

# A Review of Indonesia's Fiscal Ecosystem

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## Executive Summary

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### Introduction

Indonesia, Southeast Asia's largest economy, has experienced major fiscal governance reforms since the fall of the New Order regime in 1998. Amendments to the 1945 Constitution and the introduction of a package of financial laws have created a more democratic approach to fiscal governance. However, despite notable progress in transparency and the development of formal institutions, the fiscal ecosystem and associated practices have been shaped by changing political and economic dynamics. The central argument in this paper is that Indonesia's fiscal ecosystem has been heavily influenced—if not captured—by informal political practices, particularly elite-led party coalitions and clientelism that have undermined formal oversight institutions and democratic accountability norms. To document this process, this case study explores the evolution of the Indonesian fiscal ecosystem in the post-democratic reform era. It highlights three main phases: the transition period (1998–2004), the consolidation period (2004–2014), and the democratic regression period (2014–2025). The discussion covers the political and economic context, key reforms, fiscal performance, and the development of fiscal accountability actors, including their roles and the relationships between them. The final section provides preliminary recommendations for future reforms.

### Evolution of Fiscal Ecosystem

The transitional era after the fall of the Suharto regime in 1988 was marked by intense political instability, with three presidents within just six years, a period often characterized as the most turbulent phase of the country's democratic transition. Starting with President B.J. Habibie, and ending with Megawati Sukarnoputri, each leadership term was marked by shifting coalitions and institutional rebalancing. Scholars have described this era as a time of “legislative heavy” politics, wherein the legislature (DPR) exercised vast influence over executive affairs, often at the cost of political stability and policy continuity. Yet, the transition period was also marked by the growing independence of the Supreme Audit Institution (BPK), and the rapid expansion of civil society organizations, including fiscal watchdogs. The influence of the IMF and World Bank was also greatest during this period. These developments added additional layers of transparency, transparency, and contestation in the budget process.

Following the transitional era, the consolidation period began during Megawati's administration, as she took strategic actions to continue the IMF-driven economic reform program and successfully improve relationships between the government and the legislature. This laid the groundwork for Susilo Bambang Yudhoyono's (SBY) presidency. The political environment during SBY's era was relatively stable, characterized by a more balanced distribution of power among the various actors within the fiscal ecosystem. The legislature exercised its authority to propose amendments within the overall framework of the executive. The SAI gained expanded authority to audit all state financial management and report directly to the legislature, while civil society deepened their accountability role complementing the legislature. However, while SBY catalysed fiscal reforms and improved fiscal performance, the period also started opening new opportunities for legislatures and politicians to engage in patronage practices.

Starting in 2014, a period of democratic regression began at the end of SBY's administration and strengthened during Joko Widodo's (Jokowi) leadership. During Jokowi's two terms, Indonesia's fiscal ecosystem began to deteriorate, marked by the rising dominance of informal political practices over formal institutional processes. During this period, the influence of the legislature, SAI, and civil society declined, as power was increasingly centralized within the executive, facilitated by elite-level bargains, party cartelism, and the strategic deployment of presidential coalitions. The executive ceased submitting formal budget revisions to the legislature, the SAI faced increasing political interference through the politicized, and civil society and the media were increasingly fragmented and partially coopted. Looking ahead, democratic regression and executive dominance appear likely to persist and potentially deepen under the current Prabowo administration, informal governance practices are further entrenched and institutional checks and balances sidelined.

### **Evolution of Actors**

The Indonesian fiscal ecosystem as shaped by the 1945 Constitution and further elaborated in three major fiscal laws, is formally structured around three primary institutions: the executive, the legislature (DPR), and the Supreme Audit Board (BPK). In addition to these core institutions, several other actors also play minor yet influential roles in shaping and safeguarding the integrity of the budget system. These include the Corruption Eradication Committee (Komisi Pemberantasan Korupsi/KPK), the Ombudsman, the Information Commission, and the Constitutional Court (Mahkamah Konstitusi/MK).

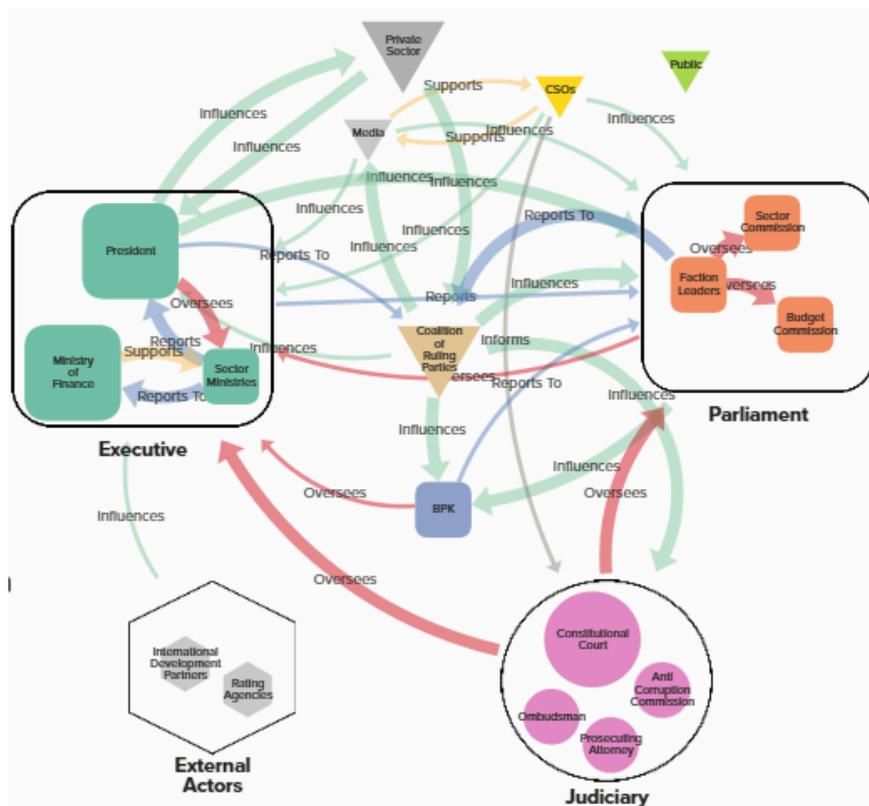
In practice, CSOs and the media have also played growing roles in promoting transparency and citizen engagement in the budget process. International donors and financial institutions, such as the IMF and World Bank, provided crucial technical and legal frameworks for reform, while business associations increasingly shaped fiscal priorities through lobbying.

Over time, the growing dominance of informal politics, particularly elite-led party coalitions and clientelism, has systematically hollowed out the effectiveness of these checks and balances. The ruling party coalition significantly drives fiscal outcomes. Its power is manifested through the president, sectoral ministries, and parliament. As political and business elites increasingly intersect, they form a powerful political-economic nexus that often bypasses formal fiscal procedures. Instead, fiscal decisions are frequently driven by

elite negotiations, informal arrangements, and behind-the-scenes influence, rather than transparent, rule-based processes. The case of Tobacco Excise exemplifies how fiscal tools like taxation can be captured by private interests through informal political channels.

The graph below illustrates how faction leaders, influenced by ruling political party coalitions, mediate parliamentary decisions, often reducing individual legislators' independence to scrutinize the budget. Parliamentary budget power has incentivized constituency-focused budget interventions through informal mechanisms like the "Aspiration fund", undermining institutional oversight and reinforcing clientelist relationships.

**Figure 1 Fiscal Ecosystem in Practice**



The MoF's central role continues to grow in advancing fiscal reform, although its power is highly dependent on political dynamics. Under current President Prabowo, political interference in the MoF has deepened. Formally, the MoF is no longer under the Coordinating Ministry for Economic Affairs, but is now directly responsible to the president. The appointment of his party-affiliated nephew as vice finance minister and military figures to lead the tax and customs directorates marks a clear departure from previous technocratic norms. Most critically, the creation of Danantara, a financing authority under direct presidential control, signals a structural bypass of the Ministry of Finance's traditional role, centralizing fiscal power in the presidency and seriously weakening institutional checks.

The legislature has also experienced a dramatic shift in fiscal authority over time. Under President Jokowi, and now continuing under Prabowo, the DPR has increasingly functioned as a rubber stamp for executive decisions. Legislators now secure district-based projects not through policy debate, but through party-controlled bargaining channels aligned with the presidency. The formalization of the Proposed Constituency Development Program (UP2DP), accommodated via the Special Allocation Fund (DAK), further entrenches clientelist logic within parliamentary budgeting.

The evolution of the SAI, the BPK, reflects a broader tension between formal institutional empowerment and informal political capture. The BPK's influence is often shaped by its institutional ties to the legislature, which appoints its board members. Since the legislature itself is heavily influenced by political party elites, the BPK's board tends to reflect the interests of the ruling party coalition. This creates a feedback loop where political interest within the DPR and political parties may influence the BPK's audit direction and follow-up. Thus, BPK audit findings are only as effective as the legislature's willingness to act on them, which is frequently lacking due to political compromise or inaction.

Judicial institutions, including the Constitutional Court, the KPK, and the Ombudsman, serve as critical but reactive institutions. Their oversight is often activated by civil society pressure, judicial reviews, or scandals, rather than through a proactive institutional checks.

CSOs support and pressure both the legislature and the executive. While their formal power is limited and fragmented, CSOs have carved out spaces for influence through budget advocacy, social audits, and litigation. As detailed in the case of the SPARK initiative, grassroots coalitions have successfully engaged the Ombudsman, Anti-Corruption Commission, and the BPK using evidence from social audits. To some extent, CSOs are to balance fiscal institutions when they coordinate and build collective campaigns.

The media and digital platforms further complicate this ecosystem. On one hand, the government employs influencers and media owners, many of them with links to political or business elites, to amplify its fiscal narratives and marginalize dissent. On the other hand, citizens and CSOs are able to use social media campaigns to spotlight overlooked fiscal issues and force state responsiveness through digital visibility.

External actors, such as the IMF, the World Bank, and credit rating agencies, have also influenced Indonesia's fiscal policies primarily through conditionalities, technical assistance, and market-based assessments. Their role was particularly significant during the transition period, when they helped shape key legal reforms and institutional frameworks. However, more recently, their influence has diminished, especially in the more technical aspects of PFM reform, as Indonesia has increasingly pursued self-financed development and nationally driven agendas. Indonesia's association with platforms like the BRICS, and its accession process to the OECD, is largely motivated by domestic economic interests and market expansion, rather than a commitment to align with international governance standards.

## Conclusion and Future Reform Paths

The evolution of Indonesia's fiscal ecosystem demonstrates that the actual distribution of power among accountability actors has been shaped more by informal political practices than by formal fiscal and legal frameworks. The empirical evidence demonstrates how shifts in political configuration have direct implications for the structure, credibility, and fiscal governance. Over the period, the interplay between political elites and formal oversight institutions has fluctuated, revealing the dominance of informal coalitions and party-based arrangements in shaping fiscal governance.

Despite the likely continued democratic regression under President Prabowo, there are several opportunities and paths available to strengthen the ecosystem of fiscal accountability. These include:

- 1) **Expand BPK powers:** The BPK should be authorized to audit government performance reports, not just financial statements. This would allow for participatory audits with CSOs and communities verifying data and monitoring critical sectors. Ultimately, this will require amendments to the relevant laws to formalize performance audits, insulate the BPK from political interference, and define participatory roles for non-state actors.
- 2) **Strengthen CSO-Legislature alliances:** CSOs should investigate renewing partnerships with reform-minded legislators, especially the Budget Committee and the Aspiration Body. By providing constituency level data, media advocacy, and monitoring, CSOs can strengthen reformers' technical credibility and public legitimacy, while gaining allies inside the legislature.
- 3) **Institutionalize CSO and media participation:** Civic participation in fiscal oversight should be legally protected and embedded. Ultimately, this will require legislation to create inclusive budget consultation processes, participation in audit planning, and procurement oversight. CSO participation can be recognized as a technical necessity for data accuracy, public service feedback, and compliance monitoring.
- 4) **Revive multilateral engagement for governance reform:** International partners (IMF, ADB, OECD, World Bank, bilateral donors) should move beyond capacity building to address power asymmetries in fiscal governance. Working with reformers in BAppenas, Ministry of Finance, BPK, DPR and CSOs, they can use OECD accession and SDG commitments to press for reforms.
- 5) **Re-strengthen independence of accountability institutions:** Policy reform will need to rebalance power across fiscal actors. This could start with efforts to consolidate coalitions of champions inside formal institutions (DPR, BPK) and among informal actors to launch initiatives such as constitutional court reviews. Parallel efforts should look for opportunities to increase public pressure and oversight of the executive, DPR, BPK, and other bodies, beginning to restore trust and legitimacy of these institutions.

## APPENDIX

Table 1 Fiscal Ecosystem Evolution over Periods

	Transition (1998–2004)	Consolidation (2004–2014) Key Features	Regression (2014–2025)
<b>Actor's Role and Relationship</b>	<p>The rise of fiscal accountability institutions:</p> <ul style="list-style-type: none"> <li>- DPR began exercising newfound authority over fiscal governance</li> <li>- Affirmed by MPR decree, BPK became an independent audit institution, separate from the executive and legislature</li> <li>- CSOs rapidly expanded their role as fiscal watchdogs</li> <li>- These actors introduced new layers of scrutiny, transparency, and contestation in the budget process, challenging the executive monopoly over fiscal decision-making.</li> </ul> <p>The influence of international agencies (IMF, World Bank)</p>	<p>Balanced power among fiscal accountability actors:</p> <ul style="list-style-type: none"> <li>- DPR exercised its authority to propose amendments to the state budget, although the executive retained control over the overall framework</li> <li>- BPK gained expanded authority to audit all state financial management and report its findings directly to the DPR</li> <li>- CSOs have emerged as critical actors complementing the roles of formal accountability institutions</li> <li>- The power relations between BPK, DPR, and the executive remained complicated and, over time, deeply politicized</li> </ul> <p>Strong oversight and technical assistance from external actors</p>	<p>Executive centralization and informal political dominance:</p> <ul style="list-style-type: none"> <li>- Oversized presidential coalition enabled “party cartelization”, functioning as elite bargaining platforms</li> <li>- DPR members are not primarily accountable to their constituents, but to party elites</li> <li>- The executive has ceased submitting formal budget revisions to the DPR</li> <li>- BPK faced increasing political interference, especially through the politicized appointment of its members by the DPR</li> <li>- CSOs and the media were fragmented and partially co-opted</li> </ul> <p>Recentralizing Government</p> <ul style="list-style-type: none"> <li>- Implementation of Law No. 1/2022</li> </ul>
<b>Major Reforms</b>	<p>Enactment of three major fiscal laws: Law No. 17/2003, Law No. 1/2004, and Law No. 15/2004</p>	<ul style="list-style-type: none"> <li>- Full enforcement of three pivotal laws on state finance restructured the PFM system.</li> <li>- Enactment of the Public Information Disclosure Law and the Ombudsman Law</li> </ul>	<p>Efforts to modernize the PFM systems</p>

<b>Fiscal Performance</b>	<ul style="list-style-type: none"> <li>- Budget deficit contained 2.2% GDP</li> <li>- Tax ratio increased to 12%</li> <li>- Public debt remains above 60%</li> <li>- Poverty rate decreased from 24.2% to 17.4%</li> <li>- Unemployment rate increased to 4.2%</li> <li>- Fiscal decentralization and state revenue expansion dominated</li> <li>- Spending patterns revealed the growing burden of routine expenditures such as public salaries and elections</li> </ul>	<ul style="list-style-type: none"> <li>- Budget deficit &lt;2.5% GDP</li> <li>- Tax ratio increased to 13.1%</li> <li>- Public debt decreased to 24.7% of GDP</li> <li>- Poverty rate was reduced by 5.4%</li> <li>- Unemployment decreased to 5.7%</li> <li>- Revenues consistently increased, with the highest growth in 2011 at 21.63%</li> <li>- Spending rose, averaging 13.8% annually, primarily due to infrastructure development and rising energy subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- Budget deficit above 6% during COVID-19, successfully returned to 1.61% by 2023</li> <li>- Tax ratio remained stable at 10%</li> <li>- Public debt is around 34% of GDP on average</li> <li>- Poverty rate under 10%</li> <li>- Unemployment rate remained stable at 5%</li> <li>- major fuel subsidy cut</li> <li>- Tax amnesty generated IDR 134.9 trillion (2016) of state revenue</li> </ul>
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