

# The Planning Machinery in Indonesia

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## Introduction

**T**HE achievement of economic development through planning has been a goal and an article of faith for Indonesia's national leaders since the pre-independence period. Although the goal has remained constant, the strength of the faith has varied over the years. As in many other developing countries, "planning" in Indonesia throughout the fifties and the early sixties meant the preparation of multi-year plans more noteworthy for the ambition of their targets than for their rationality and realism.

The first decade and a half following independence can be divided roughly into three periods, namely, the breaking-in period from 1950 to 1954, the comparatively productive interval of 1955-1958, and the troubled seven years of "guided" democracy and economy from 1959 through 1965. Although the Indonesian Government produced a five-year development plan in 1956, there was never any sustained effort towards economic development. The eight-year plan in particular demonstrated the futility of planning on the basis of political slogans, unsupported by economic reality. The mere fact that the plan had

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been prepared under the chairmanship of the late poet and historian Aming and published in no less than seventeen volumes<sup>1</sup> offers some indication about the objectives and the direction of the plan. It was symptomatic of an ailing economy and the subservience of economic ends to political slogans. Inflation, which Indonesia endured throughout that period, reached its peak in 1966 with a 635 per cent rise in prices in a single year. Another feature of the economy was the lack of growth in the manufacturing sector, normally the most dynamic part of a developing economy, particularly one in which, as in Indonesia prior to 1966, there are stringent import restrictions. The stagnation in the manufacturing sector was due to the failure to replace Dutch and other expatriate investment, combined with the loss of entrepreneurship and of technical and administrative skills when the Dutch nationals left in the later 1950's. Even in agriculture, the modern estate sector continued to lose ground and peasant agriculture improved its relative position. Export earnings greatly declined, aggravated

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<sup>1</sup> The plan was a list of projects — 374 "A" projects and 8 category "B" projects primarily in the agricultural and mining sector. Among some of the "A" projects were zoo, museum, cultural garden and air-plane production.

by a fall in international prices of some of Indonesia's primary exports, notably rubber. The decline in export earnings reduced the availability of raw materials and spare parts, resulting in idle capacity in the manufacturing industry and lack of maintenance throughout the economy. These factors exacerbated inflationary pressures caused primarily by deficit spending and an extensive array of subsidies and handouts to state enterprises.

### Post-Sukarno Planning

The Sukarno administration assumed responsibility for the affairs of Indonesia in July 1966, following the abortive coup of September 30, 1965 and its aftermath. Comprehensive changes in the direction of economic policy were promulgated in July and October 1966 with a view to re-establishing market forces in the economy and strengthening its economic links with the non-Communist world. Steps to limit the inflation which had been rampant for many years, the partial elimination of subsidies for numerous public sector enterprises, a new foreign investment law, and the action of floating exchange rates were the principal measures taken. These efforts were accepted by Indonesia's major creditors as the bases for a comprehensive rescheduling of the country's heavy burden of short-term and medium-term foreign debt and for the resumption of substantial aid from Western countries and Japan.

Under the new regime, stabilization efforts were given first priority. There

was a two-pronged attack on the problem. Tightened credit, a balanced budget and a return to a real rate of interest constituted the first prong, and the rescheduling of debt, commodity aid and a fluctuating exchange rate, the second. There has been some relaxation of the first set of measures as the inevitable conflict between growth and stabilization emerged in a situation of transition. Those in the second category have been adhered to with greater consistency. These measures were accompanied by a strengthening of the planning machinery which was placed under strong and professional leadership. It is this aspect of institution building, which accompanied the stabilization program, on which this paper will concentrate.

### The Evolution of the Planning Machinery

Indonesia's first serious institutional effort for planning began in 1952 with the establishment of the State Planning Bureau. The Bureau employed a team of foreign experts and formulated the five-year plan for 1956-1960. It was superseded in 1959 by a National Planning Council (DEPERNAS), responsible for the preparation of the eight-year plan. Although skillfully drafted, the plan had no noticeable impact on economic policy. Indeed, neither the five-year plan nor the eight-year plan proved to be a successful instrument for fostering economic and social growth. Developments were disappointing so that the eight-year plan was abandoned in

1966. During most of the decade prior to the events of late 1965 and 1966, the planning apparatus was not equipped to provide economic direction. Breakdowns in modernization and a large-scale institutional degeneration were evident.

With the advent to power of the present leadership, Indonesia embarked on the principles of *Orde baru* (New Order).<sup>2</sup> Priorities were re-ordered. For the short-term, the urgent task was to bring about economic stabilization. Beyond this most immediate policy object, the Government intended to rehabilitate the economic infrastructure, step up expert activities, and meet the people's need for food and clothing. The planning agency was reactivated, with the immediate function of guiding implementation of the stabilization policy and formulating plans and programs for the rehabilitation of the economy. A five-year development plan 1969-70 to 1973-74 was announced in January 1969. While the plan lacked a macro-economic framework, it offered useful indications of the main directions of investment and other development efforts for the period. Further it estimated the costs which would be involved and assessed the resources which would be available within the country and the external capital which

would be required. The plan emphasized primarily the expansion of agricultural production and the rehabilitation and expansion of infrastructure including electric power transport and communication facilities. While the preparation of the next five-year plan 1974-75 to 1978-79 will afford an opportunity to review accomplishments and shortcomings under the current plan it is already evident that the short-range objectives of the Government during the recovery period — economic stabilization, increased production of food and other basic commodities, expansion of primary exports and rehabilitation of the economic infrastructure — have been consistently and, on the whole, very successfully pursued.

#### *The National Economic Stabilization Council*

One of the first actions of the new government in August 1966 was to create the National Economic Stabilization Council. It was made responsible for formulating economic stabilization policies and designing programs for their implementation. The President of the Republic presides over the Council and its members are drawn primarily from the Team of Economic Experts (Team Ahli Ekonomi). The Team consists of a group of economists from the University of Indonesia, whose members have been assigned the most senior economic positions in the country; BAPPENAS (National Planning Agency), whose newly appointed Chairman, Professor Wid-

<sup>2</sup> The "New Order" is anchored into the "pancha sila" or the Five Principles articulated by President Sukarno on June 1, 1945. These are Nationalism, Internationalism, the Consultation Principle (permusyawaratan), Prosperity and Social Justice and Belief in God.

joj, became the head of the economic team, Ministry of Finance, Bank of Indonesia, Ministry of Trade, and the Foreign Investment Board. These appointments helped Indonesia regain its economic credibility and mobilize significant foreign aid. They have also established a *de facto* division of labor between the generals and the civilians, contributed to political stability, and enhanced economic activities which the country has undertaken in recent years. Continued economic progress in Indonesia will depend to a large measure, on maintaining this pattern in spite of the strains that may inevitably result.

### BAPPENAS

The National Planning Agency (BAPPENAS) was established by a Presidential Decree in June 1967 as successor to DEPERNAS. The agency was made responsible for drafting the national plan, preparing the annual development budget, mobilizing foreign aid and credits and designing programs for their utilization, coordinating planning activities at all levels of government, proposing action for effective execution of the plans and programs and designing system for progress reporting and evaluation. From a purely legal viewpoint, the responsibilities of BAPPENAS are extensive and its authority is reinforced by the personal authority of its chairman, who is *primus inter pares* in the Economic Team. However, herein lie both the strength and weaknesses of the organization.

On the functional side, BAPPENAS draws power from its authority to approve projects and programs and to determine together with the Department of Finance the development budget. It negotiates foreign aid commitments and technical assistance requirements with bilateral and multilateral agencies. As the principal conduct of foreign aid, BAPPENAS determines, in consultation with the departments and agencies concerned, what projects will be submitted for foreign financing. Consequently, it influences development policies as a whole. The personal sources of power stem from the membership of the Chairman of BAPPENAS and his Deputy in the Cabinet, the Stabilization Council, the Economic Team and a host of other official bodies.

The weaknesses of BAPPENAS reflect many of the problems which currently affect the Indonesian civil service as a whole. The Agency is organized into five divisions (equivalent to directorate general in the ministries), each headed by a Deputy Chairman. The divisions in turn are composed of bureaus — sixteen in all. None of these bureaus is yet fully staffed and not many are fully active; a few of the professional staff (approximately eighty) devotes full time to the Agency. As in all other government agencies, the practice of spreading key personnel thin by multiple assignments is quite prevalent. Some stretching of key personnel occurs in every organization (and is probably desirable as well as inevitable), but

the prevalence and extent of the practice in Indonesia may call for drastic remedial action.

Authority in BAPPENAS remains very centralized at the top and the allocation of responsibilities does not appear to be clearly delineated. The shortage of highly qualified individuals, particularly at the mid-management level, has imposed serious limits on the Agency's capacity to discharge effectively some of its responsibilities, particularly with regard to coordinating planning activities with the technical ministries and implementation of plans and programs.

Modern planning is a complex process, exerting great demands on the administrative and coordinating capacities of the government. These demands must be met as well as circumstances permit and at the present stage, this has meant compromising with standards. BAPPENAS recognizes that a vigorous program for recruiting and training project specialists and program planners must be undertaken if it is to be able to discharge its responsibilities.

#### *Relations Between BAPPENAS and the Departments*

Although much progress has been achieved in recent years in carrying out vital policies, e.g., rehabilitation, stabilization and mobilization of resources, the institutional weaknesses tend to continue. The coordination of plan implementation among BAPPENAS, the Ministry of Finance

and the Departments needs to be strengthened. There is no established and institutionalized procedure for resolving conflicts which may and do arise between participants in the planning process. One is repeatedly struck by the inadequate recognition of the importance of coordination in policy administration and action. This is by no means unique to Indonesia. Nevertheless, lack of coordination among administrative agencies appears to be one of the major difficulties in the conduct of public affairs. Inadequate coordination seems to stem primarily from two sources: first, from the failure of law and of administrative organization to take cognizance of the need for coordination and to make appropriate provision for it; second, from inflexibilities resulting from traditional bureaucratic practice and lack of imagination. The first source of difficulty prevents officials from coordinating related efforts even when they see the advantage for the public in doing so. The second difficulty is perhaps the more serious, as it results from a state of mind that looks only to the lawful discharge of an official's immediate, mandatory duties and exhibits no real concern for the effective realization of the purpose of Government, or for the public benefit and convenience.

Coordination is perhaps one of the most difficult functions of administration. It requires self-denial on the part of those involved because it deprives them, to some degree, of their freedom of action and compels them

to consider other persons' points of view before taking any decision. While many decisions in Indonesia are taken after long deliberation, there are no mechanisms for coordination among the various units involved once a decision is made. Decisions that come out of meetings are seldom recorded and rarely is a single individual or agency entrusted with the over-all responsibility of seeing them through. Indeed, procedures for follow-up on policies adopted or decisions taken are, in most cases, lacking.

#### *Planning and Budgeting*

Economic development in Indonesia, as in most other developing countries, relies heavily on government financing. The planning and budgeting processes, therefore, need to be closely linked. Establishing a proper relationship between them is an important aspect of plan implementation.

The central government budget in Indonesia is required by law to be balanced, that is to say, total routine and development expenditures should not exceed available resources from internal revenues and the counterpart value of foreign aid and loans. Thus, the first step in the budgetary process is the determination of an over-all level of the budget based on expected receipts from these sources. The activities leading to the final estimates of revenue usually begin in mid-September. As the final estimates are developed by late November or early December, they are brought

before the Stabilization Council. The Council determines the over-all level of the budget and establishes ceilings for the routine and the development budgets. Budget estimates of departments and services are then considered and adjusted within the over-all framework and ceilings.

Historically, planning and budgeting activities in Indonesia have run, both institutionally and operationally, along separate tracks. However, with the introduction of the current five-year development plan in 1969, serious efforts were made to bridge this gap. During the past three years, working parties and study groups from BAPPENAS, the Ministry of Finance and the executing departments have examined the entire process of planning and development budgeting in Indonesia, and submitted recommendations to the Chairman of BAPPENAS and the Minister of Finance. As a result, a gradual convergence of planning and budgeting processes has begun. A national framework of procedures is evolving in which all concerned parties are participating and which is becoming an effective instrument for reviewing, evaluating and implementing the plan.

#### *Planning and Programming Procedures*

Project preparation is the core of planning and programming activities in Indonesia. There is as yet no comprehensive planning covering the economy as a whole. The plan consists of projects which may be defined as

identifiable units of technical and organizational activity, restricted largely to one administrative region and leading to a specific target within a certain period of time. The Government recognized the need to improve the process of project preparation by more effectively taking into account the relationships within and between sectors.

The preparation and programming of projects has been the responsibility of the departments and BAPPENAS working in close cooperation. Until last year, the departments submitted to BAPPENAS so-called sectoral programs consisting of:

- (a) a list of estimated rupiah requirements for their ongoing projects and for new projects in the following fiscal year;
- (b) a list of new projects to be submitted to the Inter-Governmental Group for Indonesia (IGGI) for project aid commitment during the following fiscal year; and
- (c) a list of technical assistance proposals to be submitted to IGGI for commitment during the following fiscal year.

BAPPENAS then held consultations with the departments on these tentative lists. Next, BAPPENAS and the Ministry of Finance called on the departments to submit preliminary project reports and to propose preliminary budget ceilings for each department and each sector. BAP-

PENAS and the Ministry of Finance usually examine these preliminary requests in the light of: (a) the overall objectives of the five-year plan, (b) the progress in project implementation during the previous budget year, and (c) general policies as regards project priorities. The second benchmark has caused the greatest difficulties due to the inadequate system of reporting on project implementation. Project managers do not report regularly; when they do, they invariably limit themselves to data on financial expenditures. The relationship between these expenditures and physical accomplishment is not always established nor is it really ascertainable. BAPPENAS is quite aware of the abuses that could occur (and in some cases have occurred) as a result of inadequate reporting systems. Measures are now being introduced to correlate financial and physical reporting and to integrate the results into the budget.

#### Public Administration

Although improvements have been made in the field of public administration, its deficiencies still constitute a principal obstacle to economic development. The disorganization of government under the previous regime, the stagnation of the economy, the hyper-inflation and the wasteful use of manpower resources all seriously affected the performance of government administration by reducing efficiency and output and by rendering the administration vulnerable to corruption.

A principal cause of the low morale which permeate the civil service is the low standard of compensation at nearly all levels. This, in turn, has contributed to inefficient performance. A number of methods, some legitimate and others not, have been used to augment personal income, the most recent being very large increases in the basic salaries of the entire staff of the Ministry of Finance. However, for many government employees the only resort is the holding of multiple jobs, drawing on time and effort which ought to be devoted to their principal occupation. Actual compensation is often not rationally related to responsibility and performance. Efficiency is low and opportunities for adding to a legitimate income at the expense of effective government operations are frequently not resisted. Some of the consequences are relatively minor but their cumulative effect can be very deleterious and costly to the nation — in terms of exorbitant prices for materials and service contracts, inadequate provision of essential supplies and services, faulty execution of public works, inefficient operation and maintenance of public facilities and, perhaps more serious, erosion of morale and loss of public trust and confidence in government.

The need to increase the capacity of the Indonesian administration to perform both development functions and the regular tasks of a modern state more efficiently is evident and accepted by government. There is now considerable interest by government leaders in genuine administration reform, although much more effort, money, education and dedication will have to be applied before any real results can be obtained.

### Conclusion

In recent years, Indonesia has taken bold strides toward rationalizing and improving its economic system and performance. Much has been achieved in stabilizing and rehabilitating of the economy and in mobilizing resources for even greater accomplishment. Yet, there remain weak institutional structures which have not kept pace with the rationalization of policies. The capability of the country to execute an ambitious development program remains limited, albeit improving. Indonesia will be well-advised to pay considerable attention to institution-building and administrative reform during the next five-year plan period if its capacity to carry out plans and programs is to improve appreciably over the last decade.