FISCAL ECOSYSTEMS

A Review of Indonesia's Fiscal Ecosystem

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ABSTRACT

Indonesia has experienced major fiscal governance reforms marked by the amendments to the 1945 Constitution and the introduction of a package of financial laws that 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 informal political practices that have undermined formal oversight institutions and democratic accountability norms. This paper explores the evolution fiscal ecosystem in the post-democratic reform era in three main periods from 1998 to 2025. The discussion covers the political and economic context, key reforms, fiscal performance, and the development of fiscal accountability actors. The empirical evidence in this paper 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 in shaping fiscal governance. This paper also identifies several opportunities and future pathways available to strengthen the fiscal ecosystems.

Key words: *fiscal ecosystems, accountability, actors*

LIST OF ACRONYMS

BPK	Badan Pemeriksa Keuangan/the Audit Board
CSO	Civil Society Organization
DAK	Dana Alokasi Khusus/Special Allocation Fund
DPD	Dewan Perwakilan Daerah/Regional Representative Council
DPR	Dewan Perwakilan Rakyat/House of Representatives
IMF	International Monetary Fund
KPK	Komisi Pemberantasan Korupsi/Corruption Eradication Committee
MoF	Ministry of Finance
MPR	Majelis Permusyawaratan Rakyat/People's Consultative Assembly
NGOs	Nongovernmental Organizations
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
SPARK	Strengthening Public Accountability for Results and Knowledge
UP2DP	Usulan Program Pembangunan Daerah Pemilihan

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1. INTRODUCTION

As a developing country with the largest economy in Southeast Asia, Indonesia faces challenges in strengthening democratic governance and advancing public finance reform, given the country's ongoing struggles with inequality and accountability in public resource management. Over the past decades, Indonesia has demonstrated a strong commitment to improving fiscal governance, particularly in areas such as fiscal decentralization and the quality of government spending. This experience offers important lessons on the evolving nature of fiscal accountability in emerging democracies. While transparency initiatives have made budget information more accessible, genuine accountability requires strong institutions, meaningful civic engagement, and a balance of power between the executive and oversight bodies. However, Indonesia's fiscal ecosystem reveals that despite democratic governance structures, key public finance decisions often lack meaningful public participation, and oversight institutions face limitations in ensuring accountability (OBS Report, 2023). Important accountability actors, such as the legislature and Supreme Audit Institutions, have been weakened from fully meeting their mandates.

The case study focuses on the evolution of the fiscal ecosystem that includes systematic shifts and developments in the country's fiscal frameworks as well as relationships and interactions among accountability actors. Rather than offering a detailed analysis of monetary policy, fiscal decentralization mechanisms, or technical aspects of the budget cycle, the study centers on the broader shifts in institutional frameworks and the political dynamics among key accountability actors. Each period in this paper is named referring to the shifts that occurred within it. The central argument is that Indonesia's fiscal ecosystem has been heavily influenced—if not compromised—by informal political practices such as clientelism and cartelized party arrangements. These dynamics have often undermined formal (technocratic/rules-based) oversight institutions and democratic accountability norms.

The paper is organized into several sections: following the introduction, the next section presents the fiscal frameworks and institutions based on the current fiscal laws. Section 3 elaborates on fiscal ecosystem dynamics that cover Indonesia's fiscal governance in the post-democratic reform era, focusing on three key phases: the transition period (1998–2004), the consolidation period (2004–2014), and the democratic regression period (2014–2025). The story in each period covers the political-economic context, major reforms, and fiscal performance. In section 4, we elaborate on the evolution of fiscal accountability actors' roles and their relationship. Finally, Section 5 presents some initial thoughts on recommendations for future reform.

2. THE FORMAL FISCAL GOVERNANCE FRAMEWORKS

2.1 Fiscal Frameworks

Indonesia is a unitary state with a presidential democratic system and operates under a multi-party system, as established in the 1945 Constitution (UUD 1945). The political system is grounded in the ideologies of popular sovereignty and the separation of powers among the executive, legislative, and judicial branches. Following the fall of the New Order regime in 1998, constitutional amendments introduced significant democratic reforms, strengthening electoral institutions, reinforcing checks and balances, and decentralizing authority.

As mandated in Article 6A of the Constitution, the political system features direct elections for the President and Vice President, who serve five-year terms and may be re-elected once. The executive branch is headed by the President, who functions both as head of state and head of government. The President has the authority to appoint ministers, issue regulations, and propose laws, including the national budget. Legislative power is vested in the People's Consultative Assembly (Majelis Permusyawaratan Rakyat/ MPR), which consists of two chambers: the House of Representatives (Dewan Perwakilan Rakyat/DPR) and the Regional Representative Council (Dewan Perwakilan Daerah/ DPD). The DPR holds the primary legislative authority, while the DPD represents regional interests but with limited legislative power. Meanwhile, the judiciary, comprised of the Supreme Court (Mahkamah Agung), the Constitutional Court (Mahkamah Konstitusi), and the Judicial Commission, functions independently to uphold constitutional governance and resolve legal disputes.

Budgetary process is constitutionally governed by Article 23 of the UUD 1945, which mandates that the President proposes the state budget (Anggaran Pendapatan dan Belanja Negara / APBN) to the DPR for deliberation and approval. The process begins with the drafting of a Macroeconomic and Fiscal Policy Framework (KEM-PPKF) by the Ministry of Finance (MoF) and the National Development Planning Agency (Bappenas), outlining revenue targets, expenditure ceilings, and priority programs. After the President submits the draft budget to the DPR at least two months before the new fiscal year, it is examined and debated by various commissions and the Budget Committee. Once approved, the APBN becomes the legal basis for national fiscal operations. If approval is not reached in time, the previous year's budget may be used provisionally, ensuring continuity of governance.

The application of these frameworks is further complicated by Indonesia's decentralized governance system, rooted in Article 18 of the Constitution. Decentralization was initiated through Laws No. 22 and 25 of 1999, subsequently revised by Laws No. 23 of 2014 and No. 1 of 2022, in response to demands for stronger local autonomy and more equitable development. This framework empowers regional governments (provinces and municipalities) to manage their governance and finances, except in areas reserved for the central government, such as defence, foreign policy, and fiscal and monetary affairs. The central government distributes intergovernmental transfers via the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), which form the backbone of local government budgets.

While the Constitution sets the legal foundation for Indonesia's budget process, in practice, formal budget institutions play a decisive role in shaping how fiscal policy is designed, negotiated, and implemented. Understanding their roles is crucial for analysing how public resources are managed and how fiscal priorities are balanced across competing interests.

2.2 Key Actors in the Fiscal Ecosystem

Fiscal ecosystem is shaped by key actors defined in the Constitution and further elaborated in Law No. 17/2003 on State Finance. This law establishes the institutional framework for the annual budgetary process, which is formally structured around three primary institutions:

The Executive

In Indonesia's fiscal governance system, the President holds ultimate authority over the budget, but operational responsibility is delegated to key institutions. The MoF functions as the state's Chief Financial Officer, overseeing macroeconomic planning, budget formulation, and financial policy coordination. Complementing this, the Ministry of National Development Planning (Bappenas) leads long-term and annual development planning, ensuring alignment between policy priorities and fiscal allocations.

Budget execution is managed by sectoral ministries and agencies, which serve as Chief Operating Officers (COOs) with autonomy over planning, implementation, and reporting. This post-reform structure represents a shift from centralized control to a more decentralized model that embeds internal checks and balances within the executive. While the MoF retains a coordinating role, each agency is responsible for its own internal control and performance.

Oversight is supported by internal audit bodies, including the Financial and Development Supervisory Agency (BPKP), Inspectorate Generals (IGs) in ministries, and local inspectorates at the subnational level. BPKP, though formally mandated to review financial reports and advise on performance, primarily plays a technical advisory role, with limited enforcement power. IGs and regional inspectorates are tasked with internal audits, but their credibility is weakened by noncompliance, lack of transparency, and limited public access to reports. Their function often serves internal justification rather than public accountability, undermining trust in executive oversight mechanisms.

The Legislature

Following the 2004 constitutional amendments, Indonesia adopted a bicameral system comprising the House of Representatives (DPR) and the Regional Representative Council (DPD). While both chambers are formally equal, the DPR holds dominant legislative and budgetary authority. The DPD, with 152 members, primarily provides non-binding input on regional matters, whereas the DPR, with 580 members, has decisive control over the budget process.

The DPR is organized into 13 sectoral commissions and 8 cross-sectoral committees, with members assigned based on party faction proportions. Key among these are the Budget Committee and the Public Finance Accountability Committee (BAKN). By 2024, the Budget Committee had expanded to 105 members, reflecting its central role in reviewing and amending the draft budget's macroeconomic assumptions, revenues, expenditures, and financing strategies. BAKN, with 19 members, supports post-audit review.

The DPR's oversight spans three stages: ex-ante review, budget enactment, and ex-post audit follow-up. Sectoral commissions examine the detailed budgets of counterpart ministries, while the Budget Committee[1] ensures aggregate coherence. As per Law No. 17/2003, the DPR may amend budget proposals as long as the deficit remains under 3% of GDP.

In the ex-post phase, the DPR utilizes audit findings submitted by BPK. BAKN analyzes these reports and forwards them to relevant commissions for follow-up. However, in practice, the DPR emphasizes budget approval over audit-based accountability. As Juwono and Eckardt (2008) note, this results in limited comparison between audit results and original budgets, weakening legislative oversight.

The Audit Board

BPK is the constitutionally mandated external auditor of state finances, established under Article 23E of the 1945 Constitution (amended in 2002). Its authority is governed by Law No. 15 of 2004 on Audit of State Financial Management and Accountability and Law No. 15 of 2006 on the Audit Board. BPK audits all entities managing public funds, including central and local governments, state-owned enterprises and local-owned enterprises, and public service agencies, through financial, performance, and special-purpose audits.

[1] The Budget Committee is composed of representatives from political party factions and the sectoral commissions.

While BPK has the legal authority to assess the fairness of financial statements and conduct performance and special purpose audits, the law does not explicitly mandate it to audit the government's performance report as part of the President's annual accountability report to Parliament. This gap is exacerbated by the lack of alignment between the government's performance report and financial reports, and by the fact that the government produces performance reports separately from financial reports. This condition limits BPK's ability to assess whether spending achieves the intended development outcomes comprehensively. However, the latest regulation from the MoF (PMK No. 62 of 2023) includes the performance report in the Notes to the Financial Statements, so that BPK can assess the fairness of the performance report together with the financial report.

BPK operates freely and independently, setting its audit priorities and methods (Article 9, Law 15 of 2006). Its financial audit reports are submitted to the DPR within two months of receiving government statements, serving as the foundation for legislative ex-post oversight by sectoral commissions and the State Finance Accountability Committee.

Despite its legal and structural autonomy, BPK's impact is constrained by weak enforcement of its recommendations and limited follow-up by the executive and legislature (Juwono & Eckardt, 2008; World Bank, 2007). While BPK plays a vital role in Indonesia's fiscal ecosystem, its effectiveness depends on political will, institutional cooperation, and reforms that close critical oversight gaps, particularly regarding the audit of the government's performance accountability reports and follow-up mechanisms. Regarding institutional cooperation, the law requires BPK to report to law enforcement agencies if audit results indicate signs of corruption.

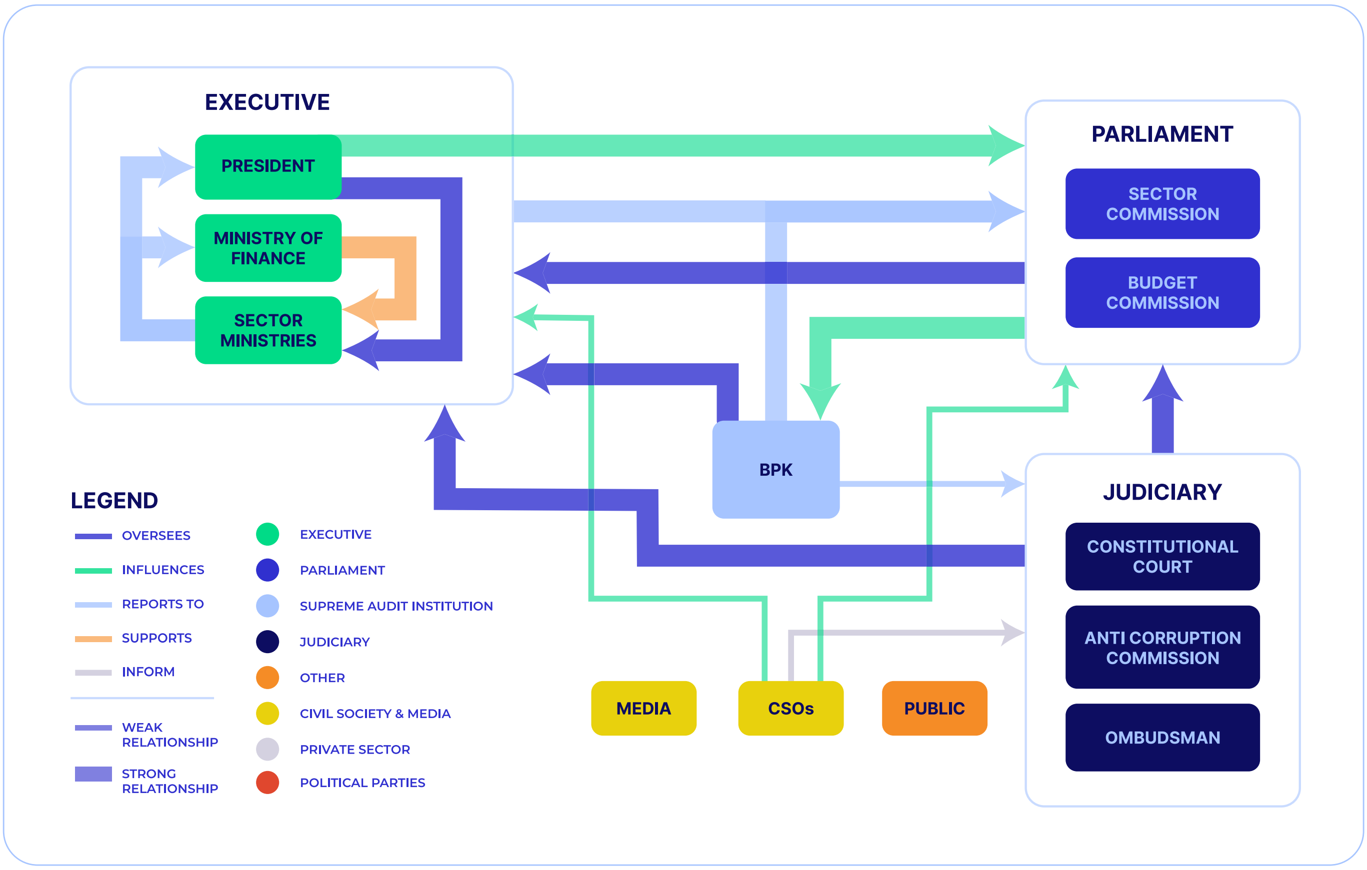
In addition to these core institutions, several formal actors also play minor yet influential roles in shaping and safeguarding the integrity of the budget system. These include the Corruption Eradication Committee (Komisi Pemberantasan Korupsi/KPK), the Ombudsman, the Information Commission, and the Constitutional Court. However, their roles tend to be more passive than active. The KPK focuses on law enforcement and preventing budget misuse; the Ombudsman addresses maladministration and service delivery issues; the Information Commission safeguards public access to budget information; and the Constitutional Court ensures that budgetary decisions comply with constitutional mandate.

Figure 1 illustrates the key fiscal institutions' relationship in the fiscal ecosystem according to the law, as described above. The executive plans and implements the budget with the approval of Parliament. After the fiscal year ends, the executive, through the President, submits an accountability report to Parliament. Meanwhile, Parliament oversees the executive by reviewing and approving the state's annual budget.

BPK audits the state financial reports prepared by the executive and provides an audit opinion and recommendations for improvements. BPK submits the financial performance audit and special purpose audit reports to Parliament, as well as the specific purpose audit. The State Finance Accountability Committee and sectoral commissions utilize audit findings and recommendations in conducting their parliamentary oversight functions. The executive is formally required to respond to BPK's findings and follow up on its recommendations.

Regarding the judiciary, in addition to enforcing the law on corruption cases by the Anti-Corruption Commission, other judicial institutions, such as the Constitutional Court, the Ombudsman, and the Supreme Court, oversee the executive by resolving fiscal disputes and ensuring compliance with laws and regulations. The Constitutional Court oversees Parliament by testing policies challenged by citizens. Meanwhile, the Supreme Court adjudicates legal cases involving its members. This relationship ensures checks on parliamentary power. Civil society organizations (CSOs) often file lawsuits or legal disputes in courts for alleged legal, administrative, or corruption violations in fiscal governance.

Figure 1. Fiscal Ecosystem in Law



3. EVOLUTION OF FISCAL ECOSYSTEM

3.1 The Transition Period

The Asian economic and monetary crisis in 1997–1998 sparked a period of political chaos, which eventually led to President Suharto's resignation in May 1998 after 32 years of presidency. Suharto's resignation dramatically changed the political framework of Indonesia, leading to a new era with a more open socio-political environment, marked by constitutional amendments and electoral system reforms. The constitutional amendments strengthened the role of the legislature and state audit institutions and encouraged the implementation of regional autonomy, as well as judicial, defense, and security reforms.

The transitional era was marked by intense political instability, with Indonesia witnessing three successive presidents within just six years, a period often characterized as the most turbulent phase of its democratic transition. Starting with President B.J. Habibie (1998–1999), followed by Abdurrahman Wahid (Gus Dur, 1999–2001) and then Megawati Sukarnoputri (2001–2004), each leadership term was shaped by shifting coalitions and institutional rebalancing. Parliament, newly freed from executive dominance, asserted its authority in extraordinary ways, rejecting Habibie's accountability report in 1999 and later orchestrating the impeachment of Gus Dur in 2001. This forcefulness reflected the broader euphoria of Reformasi, where democratization unleashed a wave of institutional experimentation and competition. Scholars have described this era as a time of "legislative heavy" politics, wherein the DPR exercised vast influence over executive affairs, often at the cost of political stability and policy continuity. This dynamic underlined the growing pains of Indonesia's emerging democracy as it struggled to redefine power relations among state institutions in the post-authoritarian landscape (Haris, 2014).

The Rise of Fiscal Accountability Institutions

The democratic transition triggered profound changes in the country's fiscal ecosystem. Where fiscal authority had been centralized in the executive branch under the New Order, the post-Reformasi era saw the emergence and empowerment of new oversight actors, including the DPR, the Audit Board (BPK), and a broad constellation of CSOs. These actors gradually assumed more assertive roles in monitoring, shaping, and contesting fiscal policy. Their rise not only diversified the institutions involved in public financial management (PFM) but also transformed the practice of accountability, anchoring it in democratic checks and balances, public scrutiny, and legal frameworks.

In the wake of Reformasi, Indonesia witnessed a dramatic recalibration of power between the executive and legislative branches, particularly in the national budget process. Under Suharto, the DPR acted largely as a rubber stamp. However, under President Habibie, the DPR began exercising authority over fiscal governance. Its rejection of President Habibie's accountability speech in 1999 marked a turning point as it asserted its newfound power. Under President Gus Dur, legislative assertiveness intensified, with the DPR leveraging budgetary oversight to challenge and eventually impeach Gus Dur, citing off-budget spending and misuse of state funds. By Megawati's presidency, this power was more institutionalized, with the DPR actively participating in the drafting of foundational public finance laws and reviewing budget proposals through the Budget Committee and sectoral commissions.

Concurrently, BPK transformed from a symbolic institution into a constitutionally empowered audit body. Previously subordinate to the executive under the New Order regime, BPK gained independence and constitutional authority following MPR Decree No. X/MPR/2001 concerning the Main Points of Development Reform in the Field of State Finance, which mandated the overhaul of the state's financial management system. It affirmed BPK's constitutional status as an independent audit institution, separate from both the executive and legislative branches, and elevated its authority to audit all entities managing public funds, including ministries, regional governments, and state- and local-owned enterprises.

BPK's expanded authority enabled it to conduct financial, performance, and special purpose audits across all entities managing public funds. High-profile audits during this period, such as the 1999 Bank Bali scandal[2] and the misuse of the State Logistics Agency (Bulog) funds under President Gus Dur[3], demonstrated BPK's growing influence in exposing corruption and mismanagement. However, as BPK's findings gained political weight, they also became tools in intra-elite competition, with members of the DPR selectively using audit reports to pursue political agendas. This dynamic revealed the double-edged nature of oversight reform, which strengthened institutions while exposing them to political entanglements.

[2] In the Bank Bali scandal, BPK's audit uncovered irregular fund transfers involving Rp546 billion in government bank bailout funds, allegedly funneled to political operatives linked to the political party ahead of the 1999 elections. This finding triggered a national controversy, implicating figures within President Habibie's administration and straining executive–legislative relations, especially after the DPR rejected Habibie's accountability speech partly due to the scandal.

[3] BPK's audit of Bulog in 2001 during President Gus Dur's tenure exposed misuse of Bulog funds, which eventually became grounds for the legislature to initiate impeachment proceedings.

At the same time, CSOs rapidly expanded their role as fiscal watchdogs, leveraging newfound freedoms of association, expression, and political participation. The fall of the New Order triggered an explosion in civic activism, with thousands of nongovernmental organizations (NGOs), student groups, labor unions, and watchdog groups emerging across the country.[4] Organizations such as Indonesia Corruption Watch, FITRA, and PATTIRO actively tracked budgets, exposed misuse of funds, and promoted public participation in fiscal planning and decision-making. These groups not only monitored state institutions but also formed coalitions to influence legislation and policy debates, further institutionalizing public oversight in the reform era.

A study by IDEA identified 127 NGOs and 14 mass organizations across Indonesia engaged in budget advocacy, with varying approaches. Some, like FITRA and BIGS, focus on research, analysis, and litigation when funds are misused. Others, such as P3ML in Sumedang, collaborate with local parliaments to publish budgets. While most NGOs emphasize public participation in planning, groups like BIGS, Inisiatif, and PATTIRO also advocate for participation during budget enactment. Additionally, organizations like JARI monitor government spending, such as during the 1997–1998 Social Safety Net program (Ahmad and Thebault-Weiser, 2008, p. 13).

Together, the rise of the DPR, BPK, and civil society reconfigured Indonesia's fiscal governance architecture. These actors introduced new layers of scrutiny, transparency, and contestation in the budget process, challenging the executive monopoly over fiscal decision-making. Furthermore, their collective presence marked a significant shift toward more democratic and participatory fiscal oversight, laying the groundwork for a more accountable fiscal ecosystem.

Major PFM Reform: The Influence of International Agencies

The period following the 1998 Asian Financial Crisis marked a fundamental turning point for Indonesia's PFM system. The crisis severely eroded Indonesia's fiscal and institutional capacity, exposing deep-seated weaknesses in governance and financial accountability. This collapse created a reform window in which international financial institutions, particularly the International Monetary Fund (IMF), World Bank, and Asian Development Bank, emerged as central actors shaping Indonesia's fiscal reform trajectory.

[4] Before 1998, there was only one labor organization and one farmer union recognized (and controlled) by the government. By 2005, there were no less than 40 national labor organizations, no less than 300 local labor unions and more than 10,000 labor associations at the company level, and hundreds of farmer organizations. Socio-religious groups, research institutions, study groups, and think tanks have also increased in number (Antlov et al., 2006, p.2). In 2023, there were 431,465 CSOs registered at the Ministry of Home Affairs, the Ministry of Law and Human Rights, and the Ministry of Foreign Affairs, either as associations, foundations, or community organizations working on all kinds of policy issues (Hady and Ibrahim, 2023, p. 274).

The IMF played a catalytic role through a series of Letters of Intent signed with the Indonesian government between 1998 and the early 2000s. These letters outlined policy commitments required in exchange for financial support and were instrumental in placing fiscal reform on the national agenda. Key priorities included enhancing budget transparency, improving public expenditure control, strengthening treasury management, and institutionalizing anti-corruption measures. The IMF's conditionalities not only enforced fiscal discipline but encouraged legal and administrative changes aimed at increasing the credibility of public institutions and financial reporting (IMF, various years).

Accompanying the IMF's conditional approach, the World Bank adopted a more structural and strategic role. Its 2001 White Paper on Public Expenditure Management, often referred to as the White Paper on PFM Reform, provided a comprehensive framework for institutional change. It laid out a sequenced plan for reforming Indonesia's budget formulation, execution, and audit systems in line with international best practices. This document later became a reference for the drafting and passage of three major fiscal laws under President Megawati: Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on the State Treasury, and Law No. 15 of 2004 on Audit of State Financial Management and Accountability. These laws were critical in reforming Indonesia's fiscal governance, moving it away from outdated colonial frameworks to become a more rules-based and performance-oriented system (World Bank, 2001).

Taken together, the engagement of international actors and reform-minded domestic leaders facilitated a paradigm shift in Indonesia's PFM. These partnerships helped embed principles of transparency, accountability, and efficiency into Indonesia's evolving fiscal governance structure.

Fiscal Performance

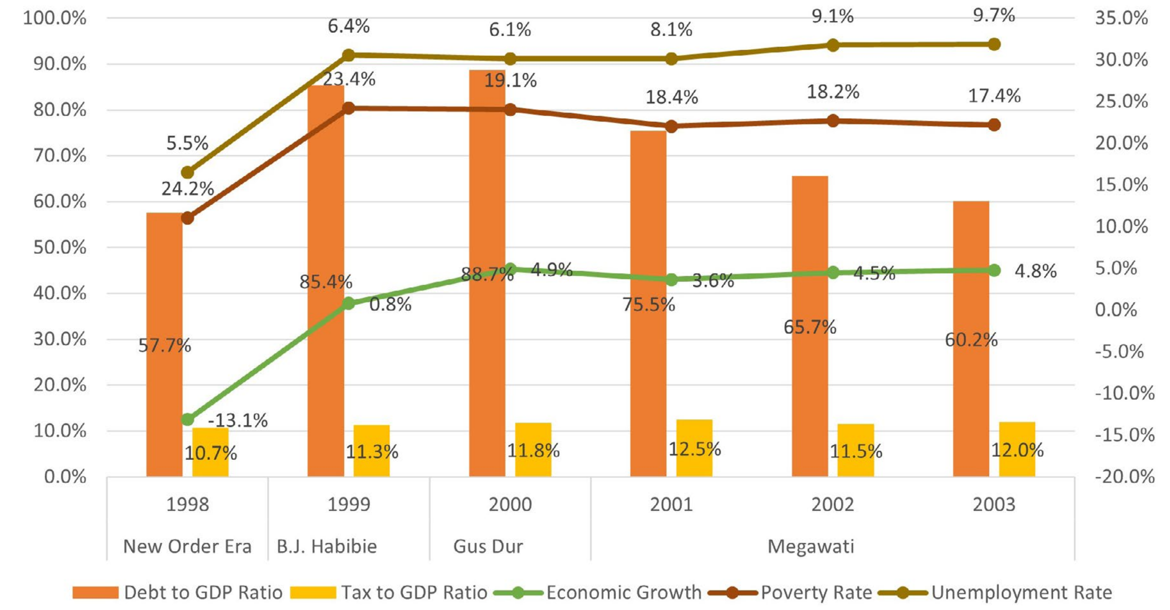
In the post-Suharto transition, President Habibie initiated fiscal restructuring under IMF supervision amid a deep economic crisis. His administration prioritized banking reform, deficit containment, and revenue increases. Remarkably, despite severe macroeconomic shocks, including GDP contraction of 13.1% and inflation exceeding 77%, the budget deficit was contained at 2.2% of GDP, mainly due to reduced subsidies and increased VAT and export taxes (Bank Indonesia, 1999; p. 35 in Burmansyah, 2024).

Under President Gus Dur and President Megawati, fiscal decentralization and state revenue expansion dominated. Gus Dur's administration expanded transfers to regions and reduced foreign debt, but faced declining growth due to rupiah depreciation and political instability. Megawati continued the trend of rising revenue and spending, backed by oil and gas taxes. However, spending patterns revealed the growing burden of routine expenditures such as public salaries and elections, limiting development allocations.

During the 1998-2003 period, the poverty rate decreased from 24.2% to 17.4%. Meanwhile, in the same period, the unemployment rate increased to 4.2%.

Figure 2. Fiscal Outcomes During the Transition Period

Source: National Government Financial Report 1998-2003; Bank Indonesia-Indonesia's Economic Report 2000, p. 97; Bank Indonesia-Financial Report 1998/99, p. 76)



4. THE CONSOLIDATION PERIOD

The consolidation phase started during Megawati's administration, when she took strategic actions to continue the IMF-driven economic reform program that had stalled during Gus Dur's time. Megawati successfully reestablished coordination among economic ministers while improving relationships between the government and Parliament. This laid the groundwork for Susilo Bambang Yudhoyono's presidency (2004–2014), a pivotal period that deepened the democratic transition while also exposing its fragilities.

The 2004 direct presidential election, which resulted in Yudhoyono's victory, was a milestone for Indonesian democracy (Aspinall, 2005a; Crouch, 2010). Alongside the direct election of parliamentarians and the application of an electoral threshold to stabilize the party system (Mietzner, 2009a), Indonesia entered a phase of democratic deepening characterized by greater decentralization, competitive elections, and civic participation.

The political environment during Yudhoyono's era, although relatively stable compared to the immediate post-Suharto years, was characterized by a more balanced distribution of power among political actors, especially within the fiscal ecosystem. The budget-making process was no longer dominated by the executive, but had become a negotiated outcome involving the presidency, the legislature, political parties, and bureaucratic agencies (Farhan, 2018).

This consolidation period produced dual effects: it catalyzed fiscal reforms and improved fiscal performance indicators, while also opening new opportunities for parliamentarians and politicians to engage in patronage practices. Especially in Yudhoyono's second term, the strengthening of the DPR and BPK increasingly came with entrenched practices of "pork-barrel" allocations, partisan appointments, and corruption scandals, signaling the beginning of a slide from reform gains toward capture.

4.1 Balance of Power Among Fiscal Accountability Actors

During the presidency of Yudhoyono, the balance of power between the executive and legislative branches in Indonesia's fiscal ecosystem shifted significantly. The legislature (DPR) increasingly exercised its authority to propose amendments to the state budget, although the executive retained control over the overall budget framework. While DPR amendments could not technically exceed the government's proposed deficit ceiling, in practice parliamentarians were able to substantially alter both the revenue and expenditure sides of the budget (Farhan, 2018).

One important manifestation of DPR influence was the creation of "optimization funds" (Dana Optimalisasi). These discretionary funds emerged from budget negotiations, allowing legislators to insert projects or spending items into the final budget (Farhan, 2018).[5] This mechanism became political currency for both the government and parliamentarians, but it also weakened formal party discipline and increased individual bargaining. DPR members could channel additional resources into local projects for their constituencies through line spending ministries and fiscal transfers to the local government. This phenomenon reflected the growing influence of personal votes over party allegiance, a direct consequence of the open-list proportional representation system introduced in 2009 (Aspinall, 2013a).[6]

This practice led to a rise in pork-barrel politics and heightened demands for direct budget allocations to electoral districts. In this context, the DPR attempted to formalize the allocation of constituency-targeted spending through the proposal of an "aspiration fund" (Dana Aspirasi), which closely resembled constituency development funds found in other countries. Golkar Party initially proposed this fund in 2009, arguing it would improve

[5] The optimization fund enabled parliamentarians to negotiate last-minute additions to the budget, often directed toward local projects serving their constituencies, outside the executive's original budget framework (Farhan, 2018).
[6] Under the open-list system, individual candidates competed for personal votes, incentivizing them to deliver tangible projects to their districts, often through the optimization fund (Aspinall, 2013a).

legislative accountability and bridge regional development disparities (Farhan, 2018). By the time of Joko Widodo's first term, a similar mechanism, called the Usulan Program Pembangunan Daerah Pemilihan (UP2DP), was accommodated within the framework of the Special Allocation Fund under Law No. 17 of 2014 on the MPR, DPR, DPD, and the House of Representatives at the regional level (Dewan Perwakilan Rakyat Daerah/DPRD), known as the MD3 Law.[7]

Facing strong public backlash and concerns over corruption risks, the aspiration fund was rejected at that time. The power of Parliament to substantively amend the budget attracted public attention when several members of the Budget Committee, known as the 'budget mafia' (mafia anggaran), were charged with corruption concerning their use of the optimization fund. These scandals occurred in a context where corruption among politicians had dominated public discourse since 2009 (Kramer, 2013). The corrupt practices are mostly related to kickbacks in return for allocations to certain projects or for arranging for certain companies to handle the projects identified.

However, the budget discussion space within the DPR is relatively open, allowing space for reform-oriented actors. Some DPR members built alliances with CSOs to advocate for the inclusion of poverty and unemployment rates as key targets in the executive budget, alongside macroeconomic indicators. This reflects a broader push to make the budgeting process more socially responsive. The legislature has also shown openness by holding budget hearings that invite input from civil society and economic think tanks, reflecting a shift toward transparency and accountability in fiscal governance.

During this period, civil society organizations emerged as critical actors in the evolving fiscal ecosystem, complementing the roles of formal accountability institutions such as the DPR and BPK. At the budget formulation stage, CSOs frequently interacted with parliamentary commissions at both the national and local levels. They provided critical analysis of draft budget bills, often influencing parliamentary deliberations. At the local level, they mobilized community voices through participatory mechanisms such as *musrenbang* (community development planning forums), advocating for grassroots priorities to be reflected in fiscal allocations. During budget implementation, CSOs contributed to transparency and oversight through tools such as www.opentender.net, which enabled public monitoring of electronic procurement systems. CSOs also intervened during the audit and oversight phase, particularly in pressuring the government and BPK to follow up on audit findings.[8]

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[7] Although the aspiration fund was formally rejected in 2009 due to public protests, the concept was reintroduced and adapted into the UP2DP mechanism, integrating local constituency projects into national budget planning. The practice is continued until now and is discussed in the Special Allocation Fund mini case study.

[8] FITRA, for example, published a provincial ranking based on BPK-identified state losses in 2012, which attracted media coverage and sparked public debate. Here.

Beyond direct engagement in fiscal cycles, some CSOs have increasingly adopted litigation advocacy to improve fiscal governance and ensure the protection of constitutional fiscal mandates. By filing judicial reviews at the Constitutional Court[9], CSOs have challenged legislative and executive actions that undermine fiscal accountability or deviate from constitutional obligations. One prominent case involved a coalition of education advocates and legal reform organizations pushing for the enforcement of the mandate to allocate at least 20% of the state budget to education, as stipulated in Article 31 of the 1945 Constitution. Their litigation prompted the Court to rule that the 20% education budget is a binding constitutional obligation, compelling the government to adjust future budgets accordingly, as stated in the Constitutional Court decision No. 011/PUU-III/2005. Another landmark example is the 2014 judicial review by a group of CSOs challenging the authority of the Budget Committee, which had increasingly interfered in detailed budget allocations—often down to the level of individual infrastructure projects. The Constitutional Court ruled to limit DPR's authority, asserting that the legislature's budgetary role should be confined to macro-level policymaking and not extend into the executive's domain of implementation.[10]

Following the issuance of Law No. 15 of 2006, BPK gained expanded authority to audit all state financial management and submit its audit reports directly to the DPR, bypassing the executive branch. This reform was designed to transform BPK from a symbolic institution under the New Order regime into a professional supreme audit institution. Institutionally, BPK gained strong powers to audit central and local governments, state- and local-owned enterprises, and other entities managing public resources, positioning itself as a key actor in strengthening public sector governance. BPK's annual budget increased significantly from Rp690 billion in 2006 to Rp2.3 trillion in 2009, and its regional offices expanded from 17 to 33 provinces, enabling representation in all provinces (Public Expenditure and Financial Accountability Secretariat, 2012).

BPK is also mandated to monitor the implementation of the audit recommendations and regularly submit the status of follow-up actions to the DPR through its semester reports.[11] However, on average, according to the Summary of Audit Results for Semester 1 of 2024, only about 78% of its audit recommendations are followed up. This lack of compliance is further evidenced by the repetition of similar findings in the following audit reports, for instance, fictitious official travels, inflated procurement costs, and other irregularities.[12]

[9] The Constitutional Court of Indonesia, established under Article 24C of the 1945 Constitution and regulated by the Law No. 24 of 2003 (amended by Law No. 8 of 2011), serves as the guardian of constitutional supremacy with powers including judicial review, resolving institutional disputes, and overseeing election results conflict.
[10] Mahkamah Konstitusi Republik Indonesia. *Putusan No. 35/PUU-XI/2013,* which ruled to curtail the DPR Budget Committee's micro-level budgetary powers. See: "MK Pangkas Kewenangan Badan Anggaran DPR", Hukumonline. Here.
[11] According to Article 20 of the State Audit Law (Law No. 15 of 2004), audited entities are required to formally respond to audit recommendations within 60 days of receiving them.
[12] See here.

These repeated issues indicate that many audit recommendations have not been effectively implemented, reflecting deeper systemic weaknesses in budget accountability across public institutions.

The power relations between BPK, DPR, and the government remained complicated and, over time, deeply politicized. Although BPK was intended to be an independent entity, its leadership selection process was, and remains, dominated by political bargaining within DPR's Commission XI. Political parties often lobbied intensively for preferred candidates, resulting in the appointment of board members with strong partisan affiliations (Eryanto, 2021). Many BPK board members during the 2009–2014 period came from major political parties. While BPK audit reports were utilized by the DPR to support executive oversight, these political linkages occasionally raised concerns regarding the institution's perceived independence and credibility.

The entanglement of BPK with political interests was accompanied by a worrying rise in corruption scandals involving its board members and auditors. Several high-profile cases revealed how audit reports were manipulated in exchange for bribes or political protection. The Hambalang Sports Complex audit (2011–2013), for instance, was allegedly sanitized to omit the names of implicated parliamentarians (Sherlock, 2012).

In addition to these accountability actors, several statutory bodies created by law and operating independently started in Yudhoyono's period, such as the KPK[13], the Ombudsman[14], and the Central Information Commission (Komisi Informasi Pusat)[15]. Each plays a distinct and complementary role in promoting fiscal accountability.

The implementation of the Public Information Disclosure Law and the Ombudsman Law had tangible impacts during this period. For example, Indonesia Corruption Watch utilized the first law to access Ministry of Education procurement records in 2010, uncovering textbook overpricing that prompted the KPK probe.[16] The Ombudsman also intervened in delays in health insurance disbursements in West Java and East Nusa Tenggara, exposing failures in budget execution.[17] These examples illustrate how legal reforms strengthened public oversight and pressured institutions to enhance fiscal integrity.

[13] The KPK was originally established under Law No. 30 of 2002, later amended by Law No.19 of 2019, and is mandated to prevent and combat corruption. In terms of fiscal accountability, the KPK plays a key role by preventing and investigating corruption in procurement and budget, often uncovering irregularities in infrastructure projects, local budget allocations, and ministerial spending.

[14] The Ombudsman of the Republic of Indonesia is regulated by Law No. 37 of 2008 and functions as an independent public complaint-handling institution. Its primary role is to supervise public service delivery by government institutions. In the context of fiscal accountability, the Ombudsman acts as a watchdog over the fairness and efficiency of budget execution, particularly at the service delivery level.

[15] The Central Information Commission was established under Law No. 14 of 2008, which mandates all public bodies to provide access to information, including fiscal information. Its role in fiscal accountability is essential since it promotes open government by ensuring that citizens and civil society can access budget documents, audit reports and procurement reports.

[16] Indonesia Corruption Watch, "Laporan Tahunan 2010"; also cited in Kompas (2024), 12 July 2010.

[17] Ombudsman RI, "Laporan Tahunan 2014"; see also Tempo.co, 5 October 2014.

In sum, the consolidation period represented a turning point: democratic reforms expanded participation, strengthened oversight institutions, and enabled civil society to influence fiscal governance in unprecedented ways. Yet, as power became more evenly distributed across actors, the very mechanisms meant to deepen accountability were also exploited for rent-seeking and partisan gain. The DPR's optimization and aspiration funds, BPK's politicized leadership, and corruption scandals eroded public trust, while CSOs and independent bodies like the KPK and Ombudsman struggled to hold the line. This era thus marks a transition from the "good days" of post-Reformasi optimism to the "bad days" of institutional capture—where gains in formal rules and procedures increasingly coexisted with informal practices of patronage and corruption.

4.2 Major PFM Reform, Led by Strong Oversight and Technical Assistance

During Yudhoyono's first term, significant fiscal reforms were implemented, underpinned by new public management principles. These reforms, particularly the full enforcement of three pivotal laws on state finance, restructured Indonesia's public financial management system. These reforms were bolstered by the enactment of the Public Information Disclosure Law (No. 14 of 2008) and the Ombudsman Law (No. 37 of 2008), which significantly expanded the fiscal ecosystem. The Public Information Disclosure Law empowered CSOs and journalists to access budget documents and audit findings, encouraging public scrutiny. Meanwhile, the Ombudsman was authorized to investigate maladministration in public service delivery, offering citizens a direct route to challenge fiscal misconduct.

At the same time, CSOs and DPR members increasingly pressured the executive to embed measurable social indicators in budget planning, thus contributing to more citizen-centered fiscal policies. Although practices of clientelism and informal negotiation persisted, political competition over budget priorities helped promote enhancements in tax revenue collection and debt control, including social indicators such as poverty and unemployment figures in the government's executive proposals, alongside macroeconomic indicators. These reforms, along with the active engagement of the DPR, led to improved fiscal outcomes, including the successful fulfilment of constitutional mandates to allocate 20% of the budget to education and earmark 5% for the health sector under the 2009 Health Law.

In the social sector, the enactment of the National Social Security System Law (No. 40 of 2004) was a big milestone in implementing several social protection programs. As part of the implementation of the law, the national health insurance scheme was initiated with budget allocation support for insurance premium subsidies for the poor.

International development partners played a crucial role in supporting major PFM reforms during this period. Following the reform agenda outlined in the 2001 White

Paper on PFM reform, the Multi-Donor Trust Fund supported the implementation of the Government Financial Management and Revenue Administration in 2004–2015, aiming to improve efficiency, governance, and accountability in PFM and to enhance tax revenue mobilization. In addition to funding, these donors provided technical assistance, projects, and other mechanisms[18].

Some key reforms were related to the implementation of performance-based budgeting, fiscal decentralization, and the launch of a State Treasury and Budget System (Sistem Perbendaharaan dan Anggaran Negara). Moreover, the establishment of the Public Sector Accounting Standard Setting Committee (Komite Standar Akuntansi Pemerintahan) by a presidential decree resulted in the drafting and promulgation of a new set of government accounting standards. It also helped develop comprehensive accrual accounting policies and technical guidelines that both central and local government agencies are required to follow.

4.3 Fiscal Performance

President Susilo Bambang Yudhoyono's administration (2004–2014) was marked by a blend of technocratic fiscal reforms and political compromises. His government adopted a development strategy built around the "pro-growth, pro-job, and pro-poor" pillars, which shaped state budgeting and policy priorities. Under his leadership, Indonesia achieved steady fiscal consolidation, with the budget deficit kept below 2% of GDP annually, and tax revenues increasing significantly—most notably by 34.2% in 2008 (Burmansyah, 2024).

Several milestones symbolized Indonesia's fiscal recovery: the early repayment of IMF debt in 2006 (US$3.2 billion) and the dissolution of the donor-led Consultative Group on Indonesia in 2007. These achievements coincided with macroeconomic stability—growth reached 6.3% in 2007—and debt declined from 47% of GDP in 2005 to 28% by 2009 (Burmansyah, 2024). However, the Bank Century bailout during the global financial crisis sparked political backlash, contributing to Finance Minister Sri Mulyani's resignation and denting reformist credibility (Mietzner, 2010).

The second term of President Susilo Bambang Yudhoyono began with optimism, bolstered by macroeconomic stability—reflected in strong growth, steady investment flows, and a stable rupiah exchange rate. In 2010, Indonesia's GDP growth reached 6.38%. However, momentum slowed in subsequent years due to external shocks, notably the European debt crisis and a downturn in global commodity prices, which weakened Indonesia's exports. By 2014, growth had declined to 5.02%.

[18] Members of the Multi-Donor Trust Fund included the Netherlands, the European Union, Switzerland, USAID, and Canada. See Public Private Partnerships on Public Financial Management Reforms in Asia: Opportunities and Lessons, May 2017. Here.

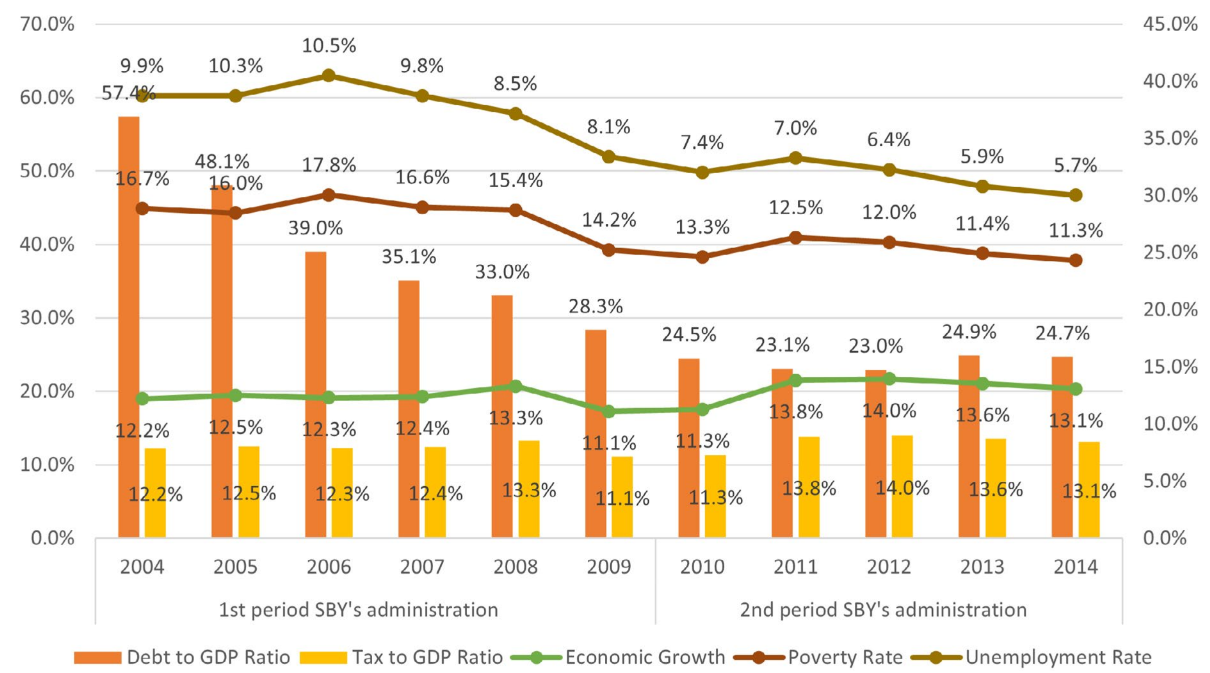
Despite this slowdown, fiscal reforms continued to advance, supported by active legislative engagement. A notable achievement was the fulfilment of constitutional mandates to allocate 20% of the national budget to education and 5% to health, as required by the 2009 Health Law. This cooperation between the executive and the DPR contributed to more inclusive and democratic fiscal policymaking.

From 2010 to 2014, the state budget performed relatively well. Revenues consistently increased, with the highest growth in 2011 at 21.63%, driven by improved domestic conditions and enhanced tax policies—taxes accounting for about 70% of total domestic revenue. Government spending also rose, averaging 13.8% annually, primarily due to infrastructure development and rising energy subsidies, which increased by 17% annually. The budget deficit remained under control, averaging below 2.5% of GDP, lower than targeted.

During this period, government debt rose significantly, largely through the issuance of government securities, which made up 60% of total debt. By the end of Yudhoyono's administration in 2014, public debt stood at Rp2,507 trillion (US$203.8 billion), or 24.7% of GDP, well below the 60% legal limit, and thus considered fiscally sustainable. In addition, during its 10 years in power, the Yudhoyono government successfully reduced the poverty rate by 5.4 percentage points and the unemployment rate declined to 5.7%.

Figure 3. Fiscal Outcomes During the Consolidation Period

Source: National Government Financial Report 2005-2015; National Statistical Bureau-GDP Quarterly Report 2005-2009, 2010-2013, 2014-2017)



5. THE REGRESSION PERIOD

After a decade of President Susilo Bambang Yudhoyono's leadership, President Joko Widodo (Jokowi) was elected through direct presidential elections in 2014 and re-elected in 2019. During his two terms, Indonesia's fiscal ecosystem began to deteriorate, marked by the rising dominance of informal political practices over formal institutional processes. Despite the continued existence of democratic oversight institutions such as the DPR and BPK, and civil society mechanisms, their influence has weakened significantly. Power has increasingly been centralized within the executive, facilitated by elite-level bargains, party cartelism, and the strategic deployment of presidential coalitions. This consolidation of authority under Jokowi diminished the role of Parliament, CSOs, and BPK in fiscal oversight. The trend toward stronger executive dominance appears likely to persist and may deepen under the current Prabowo administration, which is expected to further entrench informal governance practices and sideline institutional checks and balances. President Jokowi entered office with widespread public support and high expectations for reform, including improved governance, infrastructure development, and a shift away from elite-centric politics. However, he was initially politically vulnerable due to limited support from his own party and a hostile opposition-led Parliament, which quickly gave way to a strategic consolidation of power. By mid-2016, Jokowi had secured the support of seven out of ten parties in the DPR, effectively gaining control of nearly 70% of the seats in the legislature. This trend intensified in his second term, where the governing coalition expanded to control over 80% of parliamentary seats (Warburton, 2020c), allowing the executive to pass controversial legislation with little meaningful opposition or deliberation. Jokowi's consolidation extended beyond party politics: he also strengthened influence over the police, military, bureaucracy, and even CSOs (Mietzner, 2023).

Bolstered by his political strength, Jokowi advanced several high-stakes policy agendas, the most notable being the plan to relocate Indonesia's capital city from Jakarta to East Kalimantan. Touted as a solution to environmental and urban congestion challenges, the project drew criticism for its enormous fiscal burden and lack of inclusive public consultation.[19] The Jokowi administration also faced backlash for endorsing dynastic politics, particularly in the 2024 presidential election when Jokowi's son, Gibran Rakabuming Raka, controversially ran as the vice-presidential candidate alongside Defense Minister and former rival Prabowo Subianto. The Constitutional Court, led by Jokowi's brother-in-law, issued a ruling that allowed Gibran's candidacy despite age restrictions, an episode that intensified concerns over democratic regression and elite entrenchment.

[19] Another contentious initiative was the Omnibus Law on Job Creation, passed in 2020. While the government claimed it would boost investment and employment, CSOs, labor unions, and environmental groups decried the law for eroding workers' rights and weakening environmental safeguards. Massive protests erupted nationwide, but the administration, backed by a compliant Parliament, pressed ahead with minimal revision.

The COVID-19 pandemic further entrenched executive dominance. The emergency situation was used to justify bypassing normal budgetary processes; for instance, the government made major revisions to the state budget without seeking formal DPR amendments, undermining legislative oversight. Under the guise of crisis management, many budgetary decisions were recentralized, diminishing the role of regional governments and further weakening fiscal accountability. These developments reflect a broader trend during Jokowi's second term: the centralization of state power, the weakening of checks and balances, and the marginalization of dissenting voices in both political and civil spheres.

Executive Centralization and Informal Political Dominance

Jokowi's oversized presidential coalition enabled what scholars term "party cartelization" (Slater, 2018), where political parties function not as representatives of citizens but as elite bargaining platforms. In this system, DPR members are not primarily accountable to their constituents, but to party elites who secure their nomination. Several mechanisms facilitated this informal dominance, including the aspiration fund through the UP2DP, which was accommodated within the framework of the Special Allocation Fund[20] under Law No. 17 of 2014 on the MPR, DPR, DPD, and DPRD (MD3 Law), and the strategic relocation of legislative candidates to unfamiliar districts, which reduced their autonomy.

These arrangements allowed party elites, closely aligned with presidential priorities, to dominate the legislature, effectively turning the DPR into a rubber stamp for executive decisions, especially in fiscal matters. Since 2018, the executive has ceased submitting formal budget revisions to the DPR, instead reporting changes retrospectively through year-end reports. This trend was initially legitimized under the emergency COVID-19 law (Perppu No. 1 of 2020, later Law No. 2 of 2020) and has since become normalized and has continued under the Prabowo administration. In early 2025, for instance, President Prabowo enacted Rp306.7 trillion (approx. US$18.8 billion) in spending cuts without formal legislative approval, signaling a continuation of executive-led fiscal governance.

This concentration of power also affected independent oversight institutions. The supreme audit institution (BPK), for example, has faced increasing political proximity as its board members have been appointed by a DPR dominated by ruling coalition parties. Between 2019 and 2024, around 60% of BPK board members had prior experience in political or legislative roles. These dynamics, combined with several integrity challenges within the institution, have raised questions about BPK's autonomy and its ability to operate free from political influence (World Bank, 2014; Kompas, 2024; CNN Indonesia, 2023).

[20] See case study on the DPR role in DAK Fund and also see Tempo.co. (2015). "DAK Dijadikan Jalur Dana Aspirasi DPR." Retrieved from here.

In addition, the powers of KPK were curtailed by Law No. 19 of 2019 during President Jokowi's second term. The amendments were widely criticized by civil society groups and scholars for weakening the KPK's independence, particularly through the establishment of a supervisory board, the requirement for investigators to become civil servants, and reduced authority to conduct wiretapping and raids without external approval (Butt, 2020; Human Rights Watch, 2019; Warburton, 2020b).

Civil society organizations, once vibrant watchdogs of public accountability, were also fragmented and partially co-opted. Prominent CSO figures were absorbed into the administration as advisors or officials, diminishing the oppositional capacity of the movement. While some CSOs have continued to push back through judicial reviews, public campaigns, and strategic litigation, such as challenging the COVID-19 fiscal law, the VAT increase and the "Dark Indonesia" student protest on budget efficiency, these efforts remain exceptions rather than the norm.

Similar to the fragmentation of civil society, the media landscape has shifted in ways that weaken public accountability. The executive has increasingly bypassed traditional journalism by cultivating social media influencers, known as "buzzers", to shape public narratives and deflect criticism. Mainstream media, often owned by business elites with political ties, also show declining independence (Tapsell, 2017). Yet the digital sphere remains contested: while it can be used to suppress dissent, it also enables grassroots mobilization. Campaigns against VAT hikes, environmental degradation, and corruption scandals have shown that social media can pressure the government into action, making it a critical though limited tool for bottom-up accountability in the era of centralized executive power.

In short, the fiscal ecosystem since 2014 has been increasingly shaped by informal political arrangements rather than the formal rules of democratic accountability. The executive's overwhelming control over Parliament through ruling coalitions, party cartelization, and elite patronage has undermined the independence of oversight institutions, restricted meaningful legislative scrutiny, and limited public participation. While formal structures remain intact, their function has been hollowed out by informal practices that prioritize elite consensus over public accountability.

5.1 Recentralizing Government

Borrowing Azra (2021), recentralization, or what can be called "deautonomization", seems to be one of the most prominent political and power phenomena in the ten years of Jokowi's administration. Many indicators show that the central government is trying to revoke a number of regional administrative authorities. This trend is quite surprising considering Jokowi's political career, which has included the benefits of decentralization when he served as Mayor of Solo (2005–2012) and Governor of Jakarta (2012–2014).

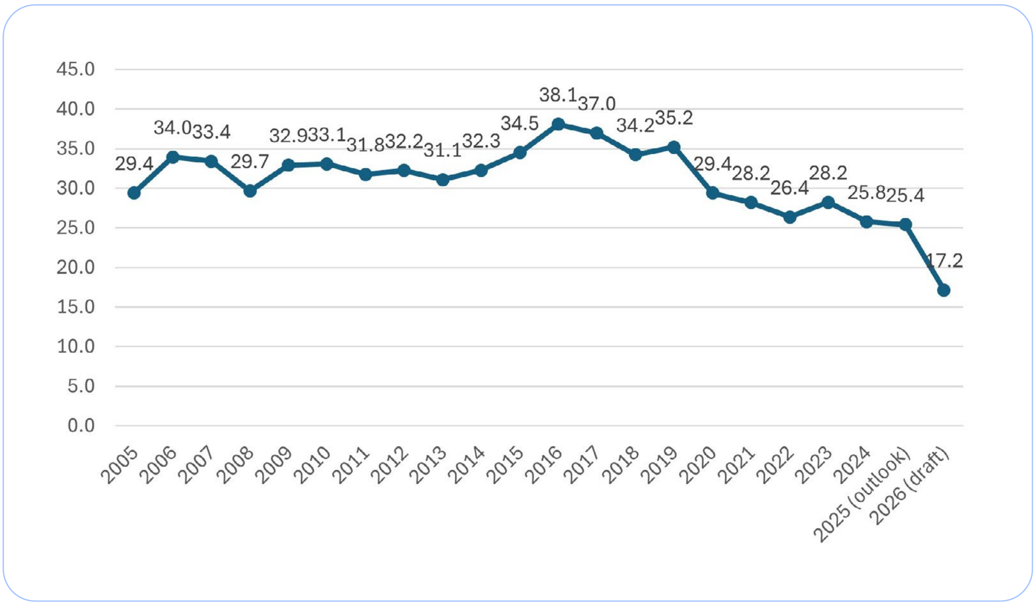
The recentralization process has increased, especially in Jokowi's second term, through various laws that have been passed by the President with the support of his large political coalition in Parliament. There is no other force that can stem this effort, either from the public or civil society.

In early 2022, Indonesia passed Law No. 1 of 2022 on Financial Relations between the Central and Regional Governments, which regulates fiscal decentralization issues and replaces Law No. 33 of 2004 on fiscal decentralization and Law No. 28 of 2009 on Regional Taxes and Levies. The new law aims to develop an efficient regional taxation system, minimize vertical and horizontal fiscal imbalances, and support improvements in the quality of regional government spending.

However, the implicit intent of the law is to facilitate greater central government control over regional financial affairs. This increased control is operationalized through various public finance tools, with a particular emphasis on performance incentives, revenue allocation, and mandatory spending. Many service standards used in designing incentive schemes are not fully under the control of regional governments and cannot be used to assess their performance. Revenue allocations for local revenue, shared national revenue, and General Allocation Fund allocations generally do not meet the principle of benefit. The allocated revenues also appear insufficient to fully fund services in the regions, requiring support from the central government. Finally, mandatory spending is not structured properly as a function of the division of regional spending budgets, but as an obligation of regional governments to follow the priority programs of the central government (Lewis, 2023, p. 24). In addition, intergovernmental fiscal transfers tend to be significantly lower after the enactment of Law No. 1 of 2022, from 28.2% of the state's expenditure in 2023 to 17.2% in 2026, as seen in the figure below.

Figure 4. Percentage of Fiscal Transfer to the Total State's Expenditure

Source: Nota Keuangan RAPBN 2026, Home | Portal Data APBN



Lewis (2023, p. 15) highlighted that the forthcoming implementing regulations of the law suggest performance related to “preservation of the environment” will be used to determine new earmarks for some shared revenue, particularly concerning air and water quality. Without additional details, these performance incentives are difficult to evaluate. An initial question in this context pertains to whether districts have direct control over environmental preservation, given the importance of spatial spillovers in the relevant sectors. Additionally, the new law stipulates that shared tobacco excises should be spent to improve the population’s wellbeing and reforestation, shared revenues should be used to support the preservation of forests, and shared oil palm revenues should be allocated for infrastructure development in the sector. These provisions are too vaguely articulated to assess in any precise manner; however, it seems doubtful that the earmarks would meet the necessary efficiency conditions. Furthermore, the central government’s ability to monitor and enforce subnational government adherence to the required earmarks remains questionable.

Efforts to recentralize have been carried out gradually by the elites since the implementation of Law No. 32 of 2004 during Yudhoyono’s era, which revised the previous regional autonomy law (Law No. 22 of 2004). This initiative arose from the elites’ dissatisfaction with the poor performance of the new autonomous regions in implementing decentralization policies, especially their inability to improve public services for local communities. However, the implementation of decentralization has been politically successful in preventing national disintegration. This problem finally prompted policymakers to shift focus from political issues to administrative change issues. The administrative-technocratic model shows the need for the central government to take back authority from local governments and ensure that development goals and policies can be aligned from top to bottom (Jati, 2024, p. 45).

Overall, the trajectory of recentralization reflects a fundamental rebalancing of power between the central and regional governments. While justified by elites as a response to inefficiencies and weak local governance, the shift has raised concerns about diminishing local autonomy and the weakening of accountability mechanisms at the regional level. The combination of vague performance indicators, insufficient fiscal transfers, and mandatory spending priorities dictated by the center risks reducing the space for local governments to innovate and respond to community needs. In this sense, recentralization may secure stronger top-down alignment, but at the cost of undermining the original spirit of decentralization that once empowered local governance and nurtured democratic participation.

5.2 Major PFM Reform: Efforts to Modernize the Systems

During Jokowi’s administration, a series of PFM reforms were undertaken to enhance budget efficiency, fiscal transparency, and the performance of government programs.

These reforms reflected a technocratic push to modernize financial systems, but they unfolded within a political environment marked by executive centralization and weakened institutional checks.

A particularly critical PFM reform was the administration's effort to shift away from Indonesia's entrenched incrementalist budget planning model. The "money follows program" initiative, led by the Presidential Staff Office, sought to link budget allocations more closely to programmatic outcomes rather than historical line-item budgeting. This results-oriented budgeting approach aimed to improve public sector efficiency and service delivery. Importantly, CSOs were invited to co-develop the concept, offering recommendations and piloting mechanisms to better align funding with strategic goals (Prakarsa and KSP, 2016).

Complementing this shift was the refinement of performance-based budgeting, which emphasized output and outcome indicators linked to the National Medium-Term Development Plan. Ministries and agencies were required to align budget proposals with measurable targets, fostering a culture of results within public expenditure (Van Doorn et al, 2020). To support this, the government developed KRISNA, a digital platform integrating Bappenas planning and MoF budgeting systems to enhance coherence and reduce duplication. Beyond modernizing PFM, KRISNA also reflected efforts to harmonize the historically fragmented relationship between the two institutions and foster a more coordinated planning–budgeting framework.

Further improvements in fiscal oversight were made through the expansion of the State Treasury and Budget System, which enabled real-time cash flow monitoring and automated financial reporting, thereby strengthening treasury operations and internal control mechanisms (MoF, 2020). The administration also deepened the implementation of accrual-based accounting using Government Accounting Standards (SAP), improving the credibility and audit-readiness of state financial reports.

Another major policy shift was the expansion of the Village Fund (Dana Desa) program, which directed fiscal transfers to over 74,000 villages. Intended to reduce rural poverty and stimulate grassroots development, this initiative required new financial management capacities at the village level and raised oversight challenges. Additionally, procurement reforms were advanced through the expanded use of e-catalogues and e-tendering systems managed by the National Public Procurement Agency (LKPP), aiming to reduce corruption and promote competitive contracting. Meanwhile, financial reporting reform is indicated by including performance reports in the Notes to the Financial Statements in the Financial Statements as mandated by Minister of Finance Regulation No. 62 of 2023 concerning Budget Planning, Budget Execution, and Financial Accounting and Reporting.

While Jokowi’s PFM reforms delivered important gains in budget efficiency and administrative modernization, they were frequently implemented through top-down processes with minimal engagement from Parliament or independent oversight actors. The resulting technocratic achievements, though laudable, often reinforced a broader pattern of executive-led fiscal governance with limited checks and balances.

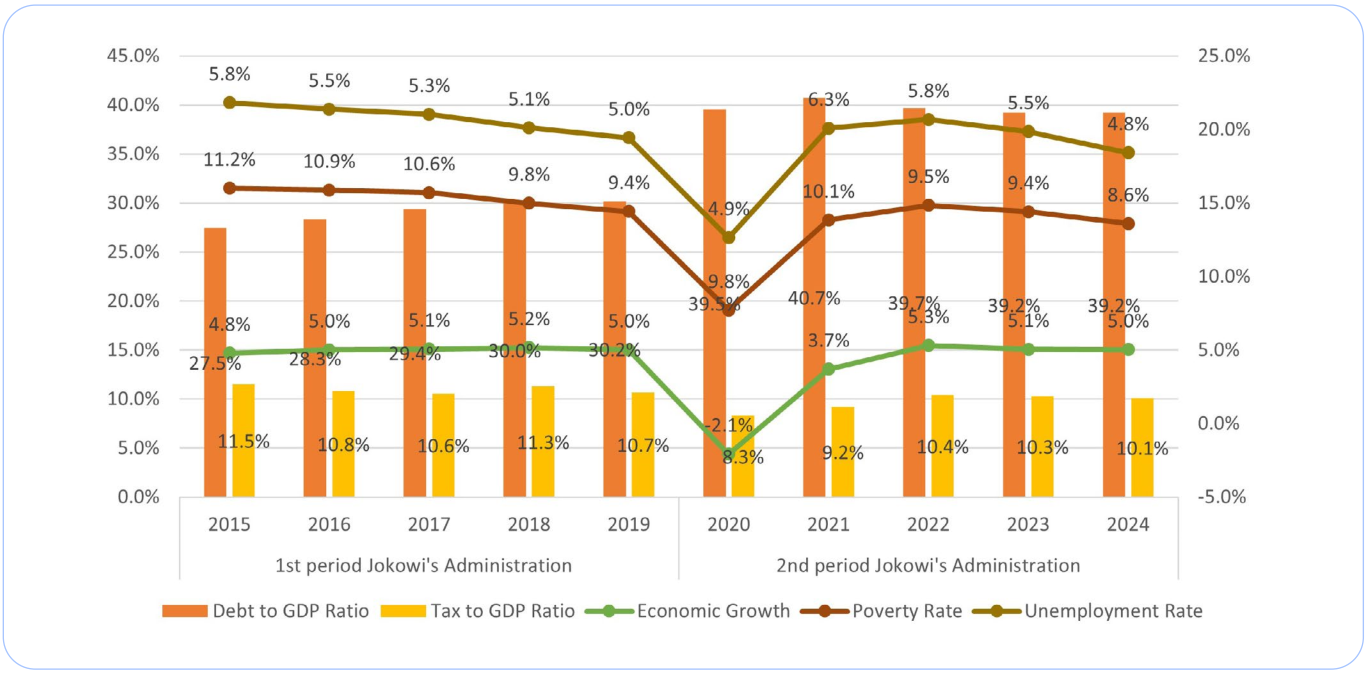
5.3 Fiscal Performance

Jokowi’s presidency (2014–2024) signaled a more expansive fiscal trajectory. His government prioritized infrastructure through the National Strategic Projects, directing over 70% of the Rp1,900 trillion investment through the national budget. A major fuel subsidy cut in 2015 freed fiscal space for social and infrastructure spending, while the 2016 tax amnesty generated Rp134.9 trillion in additional revenues (Burmansyah, 2024). Yet these efforts were offset by political pressures to maintain subsidies and expand village transfers, reflecting the populist priorities of an oversized coalition government.

The COVID-19 crisis (2020–2022) saw the suspension of the 3% deficit rule, with deficits peaking above 6% and public debt surging from Rp4,570 trillion in 2019 to Rp7,805 trillion by 2023 (Burmansyah, 2024). Despite this, the government successfully returned the deficit to 1.61% of GDP by 2023 and maintained the poverty rate under 10%, while the unemployment rate remained relatively stable at 5% on average. However, the sustainability of this fiscal consolidation remains in question amid rising off-budget liabilities and expanding executive control over fiscal institutions under the new administration of Prabowo.

Figure 5. Fiscal Outcomes During the Regression Period

Source: Government Financial Note 2025; National Government Financial Report 2016-2024; National Statistical Bureau-GDP Quarterly Report 2014-2018, 2019-2023, 2020-2024



6. THE EVOLUTION OF FISCAL ACCOUNTABILITY ACTORS

Since the fall of Suharto's regime in 1998, Indonesia's fiscal institutions have undergone substantial reforms aimed at strengthening democratic governance and accountability in public finance. The executive branch, once centralized and opaque, gradually embraced formal fiscal discipline, supported by a professional MoF. The DPR evolved from a passive institution into an active budget actor, especially during the early Reformasi and Yudhoyono eras. BPK gained constitutional and legal independence, becoming a formal check on public expenditure. CSOs and the media played growing roles in promoting transparency and citizen engagement. International donors and financial institutions like the IMF and World Bank provided crucial technical and legal frameworks for reform, while business associations increasingly shaped fiscal priorities through lobbying. However, over time, the growing dominance of informal politics, particularly elite-led party coalitions and clientelism, has systematically hollowed out the effectiveness of these formal checks and balances. Presidential coalitions have co-opted the legislature, turned oversight institutions into partisan tools, weakened CSOs, and eroded media independence. As a result, Indonesia's fiscal ecosystem today is formally democratic but increasingly governed by informal arrangements that prioritize elite consensus over institutional accountability and public interest.

6.1 MoF continues to advance fiscal reform, although dependent on political dynamics

In the transition period, the MoF emerged as a professionalized and politically insulated institution led by technocratic finance ministers that succeeded in laying the legal and institutional foundation for modern PFM. During the consolidation period, the MoF maintained a high degree of autonomy, continuing to drive key reforms. Under the strong leadership of Finance Minister Sri Mulyani, the MoF helped stabilize the economy and build credibility with both domestic and international actors.

Yet in the regression period, while the MoF continues to lead technical reforms, its independence has been undermined by political pressures and elite coalition dynamics. Jokowi's overwhelming legislative majority reduced scrutiny over fiscal decisions, and the rise of large-scale populist spending, often introduced without sound financing, further marginalized formal budget processes. Under President Prabowo, political interference in the MoF has deepened. Formally, the MoF has been moved from the Coordinating Ministry for Economic Affairs and is now directly responsible to and coordinates with the President[21]. This shift is stipulated in Presidential Regulation No. 139 of 2024 concerning the Arrangement of the Duties and Functions of State Ministries in the 2024–2029 Kabinet Merah Putih. The appointment of the President's party-affiliated

[21] See: Presiden Prabowo Kini Kontrol Langsung Kementerian Keuangan, Tak Lagi di Bawah Kemenko Perekonomian.

nephew as Deputy Minister of Finance and military figures to lead the tax and customs directorates marks a clear departure from technocratic norms. Simultaneously, initiatives like free meals for students and public sector salary hikes, though socially motivated, lack credibility in terms of fiscal sustainability. Most critically, the creation of Danantara, a financing authority under direct presidential control, signals a structural bypass of the MoF's traditional role, centralizing fiscal power in the presidency and weakening institutional checks. This trajectory reflects how informal political control is displacing technocratic governance, undermining long-standing gains in fiscal accountability.

Case study
Danantara and the Rise of Executive-Controlled Fiscal Power

Indonesia established Danantara (Daya Anagata Nusantara) through Law No. 16 of 2025 as a sovereign investment agency mandated to manage and invest state assets and capital. The creation of Danantara consolidates multiple government investment functions—previously distributed across the MoF, the Ministry of State-Owned Enterprises, and the Indonesia Investment Authority—into a single entity directly accountable to the President and operating under the supervision of the Minister of State-Owned Enterprises.

This reform represents a major shift in Indonesia's fiscal governance architecture. Authority over state capital injections and the management of certain state-owned enterprise dividends has been transferred to Danantara, granting it the power to reinvest returns without passing them through the State Treasury. The MoF's role has become primarily coordinative, with limited control over the use and reporting of state assets. This centralization effectively moves fiscal decision-making into the executive sphere, reducing external checks on asset management and the transparency of public funds. Initial projections suggest that up to Rp80 trillion annually in revenues could circulate outside the regular state budget process.

Danantara's governance structure further concentrates fiscal power within the executive. Its leadership is composed of influential political and business figures, with close links to the ruling coalition. Moreover, Article 3Y of Law No. 16 of 2025 provides broad legal immunity to Danantara's officials, exempting them from liability except in cases of proven negligence or conflict of interest. This provision raises concerns over the lack of accountability mechanisms and the potential for decisions to be made without sufficient public oversight.

While the government presents Danantara as a vehicle to boost investment and accelerate economic growth, the institutional design reflects what Paolo de Renzio and Joseph Foti (2025) describe as a form of “fiscal autocracy”—where fiscal authority becomes increasingly concentrated in the executive, limiting transparency and the balance of institutional power. Without mechanisms to ensure independent scrutiny and transparent reporting, the establishment of Danantara risks weakening Indonesia’s broader fiscal accountability ecosystem, even as it aims to strengthen national investment capacity.

6.2 Parliament has experienced a dramatic shift in fiscal authority over time

During the transition period, constitutional reforms empowered the DPR as a coequal branch of government, especially in budget matters. The DPR’s rejection of President Habibie’s accountability report in 1999 and its use of BPK audit findings to impeach President Gus Dur highlighted its newfound assertiveness in fiscal oversight. By the Megawati era, budgetary processes were further institutionalized through key legislation like Law No. 17 of 2003 on State Finance. Under President Yudhoyono, DPR’s budgetary role expanded through amendments to revenue and expenditure lines, including the informal use of optimization funds. While corruption scandals, such as the budget mafia cases, eroded credibility, some reformist DPR members collaborated with CSOs to promote budget justice and transparency, indicating the persistence of pluralism within legislative fiscal engagement.

The recent period reflects a gradual weakening of the DPR’s independent role in budgetary decision-making. During President Jokowi’s administration, and continuing under President Prabowo, legislative oversight has become increasingly limited as the DPR has tended to align with executive priorities in fiscal deliberations. The consolidation of a broad ruling coalition reduced the space for meaningful checks and balances, while the need for legislators to deliver constituency-based projects reinforced a pattern of clientelist bargaining within the budget process. Rather than advancing policy-based deliberation, fiscal negotiations often occur through party-mediated channels closely tied to the presidency. Party elites, who hold significant control over candidate placement and recall mechanisms, further shape individual legislators’ incentives. Together, these dynamics have produced a legislature that is more cooperative than confrontational toward the executive, narrowing opportunities for independent fiscal scrutiny and weakening the deliberative function of the budget process.

One of the clearest indicators of legislative regression is the erosion of DPR's power to scrutinize and amend the national budget that was initially legitimized under the emergency COVID-19 law. While the executive "consulted" with Parliament, the absence of required approval signals the DPR's diminished role in fiscal oversight. At the same time, the DPR's relationship with the BPK has fluctuated: the once-active State Finance Accountability Committee, designed to follow up on audit findings, was dissolved during Jokowi's first term and only re-established during his second term. Moreover, the DPR's authority to appoint BPK board members has been used not to ensure audit independence, but to embed loyalists aligned with the President's coalition, further politicizing the audit process.

Case study

The Role of DPR in the Special Allocation Fund: Between Representation and Political Economy

The Special Allocation Fund (DAK) is one of the main instruments in Indonesia's fiscal transfer system and a cornerstone of fiscal decentralization. Its primary purpose is to finance regional development activities aligned with national priorities, particularly in areas with limited fiscal capacity (Mujiwardhani et al., 2022). The Ministry of Finance determines indicative ceilings and allocations to maintain macro-fiscal stability, while regional governments act as technical implementers, submitting DAK proposals that reflect their development priorities through the KRISNA platform. In principle, this mechanism combines national direction with local participation to ensure equitable and needs-based development.

The DPR formally supervises DAK implementation, reviewing regional submissions and channeling local aspirations into the national budgeting process. Ideally, this role strengthens the representation function of the DPR by ensuring that regional priorities are reflected in fiscal transfers. However, in practice, DAK allocation has also become an arena for political negotiation between the executive and the legislature. Since 2009, several schemes—such as the Infrastructure Adjustment Fund and UP2DP—have expanded legislators' ability to influence regional project selection directly. These instruments were initially justified as mechanisms to improve the alignment between local needs and national planning but evolved into tools for legislators to secure development projects for their constituencies.

The UP2DP allows individual legislators to propose projects financed through DAK, including the type of infrastructure and project location. While this scheme provides legislators with a tangible means of delivering constituency benefits, it also blurs the line between representation and executive function. The absence of clear technical criteria, public documentation, and transparent selection procedures increases the risk of clientelism and political bargaining in budget decisions. Consequently, projects proposed through UP2DP often bypass the regional planning and budgeting framework, leading to inconsistencies with regional medium-term development plans and reducing local ownership.

At the regional level, local governments remain responsible for implementing DAK projects, but their discretion in selecting priorities has narrowed as DPR-driven proposals become more dominant. This dynamic weakens participatory planning mechanisms—such as *musrenbang* (development planning forums)—which were designed to include citizen input in regional development. Citizens and community groups thus have limited influence in determining which DAK-funded projects are prioritized or executed, diminishing one of the key accountability anchors in the fiscal decentralization system.

The evolution of the DPR in Indonesia's fiscal ecosystem reveals a shift from early assertiveness to institutional co-optation. Initially, a check on presidential excess, Parliament became increasingly driven by electoral incentives and informal rent-seeking during the consolidation period, before descending into executive-aligned compliance in the regression era. Today, the DPR is largely subordinated to presidential coalitions and party oligarchs, with clientelist incentives replacing oversight mandates. This transformation undermines the formal architecture of democratic accountability and contributes to an executive-centric fiscal regime that operates with minimal scrutiny or restraint.

6.3 BPK evolution reflects tension between formal institutional empowerment and informal political capture

During the transition period, the Audit Board (BPK) emerged from a largely symbolic existence under the New Order into a constitutionally mandated oversight institution. For the first time, BPK could operate independently from the executive, positioning it as a critical actor in the new democratic fiscal ecosystem. BPK further institutionalized its audit functions and expanded its operational reach during the consolidation period. Law No. 15 of 2006 granted it the right to audit all government-managed finances and submit an audit report directly to Parliament. Its budget increased, and regional representation grew to all provinces.

Nevertheless, this period also exposed deep structural and political challenges. Despite its expanded scope, BPK remained predominantly focused on financial audit, with limited attention to performance outcomes due to the lack of government accountability reporting frameworks and an explicit legal mandate. Government performance reports, detailing whether programs delivered intended development results, remained outside BPK's effective purview and were treated separately from financial audits (Dwiputrianti, 2011; World Bank, 2014). This gap left a critical blind spot in assessing the efficiency and effectiveness of public spending.

Institutionally, BPK's increasing prominence in Indonesia's fiscal governance has unfolded within a highly political environment. The DPR's formal authority to appoint BPK board members naturally links the institution to broader political processes, including coalition dynamics and party negotiations. Many appointees bring prior political or legislative experience, which can strengthen BPK's understanding of policy contexts but also raise questions about institutional neutrality. Although BPK is legally mandated to oversee the executive, its effectiveness has been constrained by limited enforcement mechanisms and weak follow-up on audit recommendations.

In recent years, these dynamics have become more visible. Under President Jokowi and continuing into the Prabowo administration, BPK has operated in a context where politics plays a central role in shaping institutional behavior. Around 60% of board members appointed between 2019 and 2024 had prior political affiliations, reflecting the interconnectedness between fiscal oversight and the political system. While BPK has earned significant international recognition, including assignments to audit United Nations agencies, domestic perceptions remain mixed, with calls for continued strengthening of its independence and accountability mechanisms.

Importantly, BPK has attempted to expand its role beyond oversight by adopting the language of "insight and foresight". This framing suggests a shift toward a more advisory and preventive role, helping ministries improve governance practices before problems arise. Yet in practice, the credibility and neutrality required for such a role have been eroded by persistent politicization and scandal. Without structural reform, particularly in board recruitment, audit follow-up enforcement, and a strengthened government performance accountability framework as part of the President's accountability report, BPK's broader contributions to fiscal accountability will remain constrained.

Table 1. BPK's Power and Influence Across Reform Periods

Period	Key Characteristics	Institutional Dynamics
Transition	Emerged as a constitutional oversight body; began auditing independently	Independence from the executive; focus on financial compliance
Consolidation	Legal strengthening (Law 15 of 2006); expanded to provinces	Institutional growth; appointments influenced by political considerations in 2009
Regression	Greater visibility; closer political integration	appointments influenced by political considerations; credibility and enforcement challenges; shift toward advisory role ("insight and foresight")

The evolution of BPK reflects the complex dynamics of institutional accountability in Indonesia. While the institution has undergone significant legal and structural strengthening, its practical effectiveness continues to be influenced by broader political and institutional factors. Close interactions with political actors, internal governance challenges, and limitations in audit scope have affected BPK's ability to realize its oversight potential. As a result, BPK's role as a key pillar in Indonesia's system of fiscal checks and balances remains a work in progress, shaped by the ongoing interplay between formal accountability structures and the informal dynamics of the political system.

6.4 The evolution of CSOs is greatly influenced by their position in the political power landscape

CSOs have played a pivotal role in democratizing Indonesia's fiscal governance. In the transition period, CSOs rapidly expanded, seizing newfound civic space to push for transparency and public participation. CSO's budget watchdogs grew, advocating for laws like the Public Information Disclosure Act and promoting citizen input in planning forums such as *musrenbang*. Their activism helped build a pluralistic accountability ecosystem alongside formal actors. During the consolidation period, CSOs professionalized their methods, using technical budget analysis to support campaigns in health, education, and anti-corruption. Strategic litigation became a key tool, leading to rulings that limited legislative overreach in budget execution and enforced constitutional spending requirements. In the regression period, CSO influence has declined due to executive co-optation, regulatory pressure, and shrinking civic space. Appointments of CSO leaders to advisory roles blurred their independence, and dissenting voices faced delegitimization.

Yet, resistance remains. CSOs have legally challenged emergency fiscal powers and mobilized successful digital and street campaigns, such as delaying a proposed VAT hike under Prabowo's administration. Student movements have also played a role, most notably the "Dark Indonesia" protest in 2025, which spotlighted wasteful spending and budget inefficiency, showing how civic actors combine street pressure with digital activism to resist regressive fiscal measures. Together, these forms of strategic activism underscore the resilience of accountability forces even in a tightening political space.

A recent mass protest at the end of August 2025 resulted in dozens of deaths and the looting of homes belonging to several members of the Parliament and the Minister of Finance. The protests were sparked by the implementation of a policy to increase housing allowances for members of Parliament. Meanwhile, many public officials often flaunt their wealth on social media. Following the protests, the President (and political party leaders) adopted radical policies. These policies included cancelling the plan to increase allowances for Parliament members, dismissal of some parliamentary members by their supporting political parties, and, most shockingly, replacing the Minister of Finance, then Sri Mulyani, with Purbaya Yudhi Sadewa. Previously, Purbaya served as Head of the Deposit Insurance Corporation (Lembaga Penjamin Simpanan).

International support, including from programs like the International Budget Partnership's Strengthening Public Accountability for Results and Knowledge (SPARK), has helped sustain grassroots engagement. Collaborative efforts between communities, fisherfolk, analysts, and oversight bodies like BPK and the Ombudsman show that even informal civil advocacy can shape fiscal outcomes. While constrained, Indonesian CSOs continue to adapt, proving that an engaged civil society is essential to maintaining checks on executive power and ensuring fiscal justice.

Case study

SPARK, a New Model for Inclusive PFM

The SPARK program introduces a citizen-rooted model for fiscal governance reform that moves beyond traditional, top-down budget advocacy. Instead of beginning with technical analysis alone, SPARK starts with tangible service delivery failures—such as exclusion from social protection, proper access to water and sanitation, and inclusive primary health care services—that poor and marginalized groups experience directly.

From this entry point, SPARK employs a four-stage strategy: First, service delivery failures are identified through participatory assessments and social audits conducted with grassroots movements. Second, the accountability ecosystem is mapped to understand the institutions, regulations, and power dynamics that shape budget and service outcomes. Third, citizen-led evidence is generated by training communities to use budget tracking and social audits to uncover inefficiencies and inequities. And fourth, strategic coalitions are built linking grassroots groups, CSOs, oversight bodies, media, and reformist officials to amplify citizen voices and drive systemic change.

SPARK is innovative because it shifts fiscal governance from policy rooms to communities, positioning citizens not as passive beneficiaries but as active agents of accountability. By grounding budget advocacy in people's lived experiences, it makes fiscal governance relevant and relatable. The program combines grassroots organizing with technical budget expertise, producing evidence that is both credible and community driven. Moreover, by forging broad reform coalitions, SPARK transforms fragmented advocacy into coordinated influence across multiple accountability institutions.

This bottom-up, adaptive, and coalition-driven approach has already generated tangible results. In Indonesia, SPARK contributed to improving the targeting and distribution of COVID-19 social assistance in Jakarta, encouraged greater oversight engagement from BPK, and informed anti-corruption enforcement efforts. These interventions helped make social protection registration processes more inclusive and transparent. The Ministry of Health has adopted the social audit methodology developed through SPARK into its regulatory framework to assess the performance of primary health care services. Together, these achievements illustrate how citizen-led, evidence-based advocacy can strengthen fiscal accountability ecosystems and lead to more equitable and responsive public service delivery for marginalized communities.

6.5 The media landscape has shifted in ways that weaken public accountability, while social media emerged as a critical space for citizens

Since the fall of Suharto, the media has played an evolving role in promoting fiscal accountability. The collapse of authoritarian controls led to a vibrant, independent press. Investigative journalism exposed corruption and budget abuses, working alongside civil society to hold the government accountable. Media outlets such as Tempo dan Kompas were instrumental in informing the public and driving reform.

During the consolidation period, the media became more professional but also increasingly commercialized. Major media conglomerates were acquired by business elites tied to political parties, reducing incentives for critical reporting[22]. While some outlets continued to scrutinize public spending and corruption, coverage became uneven and more influenced by owners' interests. During the Jokowi and Prabowo administrations, the media's watchdog function has weakened further. The rise of social media platforms enabled the executive to bypass journalistic scrutiny by employing "buzzers" and influencers to promote government policies and suppress dissent. Meanwhile, the mainstream media remained largely controlled by politically affiliated business groups, reinforcing executive narratives and discouraging investigative coverage.

Despite this, social media has emerged as a critical space for public mobilization. While the state uses digital platforms to shape opinion, citizens, youth activists, and CSOs have leveraged them to expose corruption, oppose regressive fiscal policies like VAT hikes, and demand justice. The phrase "no viral, no justice" reflects a public belief that state accountability now depends on online visibility. Digital activism thus serves as a vital, if imperfect, substitute for institutional oversight in an era of shrinking civic space and constrained media freedom.

6.6 The presidential coalition has evolved from negotiated alliance to executive-dominated political bloc

Political party elites, while formally institutionalized, operate primarily as informal power brokers in the fiscal ecosystem. Their influence is deeply embedded in the production of presidents, legislative control, ministerial appointments, and oversight institutions, making them central, though often unaccountable, actors in shaping fiscal outcomes.

In the transition period, political parties played an assertive role in the fledgling democracy. They became central to high-stakes political maneuvers, using institutional levers to assert control over the presidency. The rejection of Habibie's accountability report and Gus Dur's impeachment reflected how party coalitions exercised outsized influence over executive accountability, often motivated by elite competition rather than legal norms or democratic procedure.

In the consolidation period, Indonesia institutionalized multiparty presidentialism, which required elected presidents to form oversized coalitions to ensure legislative support. President Yudhoyono governed through broad alliances. However, while coalition-building stabilized executive-legislative relations, it also introduced fragmented authority and limited

[22] For example, TV One is owned by tycoon and Golkar Party elite Aburizal Bakrie, who at the time also served as the party's chairman, while Metro TV is owned by Surya Paloh, who later founded the NasDem (National Democrat) Party.

party discipline, especially in the DPR. Presidents could not fully control coalition parties' behavior in Parliament, where factionalism and personal patronage networks weakened party leadership's ability to enforce loyalty. This reduced the coherence of fiscal oversight and allowed for the proliferation of rent-seeking practices, as Parliament members extracted concessions through budget negotiations and lobbying for discretionary funds.

The nature of presidential coalitions has shifted from negotiated alliance to executive-dominated political blocs in the regression period. Jokowi co-opted nearly all major parties into his ruling coalition, rendering the opposition nearly symbolic. This cartel-like alignment, described by scholars such as Dan Slater (2004), reflects a form of elite accommodation that neutralizes formal legislative oversight in favor of executive stability. Party leaders, who control parliamentary nominations and internal disciplinary mechanisms, have become more capable of enforcing discipline among DPR members. Party elites gained more influence over parliamentary votes and coordinated key appointments to ministries and oversight bodies like BPK.

This trend has intensified under President Prabowo. He formed the biggest Cabinet in Indonesian history to accommodate his party supporters. Political parties now function largely as extensions of presidential authority, diminishing their role as autonomous oversight actors. Consequently, executive dominance increasingly defines Indonesia's fiscal ecosystem, leaving formal checks weakened and dissenting oversight rare.

6.7 International agencies continue to play a pivotal role in major fiscal reforms

International agencies played a critical role in Indonesia's fiscal reform during the post-1998 period, particularly through IMF conditionalities and World Bank policy frameworks that supported the adoption of key PFM laws. However, their influence has since shifted from agenda-setting to technical support, with a growing disconnect from the political dynamics of fiscal accountability.

Over the past two decades, international partners such as the World Bank, the Australian Department of Foreign Affairs and Trade, and other bilateral donors have continued to support Indonesia's fiscal reform agenda through targeted initiatives like the PFM Multi-Donor Trust Fund. These programs have driven important technical advances, including the Fiscal Decentralization Law, which established a more autonomous intergovernmental fiscal system; the Komite Standar Akuntansi Pemerintah reform, which modernized public sector accounting standards; and the digitalization of budgeting and financial reporting systems, enhancing data integration and transparency across ministries. Despite these achievements, many donor-supported reforms have remained technocratic and fragmented, focusing on administrative efficiency rather than underlying political and institutional constraints, such as executive dominance, weak oversight, and informal interference in fiscal decision-making. While external partners have contributed significantly to modernizing Indonesia's PFM architecture, their influence on restoring balance and accountability within the broader fiscal ecosystem remains limited.

6.8 Business actors exert strong influence

Indonesia's fiscal governance operates within a system where economic elites routinely convert wealth into political influence, reflecting the country's oligarchic structure (Hadiz and Robison, 2004; Winters, 2011). Many of Indonesia's richest individuals have entered formal politics or formed close alliances with ruling parties to secure favorable policy outcomes, particularly in taxation, subsidies, and regulatory frameworks. Wealthy tycoons do not merely lobby from outside government but enter politics directly, founding or financing parties, running for office, and occupying key policymaking roles. This blurs the line between public service and private gain. Their embeddedness in the political system allows them to shape fiscal rules, block reforms, and divert budget allocations toward interests aligned with their businesses.

These dynamics are most visible in sectors with entrenched political-business ties, such as tobacco, mining, and infrastructure. Political financing plays a crucial role in maintaining these linkages. Many large corporations contribute directly to campaign funds or operate through foundations, media holdings, and "consulting" arms to shape narratives and lobbying efforts. The influence extends beyond Parliament to executive ministries and regulatory bodies, often overriding technocratic planning or public interest considerations. Even as formal budgeting and fiscal planning mechanisms become more sophisticated, they remain vulnerable to elite capture, which distorts budget priorities and undermines tax justice.

The tobacco case study exemplifies how fiscal tools like taxation can be captured by private interests through informal political channels. Through strategic alliances with political parties and ministries, tobacco conglomerates have neutralized technocratic initiatives and maintained favorable fiscal treatment. While the MoF has pushed to simplify the excise system and improve revenue efficiency, its efforts have been routinely blocked by coordinated industry resistance backed by elite political support. This has narrowed fiscal space for social investment, distorted tax systems, and compromised the state's ability to address inequality. When business elites dominate both the economic and political arenas, fiscal governance becomes an instrument of private enrichment rather than public accountability. As such, Indonesia's fiscal ecosystem continues to be shaped not only by formal rules but by entrenched informal arrangements that place elite consensus above public accountability.

Case study

Tobacco Excise and Policy Capture

Indonesia has one of the highest smoking rates in the world, with tobacco deeply embedded in its political economy. The state depends heavily on tobacco excise revenues, while powerful oligarchs—many of whom control major media and political parties—have a direct stake in protecting the industry. This structural dependence has made fiscal and health reforms on tobacco a central arena of contestation between public health advocates and entrenched oligarchic interests.

Key Actors

- **Tobacco industry oligarchs:** Dominant business families and conglomerates, notably Sampoerna, Djarum, and Gudang Garam, exercise strong influence over policy through lobbying, campaign financing, and media ownership.

- **Political parties and legislators:** Parties rely on tobacco-linked campaign financing, making legislators reluctant to pursue health-driven tax increases.

- **Government ministries:** The Ministry of Finance supports tax increases to boost revenue, while the Ministry of Health pushes for stricter regulation. However, their efforts are often constrained by executive calculations and coalition politics.

- **Civil society and health advocates:** NGOs and health coalitions push for stronger taxation and advertising restrictions, but face structural disadvantages in political bargaining.

Oligarchic actors use a combination of formal and informal strategies to protect their interests. They mobilize political party networks, finance electoral campaigns, and exert agenda-setting power through their media empires. In legislative debates, industry narratives emphasizing economic dependence, farmer livelihoods, and employment are amplified, overshadowing public health evidence. At the same time, political elites in the ruling coalition use budgetary reliance on tobacco excise duties to justify limited reforms.

In terms of policy outcomes, reforms to tobacco taxation and advertising have been piecemeal and incremental. While excise rates have increased in recent years, they remain below levels recommended by the World Health Organization. Attempts at stricter advertising bans or plain packaging have been blocked or watered down. Health legislation consistently faces delays in the DPR, reflecting both oligarchic lobbying and executive reluctance to confront powerful business allies.

This case highlights how oligarchic dominance undermines formal accountability institutions in Indonesia's fiscal ecosystem. Despite MoF technocratic capacity and civil society advocacy, informal networks of oligarchic power shape legislative outcomes, weaken the Ministry of Health's role, and constrain evidence-based policy. The result is a fiscal regime where health considerations are subordinated to revenue dependence and elite consensus.

The operation of the fiscal ecosystem in practice reveals more complex, often asymmetrical power dynamics. The figure below depicts this complexity, highlighting how influence flows not only through formal constitutional channels but also via an informal network of political, business, and social actors.

Figure 6. Fiscal Ecosystem in Practice

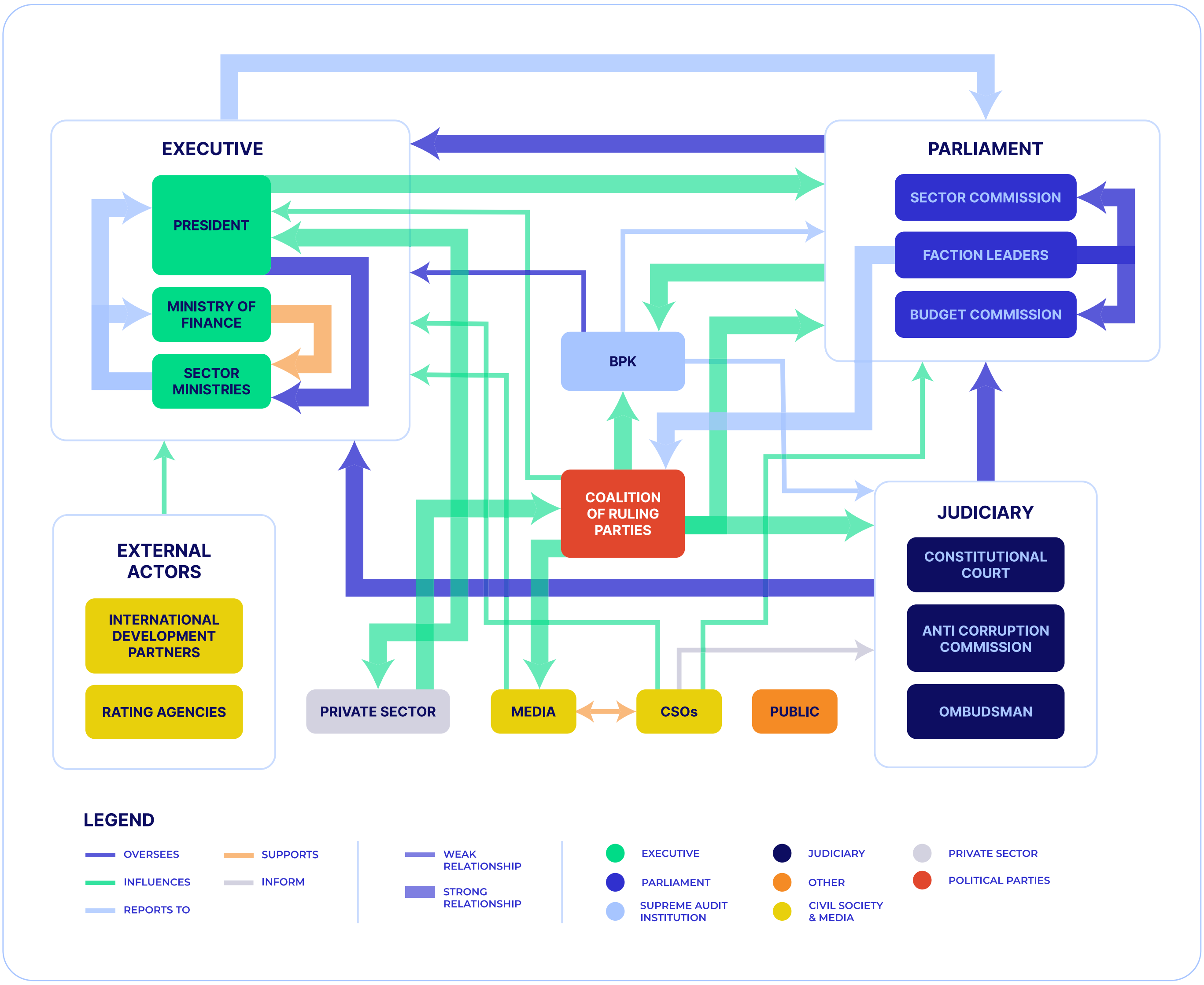


Figure 6 illustrates how faction leaders, influenced by ruling political party coalitions, mediate parliamentary decisions, often reducing individual legislators' independence to scrutinize the budget. Parliament's budget power has incentivized constituency-focused budget interventions through informal mechanisms like the aspiration fund, undermining institutional oversight and reinforcing clientelist relationships.

BPK's influence is often shaped by its institutional ties to the legislature, which appoints its board members. Given that the legislature is shaped by party dynamics, the composition of BPK's board often mirrors the prevailing political configuration. This interdependence can create a feedback loop in which political considerations within the DPR and political parties may affect the direction and follow-up of BPK's audit work. Thus, BPK 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 check.

CSOs are informal accountability actors who 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, some grassroots coalitions have successfully engaged the Ombudsman, Anti-Corruption Commission, and BPK using evidence from social audits. CSOs 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 use social media campaigns to spotlight overlooked fiscal issues and describe their strategy for forcing state response through digital visibility.

The ruling party coalition significantly drives fiscal outcomes. Its power manifests 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.

External actors such as the IMF, World Bank, and credit rating agencies have 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, in later periods, their influence diminished, especially in the more technical aspect of PFM reform, as Indonesia has increasingly pursued self-financed development and prioritized nationally driven agendas. Indonesia's engagement with platforms like BRICS (Brazil, Russia, India, China, and South Africa) and its accession process to the OECD is largely motivated by domestic economic interests and market expansion, rather than a commitment to aligning with international governance standards.

7. CONCLUSION

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. While legal and institutional arrangements for fiscal accountability—such as those involving the DPR, BPK, and judiciary—are relatively robust, their effectiveness is constrained by weak enforcement and fragmented oversight. The root cause of this imbalance lies in the dominance of informal networks driven by patronage and elite bargaining, which penetrate and shape formal institutions. As a result, accountability mechanisms often function within transactional political relationships rather than institutional checks and balances. The problem is not the absence of formal frameworks, but the limited autonomy and coordination of oversight actors, allowing informal power to override the intended balance within Indonesia's fiscal accountability ecosystem.

7.1 Key Lessons Learned

The following section outlines key lessons from Indonesia's trajectory and the factors that have advanced or hindered fiscal accountability in different political and economic contexts.

- *Informal politics often override formal fiscal frameworks.* Indonesia's experience shows that the effectiveness of fiscal accountability mechanisms is not determined solely by constitutional and legal design. Instead, informal political arrangements, particularly elite coalitions, clientelism, and oligarchic networks, play a decisive role in shaping how fiscal institutions operate. Laws may grant autonomy and oversight powers, but their implementation is often contingent on prevailing political interests.

- *Political party elites are shadow actors in fiscal oversight.* Although political party elites are not recognized as fiscal accountability actors in law, they function as de facto power brokers. They exert significant control over the executive, legislature, and audit institutions, especially through patronage-driven coalitions and party discipline (or lack thereof). This influence has shifted over time, from legislative dominance during transition to presidential control in the regression period.

- *Accountability institutions are vulnerable to co-optation.* Institutions like BPK, the DPR, and CSOs have shown both potential and vulnerability. During the consolidation period, they contributed meaningfully to fiscal transparency and oversight. However, in the regression period, executive dominance and party cartelization have weakened their independence, showing how fragile institutional gains can be when political power becomes overly centralized.

- *Civil society and media require structural support to endure.* The rise of CSOs and media freedom in the early reform era played a crucial role in pushing for transparency and accountability. Yet, without sustained legal and financial support, these actors are prone to co-optation or marginalization, especially when faced with narrowing democratic space or regulatory clampdowns in the regression period.

- *External donors can catalyze reform—but cannot sustain it alone.* International financial institutions played a critical role in initiating PFM reforms in the transition period, helping to establish key laws and institutions. However, their influence has since declined, and technical assistance today often avoids engaging with underlying power dynamics. Sustainable reform requires local political will, civic pressure, and strategies that address both formal structures and informal incentives.

- *Checks and balances require more than institutional design.* While Indonesia's fiscal laws lay out a system of checks and balances, dividing roles among the executive, Parliament, and audit institutions, this architecture is insufficient without political competition, public accountability, and genuine enforcement. When the ruling coalition dominates all branches, as seen in the regression period, formal accountability mechanisms become hollowed out.

7.2 Future Reform Paths

It will take time to study the dynamics and changes that will occur in the Prabowo government. However, the dynamics in the fiscal ecosystem are unlikely to change drastically, considering that the key policymaking actors in the executive, legislature, and judiciary, as well as their relationships, remain relatively the same as during the Jokowi administration. Based on this assumption, we see several opportunities and paths that can be taken to carry out the priority reforms needed to strengthen fiscal ecosystem.

First, *the government should strengthen its performance accountability frameworks and system, while expanding BPK's role to include auditing government performance reports and enhance its focus on performance audits of strategic government programs/ activities.* Although performance reports are required by law, BPK currently lacks a strong legal mandate to audit them. Introducing this mandate would open a vital entry point for participatory audits, where CSOs and local communities can contribute to data verification and sectoral monitoring. This would enhance BPK's credibility, enable more rigorous evaluations of state effectiveness, and strengthen public confidence in government claims. In the short term, BPK could pilot joint audits on particular national priority programs, such as in the health and education sectors. In the longer term, revisions to the State Finance Law (Law No. 17 of 2003)—which is expected to be discussed in the near future—alongside amendments to Law No. 15 of 2004 and Law No. 15 of 2006 should be pursued to formalize performance report audits, strengthen BPK's independence from political interference, and establish clearer participatory oversight roles for non-state actors.

Second, *CSOs must rebuild alliances with reform-oriented members of the DPR*, as successfully done during the consolidation period. These alliances are especially critical within the Budget Committee and Aspiration Body[23], where policy windows exist to influence fiscal allocations and advocate for more socially responsive spending. CSOs can contribute constituency-level data, amplify reform voices through media advocacy, and coordinate watchdog functions with other institutions. In return, reformist legislators gain technical credibility, public legitimacy, and support in navigating elite resistance.

Third, *CSO and media participation in fiscal oversight should be legally protected and institutionally embedded.* This is particularly urgent given recent trends of shrinking civic space and increased co-optation. Civic actors should advocate for new ministerial regulations that guarantee public budget hearings and audit follow-ups. In the longer term, legislation should require inclusive consultation in the formulation of budget priorities, audit planning, and procurement oversight. CSO participation needs to be positioned not just as a democratic right, but as a technical necessity for improving data accuracy, public service feedback, and compliance monitoring.

Fourth, *international development partners and donor agencies should revive multilateral engagement as a leverage point for governance reform.* Instead of limiting technical assistance to capacity-building, international development partners such as the IMF, Asian Development Bank, OECD, World Bank, and others should reframe their programs to explicitly address power asymmetries in fiscal governance. Working in collaboration

[23] The Aspiration Body is one of the supporting bodies of the DPR that aims to gather various community aspirations so they can be processed and followed up by the relevant committee.

with reformers in Bappenas, the MoF, BPK, DPR, and CSOs, these partners can use Indonesia's OECD accession and Sustainable Development Goal commitments as entry points to advance governance-focused fiscal reforms. In the short term, all new technical assistance should be linked to measurable governance benchmarks, such as the inclusion of CSOs in budget oversight processes and strengthened inter-institutional coordination among the fiscal institutions. In the long term, donors should support the creation of peer-learning platforms, such as the Open Government Indonesia network, that connect national fiscal institutions with reform-oriented local governments and regional actors, fostering a networked approach to fiscal accountability reform.

Fifth, *building a progressive political winning coalition is essential to realign incentives* across fiscal, political, and developmental accountability. Such a coalition should be inclusive in both purpose and function, bringing together reform-oriented actors from the DPR, BPK, CSOs, academia, and political parties around concrete goals that resonate with citizens. Rather than focusing solely on abstract ideals like transparency, it should mobilize around tangible priorities—such as the Free Nutritious Food program, which accounts for 44.2% of the education budget in the 2026 draft state budget—to demonstrate how accountability delivers real public value. The coalition's effectiveness would depend not on formal structure, but on clarity of purpose, trust among actors, and adaptability to shifting political contexts, using power constructively to sustain collaboration and build a lasting commitment to equitable and accountable governance.

Lastly, *policy reform by the winning coalition should be encouraged to strengthen the independence of accountability institutions*. This reform aims to rebalance power across fiscal accountability actors by revising policies that hinder the balance of power relations in the fiscal ecosystem. The initial step that can be taken is to strengthen the consolidation of champions from formal (DPR, BPK) and informal (CSO, media) actors who are expected to produce various concrete initiatives, such as submitting a judicial review to the Constitutional Court, to revise the laws. Another effort that may need to be undertaken is to strengthen public pressure on and oversight of the executive, the DPR, the BPK, and other formal accountability institutions. This effort can restore public trust and strengthen the legitimacy of formal institutions. For CSOs, these initiatives will be a key milestone in their strategic agenda of demanding open and accountable governance.

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