

## **CHAPTER 5**

# **LESS DEPENDING ON THE OFFICIAL DEVELOPMENT ASSISTANCE**

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### **1. TOWARD A MORE STABLE BUDGETARY POLICY AND FOREIGN AID**

After the end of the Cold War, the aid policy to the developing countries by the major donors was to be revised because the needs of diversification in volume of aid funds to the former communist countries rose, while still limiting of increasing the total aid funds in the world. In respect to this change, developing countries as aid recipients have to adjust themselves by adopting more efficient development strategies in connection with market force driving policies. Under the accords of the World Trade Organization (WTO) after the Uruguay Rounds of GATT, developing countries exposed to free international competition have to depend on the private sector's roles more than the government, though they still need to supplemented their shortage of the national saving by the revenues from Official Development Assistance (ODA) or other concessionary and semi concessionary finance.

Since the First Five-Year Development Plan, Indonesia succeeded in keeping the balanced budgets between the revenues and the expenditures despite the unexpected fluctuation of the economy depending on unstable oil revenues. The discipline of balanced budget of the government reflects the firm intention to not invite again skyrocketing price hikes of 650% in 1966 dragged in the era of former President Sukarno that was triggered by printing the paper money regardless of real economic activities. To consolidate the constructive economy, Indonesia emphasizes the export promotion, soft conditioned foreign borrowing, raising domestic saving ratios, etc. However, because of the recent tight conditions of the state budget caused by the decline of oil revenues and increased debt service payments, the government has to consider diversifying the revenues' resources and deduct routine expenditures. Raising tax revenues through restructuring of tax system but not raising tax rate,

reducing subsidies, privatization of profitable public sectors and so on are required. The attempt of the government to strengthen the budget structure is not yet workable because of fixed expenditures such as governmental officers' salaries, interest and amortization payments, subsidies to local administrations, etc., which as fixed routine expenditures are main factors of structural inflexibility of the budget. This characteristic of recent budgetary structure is expected to go ahead to the next century and has to be solved as soon as possible for the sake of consisting economic growth as designed in the Five Years Development Plans.

To escape budgetary difficulty is not so easy as Indonesia needs to restructure its economic environment drastically. First, the macro economic environment is so uncertain that government can hold upward trends of budgetary earnings. The high economic growth itself contributes to stable budgetary structure. Second, the high outstanding of disbursed debt is not easily decreased because Indonesia still needs new inflow of foreign resources. The debt payment is exposed vulnerably to international financial fluctuation as the key currencies move up and down. The Yen's recent hike against the US Dollar and the Rupiah's continuous float down to the US Dollar has added the debt burden and deprived the government of budgetary allowance for development. Third, The institutional weakness of budgetary policy management is the prioritized matter for renovating. The unsophisticated legal system and ill management of the tax office causes leakage and evasion of tax collection and sometimes triggers collusion problems. By institutional rebuilding, the domestic revenue structure is able to be improved. The percentages of non-oil and gas domestic revenues to the nominal gross domestic production (GDP) of non-oil and gas were 13.4% in 1993 and 13.9% in 1994. Those were relatively lower than the neighboring countries. Percentages of domestic revenues (including oil and gas) to the whole GDP were 16.5% and 16.9% in both years. These low levels of domestic revenues, especially that of tax revenues compels the government to rely greatly on the foreign borrowing. To raise tax collection is the urgent task for Indonesia for keeping consistency in the budgetary policy. Forth, on the side of expenditures, there can be found inefficient spending caused by common reasons in the case of the

domestic revenues. The expenditures sometimes are not done in accord with legal decisions, and the audit system does not work well to prevent the leakage of state money. Even though without any evidence of corruption, the economic losses are inevitable provided the institutional renovations are delayed.

In the conditions that the limitations of budgetary resources are so deniable that the government is urged to minimize the inefficiency of budget management as well as raise new funds in volumes. The solution of the inefficiency is not only the government task but also that of whole Indonesia whose economy is said to suffer from the high incremental capital output ratio (ICOR). However, the efficient use of the public resources, 30% of which are said to be in violation of the appropriate regulations, is urgently needed. To respond to this problem, what can the government improve economic performance? The roles of the government are not confined to the economy but extend to the socio-political field which often requires fund expenditures regardless of the economic efficiency. The expenditures for social welfare, protection of environments, solving the development disparity between the poor and the rich or polar regions and periphery regions, the renovation of administrative institutions, etc., are not able to be measured in the sense of the economy. The important thing in budgetary management are to hold the balance between the needs, both of economically efficient and non-efficient purposes. But in the process of expenditures of budget, it is not permissible to do so with untransparent ways and by wasting funds. In coming to the next century, budgetary management will have to be rationalized within more legally institutionalized ways that stick to the efficient use of economic resources.

Indonesia, the third biggest debtor country in the world, is not exempted from other debtors and forced to adapt itself to changing conditions of ODA. Problems of Indonesia are not only huge outstanding of foreign debt but also the negative net resource transfer (new disbursement minus amortization and interest repayment) which deprives Indonesia of flexibility in development managements. Notwithstanding the private sectors' role will be more important in the future development, the inflexible government policy caused by financial shortages is still

major deadlock to consist the economic growth. As Indonesia targets to achieve the stage of so-called "take off" at the beginning of the next century, probable facts and problems in the development process have to be found. Hereafter, a study will be taken by analyzing the past performance of ODA and related matters in Indonesia, then prospects and suggestions for solving problems will be detailed. (Table 1)

Table 1  
Summary of External Debt Data  
(Billions of US Dollars)

	1989	1990	1991	1992	1993
Disbursed and Outstanding Debt	41.1	45.0	48.7	49.3	52.4
Total Debt Outstanding*	59.7	65.2	69.2	68.3	71.8
Commitment	7.2	6.3	8.1	6.3	8.3
Gross Disbursement	6.5	4.8	6.3	6.3	5.9
Net Disbursement	2.0	0.6	2.2	1.5	0.7
Net Resource Transfer	-0.5	-1.9	-0.5	-1.2	-2.2
Public Debt Service	6.9	6.7	6.8	7.4	8.1
(Amortization)	(4.4)	(4.1)	(4.2)	(4.7)	(5.2)
(Interest)	(2.5)	(2.5)	(2.6)	(2.7)	(2.9)

\* Including Undisbursed. Source: IBRD, Bank Indonesia

## 2. FEATURE OF ODA TRANSACTION IN THE REPELITA VI

In the Sixth Five-year Development Plan (REPELITA VI), Indonesia set a goal of 6.2% average real economic growth per year, which is revised upward to 7.1% in 1995 according to high real growth rates of 8.3% per year realized in REPELITA V and 7.3% in 1994, figures of which are based on newly publicized constant price of 1993. On the basis of the constant price of 1983, annual average growth rates in REPELITA V are only 6.9%, which exceeds 5% growth of targeted rates. <sup>1</sup>

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<sup>1</sup> Pidato Kenegaraan Presiden R.I. Soeharto Di Depan Sidan Dewan Perwakilan Rakyat 16 Agustus 1995

Table 2  
Routine Budget, Revenues and Expenditures, (1989/90-1994/95)  
(billions Rp.)

	89/90	90/91	91/92	92/93	93/94	94/95
1. Domestic Revenue	28.7	39.5	41.6	47.5	52.3	61.4
2. Routine Expenditure	24.3	30.0	30.2	34.0	38.8	43.2
3. Gov't Saving	4.4	9.5	11.4	13.4	13.5	18.2
4. Foreign Assistance	9.5	9.9	10.4	10.7	10.4	11.0
(Program AID)	(1.0)	(1.4)	(1.6)	(0.5)	(0.4)	---
(Project AID)	(8.4)	(8.5)	(8.8)	(10.2)	(9.2)	(11.0)
5. Development Funds	13.8	19.5	21.8	24.1	23.9	29.2
6. Development Expenditure	13.8	19.5	21.8	24.1	25.7	29.2

(Source) Lampiran Pidato Knegeraan Presiden R.I., 16 Agustus 1995

For achieving the targeted growth, total investment funds planned in REPELITA VI amounts to 815 trillion Rupiahs higher than 660 trillion Rupiahs that was originally planned. While seventy seven percent of required development funds are expected to come from private resources, both domestic and foreign, public financing resources are still vital to construct basic parts of the Indonesian economy, such as infrastructure, human resources' development, development of technology and science, etc. However, projected foreign resources for development accounted in net base is relatively small compare to total development funds in the case of the previously planned figures. Of the 660 trillion Rupiahs, foreign resources (net) are only 37.3 trillion Rupiahs, 5.7% of total funds, that means net based foreign resources are not able to increase despite expansion in gross values. This reveals a key problem in raising investment funds for further economic growth and drives the Indonesian government to review development policy known as "prudential policy" in macro economy from the beginning of this decade toward the end of REPLITA VI.

Reasons for adoption of the prudential policy are explained in the balance of payments problems and budgetary policy. Table 2 shows the revenues and expenditures. On the revenue side, despite increasing the domestic revenues more than two times from 28.7 billion Rupiahs in 1989/99 to 61.4 billion Rupiahs in

**Table 3**  
**Composition of Development Fund and Debt Services (%)**

	89/90	90/91	91/92	92/93	93/94	94/95
1. Government Saving	31.9	49.1	52.2	55.6	56.5	62.4
2. Foreign Assistance	68.1	50.9	47.8	44.4	43.5	37.6
3. Development Funds	100.0	100.0	100.0	100.0	100.0	100.00
4. Debt Services						
Interest & Principals	86.3	68.9	61.7	63.0	72.5	63.1

(Source) Lampiran Pidato Knegeraan Presiden R.I., 16 Agustus 1995

1994/95, foreign assistance revenues only rose by 16% from 9.5 billion Rupiahs to 11 billion Rupiahs in the same period. The low increasing of foreign revenues is caused by the increasing of debt services to major donors. Development funds, other than foreign assistance, in public sectors mainly come from the government's savings, which is the balance of domestic revenues and routine expenditures. Development funds, total foreign assistance and the government saving, expanded from 13.8 billion Rupiahs in 1989/90 to 29.2 billion Rupiahs in 1994/95. Nonetheless, shares of foreign assistance which increased in absolute values in total development funds rapidly declined from 68.1% in 1989/90 to 37.6% in 1994/95, because the debt services boosted and diminished rapidly net resources' transfer. This also coheres with low government savings that are caused by the heavy debt service expenditures in the routine budget. The percentage of debt services to total development funds are 86.3% in 1989/90, then, 63.1% in 1994/95, still a high level. The debt burden deprived flexibility from budget structure and limited active public investment, while in the 1970s net resource transfers of foreign assistance increased drastically and rolled vitally as well as oil export earnings (Table 3).

The budgetary inflexibility sticks to the vulnerability of the balance of payments. The characteristics of the current balance are always negative because of huge invisible transactions, which mainly come from interest payments of the government and the remittances of profits of oil companies, etc., in spite of the positive balance of trade oreviously owed to oil export and lately to the increase of non-oil and gas export (Table 4). Total service deficits were 8.1 billion US Dollars in

**Table 4**  
**Balance of Payment 1989/90-1994/1995**  
**(Millions US Dollar)**

	89/90	90/91	91/92	92/93	93/84	94/95
<b>A. Goods &amp; Services</b>						
1. Exports (F.O.B.)	23,83	28,143	29,714	35,303	36,504	42,162
Non Oil & Gas	14,493	15,38	19,008	24,282	27,17	42,162
Oil & Gas	9,337	12,763	10,706	8,48	9,334	10,445
2. Imports (F.O.B.)	-17,374	-23,028	-24,803	-27,313	-29,127	-34,122
Non Oil & Gas	-14,845	-19,448	-21,66	-23,751	-25,311	-30,476
3. Services	-8,055	-8,856	-9,263	-10,547	-10,547	-11,527
Non Oil & Gas	-5,158	-5,683	-6,262	-7,148	-7,333	-8,515
Oil & Gas	-2,897	-3,173	-3,001	-3,399	-2,984	-3,012
4. Current Account	-1,599	-3,741	-4,352	-2,561	-2,94	-3,488
Non Oil & Gas	-5,51	-9,751	-8,914	-6,076	-5,474	-7,275
Oil and Gas	3,911	6,01	4,562	3,515	2,534	3,787
<b>B. Government Borrowing</b>	5,516	5,006	5,6	5,755	6,195	5,651
1. Program AID	1,037	718	127	125	0	0
2. Project AID	2,939	3,358	3,867	3,651	4,028	4,013
3. Other Project Loans	722	853	1,298	1,791	1,767	1,638
4. Cash Loan and Others	818	77	308	188	400	0
<b>C. Amortization</b>	-3,686	-4,082	-4,182	-4,84	-5,132	-5,546
<b>D. Other Capital (Net)</b>	575	5,856	4,133	4,248	4,648	4,645
1. Direct Foreign Investment	1,071	1,849	2,037	2,464	3,026	3,963
2. Payments of Investment Capital	-349	-425	-505	-759	-1,055	-1,397
3. Other Borrowings	289	1,301	1,238	2,543	2,139	3,397
4. Payments of Other Borrowing	-508	-471	-477	-1,228	-781	-2,228
5. Other Capital	72	3,602	1,841	1,264	1,319	1,205
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<b>F. Monetary Movement</b>	-248	-3,302	-981	-1,439	-727	-616
<b>G. Omissions &amp; Errors</b>	-558	263	-218	-1,199	-2,044	-646

Note: (1) 1993/94 is revised figures (2) 1994/95 is preliminary figures

Source: Lampiran Pidato Kenegaran Presiden 16 Agustus 1995

1989/90 and 30.5 billion US dollars. Current deficits fluctuated from 1.6 billion US dollars to 3.5 billion US dollars in the same period. The non-oil and gas sectors' deficit is a main cause of the deficit of the current account.

The deficit of current account is compensated by the surplus of capital transactions what is the characteristic of the structure of balance of payments.

However, despite that government borrowing and other capital inflow remain at high values, the amortizations or payments rapidly increase and reduce net capital inflows. Balance of government borrowing and amortization became smaller and smaller in the years of the first half of the 1990s. Net government borrowing decreased from 1,830 million US Dollars in 1989/90 to 105 million US Dollars in 1994/95, while other capital inflows stayed at high levels and sustained the equilibrium of the balance of payments. Supposing that other capital inflows and non-oil and gas export didn't increase, the balance of payments dropped in the irrecoverable deficit structure. The reason for the stability of the balance of payments is to be said that Indonesia succeeded with the prudential policy for evading instability by careful watch of foreign exchanges and the promotion policy of the export and the investment by liberalizing the market.

The foreign assistance donors disbursed a total of 52.4 billion US dollars of outstanding loans (including semi-concessionary loans) as of 31 December, 1993. The top donor of the bilateral aid country was Japan and the second was the United States. Of the multilateral donors, World Bank (IBRD) was the top and the second was Asian Development Bank (ADB).<sup>2</sup>

With regard to the official development assistance, the outstanding disbursed debt of Japan is 18 billion US Dollars, which shares 68% of the bilateral loans and 34% of the total outstanding of public debt. The second donor, U.S.A., reduced the disbursed outstanding to 2.5 billion US Dollars, that is only 4.7% of the total loans and only 13.8% of Japan. In the multilateral loans, outstanding of IBRD is 11.3 billion US Dollars, 21.5% of the total and 62.6% of Japan. The second multilateral supplier is ADB which disbursed 5.5 billion US Dollars, 48.9% of IBRD and 30.7% of Japan. By adding the semi-concessionary debt to this calculation, Japan's disbursement shares a larger proportion than figures above. This shows Indonesia

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<sup>2</sup> From The Statistical Appendix "Indonesia Improving Efficiency And Equity Change In The Public Sector's Role" Ibrd. June 9, 1995



heavily relies on Japan, IBRD, ADB and U.S.A. in getting foreign government loans. More later years, more heavy dependence on Japan is shown for getting of Indonesia new loans in gross and net base.

Although the total gross disbursements of external public debt decreased from the peak of 6.8 billion US Dollars in 1990 to 5.9 billion US Dollars in 1993, on the other hand, service payments (principal and interest) increased 6.7 billion US Dollars to 8.1 billion US Dollars (Table 1). The opposite directions of disbursements and service payments are backfired by the donors' reluctance, except Japan and ADB, to offer the new official loans to Indonesia, caused by their domestically economic disturbances, need to diversify aid to the former Eastern Block's countries, etc. Since 1985, the net resource transfers of ODA to Indonesia have been negative and, in 1993, it recorded 2.2 billion US Dollars of resource outflow. However, the net disbursements of ODA (balance deducted amortization from gross disbursement) managed to keep positive inflows, although it decreased from 3,256 million US Dollars in 1988 to 2,861 million US Dollars in 1992. Within CGI members' countries, Japan increased net disbursements from 984 million US Dollars to 1,357 million US Dollars, then, Germany, France, Austria, Australia followed although not in volume. IBRD dropped drastically both of the gross and net disbursements, from 1,648 and 1,219 million US Dollars to 1,003 and 327 million US Dollars. The United States became a back drawer of financial resources of one million US Dollars from Indonesia in 1992. Japan's net disbursements, despite the rapid increase of debt payments owing to higher appreciation of Yen to US Dollar, kept a dominant role as a fund supplier with a 47% share in the net disbursements. This high dependency of Indonesia on Japan in the case of foreign assistance triggers some disturbances when, for example, the exchange rates of Yen destabilize. Indonesia badly needs to diversify the financial resources and raise volume of net transfer.

### 3. EFFECTIVE USE OF FOREIGN RESOURCES TOWARD THE 21<sup>ST</sup> CENTURY

Problems in foreign assistance which need to be managed well in the coming next decade are summarized as follows.

- (1) Increasing of commitments and gross disbursements of ODA will not be expected in conjunction with the government's estimate that CGI assistance will be from 3.5 billion US Dollars in 1993/94 to 3.9 billion US Dollars in 1997/98. Including semi concessional loans, the gross disbursement is expected to increase only by 0.4 billion US Dollars from 6.8 to 7.2 billion US Dollars (Table 5).

Table 5  
Projected External Financing  
(Billions of US Dollars)

	Actual		Estimated		Projected
	93/94	94/95	95/96	96/97	97/98
<b>Use of Finance</b>	12.3	12.3	17.3	19.4	21.1
Current Account Deficit	2.9	3.5	5.0	5.9	5.7
(of which, MLT interest payment)	(4.1)	(4.2)	(4.7)	(4.7)	(4.9)
Principal Repayment	9.1	10.2	10.5	10.9	11.9
Increase in Net Foreign Asset	0.3	-1.4	1.8	2.6	3.5
					21.1
<b>Sources of Financing</b>	12.3	12.3	17.3	19.4	4.3
DFI (Net)	2.0	2.5	3.0	3.6	2.1
Private MLT Loans	3.6	4.9	5.5	6.9	7.5
Others (Net)	-0.1	-2.0	1.2	1.9	2.1
Public MLT Loans	6.8	6.9	7.6	7.0	7.2
(CGI Assistance)	(3.5)	(3.7)	(3.9)	(3.9)	(3.9)
(Other, incl. Non-Concessional)	(3.3)	(3.2)	(3.7)	(3.1)	(3.3)

(Source) Bank Indonesia, World Bank

(2) Heavy debt payment's burden of Indonesia had left the budgetary structure and the balance of payments very vulnerable and inflexible for managing economic development and stability. Nearly half of the domestic budgetary revenue has to be spent for payments of interest and amortization which reduces the government saving for the development and does not leave room for more dynamic policy. In the aspect of the balance of payments, interest payments have deteriorated the current account to an inconsistent level and amortization has cut off real financial resources from abroad, and structural inflexibility caused by unproductive outflows of a foreign currency make it difficult to adjust the economy to sudden disturbances from outside by prompt new money borrowings. The problems of the budget and the balance of payments are entwined by the same causes driven by the debt burden.

Table 6  
Debt Services Ratio  
(Million US Dollar)

	Debt Service 1)	Export 2)	D.S.R. (%)
1989/90	6,202	23,830	26.0
1990/91	6,721	28,143	23.9
1991/92	6,829	29,714	23.0
1992/93	7,535	35,303	21.3
1993/94	7,975	36,504	21.8
1994/95 3)	8,606	42,161	20.0

(Note)

1. Interest and amortization, 2 Including oil and gas export, 3 3. Preliminary figures

(Source) Lampiran Pidato Kenegaraan Presiden R.I. 16 Agustus 1995

(3) Semi concessionary and commercial loans are enlarging the share of public borrowing and will add future burdens of interest payment (Table 7). This reflects the intentions of donors to extend export oriented finance to Indonesia. The needs of fund for rapid growth of investment for infrastructural construction or financing for the state enterprises are far beyond the rate of increase of public investment by the foreign project aid. From 1989/90 to 1994/95, semi-concessionary and commercial loans increased by 1.9 billion (158.5%) from 1.2 billion to 3.1 billion US Dollars, while the project assistance increased by 2.2 billion (76.4%) from 2.8 billion to five

**Tabel 7**  
**Foreign Assistance <sup>1)</sup> 1989.94-1994/95**  
**(Millions US. Dollar)**

	89/90	90/91	91/92	92/93	93/94	94/95
1. Food AID	6.0	-	-	-	-	-
2. Special Assistance 2)	1,857.8	1,277.8	1,200.0	1,355.0	321.0	200.0
3. Project AID	2,835.2	3,473.6	4,055.1	4,093.7	4,785.6	5,002.7
4. Semiconcessional & Commercial Loan 3)	1,198.8	2,111.7	3,466.3	1,520.1	2,692.2	3,098.5
5. Cash Loan 4)	855.1	400.0	400.0	0.0	500.0	0.0
<b>Total</b>	<b>6.753.2</b>	<b>7,267.1</b>	<b>9,121.4</b>	<b>6,968.8</b>	<b>8.302.8</b>	<b>8.301.2</b>

(Note)

1) Including grants. By 1991/92, commitment of IDDI and Non Iggi. After 1992/93, loans and grants pledge of CGI and commitment of Non CGI

2) Including program aid, local cost finance, sector loans and Two step loans

3) Including export credit

4) Bond and syndicate loans 1993.094 preliminary figures

(Source) Lampiran Pidato Presiden R.I., 16 Agustus 1995

billion US Dollars. The stagnating trends of gross disbursement of ODA will be complemented by the more hardy conditioned finance and will introduce the possibility of heavier debt burdens in the future. To achieve the targeted economic growth of more than 7.1%, demand for financial resources cannot be restrained but must be prudently administrated for stabilizing the balance of payments.

- (4) Slow increasing of ODA disbursements were combined with the rising of the dependency on some donors, especially Japan, whose economic fluctuations had much influence to Indonesia, both positive and negative ways. Without manipulating the coordination among CGI (Consulting Group on Indonesia) members, Indonesian debt management does not work efficiently. As long as the initiatives of IBRD as a coordinator are respected and Japan continues to support them, there might be no troublesome influence. However, the efforts of diversifying foreign financial resources will contribute to get consistent conditions for good management which is free from disturbances arising from the biggest influence.

In countering the problems mentioned above, the Indonesian government has strived to use every tool which can be used, although there are still a lot of things to be manipulated.

- (1) To improve the macro economic conditions which makes more room for inflows of foreign assistance, the continuity of the deregulation policies is effective. The impact of the deregulation polices adopted unilaterally by the government since 1983 has proven the effectiveness through expanding non-oil and gas exports. It is expected that oil and gas export will more plunge onward as it is necessary for Indonesia to drive more positive liberalization of the economy to increase the reliability of the resource suppliers. But the rapid liberalization often participates in causing negative effects such as market distortions, e.g. the monopolization, rent seeking activities, protectionism from resistance by profit groups, ill effects of over competitions, etc. In order to evade the distortions government is required to be so prudent that it sometimes seems likely to counter the liberalization.
- (2) The twin inflexibility of the state budget and the balance of payments will be loosened by pumping up inflows of net resource transfer or deducting real debt payments. Nevertheless, raising new money by borrowing in large volume might be difficult so that effective tools to deduct the burden or draw back the outflowing capital must be sought. For instance, advanced depreciations of amortization of foreign debt before the maturity by raising of tax collection, selling domestic bonds specified to the foreign debt payment, capitalizations of debt like the zero coupon bond or debt equity swap selling and so on may be considered what might evidently be against the taboos which Indonesia has not challenged since the beginning of the "New Order" but needs to change in the future. In this case, the most important measure is to evade the rescheduling of debt payment which deteriorates the creditworthness of Indonesia. Then, such measures has to be applied to the capital of negative resource transfer such as the U.S. aid, but not to be done to Japan,s aid which still supplying new aid money.

- (3) Diversifications of sources of development funds are inevitable because the increasing of ODA disbursements will not be prospective for Indonesia. Especially, for the public investment in infrastructures, the government necessarily borrows new money with less concessionary condition as long as it will not increase oppression in the future. Along with the diversifications, it is necessary to cut down the government investment by transferring the role to the private sector. Recent booms of privatization in electricity plants, toll roads in the form of BOT, BOO, etc., reflect the new line of the policy. Capital investments for public purposes not only substitute new government borrowing but also deduct the new burden of payments of amortization in the balance of payments. If profit and capital depreciations of privatization projects will be recycled in domestic economy in the future, the twin problems of the budget and the balance of payments may dismount. Then, not only in public sectors but also in private sectors, diversifications of financial resources should be promoted. Especially in the private sector, the direct foreign investment as well as domestic investment and investment of the portfolio is vital to economic development.
- (4) It is easy to say the dependency of Indonesia on certain countries in the field of the public borrowing has to be reduced. However, as the real reasons of dependency stand on the side of the donors the many of which became net drawing backer of capitals, Indonesia is required to obtain more understandings of its financial needs by the donor countries or institutions. Fortunately, CGI (former IGGI) still works well to coordinate the policy and assure the proper volume of loans and the conditions of every year's assistance although most of the members have decreased their gross disbursement. Despite the fact that only Japan extends a lot of new money, it remains the strongest pusher of CGI resolutions so that Indonesia can get shade from the fund shortages. But, to get more confirmed stability, Indonesia has to show its reliability to other donors through policy dialogue that affirms that Indonesia ever sticks on the stable and liberalizing policy along with international agreements like WTO, APEC, AFTA, etc. The strategic position of Indonesia in East Asia cannot be ignored by donors as they positively re-examine their aid policy to Indonesia. The Indonesian

response to this is to strengthen its reliability more than in the past and more important matter is to less be dependent on the aid and rely more on itself.

Conclusions as a whole, the best way for Indonesia to in solve the financial and budgetary difficulty is to raise domestic saving through economic development. The sixth and seventh five-year development plans give chances for Indonesia to develop economic autonomy. To achieve better results, many things have to be done. Among those, the efficient use of development resources of the public as well as private sector is inevitable through institutionally well managed mechanisms which are supported by democratic, transparent and equitable policy.