

CHANGES IN THE STATE BUDGET AND ITS RELATIONSHIP TO THE DEVELOPMENT PROCESS IN INDONESIA.

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1. S.L. Shakhder in his book *Budgetary Systems in Various Countries* states that the State Budget (Estimate of State Income and Expenditure) is an official statement or document presented to the Parliament by the Government which sets out expected expenditure for the coming budget year and also estimates receipts for the same year from taxation sources prescribed by laws and from the proceeds of other taxes and sources of finance available to the Government.

With the presentation of the Budget a complete, wideranging picture of the financial condition of the nation is provided enabling Parliament to measure and evaluate as far as possible the positive or negative effects of the government's financial planning for the national economy. In the context of defining the State Budget, Charles J. Swick in his book *The Budget in Brief* says that the State Budget is a very important instrument for setting out and achieving national goals.

In the system of government of the Republic of Indonesia the State Budget has a constitutional position. Article 23 section 1 of the 1945 Constitution stipulates that the State Budget be set down in law every year. If the Parliament does not approve the Budget proposed by the government then the government has recourse to the Budget of the preceding year.

The subsequent clarification of the above-mentioned Article states that the means of deciding the State Budget is an indication of the characteristics of the government of the state. In a fascist state, the budget is decided by the government alone. In a democratic state or a state based on the people's sovereignty, such as the Republic of Indonesia, the Budget is set down in law. In Indonesia this means that the approval of Parliament is required. The people can therefore decide their own fate and thereby their way of life. Because the incurring of expenditure touches on the rights of the people to decide their own fates, so therefore all actions which place burdens on the people such as taxes, must be set down in laws, that is with the agreement of Parliament.

2. The Budget is an estimation of planned government spending and receipts in one budget year, prepared by the government in the

form of a draft budget. The budget is also an instrument of control and utilization of state finances, as an instrument of safeguarding the people's money to be used by the government.

The budget also functions as an instrument of government policy for development planning.

As is the case with development plans in general, the Five-Year Development Plan aims to raise national and per capita income and expand work opportunities for the Indonesian people.

The Five-Year Development Plan must be adjusted and perfected every year in accordance with the results achieved and prognoses for the future. For the government, the budget is the means of implementing the annual programmes of the Five-Year Plan. Thus the Development Budget within the State Budget for one budget year is an instrument for implementing the Five-Year Plan for the budget year in question. The priorities of the Development Budget for one budget year are the priorities of the Five-Year Plan for the year in question. Thus it is clear that the physical plans, plans for financing, development policies and details based on time and regional factors within the budget for any financial year reflect the implementation of the Development Plan for that year.

Financing and expenditure is an important aspect of the function of the budget as an instrument of the policy of the government for carrying out development plans for each year. To cover expenditure, income is necessary.

It is also clear that in the budget of Indonesia emphasis is placed on both income and expenditure. The systems of the Philippines and Iran, for example, are different. In the Philippines the function of the budget is to provide a working plan for the government for the financial year in question covering all activities both domestic and international which contribute to the interests of a healthy national economy. The emphasis in the Philippines budget is on appropriation.

In the Iranian system of government the budget is a strategic instrument for setting the proper goals in development policy. In oil-rich Iran the need for close and growing links between the budget and the development programme is strongly felt.

3. Remembering the importance of the function of the budget and because the budget is still one of the dominant factors in the influencing of the process and direction of development, we will therefore endeavour to explain several aspects of the budget and its connection with the process of development in Indonesia. The first aspect we shall elucidate concerns the form and structure of the budget.

The form and structure of budgets in all countries vary from one to another. Their pattern is generally influenced by constitutional considerations, the form of government, and the needs of the state itself.

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In Australia for example there is only one State Budget. In Japan apart from what is called the General Account Budget (the usual form of the State Budget for Receipts and Expenditure) there is also a "Special Account Budget" (the budget for special projects or programmes and the "Government Affiliated Agencies Account Budget" (the budget for autonomous government agencies), all of which are placed before the Diet (Parliament) for its approval. In Sudan there are three forms of State Budget, that is the "Central Budget", "Sudan Railway Budget" and the "Development Budget". In Indonesia the budget is set out in the form of a Budget Law which is the result of the agreement of the Parliament to the draft budget which is prepared and presented by the government.

Basically there is only the Single Budget, consisting of the Main Budget and if changes or increased appropriations are necessary a complementary budget is prepared. In 1960 the structure of the State Budget was as follows:

- a. Routine Budget
- b. Development Budget
- c. State Enterprises Budget
- d. Statistics Budget.

From 1961 to 1969 the structure of the budget underwent changes in the interests of implementing planned National Development.

With these changes the budget consisted of :

- a. Routine Budget consisting of
 - a1. Ordinary Budget
 - a2. Development Budget
 - a3. State Enterprises Budget
 - a4. Statistics Budget (note that the Development Budget only covers non-development projects such as building development).
- b. the Budget for Planned National Development.

Beginning in 1965 the State Budget was included as part of the Monetary Budget the components of which were as follows:

- a. Routine Receipts and Expenditure Budget
- b. Development Receipts and Expenditure Budget
- c. Credit Budget
- d. Foreign Exchange Budget
- e. Special Receipts and Expenditure Budget

It should be pointed out that this "Special Budget" was the portion of the budget implementation of which was solely in the hands of the President for the "promotion of the revolution". This budgetary structure continued until 1966 and in 1967 the Receipts and Expenditure Budget was set out separately, in the sense that it was separated from the Credit Budget and Foreign Exchange Budget in a Single Monetary Budget.

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In 1967 there was as yet no separation between the sources of finance for the Routine and the Development Budgets. In the 1968 Budget there was strict separation of the Routine Budget and Routine Receipts on the one side and the Development Budget and Development Receipts on the other.

Routine receipts were domestic income which came from direct taxes, indirect taxes and non-tax receipts.

Direct taxes cover taxes on the income of workers and entrepreneurs, company taxes from both state and private corporations, taxes on oil companies and so on.

Indirect taxes covers sales tax, import tax, excise, port duties, export, foreign exchange tax, income from oil and so on.

Non-tax income derives from departments and the activities of the government in the business field (state enterprises).

Development receipts consist of a portion of Routine Expenditure and Receipts, together with foreign aid.

Routine expenditure is directed towards officials, salaries and pensions, purchase of matériel (domestically and externally), subsidies for autonomous regions, interest on and repayments of debts and expenditures in the preceding year.

Civil servant salaries and pensions and purchase of matériel all appear in the budgets of the respective departments and state institutions.

Subsidies to autonomous regions, the balancing of regional finances and interest on and repayment of debts are included in the Financing and Statistics Section. Development expenditure covers three fields, economics, social affairs, and general matters.

Development expenditure in the economic field is directed towards agriculture and irrigation, industry and mining, the electric power sector and regional and rural development industry as well as government. Expenditure in the social field is directed towards the religious sector, education and culture, the workforce and population health and family planning, housing, social welfare and the provision of drinking water, the information sector and law enforcement.

Expenditure in the general sector is for government institutions, the defence and security sector, representative bodies and financial control.

4. The second aspect of the State Budget that we shall discuss concerns budget policy.

Until 1966, the Indonesian budget was a deficit budget, as shown in the following table:

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Year	Income (millions of rupiahs)	Expenditure (millions of rupiahs)	Deficit (millions of rupiahs)
1960	49,877	62,156	12,279
1961	66,000	97,798	31,798
1962	77,205	116,819	39,614
1963	153.303	334.467	181.164
1964	199.987	669.995	470.108
1965	923.000	2,526.000	1,078 562
1966	13.142*	29,867	16,725

* millions of rupiahs in the new currency.

The budget deficit every year continued to rise, contributing significantly to the rising rate of inflation which at the end of 1966 had reached 650% per annum.

On the basis of MPRS decision No. XXIII/MPRS/1966, a new policy on the "Renovation of Policy on the Economy, Finance, and Development" was implemented which clearly differentiated between a short term programme of stabilization and rehabilitation and a long term programme which covered the development programme.

In carrying out the programme of economic stabilization (control of inflation) and the programme of rehabilitation (improvement of production) the following scale of priorities was used:

- a. control of inflation
- b. provision of sufficient food requirements
- c. rehabilitation of the economic infrastructure
- d. encouragement of export activity
- e. provision of sufficient clothing.

To control the rate of inflation, apart from policies in the fields of banking, credit, taxation and foreign trade, the policy of deficit budgets was abandoned and replaced by a policy of balanced budgets whereby government expenditure was limited to the size of its income.

On the one hand government income had to be raised without forgetting the capacity of the people, and on the other hand there had to be restraint on government spending.

Since 1967 budget policy has been an important part of the stabilization and rehabilitation programme.

Although the 1967 Budget was meant to be a Balanced Budget in its implementation it became clear that expenditure for 1967 was to exceed receipts. In that year expenditure totalled Rps. 87,555,000,000 and income only Rps. 84,900,000,000. The deficit experienced in 1967 was much smaller than the deficit of 1966.

It was only in 1968 that a balance was achieved between income and expenditure. In contrast to the 1967 Budget, a distinction was made in the 1968 Budget between sources of finance for the Routine Budget and for the Development Budget, that is between, routine

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expenditure financed by internal income and development expenditure financed by income from credits and foreign aid.

In 1967 income from credits and foreign aid was still used to finance routine expenditure, but in 1968 all routine expenditure was financed by internal funds and all income from credits and foreign aid was used to finance development expenditure.

In 1968 the balancing of the budget was not meant only for government income and expenditure as a whole but for both the Routine and the Development Budgets as well.

The government in its Finance Paper and the draft Budget Law for the First Quarter of 1969 stated that the principle of the Balanced Budget had the following aims:

- a. As a means of breaking loose from administrative and control confusion and from the manipulation which had been practised through budgets up until that time so that the state could return to single management and control of the state's finances and foreign exchange in accordance with the concept of an orderly economy.
- b. As an instrument for redisciplining the government and its apparatus which was an absolute precondition for the implementation of an orderly economy.
- c. As a means of removing as quickly as possible the budget deficit to halt the rate of inflation and preparing a monetary plan for financing the physical plan for the implementation of development.

As a result of the principle of the Balanced Budget and other policies which were implemented by the government, the rate of inflation which in 1966 was as high as 650%, was held to 112% in 1967, 85% in 1968 and in 1969 and 1970 fell to 29.9% and 8.8% respectively.

In the context of the policy of the Balanced Budget, Paul Einzig was of the opinion that three levels of Balanced Budgets should be distinguished:

- a. The Perfectly Balanced Budget is a budget under which all routine as well as development expenditure was provided by domestic sources, without there being a deficit.
- b. The Less Perfectly Balanced Budget is a budget which in fact has a deficit but yet the deficit has been filled by internal borrowings.
- c. The Imperfectly Balanced Budget also has a deficit but the deficit is covered by foreign borrowings.

The principle of the Balanced Budget which is followed in Indonesia is a dynamic one, both quantitatively and qualitatively.

Quantitatively it means that the size of the budget rises each year, as shown in the following figures from the Main Budget for the years:

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Year	Size of Budget (in milliards of rupiahs)
1968	185.2
1969/70	327.4
1970/71	444.9
1971/72	585.1
1972/73	751.6

Qualitatively it means that the utilization of the budget funds is increasingly productive each year and increasingly directed towards the development goals to be achieved.

5. The third aspect of the Indonesian budget which has changed is the budget year. There are several dates for the beginning and ending of the fiscal year. Belgium, France, Holland and Russia begin their fiscal year on 1 January and end on 31 December. Denmark, West Germany, India, Israel, Japan, Pakistan and Great Britain begin their fiscal year on 1 April and end it on 31 March of the following year. Norway, Italy, Sweden, the USA and Australia begin theirs on 1 July and end on 31 June.

Iran's financial year runs from 21 March to 20 March the following year while Ceylon's runs from 1 October to 31 September the following year.

Until 1968 Indonesia's fiscal year ran from 1 January to 31 December. The difficulties which confronted the government in using this financial year included:

- a. The fiscal year began in the middle of the off-harvest season at the very time when farmers required assistance to promote production which would come from the stepping up of government activities. From the technical aspect of book-keeping for the budget, financing at the beginning of the financial year has to be adjusted to treasury receipts in the same period. Receipts in the first quarter are usually lower than for the rest of the year. Thus we see a contradiction in that just at the moment when the farmers need government assistance, assistance has to be adjusted to lower government income at that time.
- b. Development activities are usually carried out in the dry season that is from April to September. Past experience has shown that expenditure has been greatest at this time. State treasury income in the same period has begun to rise in the second quarter but cannot as yet balance expenditure until the end of the second quarter, so that until the end of the first semester there is still a deficit which must be covered by receipts from the following quarter. From the point of view of budget management for stabilization purposes, the large deficit for the first semester, in particular during the second quarter, can still be kept under control because of the increasing money flow in that period balanced by the rising commodity flow as a result of the harvest

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season, rising exports and imports, and other production sectors providing for the farmers.

- c. Receipts in the fourth quarter are usually higher than for all preceding quarters. Expenditure in the fourth quarter need not be very large, particularly for development purposes, because the rainy season has already begun. But because the fiscal year is about to end departments immediately begin to spend what remains of appropriations so that no funds will need to be returned to the state treasury. From the point of view of budget management, financing of this type is detrimental.
- d. The calendar financial year is not synchronous with Indonesia's agricultural cycle, making it difficult for the government's budget management to provide effective assistance to the agricultural sector. Remembering that the agricultural production cycle ends with the finishing of the off-harvest season, so all government activities from the provision of fertilizer to measures to reduce the effect of the dry season should properly be carried within the one financial year. Because the State Budget represents the government's work programme it is therefore proper that government endeavours through its programme to maximise its economic and development activities to influence developments positively.

Keeping in mind the pattern of income and expenditure on the one hand and technical aspects of budgetary bookkeeping on the other, it is therefore clear that a budget year for Indonesia that is the same as a calendar year (1 January — 31 December) could not adequately cover all activities, thereby having little effect on development. Therefore the government and the Parliament concluded that the budget year 1 January to 31 December should be replaced by a budget year beginning 1 April and ending 31 March.

6. In the implementation of development in Indonesia other aspects of the State Budget which have changed include the budgetary system. In general there are two budgetary systems, one the Department Oriented System and the other, the Programme Oriented System. The pattern of budget used by the government up until 1968 was completely oriented to government. Departments and other state institutions with such a budget system the budget in fact functions only as an instrument for assigning responsibility for the people's money which is used by the government to finance its program of work. While continuing to recognize the importance of the principle of responsibility, the budget must also be capable of being used as a measure of the physical implementation of development which is being carried out.

The budgetary system which was used until 1968 was felt to give an inaccurate picture of the real intention of the budget, particularly with respect to the Development Budget. The result

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was that in 1969 the state budgetary system of Indonesia was changed to adjust it to the requirements of more exact and controlled implementation of the development plan. For the Routine Budget the same budgetary system was used as was used in previous years. But since budget year 1969/1970 the Development Budget has been wholly oriented towards the Five Year Development Plan to be implemented in the relevant budget years.

This change in the budgetary system was intended also as an initial, preparatory step towards a Planning, Programming and Budgetary System. For this purpose the Development Budget was divided into three parts, the economic field, social field, and general field. These fields of development were later divided according to development sectors and each sector was divided into sub-sectors, and every sub-sector into programmes, and programmes into development projects. With this change in the budgetary system, the procedure for financing development itself underwent change. The financing procedures current in budget year 1969/1970 were as follows:

- a. Government departments and institutions put forward a Project List to the Department of Finance and the National Planning Body (BAPPENAS). The Project List contained programmes and plans for expenditure for a project/sub-project for the space of one year, broken down into quarters. For each project/sub-project, an individual project list was made.
- b. The Department of Finance and BAPPENAS studied each Project List submitted.
- c. Project Lists which had been approved by the Ministry of Finance and BAPPENAS were then considered authorized and the original was returned to the respective Minister or Chairman of Government Institution, while a copy was sent to the State Treasury Office in the area where the project was located.
- d. After receiving the authorized Project List the relevant minister put out a "letter of authorization" the original of which was sent to the relevant State Treasury Office while a copy of the letter was sent to the person who was to carry out the project.
- e. The project executive then forwarded a request for money to the local office of the State Treasury.
- f. After studying the request the State Treasury Office gave money to the project executive.
- g. For projects which were financed by a bank the project executive forwarded his request for credit to the bank which would pay for the project. After the request had been studied and the bank's requirements fulfilled the relevant bank then gave credit.

Remembering the pattern of formulation of the Development Budget which was wholly oriented to a programme of development,

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in budget year 1972/1973 the pattern of formulating the Routine Budget also changed. The preparation of the Routine Budget for each department and state institution came to be based on "Activities Lists", formulated in accordance with the function, and plan of activity and work of each department and institution. Thus a functional link was made between the Routine and Development Budgets of the State Budget, described as an "integrated budget system" to implement the work plan and development plan for each budget year.

From time to time the government requires an extension of project financing for projects whose completion time is more than one year. In this connection Parliament gives considerations for guaranteeing the Development Budget and gives guarantees that each year the project will be financed until it is completed. This is intended to give financial continuity to a project with a view to possible political changes in the Parliament. The determination of a budget in this way is called a Performance Budget System by S.L. Shakhder. The Performance Budget System in facing and implementing future Development Plans, is useful for preparing a budget.

7. As is known a rescue programme was implemented for the economic situation which in 1966 was very bad, and this was continued with the economic stabilization and rehabilitation programme in 1967 and 1968 with the goal of creating a relatively healthy and stable economic situation. With these preconditions the preparation and implementation of the Five-Year Development Plan was begun. One of the features of the Five-Year Development Plan was that it was implementation oriented. This is for example brought out in chapter V of the Five-Year Development Plan entitled "Government Administration, The Implementation of Plans and Annual Operational Plans". One means to bridge the gap between Development Plans and implementation of those plans is by the preparation effective of Operational Plans.

The Annual Operational Plans is intended to set up a programme of activities for every year of the Five-Year Plan which is more specific and which is reflected in the State Budget, and the Development Budget in particular. In the first year of the Five-Year Development Plan the size of the budget was estimated at Rps 309.4 milliards. Of that amount Rps 92.8 milliards were used to finance development. In keeping with the general strategy of the Five-Year Development Plan wherein the agricultural sector is the central point of development, in the first year of implementation of the Five-Year Development Plan i.e. 1969/70, the priorities of development expenditure were ordered as follows:

- a. The raising of agricultural production, particularly rice production and forest products for export.

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- b. Improving and raising infrastructure facilities.
- c. Improvement of and raising of industrial production which supports the agricultural sector and conserves foreign exchange.
- d. Improvement of and raising of mining production.
- e. Development of social welfare.

A new addition to the budget was a Public Saving item of Rps. 27.2 milliards which was the difference between domestic income and routine expenditure to be used for financing development Public Savings which in the first year was Rps. 27.2 milliards was Rps. 24 milliards above the target in the Five-Year Development Plan.

In the second year of the Five-Year Development Plan the budget amounted to Rps. 416.4 milliards of that Rps. 128.2 milliards was used for development financing and of this Rps. 56.4 milliards came from Public Savings.

The priorities of development financing for the financial year 1970/71 were as follows :

- a. Requirements for financing, in order to achieve the target of 1969/1970, for projects planned for 1969/1970 and for which budget allocations had been made but which for a number of reasons did not reach the 1969/1970 implementation target.
- b. Requirements for domestic financing for the implementation of technical and project aid for 1970/1971.
- c. Requirements for financing to continue projects in fiscal year 1969/1970 which needed to be continued or were to be concluded in 1970/1971.
- d. Requirements for financing for new projects to begin in 1970/1971.

In budget year 1970/1971 development expenditure was also directed towards the development of West Irian, provision of subsidies to kabupaten (regencies), and village subsidies, to utilize the excess labour force resulting from population increase and limited work opportunities and also to stimulate the implementation of regional development projects.

In the third year of the Five-Year Development Plan the budget was Rps. 519 milliards. Development expenditure apart from project aid, which amounted to Rps. 66.1 milliards, was as high as Rps. 175.7 milliards. Development expenditure in that year was directed selectively towards:

- a. Raising of food production.
- b. Rehabilitation and development of economic infrastructure (roads, sea communications, electricity and railways).
- c. Expanding the workforce (with aid to regencies, villages and labour intensive programmes) to encourage the people to participate in development.

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- d. Expanding social development (higher education, technical education, the eradication of infectious diseases, and preventive measures in the fields of health and family planning).

In budget year 1971/1972 Public Savings has risen by Rps. 72.6 milliards. In this fourth year of the Five-Year Development Plan, the size of the Annual Budget is Rps. 751.6 milliards of that Rps. 231.1 milliards (apart from project aid of Rps. 83 milliards) is to be used for development expenditure, which will be for ensuring continuity of programmes already under way from previous years.

With this our brief survey of developments with respect to the Development Budget during each of the four years of implementation of the Five-Year Development Plan.

8. From the above it can be seen that development expenditure under the Five-Year Development Plan has risen from year to year as shown here:

Year	Amount (in milliards of rupiahs)	Percentage Increase
1969/1970	92.8	—
1970/1971	128.2	+ 38.1
1971/1972	175.7	+ 37.1
1972/1973	231.1	+ 31.5

In the same period project aid received, which is also used for the Development Budget has risen as follows:

Year	Amount (in milliards of rupiahs)	Percentage Increase
1969/1970	25.3	—
1970/1971	41.6	+ 64.4
1971/1972	66.1	+ 58.9
1972/1973	88.0	+ 25.6

The effects of the increasing size of the Development Budget has not been limited to the increase in Government activity and the volume of development, but has also had a positive effect on a wide front on the process of development of the economy of the people as a whole.

Until now implementation of the State Budget has functioned to stimulate and give direction to development, by maintaining economic stability.

Success in the implementation of the State Budget and in particular implementation of the Development Budget cannot be seen in isolation from the following factors:

- a. The existence of political and economic stability, which is a precondition for the implementation of development.

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- b. The existence of a strong and authoritative government which has had the will from the beginning to give a proper place to the budget as a policy instrument for the implementation of development.
- c. The existence of changes in and the orderly perfection of the budget, both in the structure of the budget, the fiscal year, and the budgetary system, all of which have been aimed at giving a more solid base to the implementation of the budget and the Five-Year Development Plan.
- d. The existence of an integral policy covering budget policy, wage policy and balance of payments policy and other policies which have assisted budget policy.
- e. Improvements in the preparation of the budget, the raising of discipline and exactitude in the implementation of the budget through the ordering and perfecting of the apparatus of government and the existence of continuing effective control over the implementation of the budget.

In facing the acceleration of modernization and national development in the future and in particular in implementing subsequent development plans, speed and exactitude in preparing the budget, and the raising of efficiency in implementing the budget and control over it will be important factors which will contribute to its development.

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