Moving away from aid?
The case of Indonesia

Annalisa Prizzon, Senior Research Fellow
Outline

1. Why this study?
2. Why Indonesia?
3. Which objectives and research/policy gaps to fill?
4. Which methodological approach?
5. Which findings?
6. What lessons for other countries managing the transition from aid?
1. Why this study?
More and more countries joined the ranks of MICs...

<table>
<thead>
<tr>
<th>Classification</th>
<th>Income Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>Income per capita &lt; $1,025</td>
</tr>
<tr>
<td>LMIC</td>
<td>$1,206 &lt; Income per capita &lt; $4,035</td>
</tr>
<tr>
<td>UMIC</td>
<td>$4,036 &lt; Income per capita &lt; $12,475</td>
</tr>
<tr>
<td>HIC</td>
<td>Income per capita &gt; $12,476</td>
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...with fewer reversals over time
Becoming a MIC: what does it mean for the development finance landscape at the country level?

1. “Missing middle” of development finance for lower-middle income countries

Source: Kharas, Prizzon & Rogerson (2014)
Becoming a MIC: what does it mean for the development finance landscape at the country level?

2. Reduced assistance from bilateral donors
3. More loans, fewer grants
4. More expensive terms and conditions for sovereign loans from MDBs (graduation to non-concessional windows)
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5. Greater borrowing from international financial markets

6. Lower dependency on aid (volumes and composition e.g. capital expenditure)

7. Changes in the sectoral composition of external development finance (from social sectors to infrastructure?)
No evidence on how recipient countries managed the transition from concessional to non-concessional finance and which strategy, if any, was applied
2. Why Indonesia?
Indonesia:
A pilot case study

• IDA country for most of the 2000s – IBRD country again in 2009
• Lower-middle income country
Forthcoming case studies – July 2018
3. Which objectives and research/policy gaps?
Key questions: Composition of development finance

- How has the composition of Indonesia’s financing evolved since the country’s transition from the soft windows of MDBs, including taxation?
- What were the terms and conditions of the different financing options and how have they evolved?
- Is Indonesia an example of the ‘missing middle’ of development finance?
- How has the sectoral composition of both external and domestic sources of finance for the government budget changed over time?
Key questions: Priorities and arenas

• What were the government’s priorities for development flows at the time of transition from concessional to less-concessional finance?
• Was there either an aid exit strategy or a financing strategy in place, or some key principles or elements of such an approach?
• How did the fora through which the government engages with providers of development finance evolve at the time of this transition from concessional finance?
4. Which methodological approach?
Methodology

- **Political economy framework** developed in Prizzon et al. (2016) – relevance of economic, political and governance context for aid negotiations
- **Desk-based analysis of policy literature** (debt management strategies, national development plans, IMF Article IV and donors’ strategies) and **academic literature** on aid coordination in Indonesia
Methodology

• Descriptive analysis of development finance data

• Semi-structured interviews (over the phone and in Jakarta Aug-Sep 16) with
  • government officials in Bappenas (Indonesian Ministry of National Development Planning) and the Ministry of Finance
  • development partners
  • former government officials
  • civil society organisations and academics
  • with the help of local partner (Seknas Fitra)
5. Which findings?
Becoming a MIC: what does mean it for the development finance landscape in Indonesia

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The share of loans has fallen over time

Source: Prizzon & Rogerson (2017)
Falling dependency on aid

Source: Prizzon & Rogerson (2017)
An example of the “missing middle” of development finance

Source: Prizzon & Rogerson (2017)
Changes in the sectoral composition of external finance: Mixed picture

Source: Prizzon & Rogerson (2017)
Priorities for development finance

• Recognition of changing status
• Ownership and alignment to national priorities
• Aid for capacity building
• Grant financing (still matters)
Arenas of negotiations

• Consultative Group Indonesia (CGI) discontinued in 2007 – because of assistance mainly from 3 donors
• Only bilateral tailor-made relationships, often at the Presidential level
6. What lessons for other countries managing the transition from aid from the experience of Indonesia?
Lessons for other countries and development partners

- Adapt flexibly to changing supply terms
- Adopt sophisticated debt management strategies
- “Bundle” external finance with support for capacity building
- Prioritize mobilization of domestic tax revenues
Thank you!

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