that they want to make sure that the allotted aid will be used efficiently by the recipient country. On the other hand the recipient countries do not share this view. This is because tied projects involve the donor interfering in the internal affairs of the recipient country. To avoid this negative aspect of bilateral aid recipient countries may seek foreign aid from multilateral agencies. Multilateral means that aid is provided by more than one country, the World Bank or by an international agency such as UNDP, FAO, etc.

Proponents of multilateral aid mostly believe that it tends to reduce interference by donor countries and therefore minimises the

main negative aspect of bilateral aid. Table I.2 above also indicates the biggest source of bilateral aid. Each donor country, except Australia¹⁰, provides both grants and loans. All Australian aid is extended in the form of grants.

Foreign aid can be extended in the form of grants or loans. Grants impose no obligation on the recipient country to repay. On the other hand loan aid imposes an obligation to repay the funds in due course. Debate about the merits of these two forms of aid is as follows.

Grants are regarded as the best form aid as they will increase the purchasing power of the recipient country without any obligation to repay. Moreover some scholars assert that if aid is given as a grant there may be little or no serious attempt in the recipient country to utilize it wisely. In other words, there is a fear in some donor countries that the simple transfer of resources to recipient countries will not be the best way to help economic progress. Such a view also holds that aid which is extended in the form of loan encourages the recipient to attempt to use it as efficiently as possible in order to create the means of repaying the loan. Unfortunately however, loans create additional foreign aid debt and add to the problems of the recipient country. At the core of this debate is the problem that in most developing countries qualified personnel who have expertise in foreign aid management and other

10. Australian aid to Indonesia see: Eldridge, P.J. : Indonesia and Australia: the Politics of Aid and Development Since 1966. ANU, Development Studies Centre, Monograph No. 18, p.31. Also Harris, S., Aid to Indonesia. World Review Vol.22, No.1 April 1983, pp.34-52.

related development activities are few or even totally unavailable. Clearly, loans preserve the autonomy of the recipient country in the management of its development programme. In the final analysis decisions to accept or reject foreign aid loans will be wisely made only if the recipient country has the ability to foresee the effects of accepting a loan. As this context, problems caused by the need to fund the loan repayments will not always be appreciated. As a result, the utilisation of foreign aid is not as well planned as might be desired in more perfect world. This is well illustrated by the problems caused both to donors and recipient by the huge Brazilian foreign debt.

Foreign aid to Indonesia, both in the form of grants and loans from 1969 to 1979, are shown in Table I.3.

Although foreign aid may be extended as grants or loans it can take various forms. Foreign aid can also be distinguished by whether it is tied or untied. Tied aid may also be tied to products or services supplied by the country of origin as well as tied to projects. Much aid is tied in both ways. Consequently it can be spent for importing goods and services from designated sources and for particular projects. The most obvious reason for tying aid is commercial. It also shows the dominance of donor self interest in aid giving. So a donor country with a surplus of a particular product may give aid on the condition that the aid will be used to buy the surplus product. Another form of tied aid is project aid. Thus the donor extends aid for a specific project rather than to finance overall development programmes. Consequently aid cannot be used for other projects which might be preferred by the

TABLE I.3

GRANTS AND LOANS TO INDONESIA 1969 to 1979 (in US \$ million)

Year	Grant	Loan	Total
1969	67.1	261.8	328.9
1970	109.7	355.3	465.0
1971	103.7	483.3	587.0
1972	130.6	372.2	502.8
1973	140.4	476.0	616.4
1974	174.1	489.2	663.3
1975	152.6	539.4	692.0
1976	141.9	526.9	668.8
1977	161.4	354.0	615.4
1978	191.5	443.8	635.3
1979	281.4	439.5	720.9

Source : OECD, Geographical Distribution of Financial Flow to Developing Countries, 1976 and 1980.

recipient.

Untied aid allows the recipient flexibility in spending funds so as to get value for money. For example, the recipient country may be allowed to invite international tenders for equipment procurement for a specific project. However, there may still be limitation on using the funds. Thus the money will still be spent within the scope of the programme approved by the donor. Therefore untied aid is close or similar to programme aid. In this respect the recipient country has the right to choose a project which is relevant

to the country's priorities. For example US AID has extended US \$5 million for science and technology development programme in Indonesia. Utilisation of these funds depends on Indonesia, provided that the funds will be used for scientific and technological development. Indonesia may select the particular project which will be financed by the fund.

Most recipient countries are likely to prefer programme aid rather than project aid. Programme aid, however, demands high managerial expertise in the recipient bureaucracy otherwise the funds will not be used efficiently. Unfortunately many developing countries have too few skilled managers. At times this is overcome by establishing a joint committee involving the executing agency and representatives of donor. Project and programme aid to Indonesia is shown in Table I.4.

The first four years of Repelita I programme aid was bigger than project aid. This allowed the government to spend foreign aid primarily in accordance with the priorities of Repelita, i.e. rehabilitation of the existing productive capacities. In other words, the foreign aid received was relatively untied. Year by year, foreign aid obtained increased rapidly, except for the year 1977/78 which declined by 10.4 billion rupiah or approximately 1.3% from the previous year. Since the last year of Repelita I there was an increase of foreign aid, however, as it can be seen in Table I.4, mostly in the form of project aid. The consequence of this was that the funds have to be spent on particular projects. It was therefore that the foreign aid was tied.

TABLE I.4

FOREIGN AID : 1969/70 - 1982/83 (in billions of rupiah)

Fiscal Year	Programme Aid	Project Aid	Foreign aid (Prog.& Proj.aid)
Pelita I:			
1969/70	65.7	25.3	91.0
1970/71	78.9	41.5	120.4
1971/72	90.5	45.0	135.5
1972/73	95.5	62.3	157.8
1973/74	89.8	114.1	203.9
Pelita II:			
1974/75	36.1	195.9	232.0
1975/76	20.2	471.4	491.6
1976/77	10.2	773.6	783.8
1977/78	35.8	737.6	773.4
1978/79	48.2	987.3	1,035.5
Pelita III			
1979/80	64.8	1,316.3	1,381.1
1980/81	64.1	1,429.7	1,493.8
1981/82 a)	64.8	1,561.1	1,625.9
1982/83 b)	25.0	1,825.8	1,850.8

a) budget

b) draft of the budget

Source : Nota Keuangan dan RAPBN 1982/83 (Financial Note and draft of 1982/83 budget)

Finally foreign aid can be classified into financial, commodity and technical aid. Financial aid may also be tied to finance a particular component of a project. The most frequent commodity aid is food aid. Commodity aid however, does not include commodities which are bought with project or programme aid funds. Technical aid normally known as technical assistance, is associated with technical services. This type of aid includes inviting foreign experts to serve in recipient countries. The aid can also include the provision of equipment to be used by the foreign expert. Technical training and post graduate study financed by foreign aid are also regarded as technical assistance. It is clear therefore, that technical aid is very important for developing countries as a major constraint on the developing countries seeking to carry out programmes is the shortage of qualified indigenous personnel.

In the next chapter the role of foreign aid in the economic development of Indonesia will be examined. The basic expectation of Indonesia, as stated in the Guidelines of State Policy (GBHN), is that foreign aid will serve as a supplement to internal funding sources. However, this idea could not be materialized before the fourth year of Repelita I. Therefore foreign aid was secured from many countries and international agencies. Its contribution is reflected in the position and proportion of total development spending.

CHAPTER II

FOREIGN AID AND NATIONAL DEVELOPMENT

1969/70 - 1982/83

When the New Order Government came into power in March 1966, the Indonesian economy had virtually collapsed. It was characterised by a high rate of inflation¹¹, food supply shortages, difficulties in importing capital goods due to lack of foreign exchange, etc. The Government then launched stabilisation and rehabilitation programmes which provided a basis for economic growth. The first section of this chapter is intended to provide background information on political and economic changes particularly during the years before the Repelitas were launched. It is followed by discussion about government policies related to Repelita. The implementation of each Repelita required considerable funds from both domestic and foreign resources. This chapter therefore will also examine the role of foreign aid in Indonesian National Development. This is reflected in the portion and composition of development budget. Finally it will discuss the resulting contribution of foreign aid to economic growth. Particular emphasis will be placed on the period 1970-1982, so that comparison with other countries can be made.

1. Political and Economic Changes

The abortive September 1965 Coup was a most important event as it greatly changed the direction of Indonesian politics and the operation of the economy. The attitude of the old regime to solving

11. In 1966, the rate of inflation reached the peak at the rate 680%.

the problems of economic development was also different. The slogan "Go to hell with your aid" which was popular during the old regime was abandoned by the New Order Government. On the contrary, foreign aid was seen as the only way to quickly overcome problems and restore the Indonesian economy. The attitude of the bureaucrats of the New Order Government to solving the problems of economic development was not only reflected in the way of providing funds but also many others. During the early years of his administration, President Soeharto recruited many leading economists as his assistant who later became Ministers of his Cabinet. This indicated that the government has made serious attempts to solve its economic problems. It is therefore those who have expertise in development efforts that are consulted and participate in helping the government design appropriate economic strategy.

In addition, the President every year delivers an address before the House of the People's Representatives. This address is in the form of an annual report of his achievements. It is known as the Address of the State. In this report he elaborates the progress of development efforts, sector by sector. Even some individual projects are explained. This report becomes an important document and is used as guidelines for the daily work of both government officials and those in the private sector. Because the report covers not only what has been achieved but also includes a warning on what is likely to happen in the coming years and what has to be done to prevent unfavourable or negative occurrences. This address is disseminated by mass media through newspapers, radio and television. Hopefully the majority of the people are well informed about what is happening in the Government's development efforts.

When the new government came into power the Indonesian Economy was in chaos. By December 1965, foreign aid debt was US \$2,358 million. In fiscal year 1966 payments due were US \$530 million while foreign exchange earnings were estimated at only US \$430 million¹². The economy of Indonesia therefore was effectively bankrupt as far as its foreign dealings were concerned. Weaknesses in the bureaucratic structure, fiscal policy, banking system and foreign trade all impeded economic development. The government then embarked upon a policy of stabilisation, reorganisation and rehabilitation of the economy which was intended to provide a basis for economic growth. To overcome the foreign aid debt problem an attempt was made to seek a moratorium from creditors. A series of aid missions headed by high ranking officials held discussions with foreign creditors. In these meetings not only the rescheduling or rearrangement of Indonesian debts was discussed but also the need for new aid which would enable Indonesia to survive. Emergency aid was sought and secured from all over the world. The United States of America extended US \$49 million. Japan offered US \$30 million. These were followed by offers from Federal Republic of Germany US \$7.5 million, the Netherlands US \$18 million and Singapore US \$32.7 million. By late October 1966 the total available was US \$174 million¹³.

With the initiative of the Dutch Government, a meeting of donor countries was held in Amsterdam in February 1967¹⁴. This body

12. Survey of Recent Development. Bulletin of Indonesian Economic Studies, No.4, June 1966, pp.4-6.

13. Palmer, I., *The Indonesian Economy Since 1965 : A case study of Political Economy*. London, Frank Cass, 1978, p.27.

14. Posthumus, G.A., *The Inter-Governmental Group on Indonesia*. Rotterdam, Rotterdam University Press, 1971, p.15.

became known as the Inter-Governmental Group on Indonesia (IGGI). IGGI has always been chaired by the Dutch Minister for Development Cooperation. Several meetings of IGGI were held to assess the Indonesian economy, to review progress and performance under the stabilisation and rehabilitation programmes of Indonesia. Response from members of IGGI was encouraging. Donor countries as well as international agencies expressed their willingness to assist Indonesia as much as possible. The United States of America and Japan for example, during the period of stabilisation, provided the biggest portion of aid needed. As a result, stabilisation was achieved in three years. In the meantime Repelita I (the first Five Year Development Plan), was launched and became effective on 1 April 1969. Repelita I was also advertised as a stabilisation programme.

In addition to the above mentioned foreign aid which was needed to finance national development, foreign companies were also encouraged to operate in Indonesia as a means of accelerating economic development. To facilitate their operation a Foreign Investment Law was introduced in April 1967. It was amended in 1970 and again in 1974¹⁵. Since foreign investment was to be part of long term development, the basic idea was not merely rehabilitation, but to create job opportunities which would have a multiplier effect throughout the Indonesian Economy. Foreign companies were given incentive as follows:

15. The main important points of 1974 amendments were that the right to import machinery and materials free of duty was abolished; joint ventures with Indonesian partners have been compulsory.

- Exemption from corporation tax for two to six years for projects in priority sectors;
- Normally they are entitled to accelerated depreciation, compensation for losses resulting from state expropriation, investment allowances and a limited period of exemption from dividend tax;
- Repatriation of profits is permitted though capital may not be repatriated during the period in which a project is enjoying tax and other concessions.

2. Pelita and its achievements

Repelita I commenced when stabilisation had just been achieved. The GNP and average economic growth from Repelita I are shown in Table II.1.

During Repelita I (the first five years) the average growth rate was 8.4% per annum. By 1973 the Gross National Product was Rp. 6,753.4 billion. It seems that during that time policy-makers and planners were occupied by endeavours of how to increase the "National Pie". They were not concerned about how to distribute it as it was still very small. In addition, it was believed that the question of distribution could take care of itself through automatic mechanism. Increasing production however, did not in fact automatically benefit the majority of the people. As some people did not receive a share they disputed the opinion of the government that distributive intervention was necessary. As a result much social tension emerged. This was reflected, inter alia, by student demonstrations in January 1974. The government consequently decided to change the policy direction of Repelita. The main emphasis of the

TABLE II.1
THE GNP AND ECONOMIC GROWTH RATE

Year	GNP in Rp. Billion	Ec. Growth Rate (%)
1969	4,820.5	-
1970	5,182.0	7.5
1971	5,544.7	7.0
1972	6,067.2	9.4
1973	6,753.4	11.3
1974	7,269.0	7.6
1975	7,630.8	5.0
1976	8,156.3	6.9
1977	8,882.0	8.9
1978	9,566.5	7.7
1979	10,164.9	6.3
1980	11,169.2	9.9
1981	12,054.6	7.9
1982	12,325.4	2.2

Source: Draft of the 1984/85 Budget.¹⁶

three development objectives, which became known as the Trilogy of Development, has changed. In Repelita I and Repelita II the objectives, in order of priority, were national stability, economic growth and equitable distribution. In Repelita III the order of the

16. On 9 January 1984, President Suharto delivered an address before the House of the People's Representative. He explicated the progress of development efforts. For further details see for example: Kompas, 10 January 1984.

objectives became equitable distribution, economic growth and national stability. Equitable distribution was pursued along eight different lines or the eight paths to equality (delapan jalur pemerataan) as follows:

- an equitable distribution of access to means of fulfilling basic human needs;
- an equitable distribution of access to education;
- an equitable distribution of income;
- an equitable distribution of employment opportunities;
- an equitable distribution of business opportunities;
- an equitable distribution of access to participation in development;
- an equitable distribution of development efforts;
- an equitable distribution of opportunities to obtain justice.

Government policy was then directed to the above strategy. It was not an easy task. Take as an example the fulfilment of basic human needs¹⁷, which has been accepted as an alternative approach to development. The government has made serious attempts to achieve this by the use of relevant programmes. Take as an example the low cost housing programme. Initially this was intended to help the majority of the people who have low incomes. In actual practice, however, rich people tended to benefit from this scheme. This

17. For detailed discussion about basic human needs approach, see, for example: Soedjatmoko, National Policy Implications of the Basic Needs Model. Prisma, No.9, March 1978, pp.3-25. Also, Eldridge, P.J., Aid, Basic Needs and Politics of Reform in Indonesia. Monash, Centre for Southeast Asian Studies, Working Paper No.22, 1980.

happened because the scheme demanded a down payment which apparently could not be met by the poor. In addition, it also required high monthly instalments which could not be affordedly. The experience has shown that the instalments would have taken more than 50% of their incomes. As a result, the poor could rarely benefit from this programme. It was not surprising that this programme was mainly used by the middle income group and even some high income earners.

Provision of water supply is another example. The government gave a subsidy for the provision of clean water. However the people have to meet the cost of connecting their houses to the reticulation system. This charge was relatively expensive, i.e., Rp 50,000 (US \$1 = Rp 415.0). Thus only the rich people who could afford to meet the water connection fee benefited from clean subsidized water¹⁸. In addition, because the water was very cheap it was used lavishly. Conversely the poor people who could not afford the connection charge have to buy from private water vendors at a high price.

Public Health Centres (Pusat Kesehatan Masyarakat = Puskesmas) which provided health services only operated for a few hours each day. This consequently only benefited the people who lived close to the centre. Others who live far from the centre had little benefit from the centres.

18. Noormohamed, S., Housing for the Poor in Jakarta, in J. Fox et.al. (eds.): Indonesia: Australian Perspective, Canberra, Research School of Pacific Studies, ANU, 1980, p.506.

It is clear that in actual practice the benefits are not as wide as hoped, due to the difficulties experienced in the implementation. Succintly, although the objective of the government was meritorious, i.e. to reduce the gap between the poor and the rich, due to circumstances over which it had little control, the result was the other way around.

There has been debate about whether foreign aid is a necessary or useful instrument for promoting the development of developing countries. Indeed it has been questioned whether such growth can be promoted at all. In Indonesia this debate is still in progress. The proponents argue that to achieve the goal of high economic growth, say 7% annually, it is necessary to be able to maintain pace with population growth. Such a great growth rate can only be achieved with foreign aid. This is because domestic resources are insufficient to provide the needed capital. The opponents of foreign aid mostly argue that the trickle down effect of development activities did not reach the majority of the people. Such a view asserts that the usual result of development is to benefit only a small group of people. As a result, foreign aid will not stimulate domestic economic development. On the contrary it makes for continuing dependence on foreign countries. This was one of the causes of a demonstration by students during the visit of the Japanese Prime Minister Tanaka in January 1974.

In any event Indonesia has increasingly been the recipient of foreign aid from various countries and international agencies. Table II.2 below shows this clearly. Year by year the total development funds, which consisted of both domestic funds and foreign aid, increase steadily.

TABLE II.2
DEVELOPMENT BUDGET 1966 - 1982/83
(in billions of rupiah)

Fiscal Year	Domestic Revenue	Routine Exp.	Govn. Saving	Foreign Aid	Dev. Funds	Dev. Exp.
1967	84	87		24 (100.0)	24	17
1968	185	185	-	35 (100.0)	35	35
1969/70	244	217	27 (22.8)	91 (77.2)	118	118
1970/71	344	288	56 (31.8)	120 (68.2)	176	169
1971/72	428	349	79 (36.7)	136 (63.3)	215	196
1972/73	590	438	152 (49.1)	158 (50.9)	310	298
1973/74	968	713	255 (55.6)	203 (44.4)	458	451
1974/75	1,754	1,016	738 (76.1)	232 (23.9)	970	962
1975/76	2,424	1,333	909 (64.8)	492 (35.2)	1,401	1,398
1976/77	2,906	1,630	1,276 (62.0)	784 (38.0)	2,060	2,054
1977/78	3,535	2,149	1,386 (64.1)	773 (35.9)	2,159	2,156
1978/79	4,266	2,744	1,522 (59.5)	1,036 (40.5)	2,558	2,556
1979/80	6,697	4,062	2,635 (65.6)	1,381 (34.4)	4,016	4,014
1980/81	10,227	5,800	4,427 (74.8)	1,494 (25.2)	5,921	5,916
1981/82	12,213	6,978	5,235 (75.4)	1,709 (24.6)	6,944	6,940
1982/83*	13,756	7,001	6,755 (78.5)	1,851 (21.5)	8,606	8,606

Source: 1966-1968: Bank Indonesia. Indonesian Financial Statistics, Oct. 73.

1969/70 - 1982/83: Bank Indonesia, Report for the financial year 1981/1982.

* Budget draft

Figures in parentheses are per cent of development funds.

Table II.3 below shows the estimated rates of real growth in 1970-1982 for selected countries.

TABLE II.3

ESTIMATED RATE OF REAL GROWTH 1970-1982 OF SELECTED COUNTRIES

Country	Av. Annual growth rate	Real Growth Rate		
		1980	1981	1982*
Bangladesh	6.4 (1973-80)	3.7	5.9	0.9
Burma	4.2 (1970-80)	7.9	6.7	7.1
China, Rep. of	9.6 (1970-80)	6.8	5.5	3.1
Fiji	3.3 (1977-80)	-3.2	6.3	0.4
Hong Kong	9.5 (1974-80)	11.7	10.9	2.4
India	4.4 (1970-80)	7.7	5.2	2.0
<u>INDONESIA</u>	7.9 (1971-80)	9.9	7.6	4.5
Korea, Rep. of	8.7 (1970-80)	-3.5	7.1	6.0
Malaysia	8.1 (1971-80)	8.1	6.9	3.9
Nepal	1.9 (1975-80)	-2.3	5.6	3.8
Pakistan	5.0 (1970-80)	7.3	6.1	6.2
Papua New Guinea	3.3 (1977-80)	-0.6	0.7	-
Phillippines	6.6 (1970-80)	4.9	3.8	3.0
Singapore	9.6 (1970-80)	10.3	9.9	6.3
Sri Lanka	4.1 (1970-80)	5.7	5.4	5.0
Thailand	6.9 (1970-80)	5.8	7.0	4.5

Source: Asian Development Bank, Annual Report 1982, p.94.

* : estimation

By 1981 the annual rate of real economic growth in Indonesia was 7.6%. This performance is relatively better than that of most member countries of the Asian Development Bank (ADB). It was only bettered by Hong Kong and Singapore which achieved growth rates of 10.9% and 9.9% respectively. See Table II.2 above. During 1971-80, the average annual growth rate was 7.9%. This was comparable with that of the ASEAN (Association of the Southeast Asian Nations) countries. The increase of growth rate seems partly due to the oil boom during Repelita II. This input from oil wealth apparently did not happen in Repelita III. The 1982 growth rate is estimated to be only 4.5%, and it seems likely to continue declining if the export of commodities other than oil can not be increased. To maintain the level of growth rate it will require more investment, particularly when the economy reaches saturation point. Consequently additional funds have to be found. Government revenue will have to be increased while routine expenditure will have to be curtailed. In other words, an attempt has to be made to increase government saving to enable to maintenance of the annual growth rate. However, if the level of government saving is not enough it is possible that more foreign aid will be sought. Each investment possibility has to be considered and careful planning, which especially takes account of the economy's capacity for repayment is necessary. It would seem that foreign aid should be especially directed towards productive sectors which are likely to generate a high rate of economic growth and especially those which will generate foreign exchange earnings. This will avoid the repayment of foreign debt becoming a burden for the next generation. However, if development activities do not generate foreign earnings, the problem could become acute. To maintain the existing export in order to have sufficient foreign exchange has required high borrowing.

3. The Role of Foreign Aid

Foreign aid is needed for National Development because there are inadequate resources to finance the desired development programmes. The basic philosophy of budgeting adopted by Indonesia is a balanced budget. This means that deficit spending is not allowed. To achieve economic growth set forth in Repelita programmes the government has to provide development funds. Ideally this comes from domestic sources. However, the Government's development funds which are generated by taxation are insufficient. Consequently foreign aid has to be sought in order to achieve a balanced budget to provide adequate development funds.

The general policies for Indonesian Economic Development are laid down in the Development Plans. Before 1969/70 there were two plans. The Five Year Development Plan of 1956-1961 and the Eight Year Development Plan of 1961-1969. These two plans were launched during the period of economic deterioration. The then existing regulations, bureaucratic structure and hyper-inflation made it impossible to design and implement economic development activities and the plans collapsed.

The new Government's plans were labelled as "Repelita" (Five Year Development Plan). Repelita I which officially came into operation on 1 April 1969 was launched in relatively better economic conditions. Stabilisation had been achieved. However, the achievement of stability alone is not sufficient for the resumption of economic development. The Government decided that it was necessary to create an incentive framework which would encourage individuals and business firms to participate in development. Furthermore, regulations and the

bureaucratic structure needed to be altered and directed towards the acceleration of economic development.

Development spending, as is shown in Table II.2, increased dramatically year by year. During Repelita I it was directed towards the rehabilitation of existing productive capacities. This provided the foundation for further development. During Repelita II and Repelita III development spending was mainly for the purpose of creating new productive facilities. It also sought to accelerate economic growth and ensure a broad sharing of the benefits of growth across society. In the first year of Repelita I development expenditure was Rupiah 118 billion. The first year Repelita II saw the expenditure of Rupiah 962 billion. 4,401 billion rupiah was spent in the first year of Repelita III. Thus development expenditure expanded eight fold from the beginning of Repelita I to Repelita II. By the first year of Repelita III it had increased to be 34 times.

The actual role and contribution of foreign aid can be examined in the structure of development funds. The amount and relative contribution of it can be deduced from Table II.2 above. During the last years before Repelita I commenced, foreign aid constituted the totality of available development funds.

In an ideal situation, such as that enjoyed by developed countries, development programmes are financed by government savings, i.e. domestic revenue and internal borrowing minus routine expenditure. But until 1968 there was no government saving in Indonesia. Consequently the main sources of development funds was foreign aid. Only after 1969/70 did government saving exist. Since then development

funds comprised two elements: foreign aid and government savings. Until 1973/74 foreign aid still constituted more than 50% of development funds. Since then, the last year of the first Repelita, its contribution has been less than 50%. It is still decreasing. State Policy Guidelines state that National Development requires large-scale investment which should be based on self reliance, with foreign aid serving as a supplement¹⁹. It is therefore anticipated that the contribution of foreign aid to development funds will continue declining over the next several years.

Dependence on foreign aid for financing development programmes can be reduced in many ways. For example, increasing state revenue by taxation from sources outside petroleum and natural gas. To allow this to occur, the taxation system has to be easily understood by tax payers and tax payers must become aware of their obligations to pay tax. It will also be necessary to have an efficient agency to enforce the payments taxes. Hopefully, however, state revenue can be increased. In addition domestic private funds should be mobilised for national development purposes. It is important that the National Saving for Development programme known as "Tabanas" and the like are encouraged and developed. This will allow development funds to be accumulated from the savings of the majority of the people. Hopefully the people will come to feel that they are part of the national development effort. If so they will probably make increasing attempts to increase their savings and thus participation in the development programme. Ultimately dependence on

19. Decree of the People's Consultative Assembly of the Republic of Indonesia, No. IV/MPR/1978, on the Guidelines of State Policy. Jakarta, Department of Informations, 1978, p.16.

foreign aid can also be reduced.

During the past decade foreign aid has played an important role in economic development. It served as a supplementary fund to finance the overseas balance of payments. This enabled Indonesia to import goods and services which are not yet available internally or not yet available in sufficient quantities. Furthermore, foreign aid was also used as instrument for the transfer of technology. One of the main constraints in carrying out economic development was the dearth of skilled and trained manpower in particular sectors which are essential for development. To overcome this problem, manpower development has been given high priority. For example, young university graduates and middle ranking workers or technicians in many sectors have been given opportunities to undertake further training or to attend a post graduate study abroad with financial support from foreign aid. As adequate manpower becomes available development problems can be more easily identified and hopefully ways will be found to appropriate solutions. Another example of manpower development is the use of expatriate experts. These have been invited to come to Indonesia under foreign aid schemes. Each has an Indonesian counterpart and as a team they would train Indonesians in skills relevant to development needs. Ultimately this knowledge would be further disseminated to other Indonesians.

In the following chapter the administration of foreign aid will be examined to illustrate what is actually happening in Indonesia. Because it recognised the importance of foreign aid the Indonesian government has set up a committee which controls the administration of foreign aid, particularly in the government sectors. This

committee however, has a very difficult position. In examining project proposals there are many non technical factors that have to be taken into consideration. Apparently these will dominate decision making of projects which will be assisted with foreign aid funds.

CHAPTER III

THE ADMINISTRATION OF FOREIGN AID

There is concern about the administration of foreign aid in both donor and recipient countries. The main concern of the donors has been with the difficulties of extending the limited funds available for aid. The recipients however, have been concerned with difficulties in obtaining aid. Both parties however, have a common objective. This is the prompt and effective use of foreign aid allocation as a support for sound economic and social development. Bearing in mind that their basic objective is the same, the effort of both will be directed towards its achievement. In actual practice however, the administration process is very lengthy both in donor and recipient countries. As a result this process still dominates the overall foreign aid arrangements. Therefore a serious attempt has to be made so that foreign aid becomes an ends in itself.

This chapter particularly deals with the administration of foreign aid in Indonesia which is carried out under the directive of the Coordinating Committee for Foreign Technical Cooperation (CCFTC). CCFTC acts as the focal point for the control of foreign aid in Indonesia. Foreign aid offers are channelled through CCFTC which also makes foreign aid proposal requests to potential donors. The first section of this chapter will examine the administrative setting and its influence upon aid administration. The second will discuss the official channels for conducting foreign aid.

1. The Administrative Setting

One of the distinguishing characteristics of the work of a foreign aid administration is that it is complicated by complex administrative structures within both donor and recipient countries. Each donor country has its own administrative structure which is usually similar to the donor government's bureaucracy. Changes in government in donor countries may thus effect the administrative arrangements. Each recipient country has a parallel situation. Local bureaucratic structure and custom and the objectives of the development programme will all affect its administrative arrangements.

In Indonesia the highest authority dealing with the administration of foreign aid as mentioned earlier is the Coordinating Committee for Foreign Technical Cooperation (CCFTC)²⁰. Members of the CCFTC are representatives from appropriate departments and relevant institutions. Its secretariat, which provides administrative support, is located in the office of the Cabinet Secretary. The main tasks of CCFTC are:

- firstly to assist the Cabinet in the formulation of government policies on the utilization of foreign aid, and
- secondly to monitor the implementation of government policies in relation to technical cooperation.

In order to accomplish these tasks CCFTC is assigned to the following functions:

20. The Committee was established by Presidential Decree No.81/U/Kep/4/1967, dated 5 April 1967.

- to coordinate all foreign aid needed by various departments and other institutions;
- to accommodate foreign aid offered from abroad;
- to carry out the administration of foreign aid;
- to formulate directives for the implementation of foreign aid so that it can be efficiently used.

It is important to note that foreign credits as well as foreign investment are not administered by the CCFTC. Foreign credits and investment are under the control of the Department of Finance and the Board of Investment respectively.

The composition of the CCFTC may change from time to time in accordance with changes in development priorities or to meet evolving problems and changing circumstances in Indonesia. The latest CCFTC changes were made by Presidential Decree No. 60/M, dated 21 March 1981. A copy of the Decree is attached as Annex A. The current CCFTC remains chaired by the Cabinet Secretary. The 14 members of the committee consist of high ranking officials from various departments and institutions. The Secretary of the Minister of State responsible for Research and Technology was also appointed as one of the members. This demonstrates that the government is aware of the importance of science and technology to the process of achieving development goals. In other words, scientific and technological development is given high priority in economic development. It was necessary therefore, that there be a representative from an office which coordinates scientific and technological activities.

Obviously members of the Committee all have senior positions

and heavy responsibilities in their own organisations. Because of this it is usually impractical for them to meet frequently in order to perform their function. On the other hand their work on the committee demands great attention and concentration. As a result they are only consulted case by case. The actual day today work is carried out by a nucleus of CCFTC. This comprises officials from the Cabinet Secretariat, Bappenas (Agency for National Development Planning), the Department of Foreign Affairs and the Department of Finance. These four offices are known as "the four leg". This nucleus provides a backbone for the committee's overall activities. Upon its effectiveness depends the smoothness and efficiency of the whole foreign aid administration in Indonesia. The initial step of considering foreign aid proposals and offers is undertaken by members of the nucleus. When general problems have been resolved in principle then further steps may be taken by the nucleus. This may include contact with the representative of the donor country or the department or institution concerned. If necessary it may organise an Inter Embassy Meeting in cases involving multilateral aid.

Each department and institution has a unit which deals with foreign aid. Usually this unit is part of the bureau which carries out foreign relations. The administration of foreign aid is consequently carried out by this bureau. Administration in this context has a broad meaning. It includes preparation of project proposals and defining them in proper form, negotiation with donors, preparation of agreements, administrative arrangement, reporting and evaluation. Foreign aid requests and proposals from each department and institutions will be submitted by this bureau to the Committee through the appropriate channel. Take as an example LIPI's National

Institute for Physics which might require foreign aid to strengthen its Polymer Division. A potential donor which will provide foreign aid has already been identified. The Institute then prepares a project proposal and this is submitted directly to the Committee. This proposal is therefore sent back to LIPI's Bureau of International Relations which deals with foreign aid within LIPI. The proposal is then examined and discussed with the Deputy Chairman of LIPI who controls the Institute. When he has approved it, it can be submitted to the Committee. Proposals from other offices follow a similar pattern, meaning that any proposal submitted directly by a given office will be sent back to its bureau of foreign relations in order to be considered in the context of existing regulations and priorities.

Foreign countries or international agencies which have representatives in Indonesia usually also have a special unit which is in charge of the administration of foreign aid. This unit consequently has to have close liason with the Secretariat of the Committee and the Bureau of Foreign Relations. The administrative structure for controlling foreign aid consists of three major elements. These are:

- the Coordinating Committee for Foreign Technical Cooperation;
- the Bureau of Foreign Relations, and
- Representatives of the donors.

In general it can be concluded that all foreign aid administration is divided between the above three components.

Interaction amongst bureaucrats from these offices will be an important

input in the determination of foreign aid administration. Although the implementation of foreign aid programmes is finally controlled by the project sponsoring Department or Institution, the efficiency and effectiveness of the administrative arrangements outlined above will greatly influence the success of each programme.

2. The Organisation and Machinery for Administering Foreign Aid

The organisation of the administration of foreign aid changes from time to time. Changes in government policy result from changes in government. Interaction, relative power and influence between politicians and bureaucrats or between bureaucrats themselves are all factors which affect the administrative structure. Most of the donor countries have a special unit to deal with foreign aid. List of units to deal with foreign aid is attached as Annex B.

The administration of foreign aid is controlled by the above mentioned units. How they allocate aid to a given country will be determined by interaction between decision makers in each unit interpreting the general foreign aid policy of their own countries and the constraints which arise from the policy of the recipient country. In Indonesia, from the aid user's point of view, there are two important ways of securing foreign aid funds. The first is active. An agency may propose the particular form of aid be sought. This will of course, be through the appropriate channel and use the appropriate form. The second technique is passive. Agencies may only submit proposals after they have received an official offer from the CCFTC.

The CCFTC, on behalf of the government, will study and recommend proposals for foreign aid request to donor after such

proposals have been approved by Bappenas. There are two types of proposals. Proposals which will be submitted for bilateral assistance and proposals for multilateral assistance. Bilateral proposals formulation follows the following paths.

Project formulation is entirely the responsibility of the executing agency and its bureau of foreign relations. It may happen that during the formulation of project proposals experts from abroad are invited to participate so that the final proposals not only fulfil the regulations and conditions set forth by Indonesian government but also suit donor requirements. Project proposals are normally prepared in the form of Terms of Reference (TOR). An example of it is attached as Annex C. It contains the following elements:

The first section of TOR mainly gives background and supporting information of the project. It is divided into:

a. Justification of the project

What is the idea underlying the project? This together with all information related to the project, must be explicated.

When justifying a proposal, an attempt must be made to satisfy bureaucrats in Bappenas that the project is relevant to Indonesian development needs:

b. Name or title of the project

The scope and future of the project will be elaborated in this paragraph;

c. Institutional framework

This section briefly explains who is the executing agency and describes its structural organisation. As the project may be carried out in collaboration with other institutions all such relationships must be clearly explained and illustrated;

d. Government follow up

It gives an overall view of what will be achieved if the project can be materialized. Follow up action upon completion of the project will also be described.

The second section of the TOR explains both the immediate and long term objectives of the project. The third section deals with the various stages of the project. What and when particular things will be done by the executing agency and the donor will be clearly set out. It therefore includes time scheduling of the project. The last section of the TOR focuses on the external and government input for the project. The essence of the foreign aid required will be spelled out here, whether it needs experts, equipment or fellowship. Each of these has to be explained clearly. In addition, the contribution expected from the government will also be specified in this section.

Project proposals are sent to Bappenas by the Bureau of Foreign Relations of the executing agency. Bappenas will examine and assess the proposals from almost every aspect of national development goals, such as development priorities, the impact of the project for the majority of the people, the ability of the

executing agency to implement the project, etc.

The approved proposals are collected and published in what is known as the Blue Book. The inclusion of project proposal in the Blue Book is not a guarantee that the project will be taken up by a donor. This depends on further discussion with potential donors who may be interested in the proposed project. There are hundreds of approved proposals and therefore only a summary of the proposals appear in the Blue Book. An example is attached as Annex D.

The Blue Book listing all officially approved proposals from Indonesia, is brought to each IGGI meeting. Any donor country interested in assisting a project included in the Blue Book will then arrange a bilateral meeting either in Indonesia or abroad. At this meeting the Indonesian delegation will normally comprise the Nucleus of the CCFTC. The result of the meeting will be set down in agreed minutes. This document provides general information about the meeting. Project proposals accepted for financial assistance will be set out in the agreed minutes. Based on the agreed minutes further discussions about the project will take place. The executing agency normally will also attend these later meetings because technical matters will be discussed. The TOR of the project may be modified in accordance with the agreement reached at the meeting. The new TOR will become part of the Administrative Arrangements for the project. The draft Administrative Arrangements usually refers to a Basic Agreement. This is an agreement on cultural, economic or technological matters. It is brought to an Inter Departments Meeting organised by the CCFTC. All aspects of the Arrangements including political, security, financial and like matters will be discussed once again. After all

problems are resolved, two originals will be signed. One will be deposited at the Department of Foreign Affairs and one will be kept by the donor. The executing agency and other related offices such as Bappenas, Ministry of Finance, the Indonesian representative abroad will be sent a copy.

The United Nations Development Programme (UNDP) has launched a Country Programme. This was intended to provide foreign aid in a way which would meet the needs of the programme of economic development of each of the various recipient countries. The first country programme for Indonesia commenced in 1972 for the period until 1978 while the second covered the period 1978-1983. The machinery of the UNDP Indonesian country programme is set out below.

In consultation with the Office of the Resident Representative (ORR) of the UNDP, the executing agency will prepare a draft proposal. To assist with this an expert from UNDP may also be invited to participate in project formulation. The draft proposal is sent to Bappenas and copies are sent to the ORR and the CCFTC. Bappenas will then examine and assess the proposal based on criteria applied to all bilateral proposals. If the proposal is approved in principle by Bappenas it will so inform the CCFTC. The approval will then be passed to the ORR by the CCFTC. In turn the ORR will consult its Headquarters. If UNDP approves the proposal, a project document will be prepared. CCFTC will issue a letter of authorization to the head of the executing agency in order to work out the details and sign an agreement on behalf of the government.

The above mentioned programme proposals, both bilateral and

UNDP proposals are usually prepared without waiting for an offer from CCFTC. In other words, an executive agency takes an initiative to secure foreign aid. Alternatively there may be an official offer from CCFTC indicating that a particular donor has offered aid in a specific field. Those agencies interested in utilizing the aid can submit a project proposal. The approval path for such proposals follow the above cycle.

If any office receives an offer directly from a particular donor CCFTC must be informed immediately because CCFTC is assigned to coordinate all foreign aid to Indonesia. In addition, every aspect of the offer, including non-technical matters such as political and security considerations will be examined carefully. Only after all relevant matters are cleared can further steps be taken towards implementation.

At the level of decision making, Bappenas and the Cabinet Secretariat all have vital roles. In particular the quality of the project proposal must be determined by bureaucrats in Bappenas. The accomplishment of this task is not easy. It requires not only skill and expertise in many fields but the bureaucrats must work under great time constraints. For example the Blue Book has to be ready before the IGGI meeting takes place. The amount of activity in Bappenas increases considerably in the month preceding the meetings of IGGI. This is partly because many project proposals may be received close to the deadline. The scarcity of expert staff in Bappenas exacerbates the situation, as assessing or examining the many project proposals consume much time.

The main task of Bappenas which is associated with foreign aid is to formulate policies about the receipt of credits and foreign aid for national development. Furthermore, the Deputy Chairman of Bappenas for Economic Affairs, is also the Vice Chairman of CCFTC. Overall control of arrangements for preparing project proposals is in the hands of the Bappenas Bureau of Economic Cooperation, which is responsible to the Deputy Chairman of Bappenas for Economic Affairs. The actual role of Bappenas is to examine proposals by sector. It is done by the bureau concerned in Bappenas. For example, proposals about agricultural matter will be examined by the Bappenas Bureau of Agriculture and Irrigation. Proposals about science and technology will be considered by the Bappenas Bureau of Information, Culture, Science and Technology. When sectoral problems have been resolved in principle then the proposal will be forwarded to the Bappenas Bureau of Foreign Economic Cooperation. This bureau will then examine the proposal based on three main criteria. These are relative priorities, impact of the project on the majority of the people and also the expected foreign aid which might be available. There is, therefore, in addition to the Blue Book, a list of priorities for the project proposals which is prepared by Bappenas. The list of priorities is particularly important as it provides guidelines for discussion during bilateral meetings. Project proposals will usually be put forward during bilateral meetings in accordance with their ranking on the priorities list. It is important for the executing agency to ensure that its proposals have been included in the list of priorities, otherwise they will not be discussed during bilateral meetings.

The Bureau of Foreign Technical Cooperation (BFTC) of the

Cabinet Secretariat provides the secretariat for CCFTC. The head of the BFTC is the Secretary of CCFTC. The BFTC is responsible to the Cabinet Secretary who is also the Chairman of CCFTC. The secretariat, which provides administrative support, plays an important role in day-to-day work. In particular the secretariat is the prime contact point for both donor and executing agencies. For this reason it is necessary that the secretariat maintain up-to-date information and awareness about the status of a project.

The most important question which emerges, seems to be: Do bureaucrats in both Bappenas and the Cabinet Secretariat have enough expertise and staff to adequately deal with their overall responsibilities to control and administer foreign aid? Related to this is the question: In the context of Development Administration is the Indonesian bureaucracy able to efficiently facilitate the achievement of development goals? Foreign aid embraces many fields, each of which is interrelated. The complexity of foreign aid administration demands profound understanding, considerable expertise and task oriented participation by each organisation.

Recognising that the complexity of foreign aid administration requires a wide range of expertise suggests that technical support from those outside of CCFTC is needed. This support is particularly required to deal with the technical matters which arise in many sectors of development. Initial steps were taken in 1973 by appointing LIPI as a counterpart of the International Development Research Centre (IDRC)²¹. The agreement between the Indonesian

21. Aid from IDRC is mostly in the field of research.

government and IDRC states that in making arrangements with Indonesia, IDRC should consult LIPI. Since then technical matters concerning aid from IDRC to Indonesia have been resolved by LIPI. For this reason all aid proposals to IDRC are firstly examined by LIPI. In addition progress reports from agencies which have received aid from IDRC are evaluated by LIPI. Based on its examination and evaluation LIPI makes recommendation or suggestions to CCFTC. Further discussions as to whether or not the proposal is approved, will be taken by CCFTC. The final decision consequently will remain in the hands of CCFTC. This process has hopefully reduced the amount of routine technical work undertaken in CCFTC.

Similar patterns of work could probably be expanded to other donors which give aid for a particular sector. Take for instance, aid to the agriculture sector. All agricultural aid proposals from a particular donor might firstly be examined by the relevant office within the Department of Agriculture, for example, the Bureau of Planning. This bureau could be made responsible to select people who would be assigned to deal with technical questions concerning proposals in the agricultural field. Recommendations could be made only after the technical questions have been resolved. In other words, CCFTC would not have to deal with technical matters as this would be done by an office which has appropriate expertise.

The appointment of the right counterpart for a particular donor would not be an easy task, but if it could be materialized it would no doubt reduce the technical work load in CCFTC. In the end the overall process of foreign aid administration would become more

efficient.

Official channels have been set out for the development of project proposals and bureaucrats on each side have their own theoretical role. In reality the actual process may be different. As already indicated earlier, during formulation of project proposals an expert from a donor country may be invited to give advice. In practice the invited expert often makes a major contribution to the overall process. As a result many proposals come from the donors. In such cases the experts have been actively involved in the preparation of the project proposals from its early stages. Furthermore they may specify precisely what sort of aid should be given and in what way. The whole machinery in actual practice can be examined as follows. Although the expert may give good advice his disproportionate role may have effect of creating a technically first rate proposal, but one which will take into account his own belief and technical expertise. Unfortunately this may not be the best possible use of the available aid funds because the proposal did not arise fully from Indonesian sources. In theory Bappenas could reject the proposal. In practice this is unlikely as to do so would cause ill will and may lead to no aid at all from the country concerned.

The executing agency prepares a project proposal based on Repelita's priorities and, the most important of these is that, the proposals have been discussed with the donor or the donor has already given clues. The main important points provided from the donor are defined in the form which is already provided by Bappenas. In collaboration with the agency's bureau of foreign relations project

proposals are finalized and sent to Bappenas for inclusion in the Blue Book. The fate of project proposals is consequently in the hands of Bappenas as it decides whether or not they will be included in the Blue Book. Each agency thus has to convince Bappenas that its own proposals fall into Repelita's priorities and foreign aid is needed to stimulate or speed up the project. It is therefore important that TOR for the project are prepared as comprehensively as possible to ensure that Bappenas will conclude that it is an important project. Moreover the agency must stress that the result of the project will be useful for the mass of the people. This is because project proposals may be, and often are, refused on the grounds that benefits would not accrue to those most in need.

In any event those people and agencies which have access to bureaucrats in Bappenas are most likely to get favourable treatment for their proposals. Top down authority and one way communication still play a predominant role in the actual administrative process in Indonesia, as elsewhere. Thus the real power of prominent ministers and military leaders are all paramount in determining the actual practice. Although there are political parties which are supposed to act as counter poises in the political process they are not functioning effectively. In essence, therefore, the bureaucrats in Bappenas are in a very difficult position. They are responsible for foreign aid administration in highly complex and difficult areas. Not only do they have the obligation to examine project proposals based on both Indonesian development priorities and criteria set forth by donor countries, but also have to take into consideration cues from ministers and military officers. Needless to say there is a tendency for the latter to

become the dominant factors.

As was discussed earlier, what appears in the Blue Book is only a summary of the project proposal. After reading the summary, a potential donor will need much more information. In this case the particular agency's bureau of foreign relations plays a significant role. Close cooperation with the representative of the donor has to be developed and maintained. In this regard it is clear that an agency's success in securing foreign aid in large part depends on the diplomatic skills of the agency's bureaucrats in its bureau of foreign relations. These officials have to be able to satisfy aid officers from donor countries, the diplomatic representatives of these donors as well as Indonesian officials from CCFTC.

In the next chapter the operation of LIPI will be examined to illustrate the process of foreign aid administration in depth. Foreign aid to LIPI is mostly directed to strengthening its institutional capability. This is particularly so because institutions controlled by LIPI deal with science and technology and because there is a general lack of understanding in Indonesia about the uses of recent developments in science and technology. This is caused by a dearth of qualified and trained personnel in many and varied fields of research and development. It has significantly hampered the government programme of scientific and technological development. Therefore foreign aid is needed for manpower development as science and technology development depends largely on having adequate numbers of qualified personnel.

CHAPTER IV

PROFILE OF THE INDONESIAN INSTITUTE OF SCIENCES

This chapter will examine the tasks and functions of the Indonesian Institute of Sciences (Lembaga Ilmu Pengetahuan Indonesia = LIPI), especially its administrative structure and the way in which this contributes to national development. The most important tasks of LIPI is to promote the development of those aspects of science and technology in Indonesia which ultimately will be utilized to speed up the process of achieving development goals. The first section of this chapter, therefore, will discuss the role of science and technology in economic development. It will be shown that new technology is one of the main engines of economic growth. For example, the United Nations is aware of the importance of science and technology for development. In 1979 the U.N. organised a conference in Vienna entitled : "United Nations Conference on Science and Technology for Development". This conference concluded that a science and technology programme should be incorporated within national development programmes.

The second section of this chapter will examine the overall administrative arrangements of LIPI, both within the context of the Indonesian administrative structure and also within LIPI itself. With the appointment of the Minister of State for Research in 1973 who became the Minister of State for Research and Technology in 1978, scientific and technological activities have been under the control of the Minister. Although LIPI still reports directly to the President of the Republic, its programmes are coordinated by the Minister of State for Research and Technology. Because of the LIPI's

programmes, they must be consistent with the broad thrust of Government policy. In practise they are also under the general control of the Minister.

In addition to LIPI there are other institutions which also deal with science and technology. This is why coordination is very important not only to avoid duplication of activities but also to utilize the available funds and resources as efficiently as possible. In order to perform its function effectively LIPI needs considerable funds. However, the government budget allocations are insufficient. Consequently additional resources are needed. It is in this context that foreign aid is required for scientific and technological activities within LIPI.

The last section of this chapter, therefore, will focus on the administration of LIPI and in particular its administration of foreign aid. Administrative arrangement within LIPI for processing foreign aid proposals will be discussed.

1. The Role of Science and Technology in Development

Traditional growth models stress the importance of both capital and labour as input factors in the growth process. In this context economic growth means a continuing increase in national income. Economic growth requires large scale investment, both investment in real capital and investment in science and technology. Science and Technology play an important role in the socio-economic development of a country. H.C. Johnson, for instance, mentions that technology is regarded as necessary adjunct to everything

desirable in the way of human betterment²². It is widely believed by many scholars that science and technology can find short cuts to achieve development goals. If technological problems can be mastered and if both capital and labour are available, then production can be rapidly multiplied to meet the needs of the people. In a developing country, science, through research and development can potentially make a great contribution to economic growth. Research and development are important because they provide knowledge which give rise to technological advancement. Technological advancement depends on basic research which leads to the creation of a technology through a process of innovation. This viewpoint holds that innovation is spread throughout an economy by the process of diffusion. Science and technology are therefore necessary for sustained economic growth. Each country has set up an organisation to deal with science and technology. The organisational arrangement may vary from country to country but the objectives are most likely similar, i.e. science and technology are directed towards the acceleration of economic development.

The most important objective of developing science and technology in Indonesia is to support and speed up the development process. Because science and technology can find a short in the achievement of development goals. Therefore only science and technology which have direct impact on economic development of the country will be given high priority. The Minister of State for Research and Technology has identified five problem areas which require high priority. The areas are:

22. Johnson, H.C. Technology and Economic Interdependence, London Trade Policy Research Centre, 1975, p.116.

- Basic Human Needs;
- Natural Resources and Energy;
- Industrial Development;
- Defence and Security;
- Social, Economic Studies, Philosophy and Cultural Study.

These priorities were formulated on the following basis.

The Indonesian people are regarded as one of the potential national resources which have to be utilized and developed in the achievement of development goals²³. The first priority must be to provide adequately for their basic needs. Without a future capability of providing with a minimum degree of basic human needs, social and political stability will seriously be endangered. When this is achieved then other resources may be developed. Thus natural resources, for example energy, have to be utilized as efficiently as possible. Next comes the creation of employment opportunities. In general this can be provided through industrialisation. The industrialisation process requires security and political stability. It is in this context that the national defence and internal security require priority. Finally, the entire people as individual human beings can not be separated from their socio-economic and cultural environment. Consequently these aspects of life require attention once the basic problems have been dealt with.

23. Habibie, B.J., Riset dan Teknologi dalam Pembangunan Indonesia (Research and Technology in Indonesian Development). An address delivered during "the Third Meeting of Jakarta-Stanford Research Institute", September 1978, pp.14-15.

The problem areas are divided into regions, i.e. land, sea, aerospace and living environment, became known as the Indonesia's Research and Development Matrix. See figure below.

Indonesia's R & D Matrix

Prob. Region Area	Basic Human Needs	Nat. Res. Energy	Indus. Develop.	Defence Security	Soc.,Ec. Phy.,Cul.
Land					
Sea					
Aerospace					
Living Environment					

Science and technology development are directed towards the achievement of solutions to the above problems. One of the most important things that can be deduced from the above matrix is that environmental protection studies are undertaken and considered in the problem solving process in all areas. Meaning that the achievement of the goal in the three regions should be done in such a way so as it will not destroy or seriously degrade the environment. As a result, equilibrium of the eco-system will thus be maintained.

The above matrix encompasses many complex problems. It's use also demonstrates that the government is aware of the relevance of science and technology to economic development. One of the main problem areas is explicitly associated with the so called "eight paths to equality", i.e. fulfilling basic human needs. This firstly

means that the science and technology programme is incorporated into the national development programme. Secondly it means that research and development programmes in this area, for example, studies of nutrition, health, food, clothing and housing are given high priority. For instance "High Protein Low Cost Food", such as soybean cakes (tahu-tempe) are now being developed and popularised²⁴. Similarly technological advances in making soybean cakes and their preservation are being sought. Soybean cakes are particularly relevant to Indonesia because the majority of the people can afford them as their price is relatively low. In addition, soybean cakes are highly nutritious and so they make an important contribution to the health of those who eat them. Adequate high protein food will improve the health as well as intelligence of the people. Being healthy people they can contribute and participate in development efforts. In other words the project has great impact and will lend support to the achievement of development objectives.

The rationale behind other projects in Natural Resources and Energy, Industrial Development, etc. follows a similar pattern.

As has been mentioned the ultimate goal of the application of science and technology is to speed up the process of achieving development goals. This arises because science and technology are stimulants to the development process and so promote overall economic growth. A few examples may help clarify this point.

24. For 1981-84, the Australian government has provided financial aid of A \$1,800,000 for the High Protein Low Cost Food project. This is an ASEAN' project under the directive of the Committee on Science and Technology. In Indonesia the executing institute is the National Institute for Chemistry - LIPI.

There have been rapid introduction and adoption of new technologies. These technologies are spread out to various sectors of the economy. In the agriculture sector, for example, high yielding varieties of rice have been introduced. In addition, the application of fertilizer and pesticide have also been intensified. Food supply thus increased and met the demand. However, population continued to grow rapidly²⁵. Therefore a family planning programme has been adopted as one of development strategies. Associated with family planning is birth control. The use of IUD, oral contraceptive and condoms have become popular and has only been possible because of the adoption of new technologies. The use of contraceptives will, at least, slow the population growth rate even though it will not reduce it dramatically. Demand for food may slowly decline.

Another example is that in the industrial sector, particularly those involving foreign aid investment, activities such as textile factories have been established. The importance of this is not only that Indonesia will become sufficient in clothing, but also, and more importantly, that they will provide many employment opportunities. As a result, the income of the new factory workers may increase. In addition, tax revenues in this industry will also increase. As government revenues will increase this will increase its capability of financing a greater share of Indonesian development programmes. Thus it is clear that the introduction and

25. Based on the results of the population census of 1971 with the assumption a decline in the fertility rate of 25% it was projected that by the end of the year 2000 the Indonesian population will be approximately 250 million. See Sumitro Djojohadikusomo : Indonesia Towards the Year 2000. Jakarta, 1975, p.7.

adoption of new technology has had a significant impact in promoting economic growth.

Paucity of funds is one of the main constraints to the implementation of science and technology programmes. This problem is shared by all development programmes. Table IV.1 below shows development expenditure by sector.

In 1976/77, development expenditure on science and technology was 25 billion rupiah and in 1981/82 it was 122 billion. This means that within six years development spending in this area it has increased almost five fold. However, the budget allocation in 1982/83 was only 95 billion. Budget allotted for R & D in Indonesia amounts to about 0.2% of the GNP. To foster R & D activities it needs to be increased to at least 1% of the GNP²⁶. Consequently other sources have to be found to maintain scientific and technological development. This role is played by foreign aid.

Most foreign aid needed is directed towards institutional improvement. Aid secured normally includes the assistance of foreign experts and their equipment as well as a study grant. With this kind of assistance research and development institutions hopefully become increasingly capable of carrying out their main tasks and hence they should make an increasing contribution to development efforts.

Every research and development institution, which requires

26. Current S & T Manpower Development Planning in Indonesia. Jakarta, LIPI, 1982, p.5.

DEVELOPMENT EXPENDITURES BY SECTOR
(billions of rupiah)

Sector	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 Budget
Agriculture and irrigation	356	380	450	508	929	1,253	953
Industry	172	125	157	356	415	366	528
Mining and energy	242	238	319	377	507	938	828
Transportation and tourism	429	355	413	466	780	1,098	806
Trade and cooperatives	9	8	13	31	103	106	58
Manpower and transmigration	27	60	95	162	325	606	417
Regional, rural and urban development	190	250	275	336	482	741	616
Religion	5	7	8	19	32	60	40
Education, youth, culture and belief in the Almighty God	136	211	251	361	575	1,302	726
Health, social welfare, role of woman, population and family planning	48	71	79	142	218	322	286
Housing and human settlement	30	90	56	117	191	281	166
Law	7	11	11	31	53	79	54
National defence and security	60	56	159	330	479	569	566
Information, press and social communication	46	11	11	22	34	55	44
Science, technology and research	25	38	42	58	88	122	95
State apparatus	47	56	54	112	168	223	181
Development of business enterprises	225	190	162	466	389	265	390
National resources and environment	-	-	-	120	148	220	186
Total	2,054	2,157	2,555	4,014	5,916	8,606	6,940

foreign aid involved in the overall process of aid administration. The detail of this involvement will be discussed in the last section of this chapter particularly referring to the administration of foreign aid within LIPI.

Many efforts to strengthen research and development institutions have been made in addition to foreign aid needed above. Fore example the Indonesian government has concluded agreements on Scientific and Technological activities with Japan, France, the Federal Republic of Germany and the U.S.A. These countries are invited to participate in the scientific and technological programmes which are being implemented. It is hoped that this cooperation will lead to improved inputs for decision making in science and technology policy. In the end it will be submitted to the government to be used in the formulation on a National Science Policy as part of overall National Policy.

2. The Organisation of LIPI

The Indonesian Institute of Sciences or known as LIPI (Lembaga Ilmu Pengetahuan Indonesia) is one of six non-departmental institutions which are concerned with Science and Technology. It was established in 1967 by Presidential Decree no. 128, as a result of the Government's wish to rationalize and simplify the national administration. LIPI took over the tasks of two bodies which were abolished. These were the Institute of National Research and the Council for Sciences of Indonesia.

The chairman of LIPI, as can be seen from the organisation chart of LIPI, is responsible directly to the President of the

Republic. He is assisted by three Deputy Chairmen and each of them controls national research institutes. In addition, he is assisted in administrative matters, by a Secretary who in turn is supported by ten bureaux and a secretariat.

The main tasks of LIPI are as follows²⁷.

First, to promote the development of science and technology in Indonesia for the benefit of mankind in general and of the Indonesian people in particular;

Second, to search for scientific truth. Scientific freedom, that is the freedom to conducting research and hold free academic activities are recognised and guaranteed within LIPI in so far as they do not conflict with "Pancasila" and the 1945 Constitution.

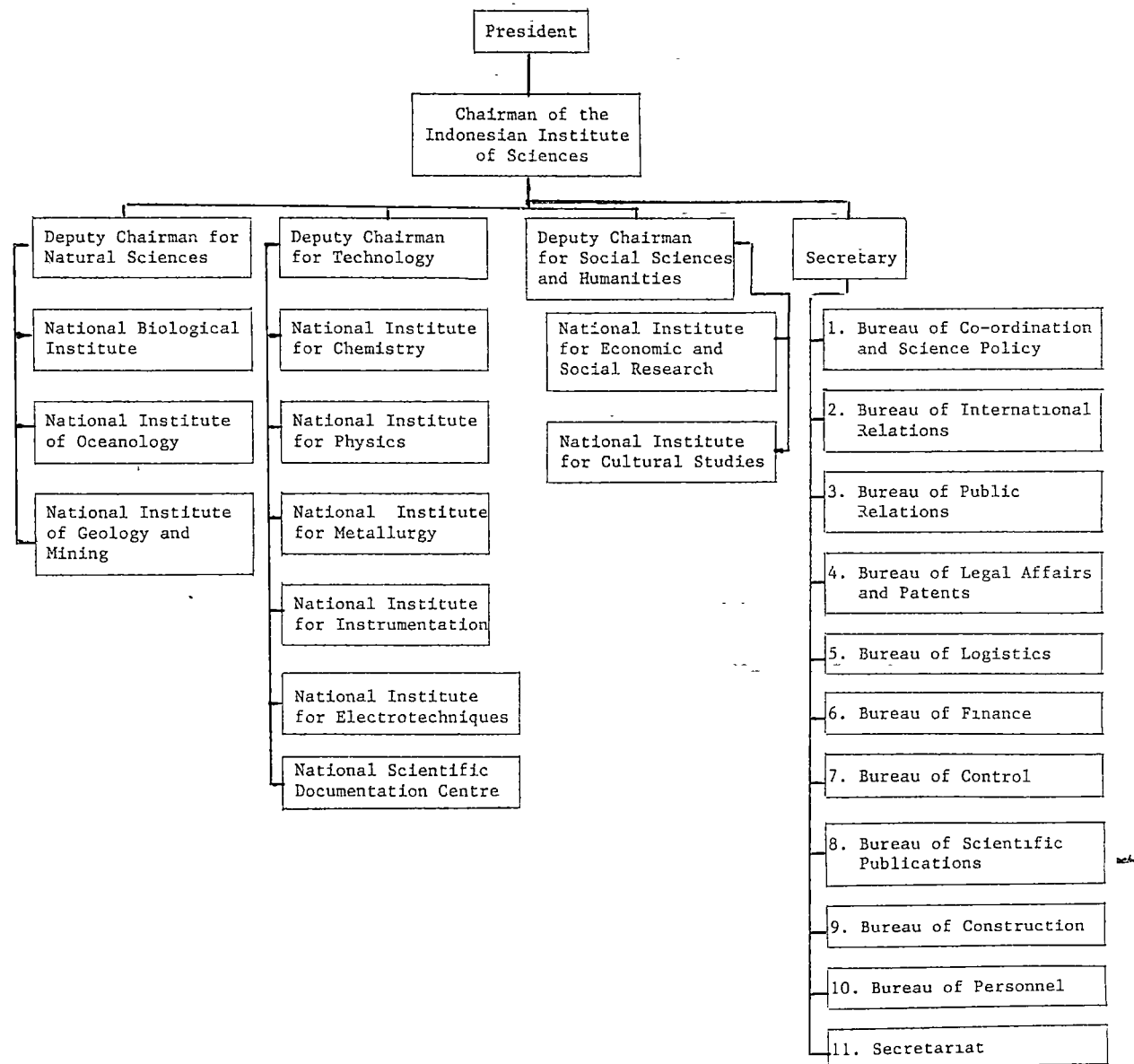
In order to accomplish its tasks LIPI is assigned various functions. These include:

- to advise the government on the formulation of national science policy as part of the overall national policy;
- to give guidance to research institutions, and to develop existing technological activities;
- to guide research workers towards a higher sense of awareness and responsibility, to facilitate rapid development of science and technology in Indonesia;

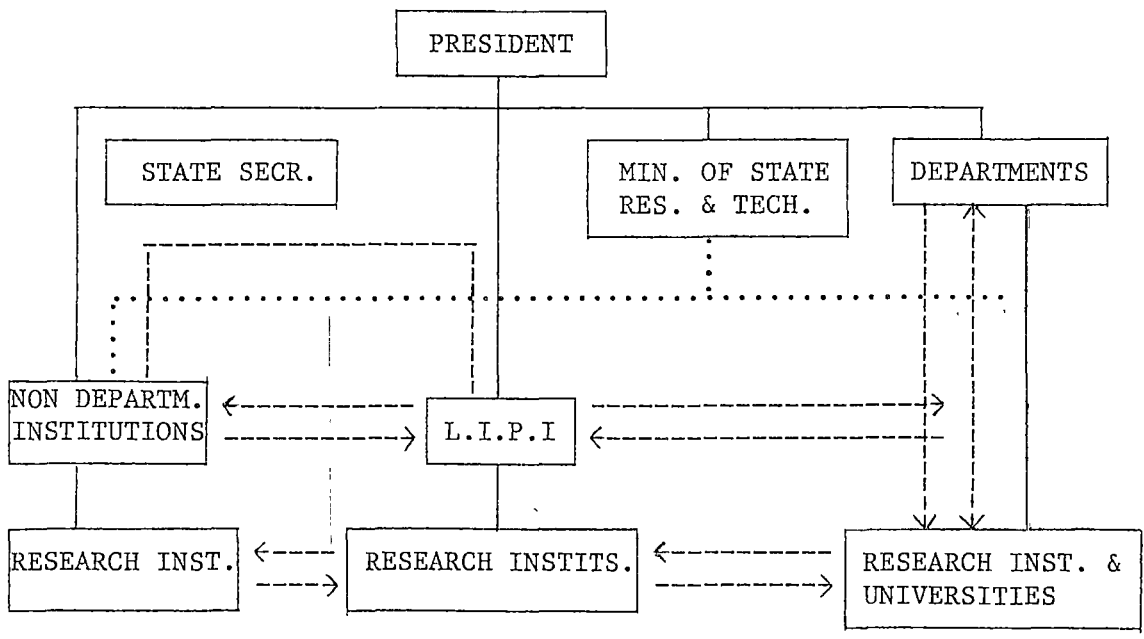
27. Indonesian Institute of Sciences - LIPI. Jakarta, no date, p.2.

ORGANIZATION CHART

INDONESIAN INSTITUTE OF SCIENCES (LIPI)



In line with its main tasks and functions, LIPI is authorised to coordinate, integrate and synchronize all activities in the field of science and technology at both national and regional level. However, with the appointment of the Minister of State for Research in 1973 and later became the Minister of State for Research and Technology in 1978, the situation has been changed. The highest scientific and technological authority is the Minister. He controls the whole programme of science and technology which ultimately is directed towards the achievement of development goals. Within the context of the National administrative structure LIPI's position is shown in the diagram below.



- _____ : line of responsibility
- : line of administrative and financial coordination
- : line of research coordination
- ←-----
-----→ : line of technical cooperation

Inter action between LIPI and other research institutes within Departments can be set forth below.

First of all the problem areas which will require solution are discussed. This can be done either amongst scientists or amongst policy makers (see diagram above). Take as an example the effort to utilize agricultural waste for animal feed. This idea emerged from a workshop on the "Bioconversion of Lignocellulosic and Carbohydrate Residues in Rural Areas of Indonesia". It was held in 1979 and attended by scientists from many agencies, such as LIPI, the Department of Agriculture, Gadjah Mada University (Universitas Gadjah Mada = UGM), Bogor Agriculture University (Institut Pertanian Bogor = IPB), etc. The workshop concluded, inter alia, that residues or agriculture waste, i.e. rice straw, maize stalk and husk, which are used for animal feed can be increased in food value by chemical or microbial treatment to increase their digestibility.

Recognising the importance of this effort LIPI then invited scientists from many agencies to help make concrete progress. Project formulation was initiated and the necessary initial steps were carried out. This project was primarily implemented by research institutes which are under the control of the Department of Agriculture, but LIPI has been making continual efforts to help agricultural research institutes find useful ways to utilize agricultural wastes. This was done by assigning LIPI researchers to work on the project as well as by providing laboratory facilities with LIPI. In the end, the results of the research will be disseminated to farmers through Agriculture Extension Services.

The above organisation chart was the result of the Presidential Decree No. 45, 1974, which explicitly stated that all research activities were to be coordinated by the Minister of State for Research. Consequently the main tasks and functions of LIPI have had to be adjusted. In general it can be concluded that LIPI's function is now²⁸:

- to assist the government in guiding science and technology for national development;
- to assist the government in the implementation of the main programmes of national research which support national development.

Profound understanding of the overall administrative arrangement is very important for the management of day today activities. This is because each activity has its own particular rules of the game which have to be followed. As is shown in the above chart, the administrative and financial matters are under the control of the State Secretary while operation works of research activities are under the control of the Minister of State for Research and Technology. However, in totality LIPI reports directly to the President.

In order to accomplish the above tasks and functions since 1979/80, LIPI has launched an integration programme. The three main aspects of this programme are:

28. Laporan tahunan LIPI 1981/1982. Jakarta, LIPI, 1982, p.

- a. strategic activities which will have a significant impact on the future development of Indonesia;
- b. cross sectoral, multi-institutional and inter-disciplinary activities;
- c. support for other sectors of research and development activities.

To carry out the above programme LIPI is equipped with ten national research institutions and one national documentation centre. In addition, there are ten bureaux and a secretariat which provide administrative support.

By 31 March 1982²⁹ total manpower employed by LIPI was 3,398 of which 533 worked at LIPI Headquarters. Realizing that an adequate supply of available manpower both in qualitative and quantitative terms, is a prerequisite for the success of the implementation of its programme, LIPI has made a continual attempt to recruit and up-grade its personnel. For example, a number of scholarships have been offered to students on the condition that they will become LIPI employees upon completion of their studies. In addition, manpower development activities are conducted both abroad and domestically. This may take form of practical training or further study.

Similarly cooperation to conduct joint research and development programmes with other institutions have been encouraged. The pattern of cooperation with institutions within the country, as

29. Laporan tahunan LIPI. *ibid*, p.64.

a matter of fact, is shown in the chart of the organisation.

Cooperation with foreign institutions includes, amongst others dealing with:

- Japan Society for the Promotion of Science (JSPS), Japan;
- Korea Advance Institute of Science and Technology (KAIST), Korea;
- National Technical Information Service (NTIS), U.S.A.
- etc.

Take for instance, cooperation with JSPS. Its objective, as stipulated in the Memorandum of Understanding for Scientific Cooperation between LIPI and JSPS³⁰, is to promote scientific activities between Indonesia and Japan by means of exchange of Scientists and ideas as well as cooperation in research. The implementation of cooperation may take form of:

- Sending Indonesian scientists to Japan or sending Japanese scientists to Indonesia, in order to discuss and exchange experiences in particular fields;
- Scientific meetings on the particular theme agreed upon between Indonesia and Japan;
- Cooperative research in those aspects of science and technology which will be carried out both in Indonesia and Japan.

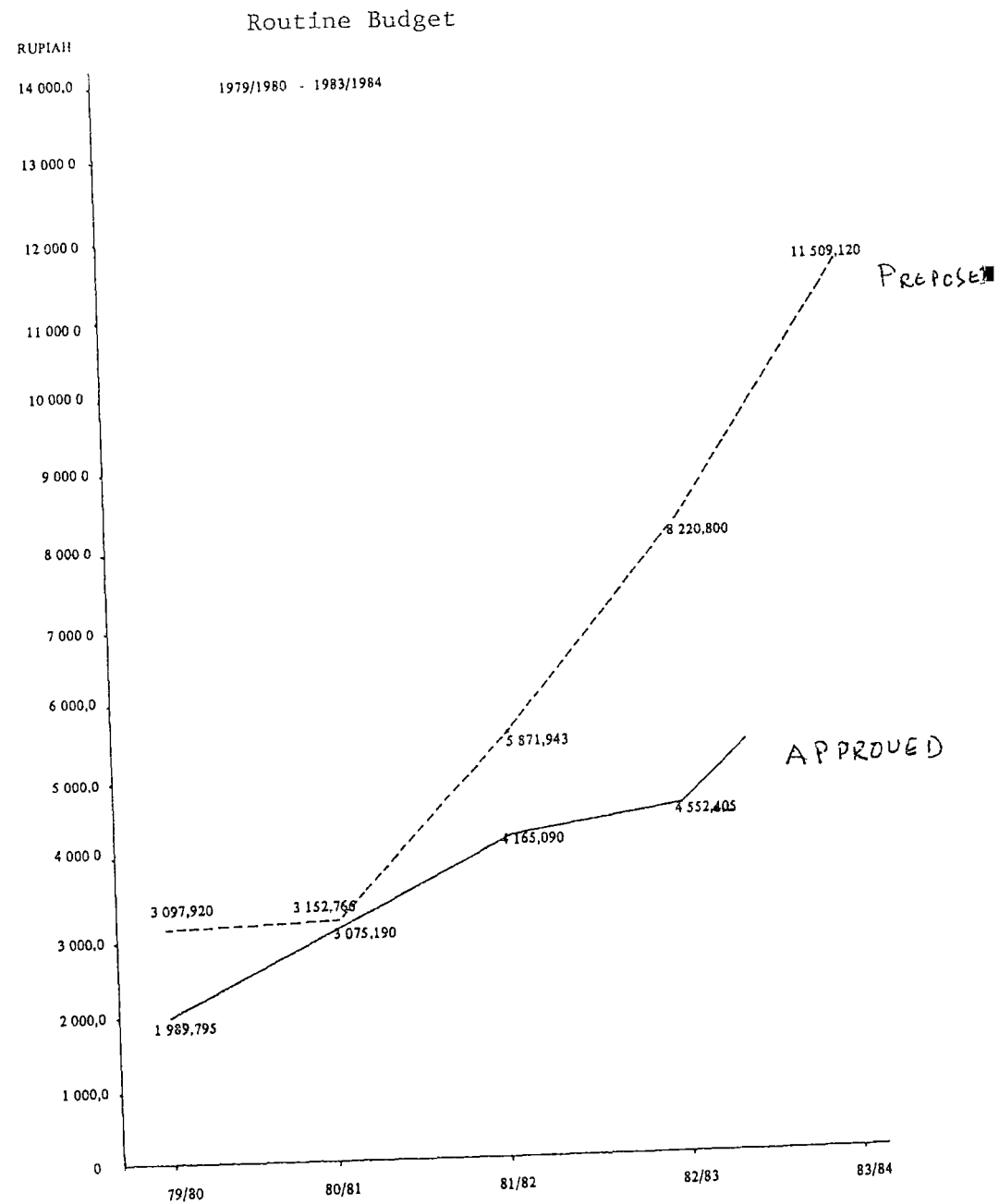
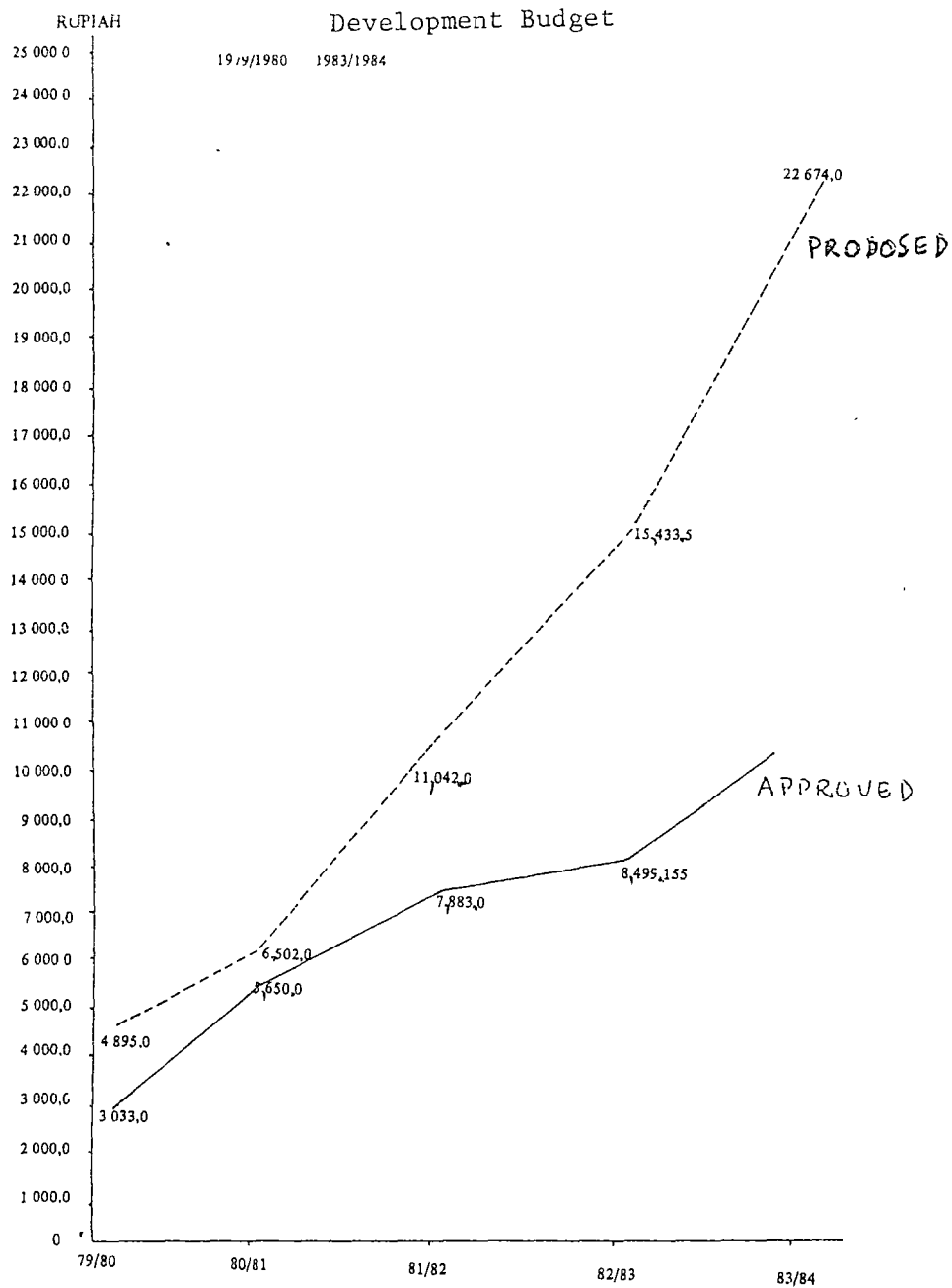
In the end the results of cooperation become an important

30. For further details about the cooperation between LIPI and JSPS see: The Memorandum of Understanding between JSPS and the Indonesian Institute of Sciences, in Soehartono Soedargo: Himpunan Naskah kerjasama antara LIPI dengan Negara Sahabat (Compilation of Cooperation's Texts between LIPI and Close Countries). Jakarta, LIPI, 1978, pp.4-6.

input for further promoting scientific and technological activities. In general it can be said that the primary importance of cooperation with foreign institutions is to promote the development of relevant aspects of science and technology.

The budget provided for the overall activities of LIPI, as it is shown in the following graphs, consists of two types. Firstly is the routine budget, which is mainly for recurrent expenditure, such as salaries, maintenance, stationery, etc. Secondly is the development budget which is devoted to programmes related to national development. Development budget in 1980/81 was Rp 5,650 billion or approximately 6.3% of the total spending on science and technology. In 1981/82 it was Rp 7,883 billion. This was also approximately 6.3% of total spending on science and technology. In 1982/83, the development budget increased approximately 2.5% as it was Rp 8,499 billion or 8.8% of the total budget provided for science and technology. From the above figures it is clear that although the total amount of funding increases year by year but its proportion of the science and technology budget remains about the same. It is noteworthy that year by year the government funded lower than proposed by LIPI. The two graphs show this clearly.

In order to accomplish its main task, i.e. to develop relevant aspects of science and technology, additional funds have to be found. One technique is to make use of foreign aid which is provided by various countries and international agencies. Foreign aid is particularly used for both the employment of experts and capital investment. Therefore the foreign aid secured is in the form of expertise, equipment and fellowships.



3. The Administration of Foreign Aid Within LIPI

As already mentioned, in order to be able to implement its main tasks, LIPI is equipped with ten national research institutes and one national scientific documentation centre. Each research institute consequently has to be able to translate the main tasks of LIPI into development programmes which are potentially able to be implemented. The Director of the Institute, who is assisted by two Assistant Directors and an Executive Secretary, is responsible for the overall process of programme formulation. These are formulated in an annual programme and are hence specified in the annual budget. Expectation about likely foreign aid, which ideally has to play both a supplementary and a complementary role, will also be detailed in the annual budget.

The main characteristics of the foreign aid secured by LIPI, both from Bilateral and Multilateral sources, is shown in Table IV.2 and IV.3. It is in the form of expert, equipment, and fellowship or study grant. In totality it may be formed as a certain project. The aid is usually extended in the form of a grant, although loans are also secured, particularly after 1978. Due to the lack of institutional framework and qualified personnel the foreign aid was mainly directed toward institution building and manpower skill development. Improvement in these two areas are prerequisites to the development of Indonesian technology which is required to speed up the achievement of development goals. As these two prerequisites become available, development problems will be increasingly easy to identify and then hopefully appropriate solutions will be developed.

It is therefore manpower development programmes play a

TABLE IV.2
MULTILATERAL FOREIGN AID TO LIPI
1967/68 - 1982/83 (in US \$)

Institute	Amount	G/L	Form of Aid	Donor	Period
Instrumentation	446,156	G	Exp.,Eqp. Fel.	UNDP	1972-1978
	1,178,453	G	Exp.,Eqp. Fel.	UNDP	1979-1985
Physics	289,000	G	Exp.,Eqp. Fel.	UNDP	1981-1982
Oceanology	155,222	G	Exp.,Eqp. Fel.	UNDP	1974-1978
Documentation	571,078	G	Exp.,Eqp. Fel.	UNDP	1975-1981
	506,412	G	Eqp.,Fel.	UNDP	1981-1985
Headquarter	17,140	G	Exp.,Eqp. Fel.	UNDP	1975-1977
	345,325	G	Exp.,Eqp. Fel.	UNDP	1975-1981

G : grant

Source: Bureau of International Relations - LIPI.

significant role in developing skills which are urgently needed for scientific and technological development. These programmes include, amongst others, the sending of Indonesians abroad for practical training or to attend a post graduate course. Since its establishment LIPI has been continually sending selected staff to various countries for skill development purposes. The total numbers sent overseas, arranged by the country, are shown in Table IV.4. The main obstacle to sending people abroad particularly those who will follow a post

TABLE IV.3
BILATERAL FOREIGN AID TO LIPI
1967/68 - 1982/83 (in 000)

Institute	Amount	Gr/L	Form of Aid	Donor	Period
Instrumentation	Nfl 3,300	G	Exp.,Eqp. Fel.	Neth.	1969-1971
	DM 17,500	G & L	Exp.,Eqp. Fel.	FRG	1981-1984
Electronics	US\$ 1,000	G	Exp.,Eqp. Fel.	Belguim	1981-1986
Chemistry	Nfl 1,200	G	Exp.,Eqp. Fel.	Neth.	1982-1985
Oceonology	US\$ 1,286	G & L	Exp.,Eqp. Fel.	US-AID	1978-1984
Biology	PM	G	Exp.,Eqp. Fel.	U.K.	1977-1980
Economic	US\$ 100	G	Exp.,Eqp. Fel.	Ford F.	1969-1971
Documentation	Nfl 1,200	G	Exp.,Eqp. Fel.	Neth.	1977-1982
Headquarters	US\$ 970	G & L	Exp.,Fel.	US-AID	1978-1984

PM : the amount of aid was not stated in monetary terms but in man/month.

G : grant

L : loan

Source : Bureau of International Relations - LIPI.

graduate study is proficiency in the relevant foreign languages. Most of the candidates who have failed have done so due to inadequate mastery of the foreign language concerned. The experience has shown more than 50% of the candidates usually fail. To help overcome this problem some countries provide language instruction before the academic course commences. For example Australia, France and U.K. provide some such

instruction. LIPI has made use of this kind of opportunity when it is available. As it is shown in Table IV.4, the biggest group of LIPI personnel was sent to U.K. In that country candidates may undertake an Intensive English Course for a maximum of three months before the post graduate course takes place. In France candidates may undertake an intensive French language course for six months.

TABLE IV.4
NUMBER OF LIPI PERSONNEL SENT FOR FURTHER TRAINING & STUDY
1968/69 - 1982/83 (Country wise)

1. Australia	56
2. Belgium	17
3. France	48
4. Germany, Federal Republic	27
5. Japan	65
6. Netherlands	41
7. Philippines	16
8. Singapore	31
9. United Kingdom	85
10. United States	76
11. Others	72
Grant total	533

Source: Bureau of International Relations - LIPI.

Australia provides English language training for a maximum of five months before candidates leave Indonesia and then for two months in Australia before the academic course commences.

English language is very important not only for those who will follow a post graduate study, but and more importantly is that it is the language of modern technology. It is also stressed by Mr. Bob Hawke during the Conference on Technology and the Australian Computer. He states "It is an advantage that our children grow up speaking English, the language of modern technology"³¹. Because LIPI is mainly concerned with science and technology it is not surprising that English becomes a prerequisite for the success of the implementation of its programmes. Most of scientific and technological achievements are written and published in English. Consequently, in order to benefit the relevant result of science and technology development, those who deal with the aspect of science and technology have to have an adequate knowledge of English. Foreign aid then can be directed to help overcome this problem. For example training with some emphasis on intensive English language provided by the Australian government is useful to scientists and technologists. This kind of scheme would no doubt play an important role in the overall process of science and technology development.

In order for LIPI to implement its main tasks and functions successfully and adequate and effective administrative back up is required. This is mainly provided by ten bureaux and one secretariat which are under the control of the Secretary of LIPI. The

31. Excerpt of his speeches was published by The Weekend Australian Magazine, 22-23 October 1983, p.8.

administrative tasks relating to foreign aid are carried out by the Bureau of International Relations (BIR). There are two divisions in this Bureau which deal with foreign aid. These are the Division of International Cooperation (DIC) and the Division of Bilateral Cooperation (DBC). DIC mainly deals with aid from the United Nations, and other international organisations as well as that provided by Regional Associations. The rest, such as foreign aid from individual foreign governments, private organisations such as private aid foundations are managed by DBC. Clearly DIC and DBC both play an important role in overall foreign aid administration. They have a role from the time of project proposal formulation until the project is implemented. Their tasks include preliminary discussions with Embassies or representatives of donors, to explore the possibility of obtaining foreign aid. During the discussion they have to discover if there are any particular interests, priorities or requirements which will be made by the potential donors. All such information gathered becomes an important input for project proposal formulation. Based on this information and guidelines from the Government, project proposals are set out in the appropriate format. The general pattern of submitting project proposals which has been discussed in the previous chapter also applies to LIPI. The overall process of preparing project proposals in LIPI is set out below.

Each institute within LIPI which requires foreign aid has to formulate the relevant project proposal. This can be done with the assistance from DIC or DBC. The format for this is laid down by Bappenas. The project proposal is submitted by the institute to the particular LIPI Deputy Chairman who controls the institute concerned. Take for example, the project proposal of "Communication Technology

Development for Developing Infrastructure Outside Java Island".

The executing agency for this project is the National Institute of Electrotechniques (NIE)³². Therefore the entire project proposal formulation was the responsibility of NIE. When prepared, the project proposal was sent to the Deputy Chairman of LIPI for Technology. At the same time a copy of the proposal was sent to the Secretary of LIPI and the LIPI Bureau of International Relations (BIR). The Deputy Chairman of LIPI for Technology had to decide whether or not the proposal would be approved for submission to Bappenas. As the Deputy Chairman does not have enough staff to adequately examine this kind of proposal, it was therefore considered in depth by the BIR. After approval was received from the Deputy Chairman of LIPI for Technology the project proposal was submitted to Bappenas by the Secretary of LIPI. At the same time a copy of proposal was sent to the office of the Minister of State for Research and Technology. This office after examining the objectives of the project, sent confirmation to Bappenas that the project proposal is included in the priority listing and is consistent with the national development programme and that therefore it supports the proposal. The proposal was then examined by Bappenas. The internal processes in Bappenas, which have already been discussed in pages 47-48 were applied to the approval of this proposal.

After the proposal was approved by Bappenas it was given a code number for case of reference. Its code number was TTA 52, and therefore TTA 52 appeared in the Blue Book. This indicated that it

³². The official name of the institute is the National Institute for Electrotechniques although National Institute for Electrical Engineering is probably more appropriate.

was an official proposal from the Government of Indonesia. Any donor interested in assisting TTA 52 could arrange further meetings.

During a Bilateral Meeting between the Indonesian and Belgian Governments, proposal TTA 52 was discussed. Apparently the Belgian Government expressed its desire to cooperate in the project and indicated that it would provide a certain amount of funds for the project. The agreement of the Belgian government to assist TTA 52 was set out in the agreed minutes of the meeting to facilitate further reference.

The CCFTC then informed LIPI that proposal TTA 52 was being considered by the Belgian Government and that therefore more information was needed. A preliminary meeting between LIPI and the Belgian Embassy were arranged to discuss the details of the project. This was an informal meeting and was held mainly to revise the TOR. Based on this discussion the TOR for proposal TTA 52 was modified as necessary. The Belgian Embassy sent the modified TOR to its government and LIPI sent them to CCFTC for formal endorsement of the proposed modifications. Before it was done, however, CCFTC had to arrange an Inter-Departmental Meeting, to discuss the revised TOR. This was because, as explained in its objective, the proposed project would also be useful to other agencies, such as the Departments of Communication, Information and Defence and Security. Therefore their opinion was needed.

After all problems were resolved the revised TOR were officially endorsed by the Indonesian Government. When the Belgian Government agreed with the revised TOR it prepared a draft document

entitled "Administrative Arrangement". This was then discussed by the Inter-Departmental Meeting. This considered not only the financial aspects of the project but also political, security and like matters. During this meeting representatives from the Belgian Embassy were also invited. After both governments, Indonesian and Belgian, had come to an agreement that two originals of the Administrative Arrangement were signed. The Belgian government was represented by its Ambassador while the Indonesian government was represented by the Minister of Foreign Affairs. However, as the Minister was unavailable, the Chairman of LIPI signed the Administrative Arrangement on behalf of the Government. For this purpose he was given a letter of Full Power. A copy of this is attached as Annex E.

The next step was project implementation. It followed general procedure set out by the Indonesian government. When NIE staff was sent to Belgium for practical training or to attend post graduate courses, first of all they filled in application forms. These were sent by LIPI to CCFTC for official endorsement to the Belgian government. The acceptance of attending a particular course from the Belgian government was sent to LIPI through CCFTC.

Similar thing is applied for expert staff who worked at NIE. Curriculum Vitae of them was sent to LIPI through CCFTC. After LIPI approved, in consultation with the Director of NIE, an official letter was sent to CCFTC. In turn CCFTS informed the Belgian Embassy that the expert concerned was approved and therefore he could come.

The administrative Arrangement is an important tool for

project implementation. Any dispute arises from the implementation will be settled amicably by both governments. The spirit of having good relationship between the two countries therefore could be maintained.

From the above example it is clear that the process of securing foreign aid is very lengthy. In this particular case staff changes in the Belgian Embassy and amongst attending the Inter-Departmental Meetings exacerbated the situation. Because of this it could happen that the later meeting could decide to discuss again what had been agreed at an earlier meeting. Clearly it is important that bureaucrats involved in all aspects of foreign aid administration should maintain close cooperation. This will help avoid delay.

CHAPTER V

CONCLUSION

Foreign aid is but one of the instruments which are used to improve the welfare of the Indonesian people by increasing the rate of development. For most of the past 17 years, 1966-1983, the New Order Government has made a sustained attempt at national development. This development strategy is structured to address all aspects of the fundamental problems which must be overcome if the majority of the people are to achieve social justice and welfare at the standard desired by the Indonesian Government.

Because foreign aid is only a tool, its role and success depends entirely on the Government's direction. Foreign aid is used for many purposes. These include:

- to supplement foreign exchange resources and so help Indonesia to increase the rate at which it finances the implementation of national development activities;
- to direct the development process. Development goals have been set forth in development plans based on the Guidelines of State Policy (Garis-garis Besar Haluan Negara = GBHN). Foreign aid has been directed to achieve these goals;
- to bridge the technological gap. This is done by institutional improvement and manpower development.

In order to function effectively foreign aid requires an administrative back up which is capable of coping with the overall arrangements. However, the administrative process at times is

cumbersome and is the efficiency of the bureaucrats concerned plays a significant role in determining the effectiveness.

Debate about whether foreign aid reinforces or impedes the development effort of developing countries is widespread. In this context and as was discussed in Chapter I, foreign aid in Indonesia has been seen as necessary by the Government to supplement its internal resources. This is stated in the GBHN. Unfortunately self reliance is not yet possible. During the first four years of Repelita I foreign aid constituted the biggest portion of development spending. After that, its contribution has been declining except for the year 1978/79 which increased at 4.6%. It has also been necessary to make a serious and continuing attempt to confine the use of foreign aid to the productive sectors and so stimulate the whole process of economic development.

As was argued in Chapter II, foreign aid in Indonesia has played a significant role in national development. During the early years of the New Order Government foreign aid was essential to save Indonesia from economic chaos. Thus foreign aid was initially needed for stability so that the economy of the country could be restored. For this reason foreign aid was used to encourage and stimulate development. This achievement partly resulted from changes in the attitude of the bureaucrats to solving economic problems. In brief, it was found that foreign aid has had a significant and positive impact on the Indonesian economy.

There are guidelines of the administration of foreign aid under the directive of the CCFTC. Having examined the overall function of

CCFTC in Chapter III it was noted that the main objective of the Committee is to maximise the impact of foreign aid on national development. Bureaucrats on the Committee work towards this objective. They both make foreign aid requests and control the implementation of the allotted foreign aid. Progress report from the executing agency are therefore essential. However, as foreign aid embraces various sector activities, which require particular expertise, it probably would be more effective if a sub-Committee could be established for each particular sector. Such sub-Committee would be responsible only for technical matters. The final decision would remain in the hands of the Committee. The Sub-Committee would make only suggestions or recommendations. Based on these suggestions the Committee would then take further action.

Some initial progress has been made in this direction by appointing a counterpart for a particular donor. For example, since 1973 LIPI has been appointed as the agent/counterpart for the International Development Research Centre (IDRC). All proposals to IDRC are now examined by LIPI. Based on the result of its evaluation LIPI makes recommendations to the Committee. The appointment of counterparts like LIPI could be expanded to others. For example a relevant office within the Department of Agriculture could be appointed as a counterpart for a donor which emphasises its aid to agriculture sectors. This proposed a counterpart should also reduce the administrative burden in the CCFTC.

The Indonesian government has long been aware of the importance of science and technology for national development. As was discussed in Chapter IV, five problem areas which have a significant impact on

the life of the majority of the people have been identified. The implementation of programmes related to resolution of these problems have been started. In addition, there has been a rapid introduction and adoption of new technologies. These have had an important impact in accelerating economic growth. In general it can be concluded that science and technology act as stimulants to the development process and hence promote overall economic growth.

To be able to perform their role effectively, however, science and technology must themselves be developed. There are many constraints which hamper such development. These specifically include the Indonesian cultural and institutional structure, the paucity of funds, and the lack of qualified personnel in scientific and technological fields. To help overcome these problems, one of the techniques used was to secure foreign aid. So, foreign aid is directed towards institutional improvement and manpower development. Scientific and technological equipment are imported and financed with foreign aid. Expert staff are invited to come to Indonesia under foreign aid schemes. Indonesian professionals and officials are sent abroad to gain knowledge and experience relevant to the development process. All these are financed with foreign aid.

As was noted from the experience of LIPI, the process of securing foreign aid is very lengthy, both in Indonesia and in the donor countries. There are many agencies involved in the many aspects of foreign aid administration. The bureaucratic structure is still a predominant constraint in overall foreign aid arrangement. A serious attempt at improvement leading to simplification and greater efficiency therefore has to be made. For example, the amount of technical work by

CCFTC should be deliberately kept to a minimum. To this end it would be helpful if relevant offices were appointed to act as the agent of each particular donor. All technical matters would be dealt by the agent whilst the Committee will make the final decision based on the recommendation of the agent. Hopefully the overall process would be streamlined so that foreign aid itself, rather than bureaucratic activity, is clearly the main product.

Annex A

SALINAN

PRESIDEN
REPUBLIK INDONESIA

KEPUTUSAN PRESIDEN REPUBLIK INDONESIA

NOMOR 60 /M TAHUN 1981

PRESIDEN REPUBLIK INDONESIA

Menimbang : bahwa berhubung adanya penyempurnaan organisasi pemerintahan dalam Kabinet Pembangunan III, dipandang perlu mengadakan penyesuaian susunan keanggotaan Panitia Koordinasi Kerjasama Teknik Luar Negeri yang pengangkatannya ditetapkan berdasarkan Keputusan Presiden RI Nomor 21/M Tahun 1976, Keputusan Presiden RI Nomor 95/M Tahun 1976 dan Keputusan Presiden RI Nomor 6/M Tahun 1979.

Mengingat : 1. Pasal 4 ayat (1) Undang-Undang Dasar 1945 ;
2. Keputusan Presidium Kabinet Nomor 81/U/KEP/4/1967 ;
3. Keputusan Presiden RI Nomor 59/M Tahun 1978.

M E M U T U S K A N :

Dengan mencabut Keputusan Presiden RI Nomor 21/M Tahun 1976, Keputusan Presiden RI Nomor 95/M Tahun 1976 dan Keputusan Presiden RI Nomor 6/M Tahun 1979.

Menetapkan :
PERTAMA : Susunan keanggotaan Panitia Koordinasi Kerjasama Teknik Luar Negeri sebagai berikut :

- | | |
|---|---|
| 1. Sekretaris Kabinet | - sebagai Ketua merangkap Anggota ; |
| 2. Direktur Jenderal Hubungan Ekonomi dan Sosial Budaya Luar Negeri Departemen Luar Negeri | - sebagai Wakil Ketua merangkap Anggota ; |
| 3. Deputy Bidang Ekonomi Badan Perencanaan Pembangunan Nasional | - sebagai Wakil Ketua merangkap Anggota ; |
| 4. Sekretaris Jenderal Departemen Keuangan | - sebagai Anggota ; |
| 5. Direktur Jenderal Imigrasi Departemen Kehakiman | - sebagai Anggota ; |
| 6. Direktur Jenderal Pembinaan dan Penggunaan Tenaga Kerja Departemen Tenaga Kerja dan Transmigrasi | - sebagai Anggota ; |
| 7. Direktur Jenderal Pendidikan Tinggi Departemen Pendidikan dan Kebudayaan | - sebagai Anggota ; |
| 8. Direktur Jenderal Pembinaan Kelembagaan Agama Islam Departemen Agama | - sebagai Anggota ; |
| 'tur Jenderal Sosial Politik Departemen Dalam Negeri | - sebagai Anggota ; |



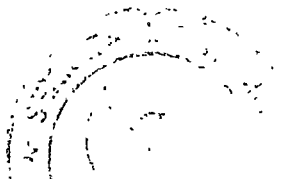
PRESIDEN
REPUBLIK INDONESIA

Keputusan Presiden RI
Nomor 60 /M Tahun 1981
Tanggal 21 Maret 1981

- 2 -

13. Deputy Bidang Pengamanan Badan Koordinasi Intelijen Negara - sebagai Anggota ;
14. Kepala Biro Kerjasama Teknik Luar Negeri, Sekretariat Kabinet RI - sebagai Sekretaris merangkap Anggota dan memimpin sebuah Sekretariat yang di perbantukan kepada Panitia.

KEDUA : Keputusan ini mulai berlaku pada tanggal ditetapkan.



Disalin sesuai aslinya oleh
SEKRETARIAT KABINET RI

Ditetapkan di Jakarta
Pada tanggal 21 Maret 1981
PRESIDEN REPUBLIK INDONESIA

ttd

S O E H A R T O

ANNEX BLIST OF AGENCIES TO DEAL WITH FOREIGN AID

- | | | |
|-----|------------------------------|---|
| 1. | Australia | Australia Development Assistance Bureau (ADAB); |
| 2. | Canada | Canadian International Development Agency (CIDA); |
| 3. | Denmark | Danish International Development Agency (DANIDA); |
| 4. | Germany, Fed. Rep. | Bundes Ministerium fur Zusammenarbeit (BMZ); |
| 5. | Japan | Japan International Cooperation Agency (JICA); |
| 6. | The Netherlands | Directorate General for International Cooperation; |
| 7. | Norway | Norwegian Agency for International Development (NORAD); |
| 8. | Sweden | Swedish International Development Authority (SIDA); |
| 9. | The United Kingdom | Overseas Development Administration (ODA); |
| 10. | The United States of America | Agency for International Development (AID); |
| 11. | The United Nations | United Nations Development Programme (UNDP); |
| 12. | Indonesia | Coordinating Committee for Foreign Technical Cooperation (CCFTC). |

ANNEX C

FORMAT

T E R M S O F R E F E R E N C E

Sponsored by:

DEPARTMENT OF

DIRECTORATE GENERAL OF

I. BACKGROUND AND SUPPORTING INFORMATION

1. Justification of the Project

Penjelasan:

Jelaskan apa yang dimaksud dengan proyek tersebut, termasuk latar belakang dan perkembangannya. Uraian secara singkat kira-kira 1 halaman quarto diketik dalam 2 spasi.

2. (Nama Proyek/Kegiatan yang dimaksudkan)

Penjelasan:

(1) Pada point 2 diatas supaya disebutkan ringkasan judul proyek atau kegiatan pokoknya

Contoh : a. Rehabilitation of Salt Industry

boleh ditulis penuh atau cukup hanya

Salt Industry

b. Feasibility Study on Milk Production

cukup jika dituliskan hanya

Milk Production

(2) Uraikan arti daripada kegiatan tersebut dengan memperlihatkan ruang lingkup dan manfaatnya dikemudian hari

(3) Uraikan sedikitnya 1 halaman quarto ditik dalam 2 spasi

3. Institutional Framework

Penjelasan:

- (1) Uraikan dengan singkat tetapi jelas, lembaga mana yang bertindak sebagai penanggung jawab, pelaksana/supervisor proyek yang bersangkutan. Gambarkan kedudukannya dalam organisasi, departemen/lembaga negara lainnya;
- (2) Apa hubungannya dengan kegiatan-kegiatan lain baik di dalam sektor sendiri maupun dengan sektor lainnya;
- (3) Uraian sedikitnya $\frac{1}{2}$ halaman quarto titik dalam 2 spasi

4. Government Follow Up

Penjelasan:

- (1) Gambarkan apa yang akan diperoleh seandainya proyek/kegiatan ini selesai dilaksanakan;
- (2) Apa kelanjutan dari selesainya proyek ini;
- (3) Gambarkan kaitan antara proyek/kegiatan ini dengan kegiatan-kegiatan yang mendahului;
- (4) Uraian sedikitnya $\frac{3}{4}$ halaman quarto.

II. OBJECTIVES OF THE PROJECT

Penjelasan:

Uraikan secara umum apa yang hendak dicapai dengan pelaksanaan proyek ini.

1. Immediate Objectives

Penjelasan:

(1) Uraikan tujuan-tujuan yang segera hendak dicapai, sehubungan dengan terselesaikannya proyek/kegiatan ini;

(2) Uraian sedikitnya $\frac{1}{2}$ halaman quarto.

2. Long-range Objectives

Penjelasan:

(1) Uraikan tujuan-tujuan yang hendak dicapai dalam jangka panjang, sehubungan dengan terselesaikannya proyek/kegiatan ini;

(2) Uraian sedikitnya $\frac{1}{2}$ halaman quarto.

III. PLAN OF OPERATIONS

Penjelasan:

(1) Uraikan langkah-langkah kegiatannya yang harus dilakukan,

baik bagi pihak luar negeri maupun lembaga penerima bantuan;

(2) Uraikan dengan jelas, jenis-jenis kegiatan secara berturutan dan jadwal waktunya;

(3) Uraian sedikitnya $1\frac{1}{2}$ halaman quarto, titik dalam 2 spasi.

IV. EXTERNAL AND GOVERNMENT INPUTS

1. External Inputs

Penjelasan:

(1) Jelaskan bantuan apa yang diharapkan dari sumber luar negeri (komponen bantuan)

- Misalnya - tenaga ahli harus dijelaskan jenis keahlian maupun berapa banyaknya;
- beasiswa, harus dijelaskan bidang yang akan dipelajari, lamanya pendidikan dan berapa yang dibutuhkan;
- peralatan, jenis peralatan yang dibutuhkan sehubungan dengan pelaksanaan proyek;

(2) Uraikan kewajiban yang harus dipenuhi oleh pihak luar negeri.

2. Government Inputs

Jelaskan apa yang dapat dipenuhi oleh pihak Indonesia, dalam rangka kerjasama ini.

Minister For Foreign Affairs
Republic of Indonesia

F U L L P O W E R S

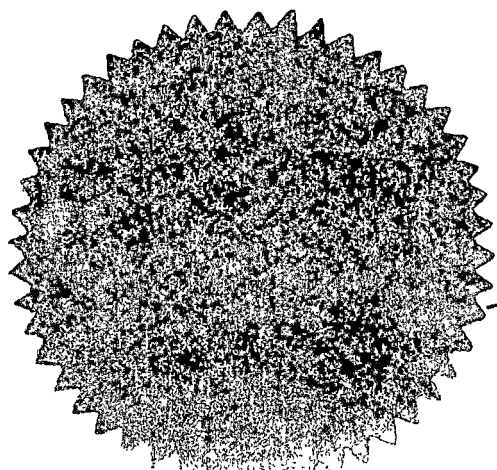
The undersigned, ALI SAID, Minister for Foreign Affairs
ad interim of the Republic of Indonesia, fully authorizes

PROF. DR. H. Tb. BACHTIAR RIFAI

Chairman, Indonesian Institute
of Sciences,

to sign on behalf of the Government of the Republic of Indonesia
Specific Agreement between the Government of the Republic of
Indonesia and the Government of the Kingdom of Belgium concern-
ing the Implementation of the Project Communication Techno-
logies for Developing Infrastructures Outside Java Island.

IN WITNESS WHEREOF, I have signed and sealed this Full
Powers at Jakarta, this day of
September in the year one thousand nine hundred and eighty one



MINISTER FOR FOREIGN AFFAIRS a.i.
OF THE REPUBLIC OF INDONESIA


A L I S A I D

ANNEX DCode Number: TTA-52

- | | | | | | | | | | | | | |
|--------------------|-------------------------------|---|--------------------|--------------------------|----------------|--------------------------|--------------|---------|--|--|------------|---------------|
| 1. | Project Title | COMMUNICATION TECHNOLOGY DEVELOPMENT
FOR INFRASTRUCTURES OUTSIDE JAVA ISLAND | | | | | | | | | | |
| 2. | Location | Bandung, West Java | | | | | | | | | | |
| 3. | Executing Agency | National Institute for Sciences (LIPI) | | | | | | | | | | |
| 4. | Objectives | <ul style="list-style-type: none"> - to study and determine traffic developments in the telecommunication of this region in order to determine future network structure for the entire region; - to study the need for an international and inter-island switching centre of higher grade in Indonesia; - to study further information on system costs particularly with regard to the satellite communication system. | | | | | | | | | | |
| 5. | Project Description | <p>The proposed project is designed to solve the communication problems and improve the infrastructure of the area outside Java islands by conducting research and development of a suitable telecommunication system, switching system and network.</p> <p>The proposed system should be economically and technically feasible taking into account local conditions, such as jungle, mountains, heavy rain-fall and lightning are of typical in most of the thousands of Indonesian islands.</p> | | | | | | | | | | |
| 6. | Scope of Assistance Requested | <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">a. expert services</td> <td style="width: 50%;">108 m.m. = US \$ 650,000</td> </tr> <tr> <td>b. fellowships</td> <td>120 m.m. = US \$ 300,000</td> </tr> <tr> <td>c. equipment</td> <td>US \$ -</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">Total Cost</td> <td>US \$ 950,000</td> </tr> </table> | a. expert services | 108 m.m. = US \$ 650,000 | b. fellowships | 120 m.m. = US \$ 300,000 | c. equipment | US \$ - | | | Total Cost | US \$ 950,000 |
| a. expert services | 108 m.m. = US \$ 650,000 | | | | | | | | | | | |
| b. fellowships | 120 m.m. = US \$ 300,000 | | | | | | | | | | | |
| c. equipment | US \$ - | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total Cost | US \$ 950,000 | | | | | | | | | | | |
| 7. | Related to Project Aid | - | | | | | | | | | | |

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