# The Politics of Budgeting in Indonesia

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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This thesis is my own original work. It contains no material previously published or written by another person except where due reference is made in text. Clearance was obtained from the University of Sydney Human Research Ethics Committee for the project.

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# Abbreviations

| | |
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| APBD | Anggaran Pendapatan dan Belanja Daerah (Local Government Budget) |
| APBN | Anggaran Pendapatan dan Belanja Negara (National Budget) |
| APBNP | Anggaran Pendapatan dan Belanja Negara Perubahan (Revised National Budget) |
| BAKN | Badan Akuntabilitas Keuangan Negara (Public Finance Accountability Committee) |
| Baleg | Badan Legislasi (Legislation Body) |
| Bamus | Badan Musyawarah (Steering Committee) |
| Banpres | Bantuan Presiden (President's Special Fund) |
| Bappenas | Badan Perencanaan Pembangunan Nasional (National Planning Agency) |
| BK | Badan Kehormatan (Ethics Committee) |
| BKASP | Badan Kerjasama Antar Parlemen (Inter-parliamentary Cooperation Body) |
| BPK | Badan Pemeriksa Keuangan (Supreme Audit Body) |
| BPKP | Badan Pengawas Keuangan dan Pembangunan (Control Agency for Budget and Development) |
| BURT | Badan Urusan Rumah Tangga (Household Affairs Committee) |
| CDFs | Constituency Development Funds |
| CSOs | Civil Society Organisations |
| CSR | Corporate Social Responsibility |
| DAK | Dana Alokasi Khusus (Special Allocation Fund) |
| DPD | Dewan Perwakilan Daerah (Regional Representative Council) |
| DPID | Dana Penyesuaian Infrastruktur Daerah (Infrastructure Development Adjustment Fund) |
| DPP | Dewan Pengurus Pusat (Central Party Board) |
| DPR | Dewan Perwakilan Rakyat (People's Representative Council) |
| DPRD | Dewan Perwakilan Rakyat Daerah (Regional People's Representative Council) |
| FITRA | Forum Indonesia untuk Transparansi Anggaran (Indonesian Forum |

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|---|---|
| | for Budget Transparency) |
| GBHN | Garis-Garis Besar Haluan Negara (Basic State Policy Guidelines) |
| GDP | Gross Domestic Product |
| Gerindra | Partai Gerakan Rakyat Indonesia Raya (Greater Indonesia Movement Party) |
| Golkar | Golongan Karya (Party of Functional Groups) |
| Hanura | Partai Hati Nurani Rakyat (People’s Conscience Party) |
| ICW | Indonesian Corruption Watch |
| IGGI | Inter-governmental Group on Indonesia |
| IMF | International Monetary Fund |
| KEM–PPKF | Kerangka Ekonomi Makro dan Pokok-pokok Kebijakan Fiskal (Macroeconomic Framework and Fiscal Policies) |
| KIH | Koalisi Indonesia Hebat (Great Indonesian Coalition) |
| KIP | Kartu Indonesia Pintar (Smart Indonesia Card) |
| KIS | Kartu Indonesia Sehat (Healthy Indonesia Card) |
| KKS | Kartu Keluarga Sejahtera (Prosperous Family Card) |
| KMP | Koalisi Merah Putih (Red and White Coalition) |
| Kopkamtib | Komando Operasi Pemulihan Keamanan dan Ketertiban (Operational Command for te Restoration of Security and Order) |
| Kostrad | Komando Strategi Angkatan Darat (the Army’s Strategic Reserve Command) |
| KPK | Komisi Pemberantasan Korupsi (Corruption Eradication Commission) |
| KSP | Kantor Staf President (Office of Presidential Staff) |
| LSI | Lembaga Survey Indonesia (Indonesian Survey Institute) |
| MD3 | MPR, DPR, DPD dan DPRD (the People’s Consultative Assembly, the Legislative Council, the House of Representatives, and the Regional Houses of Representatives) |
| MPR | Majelis Permusyawaratan Rakyat (People’s Consultative Assembly) |
| MTEF | Medium Term Expenditure Framework |
| Musrenbang | Musyawarah Perencanaan Pembangunan (Deliberation Forum for Development Planning) |
| NasDem | Partai Nasional Demokrat (National Democrat Party) |

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| NGOs | Non-government Organisations |
| P3K2 | Program Prioritas Pembangunan Kabinet Kerja (Priority program support for working cabinet) |
| PAN | Partai Amanat Nasional (National Mandate Party) |
| Panja | Panitia Kerja (Working Committee) |
| Pansus | Panitia Khusus (Special Committee) |
| PD | Partai Demokrat (Democrat Party) |
| PDI | Partai Demokrasi Indonesia (Indonesian Democratic Party) |
| PDIP | Partai Demokrasi Indonesia Perjuangan (Indonesian Democratic Party of Struggle) |
| Perda | Peraturan Daerah (regulation issued by the local legislature) |
| Perkada | Peraturan Kepala Daerah (regulation issued by the district head) |
| Perppu | Peraturan Pemerintah Pengganti Undang-Undang (Government Regulation in Lieu of a Law) |
| Perum | Perusahaan Umum (Special Purpose Entity) |
| PKB | Partai Kebangkitan Bangsa (National Awakening Party) |
| PKI | Partai Komunis Indonesia (Indonesian Communist Party) |
| PKS | Partai Keadilan dan Sejahtera (Prosperous Justice Party) |
| PLN | Perusahaan Listrik Negara (State Electricity Company) |
| PPP | Partai Persatuan Pembangunan (United Development Party) |
| Raker | Rapat Kerja (Working Meeting) |
| RAPBN | Rencana Pendapatan dan Belanja Negara (State Budget Bill) |
| Renja KL | Rencana Kerja Kementerian Lembaga (Annual Work Plan for Ministries and Agencis) |
| Repelita | Rencana Pembangunan Lima Tahun (Five Year Development Plan) |
| RKA KL | Rencana Kerja dan Anggaran Kementerian Lembaga (Spending Agency Budget Working Plan) |
| RKP | Rencana Kerja Pemerintah (Government Work Plan) |
| Rp | Rupiah |
| RPJM | Rencana Pembangunan Jangka Menengah (Medium-term Development Plan) |

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| Sekber Golkar | Sekretariat Bersama Golongan Karya (Joint Secretariat of Functional Groups) |
| SoEs | State-owned enterprises |
| Supersemar | Surat Perintah Sebelas Maret (Order of March the Eleventh) |
| UP2DP | Usulan Program Pembangunan Daerah Pemilihan (Proposal for a Constituency Development Program) |
| UUD 1945 | Undang-Undang Dasar 1945 (the 1945 Constitution) |
| YLBHI | Yayasan Lembaga Bantuan Hukum Indonesia (the Indonesian Legal Aid Institute) |

# Abstract

This thesis explores the nature of public budget-making through a study of the interplay between formal political institutions and informal practices within Indonesia's budgetary arena after the 2014 elections. It draws on a body of theory that deals with the role of political institutions in budget-making and engages with key theoretical debates in area studies about the role of politicians and parties within Indonesia's political system since the advent of democracy.

Based on data collected through participant observation, in-depth interviews and a study of primary source documents, the thesis examines the legislature's behaviour in the budget-making process. Drawing on three case studies, it argues that the legislature's relationship to political parties and the executive arm of government behaviour is influenced not only by the President's constitutional budgetary powers, but also by electoral rules that encourage legislators to prioritise access to patronage resources over party affiliation. In other words, the budget-making process is driven by a combination of the executive's need to advance its budgetary agenda in a multiparty presidential setting, the absence of party direction and discipline and legislators' need to secure patronage resources.

These findings offer new insights not only into the budgetary process but also into the workings of Indonesia's legislature. First, the case studies show that the presence or absence of a governing coalition is not a key determining factor in providing stability in the budget decision-making process. Second, they demonstrate that—in the absence of effective coalitions—the use of constitutional budget-making powers to maintain the support of the legislature comes at a particularly high political cost. Third, they reveal a form of cartel-like behaviour among individuals, rather than parties, which challenges the applicability of cartel party theory in the Indonesian context.

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# Chapter 1: Introduction

Since the fall of the Suharto regime in 1998, Indonesia has been transformed from a system of authoritarian rule to a democratic polity. During this period, a series of institutional reforms has accompanied the process of political reform. These include reforms to the relationship between the executive and legislative arms of government, reforms to the electoral process, decentralisation, and the establishment of a Constitutional Court and several national commissions (Crouch, 2010). Some scholars assert that the transition that commenced in 1998 had effectively ended by 2004, as evidenced by popular acceptance of the democratic system, the absence of any significant political force threatening to overthrow democracy, and the existence of a consensus among political actors that conflict should be resolved through the constitutional framework (Liddle & Mujani, 2013). However, democratic consolidation in post-Suharto Indonesia is far from complete. As McLeod (2005, p. 368) has argued, the Indonesian people now have the opportunity to elect their governments, but those governments are hostage to an extortive legislature and an uncontrollable judiciary; at the same time, decentralisation has given rise to a raft of new political players engaging in rent-seeking activity at the local level.

The opening up of Indonesia's polity has been accompanied by the opening up of a previously closed budgetary system (Juwono & Eckardt, 2008, p. 298). Despite the national legislature's low level of institutional capacity, it now has virtually unlimited power to amend the executive's budget proposals (Hawkesworth, Blöndal, & Choi, 2009; Juwono & Eckardt, 2008). There has also been a significant increase in the number of players involved in the budgeting process, not only as a result of the decline in the level of executive control over the legislative arm of government, but also because of the increased number of political parties now represented in the legislature. However, these developments have not stemmed the misuse of public funding by government officials and politicians. According to the Supreme Audit Body (Badan Pemeriksa Keuangan, BPK), over Rp 285.23 trillion in public funds was misused between 2005 and 2017 (Badan Pemeriksa Keuangan, 2017, p. 214). Between 2004 and 2017, the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK) arrested 127 legislators at the national and local levels, as well as 25 ministers and 17 heads of local government (Katadata, 2017). Significantly, these budget-related corruption cases involved politicians from a wide range of political parties.

As these examples suggest, there is an ambiguous relationship between the governance reforms that have been introduced as part of the democratisation process and budget-related corruption. On the one hand, the governance reforms—especially the separation of power between the executive and the legislature—have strengthened the legislature's ability to exercise budget oversight in relation to the role of the executive (Lienert, 2005, p. 6). On the other hand, as Kramer (forthcoming) argues, the twin processes of democracy and decentralisation have created opportunities for new forms of corrupt activity. For example, the emergence of greater political competition as a consequence of the introduction of an open-list proportional system can increase levels of corruption. This is because the system encourages politicians to seek illegal resources through the budget-making process in order to cover the costs of their re-election campaigns (Chang, 2005). Yet, two decades on from the advent of Reformasi, we still have little understanding of the mechanisms through which power relations between political institutions and actors influence the legislature's role in budget decision-making, the institutional incentives that drive parties and individual legislators, or of the informal practices that drive the budget-making process.

This thesis addresses this gap by analysing the interplay between the formal and informal political institutions that govern the interactions among budget actors, with a focus on how legislators behave towards political parties and the executive. It does this by studying the distribution of power and resources among these budget actors through three case studies, namely capital injections into state-owned enterprises, the optimisation fund and the aspiration fund. By analysing the constraints imposed on the process by the political environment, the interplay between the executive and the legislature, and the incentives available to different budget actors, it contributes to our understanding of how political fragmentation and the open-list proportional electoral system affect the workings of the legislature in the budget-making process and, indeed, the political system more generally.

**Research Question**

There is a growing consensus in the international literature on public budgeting that the distribution of resources between different actors and interest groups is a political process rather than merely a technocratic one. As Rubin (2010, p. 31) argues, budget decision-making is influenced by the environment, the budget process, and the individual strategies of different actors, who have individual motivations and strategies to achieve their own objectives. The outcomes of this process reflect the relative power of budget players within and between the different branches of government (Rubin, 2010, p. 2).

By contrast, the literature on budget-making in Indonesia, which is still in its infancy, is dominated by studies that adopt a technical approach (Siallagan, 2013; World Bank, 2007). The very few studies that discuss the politics of budgeting have dealt primarily with the role of the legislature in the budgetary process and political budget cycles at the district level (Hawkesworth et al., 2009; Juwono & Eckardt, 2008; Sjahrir, Kis-Katos, & Schulze, 2013). These studies conclude that the legislature's powers in the budgetary domain are too wide-ranging, and that legislators focus on line items rather than budget policy and strategic considerations (Hawkesworth et al., 2009; Juwono & Eckardt, 2008). They do not address the question of how the interplay between political institutions and informal mechanisms for the exercise of political power shape the behaviour of the legislature in the budget-making process.

This thesis places particular emphasis on the formal political institutions that govern the budget-making process and the patterns of behaviour and strategies of state budget actors in the decision-making arenas associated with them—budget committees, standing committees, political parties and less formal political groupings within the legislature—many of which act as informal institutions. This thesis does not examine the politics of budget formulation within in the executive. Rather, it concentrates on the budget decision making within the legisulature, since that is the arena in which budget players with different political background and interests interact. It asks how power is distributed and influence is exercised by budget players within the institutional framework of budget-making—in other words, who gets what? In seeking to answer this question, it addresses three further questions, namely:

1) What are the decision-making mechanisms within the budget process, both formal and informal?
2) In what ways do these formal and informal institutions influence the distribution of power among budget actors?
3) What are the incentives (explicit and implicit) available to different budget actors, and how do these incentives affect their behaviour in the budget-making process?

In addition to enhancing our understanding of the budget-making process, the thesis contributes to broader debates about the nature of Indonesia's formal political institutions and the ways they are affected by the informal institutions that continue to influence its democratic polity. The thesis tests this understanding of how parliamentary cartels work in the budgetary process. It argues that the dynamics of the budgetary process are driven by a combination of the executive's need to win support for its budgetary agenda, the absence of a dominant political party, and the legislature's need to capture patronage resources – resulting in a form of cartelisation within the legislature based on individual interest.

**Theoretical Framework**

This thesis adopts an institutionalist approach, which posits that that formal rules and informal constraints govern interactions between budget players (North, 2005). As such, it examines the multiple institutions and political dimensions that influence the interplay between formal and informal political institutions in the budget decision-making process. This approach makes it possible to contribute new insights to the literature on Indonesian politics by testing some key assumptions of its main schools of thought. These concern the ways in which formal political institutions, such as the separation of powers, electoral rules and constitutional budgetary powers, interact with informal institutions like oligarchy, clientelism and political cartels in the pursuit of access to state resources.

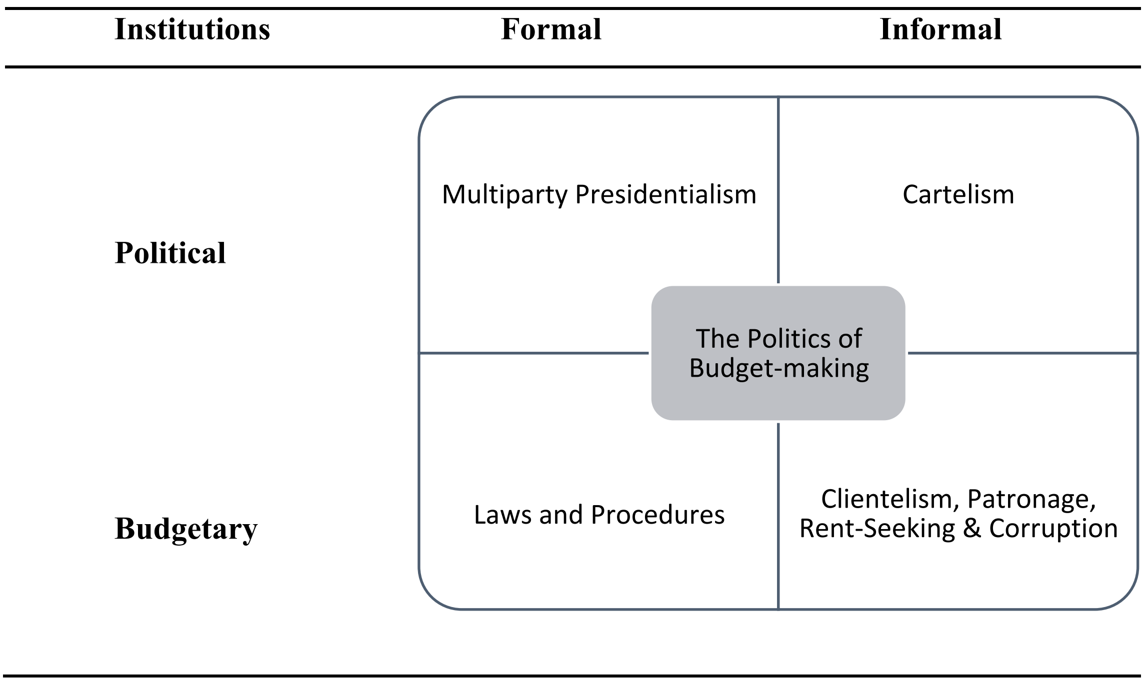


**Figure 1.1. Formal and Informal Institutions in the Budget-making Process**

The thesis engages with the four main approaches to the study of politics in post-authoritarian Indonesia, namely oligarchy theory (Hadiz & Robison, 2013; Winters, 2013), cartelism (Ambardi, 2008; Slater, 2011) multiparty presidentialism (for example, Hanan, 2012; Liddle & Mujani, 2006; Sherlock, 2015), and approaches that focus on clientelism, corruption, rent-seeking and patronage (for example, Allen, 2015; Aspinall, 2014; Aspinall & Sukmajati, 2016). Drawing on a critical reading of these approaches as they apply to budget-making, it constructs an analytical framework that synthesises elements of multiparty presidentialism, cartelism and approaches that focus on clientelism, patronage, rent-seeking and corruption (Figure 1.1). In deploying this analytical framework, the study underscores the importance of systematic investigation of both the formal rules that govern the budget-making process and the informal political institutions that shape the political dynamics of resource allocation at the national level.

As Figure 1.1 suggests, at the political level, this framework draws on (1) multiparty presidentialism, which explains the constraints and incentives that shape interactions between the executive and the legislature; and (2) cartelism, which provides a foundation for investigating the informal institutions that influence the ways in which legislators pursue their personal and political interests through the budget-making process. At the level of budgetary practice, these political institutions facilitate the ways in which constraints are imposed, and opportunities provided, by the formal institutions (laws and procedures) that shape individual legislators' capacity to engage in clientelist exchanges, as well as patronage, rent-seeking and corruption. At the same time, they also affect the ways in which individual legislators relate to each other and to their parties.

**Approach and Methodology**

In its analysis of the power relationships between the executive and the legislature in the budget decision-making process, this thesis employs a case study approach. This type of approach is appropriate for the purposes of this study because it allows for in-depth study of processes, actors and organisations using different sources of data collection as the need arises (Creswell, 2013, p. 104). As Yin (2014, p. 14) argues, resources of this type enable us to answer the 'how' and 'why' questions informing the research. Case studies have been widely used in research by political economists because they have benefits for theory construction (Levy, 2008, p. 5). They provide stronger evidence for hypotheses and report more information (Odell, 2001, pp. 170-171).

To identify appropriate cases for investigation, I made use of purposive case selection. According to Seawright and Gerring (2008, p. 296), purposive case selection involves putting together a representative sample that reflects variations on relevant dimensions of theoretical interest. Informed by questions of how the political environment shapes the interaction between budget players and what incentives (both explicit and implicit) are available to different actors involved in the budget-making process, I initially considered a wide range of potential cases before finally selecting three cases for detailed study. These were capital injections into state-owned enterprises, the optimisation fund, and the aspiration fund.

The case of state-owned enterprises was selected because it provides insight into the way political fragmentation and political groupings in the legislature affect the interactions among different actors in the budget decision-making process. The second case, the optimisation fund, was selected because it reveals the ways in which the decision-making mechanisms within the budget process, both formal and informal, and the distribution of power among key actors generate opportunities for transactions between those actors. The final case, the aspiration fund, was selected because it exposes the incentives (both explicit and implicit) available to different groups, and the ways in which those incentives influence decision-making by different budget actors.

Primary data on each of these cases was collected during three rounds of observation of the budget discussions (the 2015 budget, the 2015 budget revisions and the 2016 budget). During these field observations, I took detailed notes on the way the political dynamics of the post-2014 election period shaped budget decision-making within the legislature. Field observations were complemented by analysis of the transcripts of budget discussions, both for this period and for a number of preceding years, in order to trace the interactions between different players from the 2009 election to the passing of the 2016 Budget Bill. I used these documents to examine the ways in which the executive and legislative branches of government exert power in their attempts to influence budgeting outcomes. These documents also helped me to develop a map of party ideology and party fragmentation and to trace the impact of the parties' political standpoints on the budget-making process.

I also conducted 39 in-depth, semi-structured interviews in order to gain an insight into the strategy and behaviour of budget players. These consisted of 13 interviews with members of the legislature's budget committee from different political parties, six interviews with support staff working in the legislature's secretariat and for political parties, and 10 interviews with high-ranking bureaucrats in the Ministry of Finance, Ministry of State Planning Agency (Badan Perencanaan Pembangunan National, Bappenas) and the Office of

Presidential Staff (Kantor Staf Presiden, KSP), including a former Minister of Finance and a former Minister responsible for the State Planning Agency. These informants were chosen due to their direct involvement in the budget-making process. My interviews with the legislators focused on political fragmentation, coordination between legislators and parties, relationships between the executive and the legislature and between parties, and relationships between legislators and their constituents that might influence their behaviour in the budget-making process. Interviews with ministers and bureaucrats focused on the budget discussion process and their interactions with the legislature. In addition, I interviewed three persons from BPK and KPK, and seven activists from civil society organisations (CSOs) whose work focuses on budget research and advocacy, the legislature and business associations.

I triangulated my findings by collecting data from multiple sources to develop an in-depth understanding of the phenomenon and as an alternative to data validation (Denzin, 2012). For example, during interviews, I confirmed and clarified the data I had collected during field observations in order to better understand the reasons behind the outcomes of particular budget discussions. In addition, to examine implications for budget allocation policy arising from relationships among the various players, I conducted an analysis of budget and finance data, to identify trends within budget allocations over the period examined in the study. I also used secondary sources, including articles published in newspapers and in online media, to chronicle events related to the political dynamics of the budget decision-making process.

Qualitative data was processed through content analysis which systematically compared budget players and their connections to the budgetary process in different fiscal years. This analysis assessed the interests of budget players, as evidenced during budget discussions, and the methods they used to influence budget allocation policies. I supplemented my analysis of the qualitative data with an analysis of the quantitative data I collected, in order to assess the historical connections between budget allocation policy and the actors/interest groups involved in the budget-making process. I then used my findings to examine how the separation of power between executive and legislature plays out in terms of the number of seats held by individual political parties and the presence or absence of a majority government coalition.

## Thesis Outline

The chapters that follow set out the theoretical framework and the political context in which budget-making takes place, before attention turns to the three case studies that form the core of the thesis. Chapter Two begins with a discussion of different scholarly approaches to the politics of budgeting, namely the technocratic, incrementalist and public choice approaches. Building on this discussion, the chapter highlights the role of the multiple institutions involved in the budget-making process and the political dimensions of that process. Since the political dynamics of budget-making involve the broader political system and the informal power play among budget actors, the chapter then critically examines the applicability of the four main approaches to the study of Indonesian politics post–1998—oligarchy, cartelism, multiparty presidentialism, and clientelism—to the study of budget-making. Finally, it sets out the different elements of the analytical framework used in the thesis.

Chapter Three explains the context of the study. The first part of the chapter shows how changes in Indonesia's political institutions from the authoritarian period (1967–98) to the democratic period (1998–) have shaped the political dynamics of the contestation over state resources. The first part of the chapter focuses on Suharto's use of formal political power (constitutional power) and informal political power (material and coercive power) to maintain the stability of his regime. It then compares these power structures with the more proportional distribution of power between the executive and legislature in the post-Suharto period. The second part of the chapter analyses the ways in which changes in both formal and informal political institutions have affected the budgetary process. As this section demonstrates, the centralisation of power under Suharto undermined budgetary institutions through the use of state resources to support the patronage networks that underpinned his government. By contrast, since Reformasi, the President no longer plays a dominant role in the budget-making process. Although the Budget Bill is the only bill that must be initiated by the President, the legislature has the authority to reject and modify it, which means that the executive must engage in negotiation before the bill can be passed.

Chapter Four examines the impact of the post-2014 political constellation on the budgetary process. It first describes the impact of the legislative and presidential elections on the composition of the legislature in President Jokowi's first year in office. To show how the broader political dynamic translated into the budgetary arena, the second part of the chapter compares the political dynamics of the 2015 budget, which was formulated in the final year of Yudhoyono's tenure as president, with the revisions to that budget and the 2016 budget proposed in the first year of Jokowi's presidency. This chapter identifies important contradictions between the 2015 budget revisions and the formulation of the 2016 budget, which it argues did not reflect the broader political constellations within the political system at that time. Rather, it revealed the extent to which the interests of individual legislators affect the distribution of budget resources.

The next three chapters present the case studies. Chapter Five investigates the extent to which party standpoint and affiliation influence the political dynamics of budget-making in the case of capital injections into state-owned enterprises. After first describing the political economic context, it traces the interactions between the executive arm of government and the legislature and, within the latter, between the Sectoral Commissions, the Budget Committee, and individual legislators from both coalitions in two rounds of budget discussions. This case provides evidence that the approval of budget proposals is not related to party platform, the size of the ruling coalition or the level of political fragmentation in the legislature. Rather, the standpoint of the parties on capital injections into state-owned enterprises is influenced by the interests of individual legislators.

Chapter Six offers an explanation for the disconnect between the President's partisan power (coalition size) in the legislature and the political dynamics of budgeting, through a case study of what is known as the 'optimisation fund' (Dana Optimalisasi). The first section explores the way the legislature's constitutional power to amend budgets can be leveraged as a source of rent-seeking. It then shows how optimisation funds generated by the legislature's power to amend the budget in the 2015 and 2016 budget rounds were not only used to serve legislators' interests but also formed part of the 'executive toolbox' deployed by the executive arm of government to win the legislature's support. The chapter argues that, on the one hand, the optimisation fund provides incentives for all legislators, regardless their party affiliation, to advance their individual interests. On the other, while it makes it possible for the executive to garner support for its Budget Bill, the use of this element of the 'executive toolbox' comes at a high political cost, since this incentive cannot be used selectively to shore up coalitional support.

To understand the individualistic behaviour of legislators, Chapter Seven examines the case of the 'aspiration fund' (Dana Aspirasi). The first section of the chapter traces the emergence of the aspiration fund as an informal institution in conjunction with the introduction of an open-list system of proportional representation, which shifted the focus of election campaigns away from parties to an emphasis on personal votes. The chapter then identifies the drivers of demands for the formalisation of the fund, the most important of which were the impetus to seek patronage resources and legislators' unequal access to budget resources as a consequence of the legislature's committee structures. It then documents the ways in which legislators maintained the covert distribution of the aspiration fund when formalisation measures initially failed. As the chapter reveals, these drivers pushed legislators toward individualistic rather than party- or coalition-oriented behaviour.

The concluding chapter reflects on the contribution of this thesis to the study of politics and budgeting through its focus on the relationship between formal political institutions and informal practices and their impact on interactions between the executive and the legislature in multiparty presidential democracies. This chapter underscores the empirical and theoretical implications of the study's findings in regard to the decreasing role of political parties within the legislature and the emergence of a new form of cartelism in the budget-making process based on individual, rather than party, interests. The diminishing role of political parties and the rise of pragmatism among legislators are the guiding narratives in this analysis of legislature behaviour in the politics of budgeting in Indonesia.

# Chapter 2: Theoretical Framework

The political life of the nation is writ large in its national budgets. The President, political parties, individual legislators, interest groups and other social actors compete with each other to have their interests reflected in budget allocations (Caiden & Wildavsky, 1996, p. 6). The budget thus reflects the relative power of budget players within and between the branches of government (Rubin, 2010, p. 2). The budget provides insights into the ways in which elected officials mobilise resources to address society's problems and the outcomes of policy struggles. As such, the budget-making process is perhaps the second-most important political arena after the elections. The study of budgeting, thus, must pay attention to the political dimensions that shape how political actors interact and compete for state resources.

The framework of this study draws on a body of theory dealing with the relationship between politics and budgeting, the role of politics in the budgetary process and the types of political institutions that affect the budget decision-making process. It also engages with key theoretical debates in area studies about the nature of Indonesia's political system since the advent of democracy and the role of politicians and parties within it. The first section of the chapter provides an overview of scholarly approaches to the politics of budgeting, with a focus on how political institutions affect the budget decision-making process. It argues that this process can only be understood by taking into account its political dimensions and the role of the multiple institutions that play a part in it. The second section situates the budget-making process within a review of the literature on Indonesian politics in order to gain insight into the interactions between developments in the Indonesian political system and the dynamics of the budget decision-making process. The final section synthesises the insights from this literature and outlines the framework used in this thesis.

The chapter argues that the political dynamics of the budgetary process are shaped by the interaction of formal political institutions—the form of government, electoral rules, and the rules that influence relations between the executive and legislature—and informal institutions, such as power networks, the provision of incentives, and dominant norms and values. This discussion provides the theoretical context for the study as a whole.

## The Politics of Budgeting

The budget process is a political process in which multiple political actors with different interests meet to determine the distribution of resources through institutionalised and repeated interactions. As such the budget process offers an insight into the role of, and incentives for, political actors and their contribution to the process within a set of political institutions. Nevertheless, we have little understanding of the extent to which the political environment affects resource allocation decisions. Indeed, while some scholars agree that 'the study of budgeting is just another expression for the study of politics' (Wildavsky, 1974, p. 126), there is no comprehensive theory of budgeting as a political process (Fozzard, 2001; Neuby, 1997; Rubin, 2010; Sekwat & Gibran, 2009).

As Norton and Elson (2002, p. 22) assert, the fundamental question when studying the politics of budget-making concerns the way in which power is distributed within the budget-making process. A key point here is that budgets are not technocratic products; they are the result of complex negotiations among budget players. For the government, almost all policies have consequences for the budget and, by extension, implications for budget negotiations. Through the budget process, the state is able to aggregate diverse preferences, address distributive conflicts, and protect the most vulnerable (Mejía Acosta & De Renzio, 2008, p. 8). The budget also can be used as a 'token of exchange', in the sense that it provides resources for policies that can help the government build coalitions or compensate potential losers who may otherwise block particular policy proposals (Hallerberg, Scartascini, & Stein, 2009, p. 7). This means that the budget process cannot be examined solely in technical terms. Instead, it must be positioned as a fundamental element of the broader policy-making process and the broader political dynamics that shape it. For individual politicians, meanwhile, the budget is a resource deployed to enhance political support. A politician can attempt to influence the budget allocation in order to gain political support from particular groups. Thus, from this perspective also, budget-making is necessarily a political process.

### *Approaches to the Study of Budget-making*

There is a substantial body of literature examining the impact of political institutions on resource allocation decisions. For instance, Rubin (2010, p. 26) identifies five approaches to budgeting: reformism, incrementalist negotiation, the role of interest groups, the budget process itself and policy debates. In a similar vein, Fozzard (2001) describes five major perspectives on the resources allocation process, namely administrative, rationalist, incrementalist, public choice and principal agent. The three most relevant of these five perspectives to the Indonesian case are discussed below. These are the technocratic approach, the incrementalist approach and the public choice approach.

The technocratic approach to budgeting assumes resource allocation decisions are technical and rational. This approach was introduced in the United States in the 1960s, and was subsequently applied to developing countries by development agencies (Fozzard, 2001, p. 26). It sees politics as a form of interference that makes budgetary decisions less rational and reduces efficiency (Rubin, 2010) and it emphasises the need for budgets to link resource allocation to policy outcomes (Fozzard, 2001, p. 26). According to this view, the most significant tool in budget allocation decisions is the use of quantitative techniques such as cost-benefit analysis, logical frameworks to support resource allocation decisions and monitoring tools (Fozzard, 2001). This approach is useful in the sense that it focuses attention on formal roles and structures within the budget-making process, and on the formal rules of budget decision-making. However, by identifying the political aspects of the process as an obstacle to good budget-making rather than an inherent part of the process, it fails to provide the tools necessary to analyse the way in which different political interests play into the budget process, or how compromises are negotiated between those political interests.

The incrementalist approach assumes that the political component of the budget-making process is stable and focused on budgetary institutions. This approach was introduced by Wildavsky (1974) in his seminal book *The Politics of the Budgetary Process*, a study of the dynamics of political behaviour and institutional arrangements in the budgetary process in the American Congressional budget system. Wildavsky (1974, p. 15) viewed budgeting as a product of political bargaining among a group of actors in the legislature and the executive, who meet each year to decide on budget allocations using the previous budget as their baseline. Within those constraints, the budget process itself is governed by formal and informal rules of behaviour and interaction, through which political interest groups bargain over conflicting goals, make side-payments and try to motivate one another to accomplish their objectives (Wildavsky, 1974, p. 130). From the incrementalist point of view, the strategies and behaviour of budget players are determined by the relationship between spending agencies (which have a role as 'advocates') and the role of the Treasury or Ministry of Finance as 'guardian' (Caiden & Wildavsky, 1996, p. 102; Wildavsky, 1974, pp. 11-13; 1986). The incrementalist approach has provided a framework for the analysis of institutional role-play and institutional politics in determining resource allocations, but by assuming that changes in the budget are gradual and always informed by a stable political and economic context, it ignores the complexity of the political environment that influences the budget process.

The third major approach in the field of budget studies is derived from public choice theory. Public choice theory assumes the individuals are motivated by self-interest and, since budget-making involves elected officials, it is influenced by their self-interest in securing election or re-election. As a consequence, self-interest determines that politicians will promise budget allocations to particular groups in their constituencies (Fozzard, 2001, pp. 33-34). Public choice theory adopts the concepts of concentrated benefit and dispersed cost, in which the benefit of a particular resource allocation is concentrated in the hands of a small number of specific groups or a particular geographic location, while the cost of those allocations are spread through taxation, producing what is known as a 'common pool' problem (Von Hagen, 2005, p. 2). The common pool problem arises when particular groups, and the politicians who represent them, engage in rent-seeking behaviour, and their demands for higher resource allocations lead to increased expenditure, deficit and debt. To overcome rent-seeking and the common pool problem, the public choice approach attempts to centralise budget processes in the hands of the Ministry of Finance (Von Hagen, 2005). In this way, it aims to represent the average taxpayer in limiting the ability of politicians to promote particular interests and overrule the interests of minorities (Fozzard, 2001, p. 37). In essence, public choice theory rightly suggests that budgets are a product of negotiation among political players who act according to incentives they face and the institutions that govern their interaction.

More recently, studies using the public choice approach have paid closer attention to the relationship between political institutions and budget policy. Since this approach assumes the budget process is dominated by the self–interest of government officials seeking re-election, the fiscal outcomes are likely to be different in different political institutions. Some scholars agree that variations in the common pool problem are generated by variance in political institutions like electoral rules, a fragmented party system, the role of the legislature and government coalitions (Bräuninger, 2005; Falcó-Gimeno & Jurado, 2011; Martin & Vanberg, 2013; Persson, Roland, & Tabellini, 2007; Wehner, 2010). For example Persson et al. (2007) reveal that proportional elections result in a more fragmented party system and that coalition governments generate higher spending than majoritarian electoral systems. Coalition governments face a 'common pool resource' problem because party members concerned with re-election allocate budgets based on their constituents' preferences. A higher number of parties involved in a government coalition is thus likely to lead to a higher deficit than in the case of single party or minority government (Martin & Vanberg, 2013; Persson et al., 2007). The common pool problem also arises when incumbents run deficits in order to fund particular items to attract voters and tie the hands of their successors, forcing them to cut future spending or increase taxes (Eslava, 2011). Wehner (2010) also found the association between partisan fragmentation in the legislature leads to higher deficits when there is no limit to the budgetary amendments that can be made by the legislature. In short, these studies suggest that budget deficits tend to be higher in proportional representation systems, fragmented party systems and situations where political power is distributed through a coalition.

The relationship between politicians' motives to stay in office and budget-making can be investigated by examining the changes in the pattern of resource allocation in election years, or what is known as the political budget cycle. It is widely accepted that incumbents attempt to use public budgets as campaign instruments to help them stay in office. Empirical studies of this phenomenon offer a means by which to examine patterns in the changes made in budget allocations during election years that can be attributed to electoral rules and countries' experience of democracy. Some scholars examine this phenomenon in developed and developing countries (Shi & Svensson, 2006) and in different political systems (Persson & Tabellini, 2003). Shi and Svensson (2006) identify significant changes in the pattern of budget allocation in newer democracies, in which expenditure increases and revenues fall, leading to a larger deficit in election years. In addition, different patterns of fiscal policy during election years are found in different electoral systems, whereby taxes tend to decrease in majoritarian electoral systems and the allocation for spending tends to increase in proportional electoral systems (Persson & Tabellini, 2003).

Together, these approaches in the literature on the politics of budgeting provide a useful starting point in the analysis of the way power relations play out in resource allocation through national budgets, as summarised in Table 2.1. In summary, these approaches acknowledge the importance of the political environment in shaping fiscal outcomes. Those using the public choice approach have identified the influence of political institutions as well as technocratic ones. However, the public choice approach does not focus on informal institutions in the budgetary process.

As some authors have argued, the politics of public budgeting not only involves formal rules of behaviour and interaction such as laws that govern deadlines and rules that govern, and set limits on, the distribution of power between the executive and legislature, but also informal political institutions and practices of interaction within and between the executive and legislative branches (Hallerberg et al., 2009; Hildreth & Lewis, 2011; Rakner, Mukubvu, Ngwira, Smiddy, & Schneider, 2004; Von Hagen & Harden, 1995).

**Table 2.1. Approaches to the Study of Budget-making**

| Dimension | Technocratic Approach | Incrementalist Approach | Public Choice Approach |
|---|---|---|---|
| **Who** | Bureaucrats, Ministry of Finance (limited power of the legislature) | Policymakers, legislators, formal budget actors | Politicians seeking to achieve their individual goals particularly for re-election |
| **How** | Adherence to the formal roles and structures of budget-making process | Continuation of the previous budget with incremental decisions as a result of repeated negotiations between advocates and guardians | Individuals come together in the budget process for their own mutual benefit and pursue personal incentives through the budget institutions that govern their interactions |
| **Assumptions/ implications** | Assumes that the society's needs can be known and measured through rational decision-making | Assumes that the previous program was legitimate and that there is minimal chance of radical change in budget allocations | Assumes that each player has enough information to identify what is in their best interest |

As Rakner et al. (2004, p. 2) explain in their study of Malawi:

> No study of budgeting would be complete if it stopped only with formal institutions. Informal networks shape how actors interact. In fact, formal rules are often incomplete and budgets rarely operate without a thick array of informal mechanism that allow them to operate.

This study revealed that the budget-making process in Malawi is determined to a greater extent by the informal process and political negotiations that respond to incentives in both formal and informal institutions (Rakner et al., 2004). In a similar vein, Rubin (2010) argues that budgetary outcomes are not only determined by the budget process and the strategies of individuals but also by the environment. As these studies make clear, to understand the politics of budget decision-making, it is necessary to analyse informal environmental factors such as networks of power, informal actors, unofficial incentives, the discretion of budget players and the norms and values that are dominant within that process (Norton & Elson, 2002).

***Bringing A Political Approach into Budgeting Studies***

The study of budgeting requires a comprehensive view that takes into account its multiple institutional and political dimensions, and the links between them. Forms of government, as well as electoral and party system rules, determine the distinctive arrangements under which budgets are made. For example, the role of the legislature in budget-making cannot be examined solely in relation to the electoral system; the power of the executive, the influence of political parties, and their relationships with their constituencies also need to be taken into account.

Previous studies have provided an analytical framework through which to understand the roles and incentives of budget players and their involvement in the budget process within a set of formal institutions and constraints. This framework provides the analytical tools necessary to understand the extent to which changes in the pattern of resource allocation are influenced by different political systems—in Indonesia's case, a multiparty presidential system with an open-list proportional electoral process. However, the application of this framework has typically relied on quantitative measures, which cannot account for the formal and informal dynamics that shape the budget process. For instance, the common pool problem that arises in government coalitions cannot be explained by the number of coalition parties alone; it also requires consideration of possible cartel arrangements serving as a sub-set of the informal rules of the game. These theories of budgeting also fail to explain how the interactions between political players at the macro level influence the distribution of power between budget players and, in turn, their behaviour within the budget process.

In order to address these weaknesses, it is necessary to analyse the interactions between the broader political system and the informal institutions that emerge in the legislature, as well as their interactions within the actual budgeting process. In the next section, I begin this task by examining four key analytical approaches to Indonesian politics, namely oligarchy, party cartelism, multiparty presidentialism, and clientelism.

## Situating Budget-making within Approaches to Indonesian Politics

Indonesia's democratic system has been much-studied since its emergence in 1998. During that time, a number of distinct approaches have emerged. One group of scholars argue that Indonesian politics continues to be dominated by oligarchs who amassed great wealth during or after the Suharto years (Robison & Hadiz, 2004; Winters, 2011). A second group consists of proponents of cartel party theory, who emphasise the increasing level of collusion between political parties aiming to capture the resources of the state (Ambardi, 2008; Slater, 2004). A third group of scholars adopt a pluralist approach to the study of political institutions, arguing that despite its evident limitations, the post-Suharto period is an example of gradual democratic consolidation, which has provided an arena of ongoing contestation among political interests (Aspinall, 2013; Hanan, 2012; Liddle, 2013; Mietzner, 2009). Another group work examining the role of patronage, clientelism, and corruption within the Indonesian polity (Aspinall, 2014; Aspinall & Klinken, 2010; Tomsa & Ufen, 2013).

In this section, I evaluate the relevance of each of these schools of thought to the study of the dynamics of budget-making. Having outlined the approach taken by each group of scholars, I examine their insights and weaknesses in the context of the study of the politics of budget-making. I conclude that the combination of the multiparty presidential system, as a formal institution, and a variation of cartelism, as an informal institution, shape 'rules of the game' that govern interactions between budget players involved in the material exchange for political support.

### *Oligarchy*

Oligarchy is a system of rule in which political power is concentrated in the hands of a small number of wealthy people who shape public policy to gain private benefit. The oligarchy thesis gained traction in the New Order period, when a small number of individuals accrued a massive amount of wealth and influence under the prevailing political system. Since 1998, however, Indonesia has achieved a relatively high level of democratic practice, as indicated by the conduct of free elections, freedom of the press and the lifting of many of the restrictions on civic participation (Liddle, 2013; Mietzner, 2009). Proponents of the oligarchy thesis claim, however, that these democratic institutions simply mask the enduring power of predatory elites carried over from the New Order period. Indeed, the primary claim of the oligarchy thesis, as it applies to contemporary Indonesian politics, is that the shift of Indonesian politics from authoritarianism to democracy has not diminished, let alone eliminated, the power of the oligarchs (Ford & Pepinsky, 2013).

The primary proponents of the oligarchy thesis are Winters (2011) and Robison and Hadiz (2004). While there are many similarities between the arguments made by these scholars, their approaches draw on different theoretical premises (Ford & Pepinsky, 2013). Principal among the similarities is the claim that oligarchs were able to reorganise themselves in order to protect their wealth and political position during the democratic transition (Hadiz & Robison, 2013). In other words, oligarchs have simply adapted their strategies to suit the new democratic climate (Winters, 2013, pp. 106-107). Similarly, both these analyses argue that counter-oligarchic forces have failed to overcome their fragmentation under the repressive power of Suharto, and so have insufficient power to challenge the power of the oligarchy (Winters, 2013, p. 110). As a consequence, 'incremental demand for reform by individuals or groups can only be piecemeal' (Hadiz & Robison, 2013, p. 54) and no substantial reform can emerge without approval from oligarchs.

In terms of intellectual underpinnings, Hadiz and Robison (2013, p. 37) draw on neo-Marxist thought, describing Indonesia's political, social and economic infrastructure as 'a system of power relations that enables the concentration of wealth and authority and its collective defense' and examining the relationship between the politico-bureaucratic elite and the bourgeoisie that emerged during the New Order. By contrast, the approach to oligarchy introduced by Winters (2011) draws on power resource theory and takes a more actor-centred approach. Winters also describes oligarchy as a product of material inequality but focuses on the actions of individual oligarchs as they deploy their material resources 'to defend or enhance their personal wealth and exclusive social position' (Winters, 2011, p. 6).

### ***Multiparty Presidentialism***

The second body of literature on Indonesian politics of relevance to this thesis deals with the relationship between the executive and the legislature in multiparty presidential systems. As Mainwaring (1993, p. 198) has argued, multiparty legislatures and presidentialism are a 'difficult combination'. Because legislative and presidential elections are separate, the presidential system can produce legislatures with minority government party representation, leading to deadlocks between the executive and the legislature (Mainwaring, 1993, p. 214). As Mainwaring and Shugart (1997, p. 429) argue, the likelihood of a crisis in a multiparty presidential system is greatest when the President has strong constitutional powers but faces a legislature in which he or she lacks partisan support. In situations where the President faces majority opposition in the legislature, his or her legislative agenda may be stalled, leading to deadlock. Moreover, the more fragmented the party system is, the harder it is for the

President to command a majority in the legislature, to assert party discipline and control the legislature (Mainwaring & Shugart, 1997, p. 418). Later work on multiparty presidentialism focuses on the role that stable multiparty coalitions can play in helping to reproduce the features of systems in which majority parties elect the country's leaders. This focus on 'coalitional presidentialism' helps overcome 'the institutional dilemmas posed by the coexistence of a presidential executive with a fragmented multiparty legislature' (Chaisty, Cheeseman, & Power, 2014, p. 74).

In an effort to understand the dynamics between presidents and the legislature, Raile, Pereira, and Power (2011, p. 323) identify an 'executive toolbox' available to presidents facing a fragmented legislature. Key elements in this toolbox are budgetary power and the distribution of cabinet seats or other 'coalition goods' to generate legislative support (Raile et al., 2011, p. 324) . In a case study of Brazil, Melo and Pereira (2013, p. 6) propose three conditions for a successful coalitional presidential system: the constitution must provide the President with the power to deliver coalition goods to coalition members; the President must be constrained by institutionalised control mechanisms; and s/he must use multiple tools including cabinet seats, budgetary power and policy concession to gain support from legislators. More recent empirical work by Chaisty, Cheeseman, and Power (2015, p. 6), based on interviews with 350 legislators across nine countries on three continents, identifies five major instruments used by Presidents to establish and maintain a coalition, namely cabinet authority, budgetary power, partisan power, legislative power, and the ability to exchange favours (Chaisty et al., 2015)

Other studies of how multiparty presidential systems can operate as a parliamentary system focus more closely on the budget-making process. Posner and Park (2007), for example, compare relations between the executive and the legislature in two-party parliamentary systems and multiparty presidential systems. In two-party parliamentary systems, the executive and the legislature have little incentive to engage in budget negotiations. Moreover, the legislature's power to amend the budget is limited in the two-party presidential system because major amendments could be considered as a vote of no confidence in the cabinet and the majority party in the legislature forms the government (Posner & Park, 2007, p. 11) . In multiparty presidential systems, the role of the legislature is much stronger because the executive must win majority support in order to pass its budget.

There has also been analysis of the use of the power to amend budgets as a tool for winning legislative support. Individual legislators view the legislature's power to amend the budget as an important means of providing tangible benefits to their constituents and thus enhance their chances of re-election. Thus, presidents can use their budgetary power to reward or punish legislators for supporting or opposing executive policy. In this way, the President can provide incentives to individual legislators to advance his/her policy agenda (Pereira & Acosta, 2010, p. 651) . In a case study of the Brazilian political system, Pereira and Mueller (2004, p. 781) found that annual budget appropriations provide the executive with a low-cost tool for winning legislators' support. In Brazil, presidents can use their partial veto to approve or reject individual amendments proposed by the legislators (Pereira & Orellana, 2009, p. 65). As this suggests, the ability of the legislature to amend the budget is a central part of the political exchange required to achieve support for the government's agenda in a multiparty presidential system. The President's budgetary power provides resources that can be allocated to the legislature for delivery to individual legislators' constituencies. In other words, the ability of the legislature to amend the budget serves two functions: while the executive views it as a means of winning legislators' support, legislators see it as a way of securing resources for their supporters.

In the Indonesian context, several studies have been conducted on the adoption of a multiparty presidential system. For example, Liddle and Mujani (2006) identify three elements of Mainwaring's 'difficult combination' that surfaced in the early stages of the Indonesian multiparty presidential system, namely deadlock between the executive and the legislature, ideological polarisation and fragility within the ruling coalition. Kawamura (2013, p. 186) examines the relationship between the executive and the legislature in the context of the legislative process, concluding Kawamura (2013, p. 186)Kawamura (2013, p. 186)that the Indonesian President is weak not only because of the powers accorded to the legislature under the constitution and low levels of representation of government parties in the legislature, but also as a consequence of the very nature of coalition governments. Kawamura (2013, p. 182) also argues that delays in the legislative process are caused by the Indonesian tradition of 'consensus' (*musyawarah/mufakat*) in decision-making, according to which every fraction in the House has the power to extend the process of deliberation. A third study of note here is Haris' (2014) evaluation of multiparty presidentialism during Yudhoyono's first term, which concludes that the relationship between the executive and the legislature tended to be 'legislative-heavy' following the constitutional amendments of 2002. In particular, the legislature's authority to question presidential policy and its right to approve high-level officials, including the commander of the army, the police chief, and the directors of state banks led, he argues, to political conflict. Haris (2014) also identifies other institutional factors embedded in the multiparty presidential system, such as the coalition model, party discipline and the electoral system, which may trigger political conflict.

Other studies have drawn different conclusions about the operation of Indonesia's multiparty presidential system. For example, Sherlock (2015, p. 104) argues that, rather than holding a superior position in its relationship with the executive, during Yudhoyono's two terms as President the legislature had insufficient capacity to use its power effectively to balance the powers of the executive. Sherlock also contends that the strategy of coalitional presidentialism only works when the President has an interventionist style that allows him/her 'to lead and discipline his cabinet' (Sherlock, 2015, p. 94). A more optimistic view of the Indonesian multiparty presidential is proposed by Hanan (2012), who argues that the relationships between the executive and the legislature work in Indonesia because of the combination of formal and informal institutions. This allows for compromise to be reached through informal decision-making mechanisms such as lobbying and consultation between the President and leaders of the legislature.

This literature on Indonesia's multiparty presidential system draws attention to several significant aspects of its institutional design. First, it emphasises the importance of the formal distribution of power in the relationship between the executive and the legislature, including the powers granted by the constitution, and the partisan power of the President. Second, it shows that the disadvantages of the multiparty presidential system can be minimised when the President uses a range of tools to win support from the legislature, including his/her power over the budget. Third, it suggests that an analysis of the relationship between the executive and the legislature should also consider other political institutions, formal and informal, that affect the behaviour of the legislature, such as the electoral system, party discipline and informal decision-making mechanisms. In sum, this approach provides a useful framework for examining the roles and incentives built into the executive–legislative relationship and the ways in which they affect the budget decision making process.

### *Cartelism*

The third major approach in the literature on Indonesian democracy is based on the premise that Indonesia's political system is driven by party cartels. Cartel theory was developed by Katz and Mair (1995) to describe the functioning of parties in Western Europe, where political parties tend to cooperate with each other rather than competing. In their view, political parties largely sacrifice their ideological and programmatic goals in order to maintain access to state resources:

> In the cartel model … none of the major parties is ever definitively 'out'. As a result, there is an increased sense in which electoral democracy may be seen as a means by which the rules control the ruled, rather than the other way around ... Moreover, as the distinction between parties in office and those out of office becomes more blurred, the degree to which voters can punish parties even by generalized dissatisfaction is reduced (Katz & Mair, 1995, p. 22).

In essence, according to this view, political parties collude to diminish political tensions that could disrupt stable government and, subsequently, their hold on political power. Key features of such systems are that party competition occurs only in the elections, ideology is not a determining factor in forming coalitions, and there is an absence of meaningful opposition in the legislature.

Cartel theory was applied for the first time to Indonesia by Slater (2004, p. 68), who asserts that Indonesian democracy is in fact a collusive democracy. Based on a close study of the structure and operation of the legislature during Megawati Sukarnoputri's presidency (2001–04), Slater argued that the Indonesian political system had fallen into an 'accountability trap' through the formation of a cartel that drew in potential oppositional parties by allocating all of them seats in cabinet. In subsequent analyses, Slater recognised that the cartel party system was disrupted with the introduction of direct presidential elections in 2004. However, he argued that the dynamics of power sharing within the legislature remained the same, as Yudhoyono included all significant political parties in his ruling coalition (Slater, 2011, p. 4). For Slater, the distribution of committee chair positions based on the number of seats a party held in the legislature confirmed the existence of a cartel system through which no party was left without a position. In order to describe this phenomenon, he introduced the term, 'proportional presidentialism' in his discussion of cabinet coalitions during Yudhoyono's terms in office (Slater, 2011, p. 24). In the same vein as Slater, Ambardi (2008, p. 319) asserts that the formation of 'oversized' coalitions, which include parties with different ideologies, results in the absence of meaningful opposition. As Ambardi (2008, p. 325) observes, ideology is not a determining factor of party behaviour in Indonesia. This is because political parties tend to act as a group to secure their collective interests to collect rents from state resources. Ambardi (2008, p. 324) also emphasises the importance of examining party competition at a systemic level, focusing on interactions between the parties rather than their individual behaviour.

A major difference between Indonesia and the European contexts about which Katz and Mair (1995) write is the nature of the resources available to parties. Katz and Mair (1995) defined cartelisation in a context where political parties had become dependent on state subsidies to meet their financial needs. By contrast, in Indonesia, as Slater (2004, p. 67) reminds us, political parties' need for financial resources motivates them to exploit state resources by joining a presidential coalition, noting for example that 'cabinet seats also provide ministers with direct access to patronage treasures'. Moreover, as Ambardi (2008, pp. 301-303) adds, parties have access to an added resource in the form of opportunities to use the political power of the legislature to engage in rent-seeking activities through the budget decision-making process.

***Clientelism, Corruption, Rent-seeking and Patronage***

The final body of literature on Indonesian politics to be considered here is the literature on clientelism, corruption, rent-seeking and patronage, which tends to focus more closely on the role individual interest plays in the allocation of public resources. It is important to note at the outset that there is significant overlap between these concepts (Hilgers, 2011; Hutchcroft, 1997; Khan & Sundaram, 2000; Lambsdorff, 2002). The term 'clientelism' is often used interchangeably with patronage, corruption, vote buying and pork barrelling (Hilgers, 2011, p. 571). Likewise, as Khan and Sundaram (2000, p. 23) assert, the cost of corruption and costs within patron-client networks are sometimes used to capture rents.

A number of scholars have attempted to establish a clear definition of clientelism. Hicken (2011, p. 303), for example, argues that the key characteristic of a clientelist exchange 'is that the chief criterion for receiving the targeted benefit is political support, typically voting'. Similarly Hilgers (2011, p. 573) identifies its main characteristic as 'the interest-maximising exchange of resources for political support' with elements of longevity, diffuseness, face-to-face contact and status inequality. Drawing on these key elements, I propose three factors that can be considered as central to a clientelistic exchange. First, the exchange must be repetitive and involve a series of transactions to ensure the loyalty of the client and his/her steady support for the patron. Second, there must be an element of hierarchy or inequality, such that the patron has a higher political, economic and social standing than the client. Third, the relationship must be one of mutual benefit in order to sustain the client-patron exchange.

Having established the key features of clientelism, it is necessary to distinguish between clientelism and these related concepts. Hutchcroft (1997, p. 646) explains the distinction between the concepts of rents, corruption and patron-client in terms of their focus of analysis:

> Rent literature focuses attention on what happens when state actions distort markets, corruption literature examines how public roles and private influences conflict within state agencies, and clientelism literature encourages clearer analysis of the relationships of power permeate states, societies and markets.

When it comes to their practical manifestations, however, the distinction is not so clear. For some scholars, corruption is a possible form of rent-seeking, in which preferential treatment is restricted to specific interest groups (Lambsdorff, 2002, p. 107). Similarly, while clientelist exchanges do not necessarily involve corruption, as Hicken (2011, p. 303) points out, it becomes an element of such exchanges in cases where the resources that change hands are sourced illegally. Hutchcroft (1997, p. 645) also suggests that the patron–client relationship is not always corrupt, but ‘when the patron occupies a public position or extracts favours from those in public positions, patronage and corruption overlap’.

The final concept to consider is that of patronage, which is closely related to clientelism (Hicken, 2011, p. 295; Hilgers, 2011, p. 575; Tomsa & Ufen, 2013, p. 5). Strictly speaking, clientelism is broader than patronage, since in cases of patronage, resources used in the clientelist exchange must be extracted from the state, thus the patron must be an office holder or have access to state resources (Hicken, 2011; Tomsa & Ufen, 2013). Aspinall and Sukmajati (2016, pp. 4-5) distinguish the two concepts by defining patronage as the material benefits exchanged for political support and clientelism as the relationship between politician and voter.

In studies on clientelism and patronage in Indonesia there is a strong focus on the relationship between the clientelistic personal vote and legislators’ behaviour (Allen, 2015; Aspinall, 2014; Aspinall & Sukmajati, 2016). Allen (2015, p. 84) suggests that clientelism undermines party discipline, based on ‘evidence that clientelistic ties affect party switching and affiliation behaviour patterns of legislators’. Aspinall and Sukmajati (2016, p. 14) note that the distribution of patronage to voters has grown alongside shifts in the electoral system towards ‘candidate-centred voting’. As a consequence, as Aspinall (2014, pp. 100,108) notes, legislators show more interest in budget-making than in law-making, since budget-making provides a means to access development projects that can benefit their supporters.

Studies of Indonesian clientelism and patronage underscore the importance of further study of the ways in which the desire to cultivate personal votes affects legislators' behaviour in relation to state resources. Many scholars argue that the main motivation for pork barrelling is to cultivate personal votes in order to enhance chances of re-election (Baskin, Haibo, Samrat, & Ryan, 2010; Keefer & Khemani, 2009; Sutter, 1999), and that the degree to which this practice is adopted is influenced by the electoral structure (Ames, 1995; Cox & McCubbins, 1986; Lancaster, 1986). Lancaster argues that 'the closer an incumbent's identity is tied to a constituency region, the greater the incentives to allocate pork barrel projects in an attempt to secure re-election' (Lancaster, 1986, p. 70). Hicken and Simmons (2008) also conclude that public resources tend to be directed to projects for which legislators can claim personal credit and control distribution in personal vote systems.

The allocation of resources to attract personal votes incurs distribution costs in the form of 'efficiency losses and losses due to corruption' (Hicken & Simmons, 2008, p. 110). As Chang (2005, pp. 717-718) argues, the need to cultivate personal votes in open-list proportional systems can tempt incumbents to seek illegal resources to build their personal image among their constituents and to finance their re-election campaigns. A higher level of corruption has been identified in proportional representation systems that also elect a president (Kunicova & Rose-Ackerman, 2005, p. 573). In some Asian and African countries, patronage spending has become institutionalised in the annual budgetary process. Internationally, this allocation is widely known as a Constituency Development Fund. A key characteristic of these funds is that legislators exert a degree of control over how they are allocated in their electoral regions (International Budget Partnership, 2010, p. 3). Constituency Development Funds thus act as a distributive mechanism in the annual budget process, and are widely used to compensate for the legislature's relatively low capacity to amend budgets in Westminster-style democracies, which have majority electoral systems (Baskin et al., 2010, p. 2). Like pork barrelling, Constituency Development Funds are, then, a primarily political project.

The implementation of Constituency Development Funds has been controversial, since they involve legislators in the utilisation of budget resources. The prime concern of scholars and civil society activists is that they violate the principle of separation of powers between the executive and the legislature (International Budget Partnership, 2010; Tsubura, 2013), since they position the legislature as an implementation agency rather than an agency for policy and oversight. In a study of six Asian and African countries, the International Budget Partnership (2010, pp. 5-16) identified three major weaknesses in the operation of these funds. First, the presence of a Constituency Development Fund focuses the relationship between legislators and their constituents on what benefits, in the form of projects, can be made available in return for voter support. Second, it undermines the efficiency and effectivenes of the use of public resources, because legislators are more likely to select beneficiaries and support projects that are of lower priority in a technocratic sense if those beneficiaries and projects enhance their chances of re-election. Third, the absence of a comprehensive and long-term strategy means that there is a risk of duplication of development projects from other resources such as ministries and sub-national government projects, but also an increased risk of corruption (International Budget Partnership, 2010).

**Synthesising the Framework**

How, then, can we draw on these different approaches to elucidate the Indonesian budget-making process? While oligarchy theory continues to have currency because it explains the vastly unequal distribution of material wealth in Indonesian society and its impact on electoral politics, it has little explanatory power in relation to budgeting. The very wealthy may support the election campaigns of some legislators and exert some influence on the executive but, as the earlier discussion of budgeting theory illustrates, budget-making is a complex process involving formal rules that govern that process and day-to-day interactions between the executive and legislature and between legislators. The oligarchy approach offers us little in the way of tools to help us analyse the dynamics of these interactions.

With their focus on the system of government and the operation of the legislature, studies of Indonesia's multiparty presidential system and of cartel-like behaviour among political parties are of more direct utility. The first group of studies lay the theoretical foundation for assessing how political institutions structure budget-making as a political arena, and in particular how power is distributed between the executive and the legislature in the budgetary process. With its emphasis on informal institutions within the legislature, cartelism provides useful insights into the behaviour of parties, their incentives and their interactions in the context of the budget-making process and, in particular, whether political parties collude or compete in their attempts to seek rents from the process of resource allocation. What it does not do, however, is sufficiently interrogate the role (or absence) of party discipline. Embedded in its focus on parties as its baseline unit of analysis is an assumption that parties can exert party discipline over legislators such that those legislators act in the parties' interests. As a close study of the budget-making process reveals, however, the formal and informal structures of Indonesia's legislature empower individual legislators to form cartel-like alliances in order pursue their *own* interests rather than the interests of their parties in the allocation of state resources. And, of course, these dynamics cannot be divorced from the dynamics of clientelism and patronage. In particular, they are central to understanding individual legislators' motivations for seeking to exploit institutional loopholes in an attempt to capture state resources for use in clientelist exchanges.

When used together, theories of multiparty presidentialism—which explain the executive's motivation for relinquishing a degree of power over resource allocation in exchange for support for the presidential policy agenda—and a modified form of cartel theory that takes into account individuals as well as parties, provide a broad analytical framework in which to understand the interplay between formal and informal political institutions in shaping the political dynamics of resource allocation at the national level. This study draws on these theoretical foundations to examine the ways in which legislators bargain with the executive and navigate the formal and informal institutions within the legislature to leverage state resources through the budget-making process. As the/my case studies demonstrate, the interplay between formal and informal institutions in the electoral system, within the legislature, and between the legislature and the executive, shape the political dynamics of the budgetary process in varied and nuanced ways and encourage cartelisation across party lines. Before turning attention to those case studies, however, it is first necessary to explain the changes in the political system, and in the dynamics of budget-making, since the advent of democracy.

# Chapter 3: Politics and Budgeting from the New Order

The process of budget-making is a political process that structures competition between agencies and programs and gives different budget actors power over the way funding is allocated, thus influencing broader policy outcomes (Hildreth & Lewis, 2011, pp. 11-14). As Rubin (2010, p. 2) argues, public budget-making not only constitutes an important political arena but one that has a unique relationship to policy, since policy decisions are made in the context of budgetary opportunities and constraints. Furthermore, the allocation of resources necessarily reflects the distribution of power 'when a process involves power, authority, culture, consensus, and conflict, it captures a great deal of national political life' (Wildavsky, 1986, p. 2).

As noted in Chapter Two, this thesis adopts an institutional approach, positioning the budget decision-making process within the formal and informal institutions through which budget players interact. A comprehensive understanding of public budgeting needs to take its multiple institutional and political dimensions and the broad political environment into account. For instance, legislators' role in the budgetary process cannot be understood fully by focusing on the written rules that set limits and govern the distribution of power between the executive and legislative arms of government. It is also vital to analyse aspects of the legislators' role that lie beyond those formal rules.

In order to achieve these aims, it is important to first examine the extent to which different political environments prevailing in Indonesia since the New Order have affected the dynamics of political interest groups in the budget-decision making process. This chapter describes the political environment and the political dynamics of the budget process, first under the New Order and then in the post-New Order period. It argues that the political dynamics of budget players' interactions during the budget-making process has changed dramatically as a consequence of the shift from authoritarianism to democracy. The budget-making process is no longer dominated by the executive. Political reforms adopted in the post-Suharto era have increased the power of legislature, and thus expanded the number of players involved in the budget process.

## The Politics of Budgeting during the New Order Period

Prior to the political reforms of 1998, which marked Indonesia's transformation from authoritarianism to democracy, political life was dominated by the state (Crouch, 1979; Emmerson, 1983; MacIntyre, 1992). Suharto's New Order was characterised by a process of depoliticisation, in which political parties were positioned as troublemakers (Cribb & Brown, 1995, p. 114). Although the regime presided over rapid economic growth as a result of its ability to maintain macroeconomic stability, during the 1990s it adopted practices associated with a predatory state (Thee, 2012, pp. 80-84). The collapse of Suharto revealed the patronage networks embedded in the New Order political system, which had increased its economic system's vulnerability to external shock.

This section evaluates the ways in which President Suharto maintained power during his 32 years in office and the implications for the country's fiscal institutions. It argues that by manipulating the constitutional framework, which served as the source of his formal political power, and developing an extensive patronage network, Suharto controlled not only the executive but also the legislature and the judiciary. Both strategies undermined Indonesia's fiscal institutions and budgetary processes, and in particular, the legislature's role in controlling and monitoring the budget. As the chapter demonstrates, the co-option of institutions such as the National Legislature (Dewan Perwakilan Rakyat, DPR) and the BPK made it possible for Suharto to manipulate the process of budget-making in a way that served his own interests and those of his allies, to the detriment of the country's economic position.

***The Political System***

Indonesia's New Order (1966–98) was a centralised authoritarian regime (Crouch, 1979; Liddle, 1992 ; McLeod, 2005). As Liddle (1985, p. 184) has argued, the political structure of the New Order took the shape of a pyramid, with its apex occupied by the presidency and supported by the bureaucracy and military, which were used to systematically control every aspect of society in order to maintain the stability of the regime. Suharto drew on a combination of constitutional, coercive, and material power to shore up his regime, which had its legal basis in a letter of instruction signed by President Soekarno on 11 March 1966—called the Order of March the Eleventh (Surat Perintah Sebelas Maret, Supersemar). Supersemar delegated authority to Suharto, as Chief of the Army's Strategic Reserve Command (Komando Strategi Angkatan Darat, Kostrad), to combat the Indonesian Communist Party (Partai Komunis Indonesia, PKI), which had been accused of the assassination of six senior generals on the night of 30 September the previous year (Liddle, 1992, pp. 447-448).

To maintain the backing of the armed forces, Suharto compensated his military supporters with positions in the bureaucracy that had the potential for rent-seeking (Crouch, 1979, pp. 577-578). To justify military influence in the government, Suharto established the doctrine of 'dual function' (*dwifungsi*), according to which the military had a role in political life as well as the responsibility for defence of the nation. Its security function was described with reference to the doctrine of 'territorial management' (Pembinaan Wilayah). The territorial command, known as the Operational Command for the Restoration of Security and Order (Komando Operasi Pemulihan Keamanan dan Ketertiban, Kopkamtib), was structured in parallel with the makeup of the civilian government (Budiardjo, 1986, p. 1220). There is also evidence that the armed forces penetrated, and came to dominate, the government bureaucracy. As Emmerson (1983, pp. 1226-1227) asserts, the military's domination of the bureaucracy was a 'vital part' of its strategy. The armed forces controlled the upper echelons of strategic departments such as Defence and Security and Home Affairs, more than 80 per cent of which was occupied by the armed forces. The armed forces also dominated the lower levels of government: in the early years of the New Order more than half of the country's provinces had governors from military backgrounds (Crouch, 1972, p. 213).

Material power was also used to maintain the regime. Suharto realised that economic development was important as a way of generating the resources needed for the distribution of patronage within the elites and to pacify potential opposition. He had come to power during a period of economic crisis (McLeod, 2000, pp. 100-101), and soon after the establishment of the New Order, a group of Western-trained economists was appointed to lead the economic recovery. Under their direction, the government liberalised foreign trade, stabilised the exchange rate, and built relationships with international donor agencies (Crouch, 1979; Resosudarmo & Kuncoro, 2006; Robison, 1988). In contrast to Soekarno, Suharto prioritised Indonesia's economic development in his nation-building rhetoric. Called 'the Father of Development' (*Bapak Pembangunan*), Suharto made constant references to 'the economy as the commanding officer' (*ekonomi sebagai panglima*) during the New Order, and stability was framed as a key determinant of economic growth and a justification for the coercive power of the armed forces (Liddle, 1992, p. 449).

While economic development provided the government with a form of legitimacy, it also generated the rent-seeking behaviour that underpinned the economic ascendency of Suharto's inner circle (Cassing, 2000; MacIntyre, 2000). As McLeod (2005, p. 370) has explained, the achievement of economic growth was accompanied by the development of a 'franchise system', under which the system jobs in public institutions are s for the opportunity to use these positions to seek rents. State authority over bank credit, licenses and funding for government projects became the basis for a patronage system that provided a source of income for the army and Suharto's cronies. Suharto also used state–owned enterprises (SOEs) to provide jobs for military officers, in order to ensure their loyalty or to tame his rivals (McLeod, 2000, p. 100). Over time, these systems gave rise to new oligarchs, as officials and military officers began to enter the private sector (Robison & Hadiz, 2004, pp. 54-55).[1]

At the same time, Suharto shored up his legitimacy by invoking his commitment to the 1945 Constitution (Undang-Undang Dasar 1945, UUD 1945), which he claimed Soekarno's 'Old Order' had systematically violated. Suharto promised to implement the 1945 Constitution in a pure and consistent way, through a system of government called Pancasila Democracy (Cribb & Brown, 1995, pp. 114-115).[2] While not explicitly authoritarian, this system was open to authoritarian rule, as the Constitution stipulated that the President was the head of state as well as the head of the government. The President and Vice President were elected by the People's Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR) a body made up of the 460 members of the national legislature and a further 460 government-appointed representatives from the regions and various functional groups (Suryadinata, 1997, p. 191). The legislature, meanwhile, had no law-making authority, but simply acted as a rubber-stamp for laws generated by the executive arm of government. Under new laws issued by Suharto's government, only 360 of the 460 legislators were elected, with a further 100 members appointed from the military. It was thus obvious that pro-government forces would dominate parliamentary decision-making. It is unsurprising, then, that under the New Order, the legislature functioned as a rubber-stamp for the government, although formally it was responsible for legislation, oversight and budgeting (Haris, 2014, p. 54).

To further bolster his political control, Suharto created a political vehicle known as Golkar (Golongan Karya) from the Joint Secretariat of Functional Groups (Sekretariat Bersama Golongan Karya, Sekber Golkar), which had been established under Soekarno

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[1] The patronage system was not only an important source of funding for Suharto's cronies and their families, the armed forces and government officials; it also encouraged the emergence of a domestic capitalist class (Robison & Hadiz, 2004, p. 55). The emergence of this group was supported by state policies that strictly regulated foreign investment and gave domestic firms monopolies in certain areas of business (Robison, 1988).

[2] Pancasila is the five principles of Indonesian state ideology, namely; (1) belief in one God, (2) a just and civilised humanitarianism, (3) national unity, (4) democracy based on the wise guidance of representative consultation, and (5) social justice. As Cribb and Brown (1995) state, the Pancasila itself offered no program or guide to action. Suharto re-interpreted the Pancasila in 1970, when he made it the sole guiding principle (azas tunggal) to be adopted by all mass organisations in the country.

(Crouch, 1972, p. 213; Reeve, 1985, p. 241; Suryadinata, 1997, p. 191).[3] Golkar was born during a crisis of parliamentary democracy, and existed alongside the Development Unity Party (Partai Persatuan Pembangunan, PPP) and the Indonesian Democratic Party (Partai Demokrasi Indonesia, PDI), themselves the result of the fusion of political parties that had survived the political transition. While all three competed in elections, the system operated in such a way that it was almost impossible for Golkar to lose. As a military vehicle, Golkar also had a similar structure to that of the territorial command, from the national level to the sub-national level, and many of its advisors were from the military. Local officials were required to be members. Unsurprisingly, Golkar never received less than 60 per cent of the vote (Suryadinata, 1997, p. 192). As a consequence, Suharto was able to ensure his re-appointment as President in 1973, 1978, 1983, 1988, 1993, and 1998.[4]

***Budgetary Dynamics during the New Order***

The institutional framework of the budget process under the New Order cannot be separated from the political and economic circumstances of that time. The New Order began at an economically fragile time, when the inflation rate stood at more than 600 per cent (McLeod, 2000). Two years earlier, the deficit had been almost double the value of revenue, due to a lack of fiscal discipline (Hadiz, 2001; MacIntyre, 2000). Under the guidance of Suharto's Berkeley-trained advisers, the economy was opened up to foreign trade, investment and loans backed by the Inter-governmental Group on Indonesia (IGGI), a group of international donors (Hadiz, 2001, p. 127), which contributed to economic policy and reform in the financial sector in the 1960s and 1970s (Rosser, 2006b). The New Order government subsequently instituted a series of five-year development plans (Rencana Pembangunan Lima Tahun, Repelita), that gave form to the Basic State Policy Guidelines (Garis-Garis Besar Haluan Negara, GBHN) issued by the People's Consultative Assembly. These plans made it possible for the economy to recover in a relatively short time.

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[3] As Reeve (1985) explains, Golkar was born during the period of Guided Democracy. Soekarno reinstated the 1945 Consitutions by decree to dissolve parliament and formed a new legislature that consisted of functional groups. These functional groups created a joint secretariat, which acted as a political force in opposition to the PKI between 1962 and 1965. In 1966–71 Sekber Golkar became Suharto's instrument of electoral mobilisation.

[4] As Aspinall (2005b, p. 200) notes, however, the results of 1998 elections demonstrated the New Order's loss of political credibility, as opposition forces were excluded rather than co-opted. As a consequence, the election results undermined Suharto's legitimacy.

Indonesia was blessed with plentiful natural resources, a large population and cheap labour, which made it attractive to foreign investors (McLeod, 2000, p. 100). The government succeeded in exploiting these abundant resources to promote its development agenda (Rosser, 2006a, pp. 39-41), achieving an average growth of 8.56 per cent per annum in Gross Domestic Product (GDP) between 1968 and 1973 in all sectors including agriculture (Kuntjorojakti, 1988, p. 177). The successful stabilisation of food prices, and the government's broad-based rural development policies and successful dissemination of new production techniques in food crops, were the mainstay of this remarkable achievement (Thee, 2012, p. 71). After the oil boom of 1973–78, the government shifted its economic policy towards capital-intensive and technology-intensive manufacturing, modern services and physical infrastructure, resulting in the much faster growth of manufacturing sector. In the decade between 1980 and 1990, the country experienced an extraordinary growth rate of 12 per cent per annum (Thee, 2012, p. 71).

From the time of the first five-year plan (1969–74), a budget cycle was scheduled every year (Kuntjorojakti, 1988, p. 176). However, under the New Order, the budgeting process was not supported by strong financial institutions. The legislature had the power to amend budget proposals under Article 23 of the 1945 Constitution, but it never scrutinised or rejected the executive's budget proposals (Hanan, 2012, p. 121; Juwono & Eckardt, 2008, p. 294; Ziegenhain, 2008, p. 70). Formally, the process of budget discussions between the executive branch of government and the legislature provided an opportunity for the legislature to influence the formulation of the budget. As stipulated in Article 138 of DPR Standing Orders 1987–1992, the annual process of budget-making involved a number of steps. The first of these was the preliminary budget discussions, in which the Budget Bill was discussed by parliamentary committees and their counterpart ministries, and in the Budget Committee. Following this step, the President officially introduced the Budget Bill into the legislature, where a further round of discussions took place between the Budget Committee and the government, followed by its approval in the Plenary Session. At the end of the first semester of the fiscal year, the President delivered an 'in-year budget report' and proposed any necessary revisions. At the end of the fiscal year, the legislature declared its approval (jointly with the executive) of the budget report as part of its oversight function.

In practice, budget formulation was dominated by the executive (Hanan, 2012, p. 110) and the legislature exercised no form of budget control (Ziegenhain, 2008, p. 70). An environment of corruption was fostered by the weaknesses in the institutional framework of budget policy, which was marked by a lack of transparency and accountability. This lack of transparency and accountability allowed the budget to be used to serve the interests of Suharto and his cronies. For instance, under Presidential Regulation No.10/1980 on Team Monitoring on Public Procurement and Presidential Regulation No.14/1980 on the Implementation of the State Budget, private companies could receive government contracts from a special fund known as the President's Special Fund (Bantuan Presiden, BANPRES), which was distributed at the discretion of the State Secretariat (Hadiz & Robison, 2013, p. 48). In addition, the responsibilities of the Supreme Audit Body were unclear (Kuntjorojakti, 1988, p. 195). During this period, budget leakage was as high as 30 per cent (The World Bank cited in Hadiz, 2001, p. 128). This lack of accountability was further exacerbated by the extraction of state resources through off-budget mechanisms (Baker, 2015). In addition to formal revenue streams developed under the New Order, a pattern of off-budget activity expanded very rapidly with the oil boom of the 1970s. The resulting revenue streams were hidden and managed through various charitable foundations (Yayasan) and commercial joint ventures (McLeod, 2000, p. 101). One high-profile example of this practice was the notorious corruption scandal involving the state oil company Pertamina under the direction of Ibnu Sutowo. Pertamina channelled a large part of its oil revenues to the armed forces, which used the money to expand its businesses in a range of ventures such as hotels. There was no public accounting for these funds (Mackie, 1970).

In sum, Suharto's wide-reaching control of political resources directly influenced the policy-making process, which became highly centralised under the New Order. In the domain of fiscal policy, none of the country's financial institutions had control or oversight of the budget, creating an environment that encouraged off-budget activities, corruption and budget leakage to serve the regime. In the final years of the New Order, growing public distrust was sparked by the practice of corruption committed by Suharto's cronies and his government (Kramer, 2015, p. 68). Public dissatisfaction was exacerbated by the Asian Financial Crisis, resulting in widespread protest, which ultimately forced Suharto to resign.

## The Politics of Budgeting in Post-New Order Indonesia

Suharto's resignation in May 1998 shifted Indonesia's political framework dramatically, providing reformist groups with the opportunity to establish democratic institutions. Indonesia's path to democracy was marked by amendments to the Constitution and reforms in the electoral system. Constitutional amendments strengthened the legislature and the country's audit institutions, and paved the way for the implementation of regional autonomy.

They also led to reforms to the judiciary, defence and security, and improved the protection of human rights (Crouch, 2010, p. 62). These reforms did not, however, eliminate informal practices. Indeed, as this section demonstrates, the rules of the game in the post-New Order period have been shaped by ongoing contestation between formal and informal political institutions.

***Indonesia's Path to Democracy***

The Asian financial crisis of 1997–98 triggered a period of political chaos which ultimately led to the resignation of Suharto in May 1988. When the rupiah crashed and inflation sky-rocketed in 1997, oppositional forces were drawn together in questioning Suharto's legitimacy (Aspinall, 2005b, pp. 218-221).[5] Despite this pressure, Suharto was re-elected in March 1998 by the People's Consultative Assembly for another five-year term. Subsequently, demonstrations by students and other civil society groups increased in number, reaching a crisis point in May, when massive anti-Chinese riots broke out, causing the deaths of around a thousand people (Feith, Aspinall, & Van Klinken, 1999). Members of the political elite then stepped up pressure on Suharto, who handed over power to Vice President B.J. Habibie on 21 May 1998 (Feith et al., 1999).

On becoming President, Habibie instigated a series of fundamental reforms that provided the foundations for measures instituted by his successors, removing restrictions on the press and media, reforming the anti-subversion law and releasing political prisoners, and facilitating an increase in the number of political parties and the implementation of free and fair elections (Crouch, 2010, p. 27). Since that time, the Indonesian political system has changed dramatically, with the election of thousands of government officials, including presidents, governors, mayors, as well as legislators.

Indonesia's first democratic elections since the fall of the New Order were held in June 1999. In contrast to elections during the New Order, where only Golkar, PDI and PPP were allowed to participate, the 1999 election was contested by the 48 political parties that met the eligibility criteria (Crouch, 2010, p. 51). Although Megawati Soekarnoputri's Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan, PDIP) won the legislative election, Abdurahman Wahid, known as Gus Dur, was elected President

[5] As Aspinall (2005b) explains, elite dissidence, proto-oppositional forces (NGOs), the student movement and Megawati's faction within the PDI had greatly undermined Suharto's legitimacy. However, the opposition movements remained poorly organised and lacked the ability to develop an alternative leadership.

by the new People's Consultative Assembly. Wahid's presidency contributed to reform in the area of human rights, and he was committed to limiting the role of the military (Haris, 2014). However, his leadership style was erratic and controversial, and he lacked support within the legislature, which had a far stronger voice in the post-New Order period (Crouch, 2010, p. 31). Conflict with the legislature eventually forced Gus Dur to step down in 2001, when he was replaced by Megawati.

Wahid's demise prompted further reform of the political system through a series of constitutional amendments designed to clarify the relationship between the executive and the legislature (Crouch, 2010, pp. 54-56; Kawamura, 2013, p. 160). One of the most crucial impacts of these constitutional amendments was the mandating of a stronger role for the legislature, which shifted the Indonesian political system from a presidential system towards a parliamentary system (Crouch, 2010, pp. 54-55). Amendments were made to emphasise the importance of clear procedures for the impeachment of presidents, direct presidential elections and the establishment of two new institutions, a Regional Representative Council (Dewan Perwakilan Daerah, DPD) and a Constitutional Court. As a consequence of the establishment of the Regional Representative Council, the People's Consultative Assembly is now divided into two chambers, the members of both of which are now elected. The role of the Regional Representative Council, which consists of members representing every province, was to monitor and give consideration to local issues in the legislative and budgetary processes. The Constitutional Court, meanwhile, functions to ensure the law complies with the Constitution and responds to requests by the House of Representatives to assess whether the President and Vice President have violated the Constitution (Crouch, 2010, p. 56). It also has a role in deciding disputes over the election results, mandating the dissolution of political parties and disputes between state institutions. An important outcome of its establishment was the elimination of the power of the legislature to simply remove a president from office.

In 2004, Indonesia introduced direct presidential elections. Many observers saw Yudhoyono's election through the new process as a milestone in Indonesia's transition to democracy (see, for example, Aspinall, 2005a; Crouch, 2010). Further reform also took place with the strengthening of representation in the legislature by the direct election of all candidates and the application of an electoral threshold to consolidate the party system (Mietzner, 2009, pp. 106-107). However, proportional representation, which was adopted from the 1999 election on, produced a multi-party system that in turn created political fragmentation without any majority party in the legislature (Table 3.1). This system produced minority presidents who lacked partisan support in the legislatgure, forcing them to form oversized coalitions which embraced all significant political parties. This meant that there was no identifiable opposition and the check and balance function of the parties failed, as a consequence of what Slater (2004, pp. 64-65) calls the 'accountability trap'. While this challenge was most significant for Wahid and Megawati, the practice continued under Yudhoyono, whose position was nevertheless not as exposed, since he could no longer be impeached after losing political support (Haris, 2014, p. 175; Sherlock, 2015, p. 97).

**Table 3.1. The Relationship between the President and the Legislature**

| **President** | **B.J. Habibie** | **Wahid** | **Megawati** | **1st SBY** | **2nd SBY** |
|---|---|---|---|---|---|
| **Period** | 20 May 98 – 19 Oct 99 | 20 Oct 99 – 22 July 01 | 23 July 01 – 19 Oct 04 | 20 Oct 04 – 19 Oct 09 | 20 Oct 04 – 19 Oct 14 |
| **System of presidentialism** | Executive is Dominant | Legislature is Dominant | | Separation of Executive, Legislative and Judicial Powers | |
| **% held by the ruling party** | 65.0% | 10.2% | 30.6% | 10.2% | 26.4% |
| **% held by the parties of the President & Vice President** | – | 40.8% | 42.2% | 33.3% | 26.8% |
| **% held by the ruling Coalition** | 97.8% | 94.8% | 83.2% | 63.8% | 75.5% |
| **Number of coalition parties** | 2 parties & 1 fraction | 7 parties & 1 fraction | 5 parties & 1 fraction | 8 parties | 6 parties |

Source: Adapted from Kawamura (2013, p. 175)

Following these reforms, the division of power between the executive and the legislature with regard to policy-making also shifted from control by the executive to a more evenly-balanced relationship. A series of constitutional amendments made the legislature no longer just a rubber stamp for government proposals. A clearer separation of powers was implemented between the legislative and executive branches, with substantial powers of oversight now invested in the former, giving it the ability to propose policies to the executive based on article 20A of the 1945 Constitution, which states that it has the authority to make laws. The power of the legislature has been further boosted by the fact that the President no longer has the power to veto bills passed by the legislature (Juwono & Eckardt, 2008, p. 298). However, since the Constitution requires joint deliberation between the executive and the House, the President can use this provision as an informal veto power. The President can also simply not send a minister to participate in deliberations in the relevant sectoral committee. If the President takes either course of action, the House cannot progress a bill to a final vote in the Plenary Session (Kawamura, 2013, p. 164; Sherlock, 2015).

The dominance of technocrats within the bureaucracy has been challenged, not only by politicians in the legislature but also by other interest groups including civil society. Through Indonesia's democratic transition, political space has become more open, providing a sphere for representatives of civil society to consolidate and express their interests, seek election and take advantage of intra-elite contests to deliver reform on issues such as the military, women's rights and labour (Mietzner, 2013, pp. 34-42). There have been many civil society victories in the policy-making arena, both within key legislative and executive institutions and outside the formal political systems, as lobbyists exercise pressure on decision-makers. For instance, even though labour unions were marginalised and fragmented under Suharto's rule, the government passed the Manpower Law in 2003 as a result of pressure from the labour movement (Caraway & Ford, 2014). In terms of formal politics, the pro-democracy activists now integrated into formal political institutions have used their positions to influence policy (Mietzner, 2013, p. 33).

Overall, then, Indonesia has remained on a path to democracy, characterised by decentralisation, free and fair elections and civic participation. As Mietzner (2009, p. 105) asserts, democratic consolidation in Indonesia has been more successful than in other countries in the Southeast Asian region, as indicated by the emergence of stronger political institutions, attempts to eradicate corruption and the absence of ongoing communal conflict. It is significant that the distribution of power in decision-making processes—including those associated with the national budget—has taken place alongside transformation of the formal political institutions.

### *Budgetary Dynamics in the Post New Order Period*

The budget process is an extremely important political activity, arguably second only to general elections themselves. Amendments to the Constitution in 2001 and 2002 introduced a role for the legislature in what was formerly a closed budgetary system. In budgetary matters, the Constitution provides exclusive power to the President in the sense that, unlike other laws which can be proposed by the President or the House of Representatives, the Budget Bill can only be initiated by the President. In the event that the House of Representatives fails to approve the Budget Bill, the government must adopt the budget of the preceding year (Article 15 clause 6, Law No.17/2003). Yet while Budget Bills are proposed by the President, they must be approved by the legislature, a process in which the Sectoral Commissions and the Budget Committee—which have the power to amend budget proposals—play a key role. This fundamental change affected the distribution of power among key budget players. The more even distribution of power between the executive and legislative branches of government in the budgetary process has improved the transparency and accountability of budgetary decision-making.

The impetus for the Indonesian government to embark on fundamental reform of the budget process was clearly linked to the Asian Financial Crisis, which forced President Suharto to turn to the International Monetary Fund (IMF) for assistance. The IMF provided a USD 430 billion rescue package, which required institutional reform including the introduction of the rule of law, trade liberalisation, the introduction of fiscal transparency and the recapitalisation of banks (Resosudarmo & Kuncoro, 2006, p. 350). These reforms have produced three fundamental changes that have resulted in improvements in budget accountability. First, the legal framework for the budget accountability system in Indonesia has been significantly improved. Second, with the introduction of new laws, the budget system shifted from a traditional public administration paradigm to modern practices of financial management underpinned by a results-oriented approach. Third, the direction of budget accountability has changed from vertical accountability within the bureaucracy to horizontal accountability outside government. Moreover, as explained below, reform of Indonesia's budgetary institutions can be divided into three elements: reform of the legal framework, changes in the distribution of power between actors in the budget process and changes the process of budget decision-making.

*The Legal Framework*

The budgetary system in place at the time of democratisation was effectively a continuation of the system used during the Dutch colonial period (Ginting, 2003, p. 353). After protracted negotiations, the Megawati administration enacted a finance law package to replace the colonial-era regulations in 2003–04. It consisted of four related laws, namely Law No.17/2003 on State Finance, Law No.1/2004 on the State Treasury, Law No.15/2004 on State Audit and Law No.25/2004 on the National Development Planning System.

The main objective of Law No.17/2003 on State Finance was to ensure the management of the national budget in an efficient, effective, transparent and accountable manner and to reduce off-budget activities, which had served as a loophole for legalised corruption during the New Order period (Ginting, 2003, p. 354). The law sets out the institutional framework for the budgetary process and budget structure, the actors involved and their responsibilities, and the relationship between institutions involved in the management of state finances. It also clarifies the role of the legislature in approving the budget and in holding the executive responsible for its implementation. Before the introduction of the law, there were separate routine and development budgets, the former being the responsibility of Ministry of Finance and the latter the responsibility of Bappenas. The new system unified these budgets in an effort to reduce duplication and improve the interaction between the planning and budgeting processes. Law No.17/2003 also states that government financial reports must be audited by the Supreme Audit Body six months after the end of the fiscal year, with the resulting report provided to the legislature for review. The Supreme Audit Body also has a responsibility to audit all the local budgets (Anggaran Pendapatan dan Belanja Daerah, APBD) and state-owned enterprises. In terms of fiscal discipline, a 'balanced budget' system had been adopted during the New Order, which required that revenue and spending should be balanced. Under Law No.17/2003 this was replaced by a performance budget approach, incorporating a deficit-surplus system. In this system, the government is required to provide comprehensive information, including performance indicators, rather than simply financial information (Ginting, 2003, p. 355). The new law also introduced tighter fiscal rules limiting budget deficits to a maximum of 3 per cent of GDP.

Law No. 1/2004 on the State Treasury was drafted in response to the need to establish a modern treasury system and to complement the State Finance Law. It focuses on accounting methods to be used in the budget and treasury's responsibilities in the management and implementation of state finances. As defined in the law, treasury's function with regard to fiscal management includes budget allocation, payment, accounting systems, cash management and financial planning, debt management government procurement and internal control system (Siallagan, 2013, p. 98). The main objective of Law No.15/2004 on State Audit, meanwhile, is to ensure that government institutions are accountable and transparent. It seeks to achieve this by obliging each ministry and local government to submit a financial report to the Supreme Audit Body for auditing before it is tabled in the legislature. Law No.15/2004 also sets out a definition of auditing and auditors and defines the scope of auditing, as well as auditing standards, the freedom and independence of auditors, their access to information, audit results and follow up. The law also regulates the timeframe available for budget reports and mandates the establishment of an office of the Supreme Audit Body in every region to conduct budget audits at the sub-national level. In short, the law provides the legal basis, premised on international best practice, for a strong and independent auditing process (Dwiputrianti, 2011, p. 87).

Finally, Law No.25/2004 on the National Development Planning System provides a new foundation for the national planning system and requires integration between planning processes and budget processes. The law resolved the problem of dual budget functions of Bappenas and the Ministry of Finance (Siallagan, 2013, pp. 103-104)[6]. Law No.25/2004 defines national development planning as integrated planning across government departments and agencies, as well as across different levels of government. It also outlines the national development planning approach, specific milestones and dates for preparation and approval of development plans, and the role of Bappenas. The new planning system acknowledges that planning is a political process, since voters can hold political leaders to account if programs described in planning documents are not implemented. This new system is very different from the system in place during the New Order, when technocratic and top-down approaches dominated the planning process (Booth, 2005, p. 210). The budgeting process is also referred to in Law No.27/2009 on the People's Consultative Assembly, the Legislative Council, the House of Representatives, and the Regional Houses of Representatives—the so-called MD3 (MPR, DPR, DPD and DPRD) law. The MD3 law stipulates the roles of the legislature in the

[6] Prior to the passing of this Law, it was unclear whether the Ministry of Finance or Bappenas had the authority to formulate the budget.

budget process. It also sets out the internal mechanism for discussion of the budget within the House of Representatives and its relationship to the Regional Representative Council.[7]

These laws all had important strengths, but they were also very general and open to interpretation. For example, even though Law No.17/2003 introduced a Medium Term Expenditure Framework (MTEF), the operationalisation of that concept was unclear. Similarly, Law No.1/2004 mandates the use of an accrual system, but it was unclear whether this system was to be applied only to the financial system or also to the budget. In another example, Law No.15/2004 requires the Supreme Audit Body to report on financial matters but provides no clear explanation of the extent to which government financial reports are to be subject to audit. Likewise, Law No.25/2004 includes five approaches: political, participatory, technocratic, top-down and bottom-up. However, there is an on-going debate about how to integrate those approaches without introducing conflicts between them. In practice, the deliberation forum for development planning (Musyawarah Perencanaan Pembangunan, Musrenbang) as a vehicle for bottom-up and participatory approaches is often ignored by political, technocrat and top-down approaches.

As with so many laws in Indonesia, there is overlap in certain areas and conflicts in others. For example, at least three articles regulating the budgetary process at the sub-national level in Law No.17/2003 are restated in Law No.33/2004 on Fiscal Balance. A similar problem also emerged in the MD3 Law, which regulated some of the same matters as Law No.17/2003, providing even more detail in some areas. Article 161 of Law No.17/2003, for instance, sets a limit of deviation between the budget and macroeconomic indicators as the basis for the budget revisions the government may propose to the legislature. There is also conflict between Law No.25/2004, which stipulates that local Mid-Term Plans should be enacted by a regulation issued by the district head (Peraturan Kepala Daerah, Perkada), and Law No.32/2004 on Local Government, which stipulates that they should be enacted by a regulation issued by the local legislature (Peraturan Daerah, Perda). There was also competition between institutions to enact legislation. For example, Bappenas proposed Law No.25/2004 as a response to Law No.17/2003, which had been proposed by Ministry of Finance in response to the fact that Law No.17/2003 largely ignored the national planning role that is part of Bappenas's mandate (Hawkesworth et al., 2009, p. 7).

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[7] The MD3 law was revised as Law No.17/2014 on the People's Consultative Assembly, the Legislative Council, the House of Representatives, and the Regional Houses of Representatives. However, content relating to the budget process did not change.

*The Distribution of Power among Budget Actors*

According to Law No.17/2003 on State Finance, there are three main actors in the annual budgetary process: the executive, the legislature and the Supreme Audit Body. Within the executive, the President delegates his/her power to the Ministry of Finance to act as Chief Financial Officer, with responsibility for fiscal policy and the macroeconomic framework as well as for preparing an annual budget proposal. As stated in Law No.17/2003, the President delegates power to sectoral ministries and agencies as spending agencies for the execution of programs. Another vital institution is Bappenas, which is responsible for coordinating the planning process. Conflict regularly occurs between spending agencies, which make demands for increased shares of the budget, and the Ministry of Finance, which is responsible for scrutinising the budget proposal demands of those ministries and other government agencies. This relationship pattern between the Ministry of Finance and the spending ministries has been described by Wildavsky (1974, p. 75) as a pattern of behaviour characteristic of a guardian, who manages the budget, and various advocates, who demand increases in their share of the budget.

Following amendments to the Constitution made in 2004, Indonesia adopted a bicameral system, with the House of Representatives acting as the lower house and the Regional Representative Council, representing the regions at the national level, acting as the upper house. Although the formal structure of Regional Representative Council is as strong as House of Representatives, as the upper house the Council is less powerful and smaller, with 124 members compared to the House of Representatives' 550 members (Schneier, 2008, p. 204).[8]

The House of Representatives consists of fractions (*fraksi*), which represent various political parties. However, it has an organisational structure comprised of the House Speakership (Chair and Vice Chair) and different committees including the Sectoral Commissions (standing committees), the Steering Committee (Badan Musyarawah, Bamus), the Legislation Body (Badan Legislasi, Baleg), the Budget Committee (Badan Anggaran, Banggar), the Public Finance Accountability Committee (Badan Akuntabilitas Keuangan Negara, BAKN), and the Ethics Committee (Badan Kehormatan). These are complemented

[8] Sherlock (2004, p.14) explains that the Regional Representative Council (DPD) is not a true upper house since its power is limited to the creation of new laws that are related to sub-national issues. Even in the budgetary process, its role is merely advisory, giving advice on decisions related to regional issues. The DPD does not have the same power as the United States and Australian senates.

by the Inter-Parliamentary Cooperation Body (Badan Kerjasama Antar Parlemen, BKSAP), the Household Affairs Committee (Badan Urusan Rumah Tangga, BURT), different ad hoc committees (*panitia khusus, pansus*), and other necessary bodies that can be established by the Plenary Session (Article 81, point 1, Law 27/2009).

Sectoral commissions are defined according to their counterpart ministries and executive agencies. There are eleven such commissions, and every member of the House is assigned to a particular commission based on fractional proportions. Other committees that pertain to the legislature's budgetary functions are the Budget Committee and the Financial Accountability committee, which has the Supreme Audit Body as its counterpart. The Budget Committee is the biggest committee in the House of Representatives. It is intended to accommodate representatives of each commission and should also reflect the relative size of different parliamentary fractions. The size of its membership has been increased in every term of the legislature. As of 2014, it consisted of 100 members, compared to 85 members in the previous term. Budgetary roles are also embedded in the Sectoral Commissions. In addition, the House of Representatives is equipped with a supporting system, which functions in parallel to the technical support provided to the executive by the bureaucracy. A total of 1,500 support staff makes the Indonesian legislature, in theory, the best equipped in the world (Linert, 2013, p. 16). Despite these numbers, however, the support for budget analysis is limited. The Budget Committee has only ten support staff, and there is no dedicated office like the United States Congressional Budget Office to provide nonpartisan support (Linert, 2013, p. 16).

These and other reforms have resulted in substantial changes to the political system, which in turn have shifted the balance of power between the executive and the legislature, including in the budget decision-making process. The Budget Bill may still be formulated by the President via various ministries and government agencies, but the bargaining position of House of Representatives is now relatively strong, since it now has the power to modify revenues and expenditures as long as the amendments do not result in an increase in the projected budget deficit. Put differently, the House of Representatives' power to amend the budget proposal provides space in which to build consensus between the executive and legislature to accommodate interests of both in the budget discussions.[9] The next section

[9] The ways in which the executive uses the budgets to win the support of the legislature and the ways in which the legislature amends the budget to accommodate its interests are discussed in Chapter Six.

discusses the way in which the distribution of power between the executive and legislature affects the budget process.

*The Budget Process*

The budget process consists of four stages: formulation, approval, execution and monitoring (Figure 3.1). The first of these, budget formulation, takes place within the executive.[10] The Ministry of Finance establishes the extent of financial resources available and sets the macroeconomic assumptions and spending limits for the next fiscal year.

In a parallel process, Bappenas drafts a Government Work Plan (Rencana Kerja Pemerintah, RKP) based on the Medium Term Development Plan (Rencana Pembangunan Jangka Menengah, RPJM), which describes the government's priorities for programs and ministries for a period of five years and contains the government's priorities for the next fiscal year. Bappenas's planning process begins with a series of multi-stakeholder consultation meetings for development planning, or Musrenbang. The Musrenbang process starts at the village level then proceeds to the sub-district level and then to the city/municipality, before it is escalated to the provincial level and finally the national level. At the national level, Musrenbang involves sub-national governments and spending ministries, which work to finalise the government's work plan. This document is in turn used by spending ministries to formulate their own annual work plans (Rencana Kerja Kementerian Lembaga, Renja–KL). At this stage, the President leads a series of meetings with his/her cabinet in order to finalise its work plan, in which s/he gives general direction to cabinet (Interview with the former Ministry of Finance, 31 September 2015).

The next step in the budget process consists of preliminary budget discussions with the legislature, which usually commence in May when the executive submits its fiscal policy framework and its budget priorities. This document consists of its basic macroeconomic assumptions (Bank Indonesia Certificate, economic growth, inflation rate, interest rate, exchange rate, international crude oil price, oil production, and gas production). At this stage, the Budget Committee, Commission XI (which deals with finance) and Commission VII (which deals with energy) engage in intense debate with the government—represented by the Ministry of Finance, Bappenas and the Governor of Bank Indonesia, as the counterparts of

[10] The documents and the formulation process is based on Law No 25/2004 on the National Development Planning System.

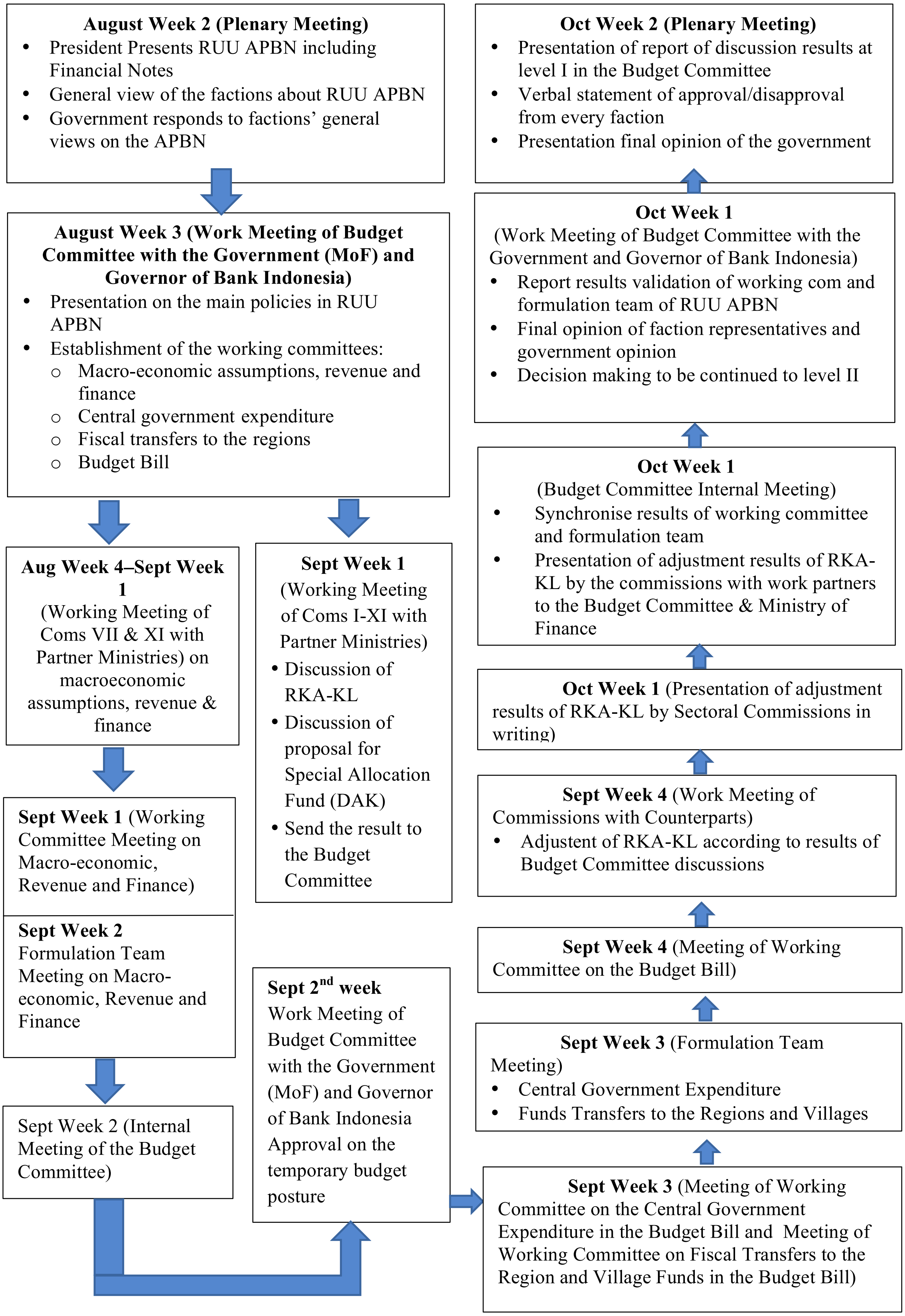


**Figure 3.2. The Process of Budget Bill Approval**

the Budget Committee and Commission XI—on the document. Commission VII discusses macroeconomic assumptions related to the energy sector.

Under the MD3 Law, the Budget Committee only discusses budget allocations that have already been decided by the commissions. In order to accommodate this requirement, the Budget Committee synchronises the decisions made in Commission XI and Commission VII in a draft agreement on fiscal policies, consisting of macroeconomic assumptions, revenue forecasts, an indicative budget ceiling and deficit targets. This agreement is not finalised until the budget document is enacted by law at the end of October. In the meantime, however, it is used by ministries and government agencies to formulate a detailed annual budget and work plan (Rencana Kerja dan Anggaran Kementerian Lembaga, RKA–KL). Every Sectoral Commission then holds discussions with their respective ministries and agencies. These discussions focus on spending for program priorities in every line ministry. Usually, the aggregate budget ceiling remains unchanged, but the budget composition may be amended. The discussions also provide an opportunity for the legislators to insert their aspiration programs for their constituency regions to be included in the state budget proposal in the Budget Bill.[11]

Following these discussions, the Ministry of Finance prepares a budget proposal (Rancangan Anggaran Pendapatan dan Belanja Negara, RAPBN) and financial notes, based on the fiscal policy agreements and budget proposals from ministries. Traditionally, the President delivers a budget speech during a Plenary Session of the legislature on 16 August, the day before Indonesia's Independence Day. The financial notes and draft budget law are subsequently formally submitted to the Plenary Session of the House of Representatives. At this stage, every fraction in the House has an opportunity to deliver its response to the financial notes, to which the Ministry of Finance responds in the next Plenary Session on behalf of the President. However, these steps are usually ceremonial rather than substantive, since most amendments are decided upon in meetings of the Budget Committee and the Sectoral Commissions.

As the preliminary budget discussions are taking place, there are parallel budget deliberations involving the Budget Committee and Sectoral Commissions (Table 3.2). The Budget Committee focuses on the macroeconomic assumptions, revenue, spending and financing to cover any budget deficit. The Sectoral Commissions review the budget details

[11] Aspiration programs for the electoral regions can be inserted by moving the location of the existing programs to their constituency regions or by reallocation programs. See Chapter Seven.

and work plans for their counterpart ministries/agencies, discussing the budget proposal with the related ministries to decide upon the state revenue and expenditure. However, the legislature's responsibility for scrutinising the budget means that budget discussions tend to focus closely on details of spending, a process which consumes a great deal of time (Hawkesworth et al., 2009, p. 30; World Bank, 2007, p. 96). The commissions then submit their findings to the Budget Committee for synchronisation. In theory, the Budget Committee only discusses items that have been decided on by the commissions. However, in practice, in many cases budget discussions, decisions are made by the Budget Committee that do not reference the decisions made by the commissions (The Indonesian Institute, 2012). In the final round of the budget deliberations in the House of Representatives, the Budget Committee leader reports to the legislature during a Plenary Session. During this session, fractions are given an opportunity to deliver their final views on the Budget Bill. If legislators agree, the Plenary Session passes the budget document into law, classified by spending agencies, functions and program activities.

In most cases, the Budget Bill is passed unanimously. However, there were two occasions in 2012 and 2013 when the Plenary Sessions resisted passing the revisions of the Budget Bill. On both these occasions, PDIP, the People's Conscience Party (Partai Hati Nurani Rakyat, Hanura), the Greater Indonesia Movement Party (Gerakan Rakyat Indonesia Raya, Gerindra) and Prosperous Justice Party (Partai Keadilan Sejahtera, PKS) rejected government proposals to cut fuel subsidies.[12] This deadlock occurred even though parties in the government coalition held a majority of seats in the legislature. As shown in Table 3.1 above, Yudhoyono's coalition, consisting of six parliamentary fractions, held 75 per cent of seats in the House of Representatives in his second term. However, PKS joined with the parties outside the governing coalition to reject the government's proposal (Plenary Session Meeting Minutes, 17 June 2013). This unresolved issue was finally decided by voting in the Plenary Sessions (Plenary Session Meeting Minutes, 30 March 2012 and 17 June 2013).

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[12] Indonesian budgets have suffered from fiscal pressure caused by fuel subsidies. Further discussion on the extent to which fuel subsidies affected the budget in the Jokowi era is included in Chapter Four.

**Table 3.2. Main Duties of the Budget Committee and the Sectoral Commissions**

| Sectoral Commissions | Budget Committee |
|---|---|
| Hold preliminary discussions regarding the preparation of the draft state budget included in the scope of its counterpart ministry or agency. | Engage in discussions with the government, as represented by the relevant Minister, to determine the main fiscal policy and budget priorities to be used as a reference for each ministry/agency in preparing the budget proposal. |
| Hold discussions with government and propose improvements to revenue and expenditure in the draft budget included in the scope of its work. | Work with the executive arm of government to set the state revenues based on the proposal of the relevant commissions. |
| Discuss and set a budget allocation for the functions and programs of the ministries/agencies which are partners of that committee. | Discuss the draft law on the state budget with the President (or a minister representing him/her) on budget allocations for the functions and programs of government and the allocation of fiscal resources to the regions based on decisions of meetings of the relevant commissions. |
| Hold discussions of national financial reports and the realisation of the budget, including the results of Supreme Audit Body investigations. | Synchronise the results of discussions within the commissions and other committees regarding the annual budget and work plan of the ministries/agencies. |
| Present the result of their preliminary discussions to the Budget Committee for synchronisation. | Synchronise assessments of development programs for different electoral regions proposed by the commissions.[13] |
| Discuss and set a budget allocation of their counterpart ministries/agencies based on the synchronisation of the budget allocation to those ministries/agencies by the Budget Committee. | Discuss financial statements and forecasts. |
| Submit the results of the discussions to the Budget Committee for consideration in the final draft of the national budget. | Discuss the financial reporting bill. |
| Hold discussions and set a budget allocation for annual and multi-year programs of counterpart ministries. | |

Source: Author's Analysis of Articles 98 and 110 of Law No.17/2017.

[13] The development program for the electoral regions is also known also as the aspiration fund. The aspiration fund is discussed in detail in Chapter Seven.

The third stage is budget execution, which is envisaged as the point at which the executive simply implements the budget allocations approved by the House of Representatives. Once the Budget Bill is passed, the Ministry of Finance prepares a supporting budget document that is used as an implementation guide. It also has an active role to ensure the budget realisation complies with the budget as approved by the House of Representatives. In accordance with this role, ministries/agencies must present their disbursement plans to the Ministry of Finance. As part of their oversight function, the Sectoral Commissions can also initiate discussions with their counterpart ministries/agencies to monitor the budget execution. Half way through the financial year, the Budget Committee holds discussions with the executive and Bank Indonesia to evaluate the first-semester budget realisation report and the forecast for the next six months.

If any significant change has to be made in the budget, the executive must submit a revision of the Budget Bill to the House of Representatives. According to Article 182 of Law No.17/2017, the parameters for budget revisions include significant changes in macroeconomic assumptions (a decline in economic growth of at least 1 per cent or deviation in other macroeconomic assumptions of at least 10 per cent); significant changes in the budget position (a decrease in tax revenue of at least 10 per cent and increase or decrease the budgets of spending ministries/agencies of at least 10 per cent of the ceiling); urgent expenditure needs; an increase in the deficit of at least 10 per cent of the ceiling. In cases where the macroeconomic assumptions and the budget posture have not changed significantly, the government does not need to propose a revision of the Budget Bill. In practice, however, the budget revisions are always made. Where revisions of the Budget Bill are required, discussions are significantly shorter than in the case of the annual budget. The executive and the legislature are required to conduct the deliberations within a period of one month after the executive submits the revised Budget Bill to the legislature. The discussions take place in the Budget Committee and are reported in the financial statements of the government.

The last stage in the budget process is evaluation of the budget execution. Compared to the approval and execution stages, the legislature has a lower level of engagement in this phase. Although the report on the budget execution must be approved by the House of Representatives according to the same process as that used for the Budget Bill, individual legislators have little incentive to engage with this stage of the process. It is not surprising, then, that the legislature dissolved the Financial Account Committee, which was tasked with analysing the reports of the Supreme Audit Body, and moved its function to the Sectoral Commissions under the MD3 Law.

## Conclusion

This chapter has outlined the way the changing political environment in Indonesia has affected the dynamics of the budget process. During the New Order period, political power was centralised under an authoritarian regime, undermining the country's fiscal institutions and allowing Suharto to use state resources to maintain his power. Although formal institutions governing the separation of powers between the executive and the legislature existed in the Constitution, in practice, the legislature did not perform its oversight role but rather rubber-stamped the government's budget proposals. Political reforms adopted by governments in the post-Suharto period, including a number of constitutional reforms, have resulted in substantial changes to the political system which in turn have shifted the balance of power between the executive and the legislature. These changes have resulted in more proportional power relations between the executive and legislature, including in the budget process.

As a consequence of these shifts, Indonesia's budget-making practices have become more open. Budget formulation is no longer considered a technocratic process, but instead as a political one. However, close to two decades on from the fall of Suharto, we still have little understanding of the way in which formal and informal institutions interact to shape budget decision-making. It is very common, for example, for consensus (*mufakat*) among fraction leaders to be reached in informal meetings and through backroom deals rather than through formal processes of deliberation (*musyawarah*), reflecting a New Order legacy that still dominates the culture of the House of Representatives (Sherlock, 2003, pp. 31-32). As Schneier (2008, p. 206) argues, this process 'makes it extraordinarily difficult to trace the locus of decision making'. As a consequence, it is almost impossible to track the history of a particular budget item or to understand why its allocation has decreased or increased. It is unsurprising, then, that many legislators have been involved in political corruption cases related to their roles in the budgeting process since 2004. The stronger role of the political process, however, influences the political dynamics of the budgetary process within the executive. This situation, in turn, generates potential within the budgetary process for the development of a patronage dynamics by which the executive engages into budget transactions with the legislature.[14]

The following chapters investigate the interplay between formal and informal institutions in order to demonstrate the ways in which the post-2014 political environment has affected the budget process and the various incentives presented to the executive and legislature in that process. Case studies of capital injections into state-owned enterprises, the optimisation fund and the aspiration fund reveal that both formal institutions (for example, the constitutional boundaries of budgetary power and electoral rules) and informal practices (for example, rent seeking and cartel behaviour) shape the stability of the interactions between the executive and the legislature in the budget process. Before turning to the case studies, however, it is first necessary to examine the working of the budget process from 2014.

[14] Further discussion on how the executive engage into the budget transaction with the legislature discus in chapter 6 Optimisation Fund

# Chapter 4: Politics and Budgeting after the 2014 Elections

A national budget is not simply a technical document. It exists within a political arena, and it is the product of negotiations among multiple actors with different interests in allocating limited public resources. This means that the Indonesian budgetary process cannot be separated from the political context that shapes the interaction among parliamentary actors. The question of power and how it is distributed is thus fundamental to an analysis of budget-making (Norton & Elson, 2002, p. 22).

This chapter argues that the political dynamics that informed the 2014–15 budgetary process did not reflect broader political constellations within the political system at that time. Jokowi's minority government was able to pass its budget in a legislature dominated by an opposition coalition. In other words, the government's minority status did not affect parliamentary support for the Budget Bill. The chapter begins with a discussion of Indonesian politics after the 2014 elections, explaining how the relationship between the executive and the legislature was influenced by political competition between the ruling and opposition coalitions and how this competition affected the budget process. The purpose of this discussion is to assess the way in which the election results shaped the political configuration in the first year of Jokowi's government.

The second section analyses the impact of the election outcome on political dynamics within the three rounds of the budgetary process in the course of the revision of 2015 budget, the formulation of the first Jokowi budget, and the subsequent 2016 budget. First, I discuss the 2015 budget, tracing the ways in which the 2014 election influenced power relations between the parliamentary actors involved in the budgetary process. Second, I explain the structure of the revised 2015 budget, which was the first Jokowi budget. Here, I explore the differences between Jokowi's budget policy and that of his predecessors. Finally, I discuss the extent to which Jokowi's growing political power was deployed to shape the 2016 budget. The chapter concludes with a brief analysis of the political dynamics during these three budget cycles.

**Indonesian Politics in the Post-Election Period**

The year 2014 was characterised by two significant electoral milestones, the legislative elections of 9 April and the presidential election held in July. A tight race between two very different candidates, the presidential election represented a particular challenge for Indonesian democracy. One candidate, Prabowo Subianto, planned to re-centralise power and roll back democratic institutions. The other, Joko Widodo, was known for the series of democratic governance reforms he had delivered as mayor of Solo and, later, as governor of Jakarta. The campaigns of the two candidates were very different. While Prabowo's campaign strategy was supported by 'oligarchic-machine politics' and massive funding, Jokowi's campaign was poorly organised and lacked funding support (Aspinall & Mietzner, 2014). As Aspinall and Mietzner (2014) have noted, the two candidates also had different approaches to coalition-building. Prabowo offered power-sharing agreements with a cabinet seat distribution, while Jokowi rejected power-sharing deals. Despite these disadvantages, Jokowi defeated Prabowo by a margin of 6.3 per cent. However, Prabowo's supporters controlled the majority of seats in the House, making Jokowi's government vulnerable to executive and legislative deadlock and threatening the new President's ability to implement his agenda.

In this section, I will illustrate the ways in which political competition during the 2014 elections affected party composition in the legislature and the presidential coalition in cabinet. I will begin with a discussion of the legislative and presidential elections, before moving to a discussion of the impact of outcomes of these elections on the formation of the new government.

### *The 2014 Elections*

The 2014 legislative elections resulted in the election of 136 members of the DPD, 560 members of the DPR and thousands more members of DPRDs from 34 provinces and 498 districts across Indonesia. The DPR and the DPRD are elected through an open-list proportional system first adopted in the lead-up to the 2009 election, which allows citizens to vote for an individual candidate or a party. Candidates with the highest number of personal votes are eligible to claim the parliamentary seats won by their party. This system has led to competition between individual candidates within a party, as well as between the parties themselves. The outcome has been a massive increase in the influence of money politics (Aspinall, 2014) at the expense of policy debate, since candidates are mainly concerned with building their own personal reputations in the competition for votes (Kramer, 2015).

The results of the legislative election, announced in May 2014, demonstrated a clear desire for change on the part of voters. While most parties increased their representation, former President Yudhoyono's Democrat Party (Partai Demokrat) suffered a massive loss, with its proportion of seats declining from 20.9 per cent in the 2009 election to 10.2 per cent in 2014 (Table 4.1). After ten years in power, this defeat had been widely predicted. Not only was Yudhoyono in his final months as President, but the party had suffered from a series of corruption scandals, involving former Chairman Anas Urbaningrum and former Ministry of Sports Affairs Andi Mallarangeng (Aspinall, 2014). However, another party that had been rocked by corruption scandals involving its Chair, PKS, lost only about 1 per cent of its 2009 vote. According to Kramer (2014), this relatively robust performance reflected PKS's solid base and the ability of its elites to minimise the impact of these attacks on its image.

**Table 4.1. Results of the 2009 and 2014 Legislative Elections**

| **Party** | **2009** | | **2014** | |
|---|---|---|---|---|
| | % | Seats | % | Seats |
| PDIP (Indonesian Democratic Party of Struggle) | 14.00 | 94 | 18.96 | 109 |
| Golkar (Functional Group Party) | 14.50 | 106 | 14.75 | 91 |
| Gerindra (Greater Indonesia Movement Party) | 4.50 | 26 | 11.81 | 73 |
| PD (Democrat Party) | 20.90 | 149 | 10.19 | 61 |
| PKB (National Awakening Party) | 4.90 | 28 | 9.04 | 47 |
| PAN (National Mandate Party) | 6.00 | 46 | 7.57 | 49 |
| PKS (Prosperous Justice Party) | 7.90 | 57 | 6.77 | 40 |
| PPP (United Development Party) | 5.30 | 38 | 6.53 | 39 |
| NasDem (National Democrat Party) | N/A | N/A | 6.74 | 35 |
| Hanura (People's Conscience Party) | 3.80 | 17 | 5.27 | 16 |
| Other | 2.70 | 0 | 2.40 | 0 |
| **Total** | **100.00** | **560** | **100.00** | **560** |

Source: Indonesian Election Commission.

The PDIP headed by Megawati Sukarnoputri, the fourth President, performed best, receiving 18.95 per cent of the total vote. However, the size of the PDIP victory was below the expectation of many observers. As Mietzner (2015) explains, the announcement of Jokowi's nomination less than a month before the legislative election failed to provide the boost PDIP needed to meet its electoral target.[15] The other two parties that benefited from the Democrat

[15] For a detailed analysis and discussion of internal political dynamics within the PDIP in relation to Jokowi's candidacy, see Mietzner (2015) and Aspinall and Mietzner (2014).

Party's poor performance were Surya Paloh's NasDem and Prabowo's Gerindra. NasDem and Gerindra received 6.7 per cent and 11.8 per cent of the vote respectively.

The election result not only determined which parties controlled the legislature but also set the stage for the presidential election. As stipulated in Law No.42/2008 regarding the General Election of the President and Vice President, a party must win at least 20 per cent of seats in the legislature or 25 per cent of the popular vote to be eligible to nominate a presidential candidate. Since no party reached this threshold, the parties had to form coalitions to be able to nominate a presidential candidate. As shown in Figure 4.1, two coalitions were formed. The first was the Great Indonesia Coalition (Koalisi Indonesia Hebat, KIH) with 37 per cent or 224 seats. Led by PDIP, this coalition also brought together NasDem, Hanura, and the National Awakening Party (Partai Kebangkitan Bangsa, PKB). KIH nominated Jokowi and former Vice President Jusuf Kalla, who was also former Chairperson of the Golkar Party.[16] The second coalition was known as the Red and White Coalition (Koalisi Merah Putih, KMP), a reference to the colours of the Indonesian flag. It consisted of Gerindra and four other parties, Golkar, PKS, PPP and the National Mandate Party (Partai Amanat Nasional, PAN). This was the majority coalition, controlling 292 seats in the legislature. KMP nominated Gerindra Chairperson Prabowo Subianto for President and PAN Chairperson Hatta Rajasa as his running mate.[17]

[16] Jokowi's nomination was not fully supported by his party. As Aspinall and Mietzner (2014) explain, Megawati's daughter Puan Maharani, who controlled campaign funding, also had presidential ambitions and so transferred only a small amount of funding to Jokowi. Jokowi was also an outsider in many other ways. He did not have a military background, had no links to leading political or bureaucratic families, and was a newcomer to the national stage. Most of his life had been spent in Solo in Central Java, where he was elected mayor in 2005. In 2012 he moved to Jakarta as Governor of the Special Capital City District (DKI Jakarta). He became a media darling with his so-called blusukan approach, visiting communities directly to discuss ways in which he could serve them better, or making unannounced visits to spot-check development projects. For more details, see Aspinall and Mietzner (2014).

[17] Prabowo is the son-in-law of former President Suharto, a wealthy businessman and a former general with a poor human rights record, who was dismissed from the army for his involvement in the kidnapping of anti-Suharto activists in late 1997 and early 1998. Aspinall (2015) describes Prabowo as an oligarchic populist who used an ultra-nationalist message to challenge Indonesian democratic institutions. For further analysis of Prabowo's background and his plan to roll back democratic institutions, see Aspinall (2015); Aspinall and Mietzner (2014).

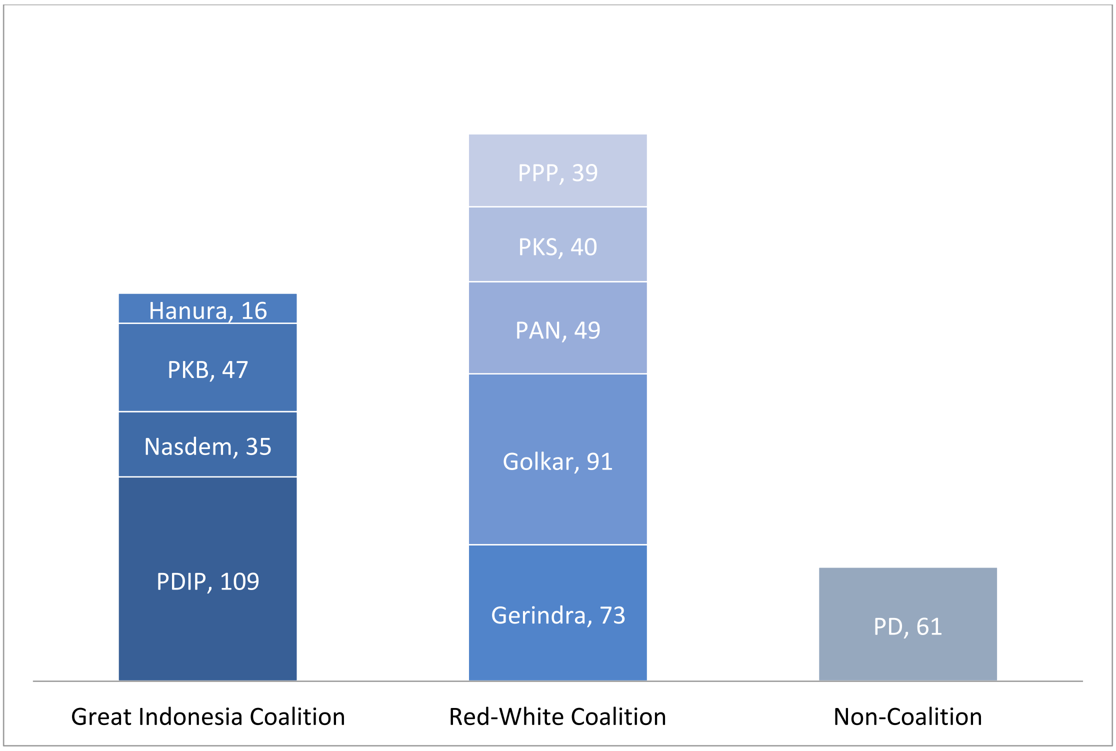



**Figure 4.1. Coalitions in the 2014 Presidential Election**

The presidential contest between Jokowi and Prabowo was very tight. The polling company Polltracking reported an increase in support for Prabowo as preferred President from 27.1 per cent in March to 41.1 per cent in June 2014. Over the same period, support for Jokowi declined from 54.9 per cent to 48.5 per cent (Detiknews, 2014). Nevertheless, although Prabowo was supported by oligarchic machine politics and a well-organised campaign, he secured only 46.85 per cent of the ballot (Aspinall & Mietzner, 2014; Mietzner, 2015).[18] By contrast, despite a chaotic campaign, Jokowi secured 53.5 per cent of the vote.

Prabowo's anti-democratic agenda became apparent in the aftermath of the election. After the result was declared by the General Election Commission on 22 July, it was unsuccessfully challenged by Prabowo in the Constitutional Court (Aspinall & Mietzner, 2014). A week before the new legislature was inaugurated, the outgoing legislature, controlled by Prabowo's allies, passed a new law abolishing the direct election of regional

[18] Mietzner (2014) offers three explanations for Jokowi's victory. First, Prabowo's extreme rhetoric was inappropriate in a relatively stable political and economic situation. Second, Jokowi did not have a traditional elite background and delivered a moderate campaign message, both of which were popular with voters. Third, a strong citizen support network ensured that the election outcome was not manipulated.

heads. This move would have returned power to local legislatures, which Prabowo's camp expected to control. Following widespread criticism, however, outgoing President Yudhoyono issued a Government Regulation in Lieu of a Law (Peraturan Pemerintah Pengganti Undang-Undang, PERPPU) that reinstated direct elections. Nevertheless, this incident demonstrated that a majority opposition could block a minority government in Indonesia's legislature (Aspinall & Mietzner, 2014).

Jokowi's refusal to compromise on his 'no favours' position in forming his cabinet led to the consolidation of the opposition camp (Aspinall & Mietzner, 2014; Muhtadi, 2015). Parties denied cabinet seats in the new legislature joined Prabowo's coalition, which also secured the speaker positions in the DPR and the MPR before the new government was installed. In response, Jokowi's coalition refused to take part in House sessions dominated by the opposition coalition. Although a compromise was eventually reached, the split in the legislature led to gridlock lasting more than a month.[19]

### *Jokowi's New Government*

Jokowi was inaugurated on 20 October 2014 with high expectations of his capacity to promote reform. Both inside and outside Indonesia, supporters and observers welcomed the new government and its promise of democratic renewal. However, Jokowi was weak in many respects. As a newcomer to national politics with little experience in the process of dealing with national elites and little power within his own party, it was difficult for the new President to maintain his political support. And although he tried to uphold his reputation for integrity, he proved vulnerable to the patrimonial politics that underpins Indonesia's political structure (Muhtadi, 2015).

Jokowi's first year was very challenging on a number of fronts. He was not only threatened by the majority opposition coalition in the legislature, but also by members of his own party. He had to reward party supporters, although he initially refused to allow this to influence the formation of his new cabinet. Ultimately, though, he was forced to compromise, thereby breaking his promise to avoid a 'transactional' cabinet (Muhtadi, 2015). He was forced to grant PKB four ministerial posts, NasDem three, and Hanura two. His own party,

[19] As Liddle and Mujani (2006) noted, the deadlock situation in the split parliament had occurred in the first term of Yudhoyono Presidency. The opposition coalition with majority seats in the parliament that consist of PDIP, Golkar and some small parties controlled all leadership in parliamentary commissions and intended to block the government agenda. However, the domination of opposition coalitions was destroyed by Vice's President Kalla's election as Chair of Golkar.

PDIP, was disappointed to end up with no more than four ministerial posts (Stefanie, 2014). Initially, Jokowi had proposed nine candidates from PDIP, but only four of these were approved by Megawati (Interview with PDIP Board of Trustees Member, 29 July 2015).

The pressure from PDIP continued throughout Jokowi's first year of office. The extent to which Jokowi was held hostage by the party was on clear display when he nominated former Megawati adjutant, Budi Gunawan, as Chief of Police in January 2015. Budi's nomination was controversial because he had been named as a suspect by the Corruption Eradication Commission just one day before the announcement of his appointment as Chief of Police. Under pressure, Jokowi cancelled Budi's inauguration, much to Megawati's disappointment. This political drama took place at the same time as the debate on the revision to the 2015 budget, forcing Jokowi to postpone dealing with the issue of Budi's nomination until the Budget Bill was passed (Rastika, 2015). Although a compromise was reached and Budi was appointed Deputy Chief of Police, PDIP heavyweights were very unhappy with the situation (Interview with PDIP Board of Trustees Member, 29 July 2015). Jokowi subsequently reshuffled his cabinet a week before the 2016 budget proposal was submitted to the House, awarding the position of Cabinet Secretary to PDIP. A PDIP senior board member, Pramono Anung, was chosen to fill that position, a move that strengthened support from the party. Meanwhile, the opposition coalition was weakened by internal conflict in PPP and the Golkar Party, and by PAN's defection to the governing coalition. This gave Jokowi control of 256 seats in the House, a thirteen-seat majority over the 243 seats held by the Prabowo camp. Jokowi used this opportunity to consolidate his power, through a second reshuffle of the cabinet in which one ministerial position was allocated to the Golkar Party and a second to PPP. This gave the President the support of seven of the ten parties, which meant control over 69 per cent of seats in the legislature in July 2016.

Jokowi's formation of a minority cabinet can be read as a challenge to cartel party theory in the interpretation of Indonesian politics. Political cartel theory argues that competition between political parties occurs only during elections; afterwards, all political parties ignore their political ideology to form a government coalition and draw in potentially oppositional forces. (Ambardi, 2008; Slater, 2004; Slater & Simmons, 2010). By contrast, Jokowi discontinued the tradition of 'rainbow' coalitions that had operated under Presidents Megawati and Yudhoyono, refusing to expand the government coalition to include the opposition in the first year of his new cabinet. Second, the sharp line between the government and the opposition meant political competition continued in the legislature after the election. The formation of the minority Jokowi cabinet also challenges coalitional presidentialism theory. The literature on coalitional presidentialism argues that presidents offer ministerial positions to all significant parties in order to build stable government through a majority coalition (Chaisty et al., 2014; Raile et al., 2011). In October 2014, Jokowi formed his new cabinet with just 37 per cent of the seats in the legislature under his control. This rose to 45 per cent in August 2015 and became a 69 per cent majority by mid-2016. Importantly, the process that turned Jokowi's government into a supermajority coalition in the legislature did not involve offering cabinet seats to extend the presidential coalition, as under the previous presidents. Rather, as Mietzner (2016) argues Jokowi adopted a coercive approach, intervening in internal conflicts within two opposition parties, Golkar and PPP, and using the government's authority to recognise the party's board to force them to support the government.[20] The following section discusses the extent to which these different forms of political power affected the budgetary process during Jokowi's first year in power.

**The Politics of Budgeting in the 2014 Post-Election Period**

Jokowi's first and second year in office provide an intriguing opportunity to evaluate the way in which the budget process has played out in the context of different political configurations in Indonesia's multiparty presidential system. The budget process is itself a part of the broader policymaking process, through which political actors negotiate the distribution of public resources. However, as will be demonstrated in this section, the political competition between the majority opposition coalition and the minority ruling coalition in the 2014 post-election period was not reflected in the budgetary process at this time. Rather, the minority government coalition was able to win the support of the legislature for the revision of the 2015 budget. By contrast, the 2016 budget was rejected, even though the government coalition had become stronger and the opposition coalition had weakened in the meantime.

[20] The government recognises a party board by providing a decision letter from the Ministry of Law and Human Rights. The leadership ballots of Golkar and PPP that held after 2014 elections resulted in two governing boards within party, pro-government and pro-opposition. In case of the Golkar Party, the government issues the legal status letter for Agung Laksono faction who supported Jokowi's government and put pressure on Aburizal Bakrie bussines who supported opposition coalition. A similar intervening also occurred in PPP. Mietzner (2016) also explained, the government interference has caused fearing in other three parties the Democratic Party, PAN and PKS.

**Table 4.2. Background of Budget Committee Members, 2014–19**

| Party | Number of Budget Committee Members | Incumbents | | Position in Party Central Board (DPP) | |
|---|---|---|---|---|---|
| | | Number | % | Number | % |
| PDIP | 19 | 17 | 89 | 12 | 63 |
| PKB | 8 | 6 | 75 | 7 | 88 |
| Nasdem | 6 | N/A | N/A | 3 | 50 |
| Hanura | 3 | 2 | 33 | 3 | 100 |
| **Ruling Coalition** | 36 | 25 | 69 | 25 | 69 |
| Golkar | 17 | 9 | 53 | 10 | 59 |
| Gerindra | 13 | 1 | 8 | 9 | 69 |
| PKS | 8 | 4 | 50 | 4 | 50 |
| PAN | 7 | 6 | 86 | 3 | 43 |
| PPP | 7 | 5 | 71 | 4 | 57 |
| **Opposition Coalition** | 52 | 25 | 48 | 30 | 57 |
| Democrat | 11 | 4 | 36 | 10 | 91 |
| **Total** | **99** | **54** | **56** | **65** | **66** |

Source: Author compilation from www.dpr.go.id, www.wikidpr.org, www.dct.kpu.go.id.

It has been widely acknowledged that the prevailing electoral system is an important factor in determining the way in which legislators behave in office (Ames, 2001). A feature of the Indonesian electoral system that may be relevant to the budget process is its open-list proportional system which, as noted earlier, was introduced in the lead-up to the 2009 legislative elections. As a consequence of this system, incumbents' chances of re-election became far less certain, prompting them to seek extra resources to finance their campaigns (Chang, 2005). As a result, the legislators have become more interested in the budgetary process, which can contribute to their chances of re-election by providing tangible benefits for their constituents.

As shown in Table 4.2, more than half the Budget Committee members were incumbents, compare to incumbents in the House that only occupied 40 per cent of seats. (Komisi Pemilihan Umum, 2014). As Table 4.2 also shows, most Budget Committee members occupied high-level positions within their parties, with 33 members from the opposition coalition and 25 members from the ruling coalition holding a position on their party's central board.

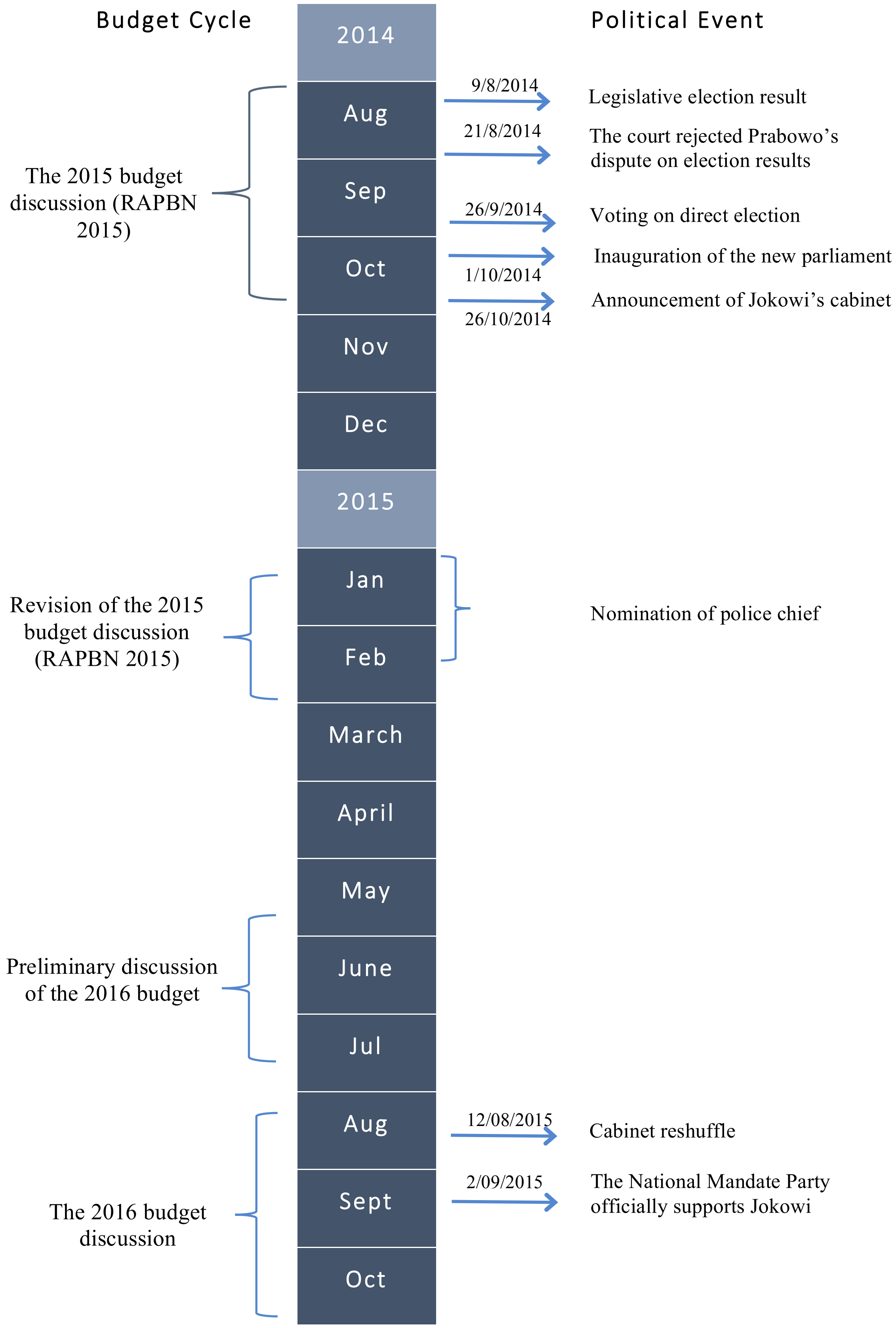



**Figure 4.2. The Budget Cycle and Political Events, 2014–16**

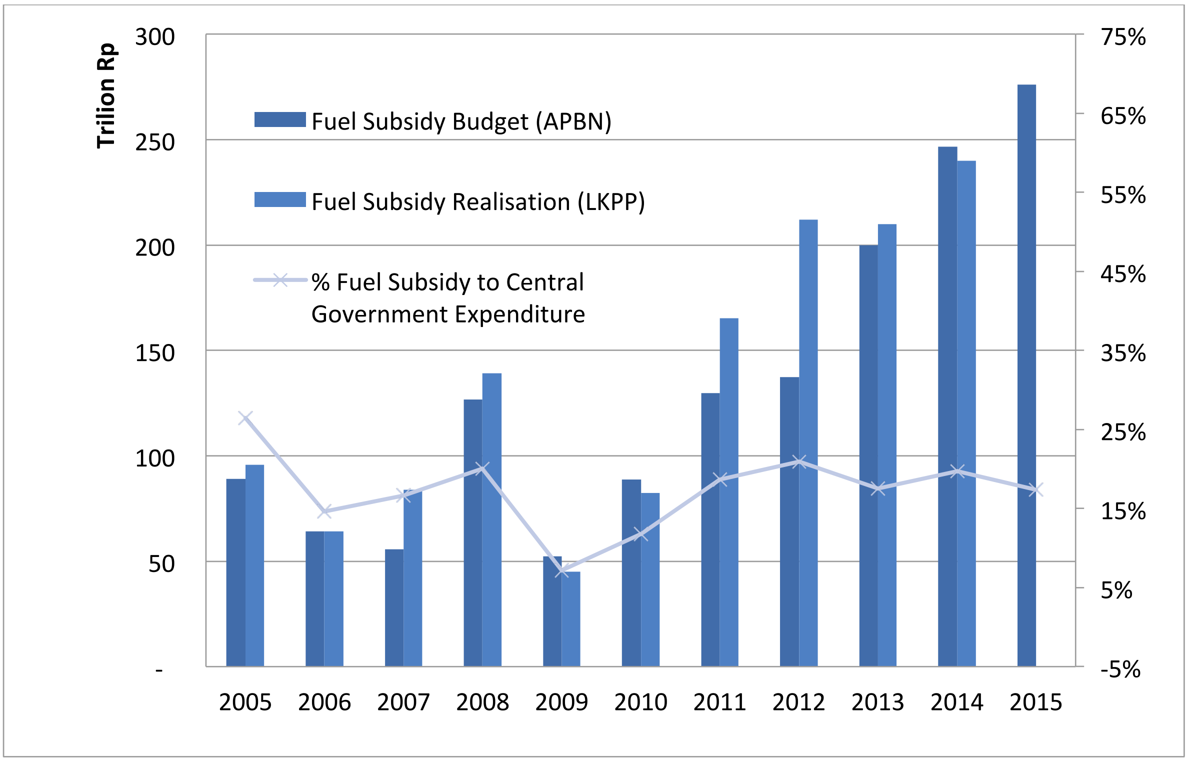
The budget discussions in Jokowi's first and second years occurred amidst political tension between the two coalitions. As shown in Figure 4.2, the 2015 budget discussions occurred at the same time as Prabowo was disputing the election result and the legislature was voting on the bill to prevent direct local elections. Deliberations on the 2015 budget revisions took place alongside the controversial nomination of Budi Gunawan as Chief of Police.The 2016 budget discussion, meanwhile, occurred at a time when Jokowi was beginning to consolidate his power by accepting PAN's entry to the ruling coalition and carrying out his first cabinet reshuffle.

***The 2015 Budget***

In order to understand the first round of budget negotiations after Jokowi took power, we first need to examine the 2015 budget, which was formulated in the transition period. The 2015 budget was the Yudhoyono administration's last budget and was implemented by the new government. Its importance was two-fold. First, as noted above, it was discussed amidst the political tension between coalitions after the 2014 election and with the legislature dominated by the opposition. Second, it was overshadowed by public concern about energy subsidies, the biggest and also the most long-standing fiscal policy challenge in Indonesia (Aswicahyono & Hill, 2014; Howes & Davies, 2014).

The 2015 budget provided an opportunity for the opposition coalition to block the new government's agenda. However, the budget discussions were far removed from the political struggle taking place between the two coalitions, which was focused on the new law to eliminate direct local elections. Even the fuel subsidy, which had been an ongoing political issue during the previous decade, did not escalate the tension between the two coalition camps in the budget discussion. During the period of Yudhoyono's administration, the state budget came under significant pressure due to the fuel subsidies, leaving it vulnerable to external shocks, including volatility in the international oil price and the exchange rate.

From 2009, the annual budget allocation for fuel subsidies increased by an average of 47 per cent. Before the 2009 election, when he was campaigning for a second term as President, Yudhoyono announced that he would reduce the retail price of a litre of fuel from Rp 6,000 to Rp 4,500. This price remained unchanged until 2012, forcing the government to increase the allocation for fuel subsidies by 21 per cent in 2012, after four of the nine fractions in the legislature rejected the government's proposed increase in the retail price of fuel (see Figure 4.3). In 2013, the government did succeed in increasing the retail fuel price to Rp 6, 500. However, this did not significantly reduce fiscal pressure, as the share of fuel subsidies in central government expenditure only decreased to 18 per cent. By 2014, fuel subsidies accounted for 20 per cent of government expenditure, severely limiting options for new expenditure. In the budget proposal for the 2015 fiscal year, the burden of fuel subsidies still consumed 17 per cent of the central government's spending.




Source: Author compilation from the State Budget and the Report on Budget Realisation.

**Figure 4.3. Fuel Subsidies as a Share of Government Expenditure, 2005–15**

Yet even though the fuel subsidy had been a major political issue for more than a decade, it did not surface in the budget discussions. Indeed, Yudhoyono's last budget speech, on 15 August 2014, failed to tackle the need for further reform of the subsidy (Budget Speech of the 2015 State Budget, Jakarta,15 August 2014). In their responses to the President's budget speech, the parliamentary fractions were largely of one mind. All agreed that reform of the fuel subsidy was essential, if Indonesia's fiscal problems were to be solved (Plenary Session Meeting Minutes, Jakarta, 19 August 2014). However, no parliamentary fraction had a clear position on how the problem of the fuel subsidy might be addressed in the 2015 budget. As a consequence, neither the government coalition nor the opposition took a strong stance on fuel subsidy policy in the 2015 budget.

**Table 4.3. Draft Bills Decided by the Outgoing Legislature in 2014**

| Bill | Plenary Session Date |
|---|---|
| The 2014 Revised Budget | 18 June |
| New autonomous region | 24 June |
| Extradition agreement between Indonesian and India | 24 June |
| Mental health | 08 July |
| Legislative institutions (MD3 Law) | 08 July |
| Standardisation and conformity assessment | 26 August |
| Geothermal energy | 26 August |
| 2013 budget realisation report | 04 September |
| ASEAN agreement on trans-boundary haze pollution | 16 September |
| Copyright | 16 September |
| Search and rescue | 16 September |
| Insurance | 23 September |
| Military discipline | 24 September |
| Witness and victim protection | 24 September |
| Animal husbandry and health | 24 September |
| Nursing | 25–26 September |
| Health workers | 25–26 September |
| Halal product assurance | 25–26 September |
| Child protection | 25–26 September |
| Regional head elections | 25–26 September |
| Local government | 25–26 September |
| Government administration | 25–26 September |
| The 2015 budget | 29 September |
| New autonomous region | 29 September |
| Land acquisition | 29 September |
| Public housing savings | 29 September |
| Financial management of the hajj | 29 September |
| Plantations | 29 September |
| Maritime | 29 September |
| Soil and water conservation | 29 September |

Source: Author compilation from Plenary Session minutes, June–September 2014.

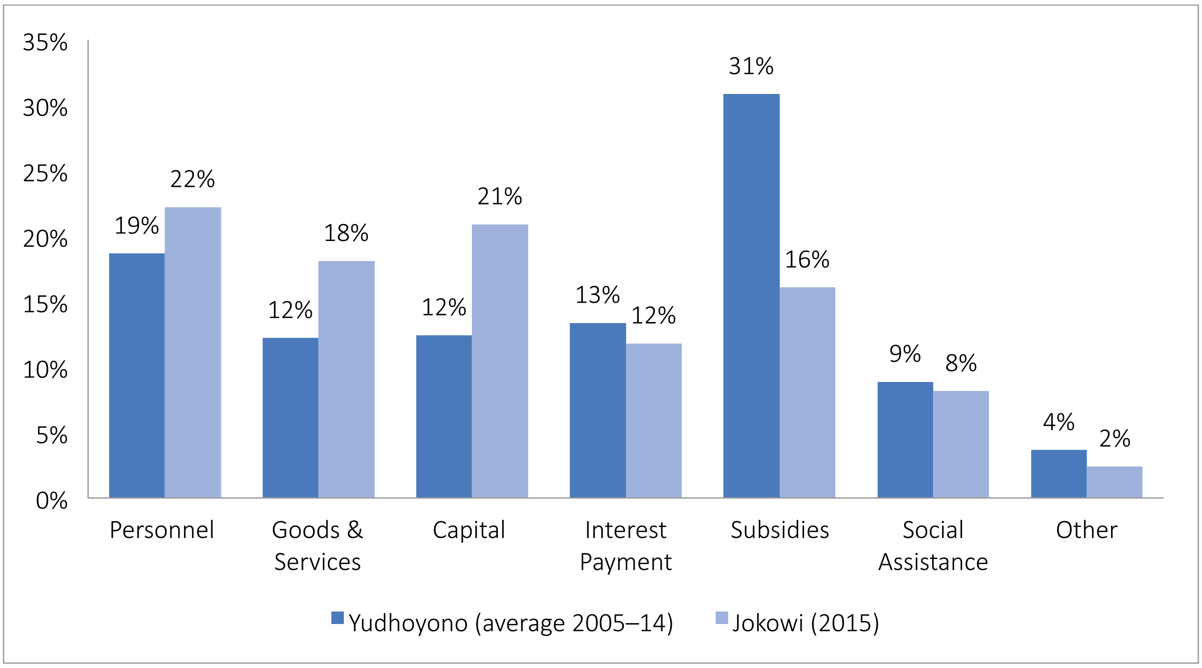
A week after the Constitutional Court rejected Prabowo's challenge to the election results, Jokowi moved to lobby President Yudhoyono for a cut to the fuel subsidy in the 2015 budget. However, a meeting between the outgoing and incoming presidents in Bali on 26 August failed to produce a conclusive decision on the issue, and Yudhoyono refused to increase the fuel price (Samutra, 2014). For its part, the Budget Committee agreed to retain the fuel subsidy in the 2015 budget, and debate focused on the level at which the fuel subsidy should be set (Budget Committee Meeting Minutes, 15 September and 22 September 2015). This discussion took place in a working committee meeting involving the Budget Committee and the Ministry of Finance. Satya Yudha from the Golkar Party and Ecky Muharam from PKS imposed additional articles on the 2015 Budget Bill, which required parliamentary approval for adjustments in the size of the fuel subsidy (Budget Committee Meeting Minutes, 28 September 2014). For his part, the Finance Minister asserted that the new government should have the discretion to adjust the fuel price. Instead of supporting the government's argument, one Budget Committee member from Jokowi's own party, Dolfie, sided with the opposition coalition, stating that 'the adjustment of the fuel subsidy volume must be discussed further with the related commission; this probably needs to stipulate on elucidation of the Budget Law' (Budget Committee Meeting Minutes, 28 September 2014). In short, the ruling coalition did not attempt to oppose the move by the opposition coalition to restrict the government's capacity to increase fuel prices.

The 2015 budget did not become a political battlefield because at the time, the opposition coalition was focussed on increasing its control over the regions. Among the 28 bills to be discussed by the outgoing legislature before the inauguration of the new legislature was a draft bill for direct local elections (see Table 4.3). As discussed earlier, it was this, rather than the budget, which preoccupied the opposition in the lead-up to the inauguration of the new legislature.

Within weeks of taking power, Jokowi had nevertheless announced the removal of the fuel subsidy. He was able to do so because the 2014 Budget Bill gave the President the discretion to change the fuel subsidy without parliamentary approval. The removal of the fuel subsidy saved the budget around Rp 211 trillion. In order to reallocate these savings, Jokowi was required to propose a revision of the 2015 budget. This revision is the subject of the following section.

### *The 2015 Revised Budget*

The 2015 revised budget provided the first opportunity for Jokowi to implement his campaign promises. As noted earlier, the budget debate took place against a backdrop of tension over the inauguration of the controversial Chief of Police Budi Gunawan, and in a context where KIH was still a minority coalition. With regard to fiscal challenges, Jokowi's budget proposal was very different from the budgets of his predecessors, and was thus inherently controversial. Yet the majority opposition did not block the Budget Bill, and it passed despite the fact that Jokowi did not have the full support of his own alliance. Thus, although Jokowi's fiscal policy was by no means business-as-usual, the Budget Bill came into law with only minor changes.




Source: Author compilation from the State Budgets, 2005–15.

**Figure 4.4. Expenditure under Yudhoyono (2005–14) and Jokowi (2015)**

There were many issues with the 2015 budget revised by the outgoing government. Besides the fiscal pressure resulting from the fuel subsidy, the government was hamstrung by a great number of mandatory spending requirements, including the requirement to transfer at least 29 per cent of its revenue to the regions, at least 10 per cent of which was to be allocated to village governments. It was also required to allocate 20 per cent of public expenditure to education and to spend 5 per cent on health services. These mandatory spending requirements accounted for around 45 per cent of total revenue. Once the fuel subsidy and interest payments were taken into account, only approximately 30 per cent of revenue was available for discretionary spending (Howes & Davies, 2014).

The removal of the fuel subsidy at the end of 2014 gave the government the flexibility to introduce new initiatives in the revised budget. Jokowi cut almost half of the subsidy spending in his first budget proposal and used the savings for capital expenditure (Figure 4.4). The way Jokowi's government managed the additional funds freed up by cuts to the fuel subsidy also departed from unusual practice. Rather than distributed proportionally across ministries as was occurred previously, only the ministries that directly supported Jokowi's programs received significant additional allocations. As shown in Table 4.4, among the ten ministries with the highest expenditures, the biggest increase in budget allocation went to the Ministry of Agriculture, followed by the Ministries of Public Works and Transport. Two ministries outside the top ten also did well, with the Ministry for Maritime Affairs and Fisheries and the Ministry of Social Welfare also gaining an increase of 58 per cent and 261 per cent respectively (Financial Notes of the 2015 Revised Budget Proposal, 2015). In addition, the deficit target was set to decline from 2.21 per cent of GDP in the 2015 budget to 1.9 per cent in the 2015 revised budget. Another surprising feature was the escalation in state capital investment. In the largest allocation in ten years, capital investment in state-owned enterprises climbed fourteen-fold, from Rp 5.1 trillion to Rp 70 trillion. In brief, Jokowi's budget policy was totally different from that his predecessors.

The government delivered the proposed 2015 revised budget in January 2015, six months earlier than would normally have been the case. The Ministry of Finance argued that this was necessary to accommodate new government programs. It also wanted to give effect to the decision to remove fuel subsidies, made in the previous November (Budget Committee Meeting Minutes, 19 January 2015). In addition, the legislature had only a relatively short time to scrutinise the proposal, since discussions on revised budgets are shorter than for main budgets. According to Law No. 17/2014 on the People's Consultative Assembly, the House of Representatives, the Regional Legislative Council, and the Regional House of Representatives, a revised Budget Bill must be discussed and approved by the legislature no later than one month after it is delivered. During this period, the Budget Committee invited the eleven ministries that had received the largest increases in spending to meet with them in three working sessions (*rapat kerja*) (Budget Committee Report, 13 February 2015). Given the time constraints and the fact that the budget was not business-as-usual, the Chairperson of the Budget Committee, Ahmadi Noor Supit, required the relevant Ministers to be present to identify the programs to which the additional funding had been allocated (Budget Committee

Meeting Minutes, 20 January 2015). In the end, the committee confirmed the budget allocation as proposed.

**Table 4.4. State Ministries with the Largest Budget Allocation**

| Ministry/Agency | 2015 Budget (trillion rupiah) | Proposed 2015 Revised Budget (trillion rupiah) | Percentage Change |
|---|---|---|---|
| Ministry of Public Works and Housing | 84.9 | 119.4 | 41 |
| Ministry of Defence | 96.9 | 97.5 | 1 |
| Ministry of Transportation | 44.9 | 64.9 | 45 |
| Ministry of Religion | 56.4 | 57.4 | 2 |
| National Police | 51.6 | 53.2 | 3 |
| Ministry of National Education and Culture | 46.8 | 53.3 | 14 |
| Ministry of Health | 47.7 | 51.3 | 8 |
| Ministry Research and Higher Education | 42.3 | 42.4 | 0 |
| Ministry of Agriculture | 15.9 | 32.8 | 106 |
| Ministry of Finance | 18.7 | 25.7 | 37 |

Source: Financial Notes to the 2015 Revised Budget.

The Budget Committee was less comfortable with adjustments to the macroeconomic assumptions contained in the proposal. The assumption of economic growth had been lowered by 0.1 per cent, and the rupiah exchange rate had been set at Rp 12,500, leading to a decline in expected domestic revenue and international trade taxes (see Table 4.5). The international crude price was also lowered to US$10, and estimates of oil production dropped to 825,000 barrels per day. These corrections drew questions from representatives of both coalitions on the Budget Committee. Ahmadi Supit from KMP said that the government's macroeconomic assumptions did not support the President's programs. The Deputy Chairperson of the Budget Committee, Said Abdullah from PDIP, also expressed his concern, noting that 'this was the first time … the Budget Committee has talked about government pessimism' (Budget Committee Meeting Minutes, 29 January 2015).

**Table 4.5. Macroeconomic Assumptions in the 2015 Revised Budget**

| Indicator/Item | Budget Proposal | Enacted Budget | Margin |
|---|---|---|---|
| Economic growth (%yoy) | 5.8 | 5.7 | (0.1) |
| Inflation (%yoy) | 5.0 | 5.0 | 0 |
| Rupiah exchange rate (Rp/USD) | 12,200 | 12,500 | 300 |
| Average 3-month interest rate (%) | 6.20 | 6.20 | 0 |
| International crude price (USD/barrel) | 70.0 | 60.0 | (10) |
| Oil production (thousand barrels per day) | 849 | 825 | (24) |
| Gas production (thousand barrels per day) | 1,177 | 1,221 | 44 |
| Revenue (trillion rupiah) | 1,768 | 1,761 | (7) |
| Expenditure (trillion rupiah) | 1,995 | 1,984 | (11) |
| Surplus/deficit (trillion rupiah) | (226) | (223) | 3 |

Source: Author compilation from the Financial Notes to the 2015 Revised Budget.

Even though the opposition coalition that controlled the majority of seats in the legislature had the opportunity to block the new government's agenda, neither coalition saw the revision of 2015 budget as a political issue. The role of the opposition also did not reflect in the budget balance. As Falcó-Gimeno and Jurado (2011) argued, the opposition have a vested interest in maintaining budget deficits to signal that the minority government was weak. In fact the budget deficit decreased by Rp 3 trillion. More specifically, although the debate on state capital investment in state-owned enterprises was hard-fought, the Budget Committee eventually approved the investment with only minor changes.

In the final meeting, instead of emphasising their own parties' standpoints, both ruling and opposition parties agreed that the revision of the 2015 budget could be enacted in a Plenary Session of the legislature. None of the party representatives who took part in the last meeting of the Budget Committee expressed their own fraction's view of the revised budget, as the Chairperson of the Budget Committee had suggested: 'I suggest the fractions just submit the fraction opinion of the document. We assume this [document] has been read' (Budget Committee Meeting Minutes, 13 February 2015). It seemed that fraction views on the budget were a mere formality and parties from both coalitions had reached agreement on the Budget Bill.

Differences between the two coalitions also failed to surface in the Plenary Session held to enact the Budget Bill. The Plenary Session had to be postponed for five hours, but this was not due to political contentions between the parties but rather procedural objections from the members of the Sectoral Commissions representing both coalitions. For example, Saleh Daulay, a Commission VII member from PAN, which was then part of KMP, complained that the committee had cut the budget of the Ministry for Social Welfare without Sectoral Commission approval.[21] Aria Bima, a PDIP member of Commission VI, also protested that decisions made by the Budget Committee on capital investment in state-owned enterprises differed from those made by his commission. The Vice Chairperson of the House, Taufik Kurniawan, who was chairing the Plenary Session, ruled that a lobby forum was needed to synchronise the results of the budget deliberations of the Sectoral Commissions and the Budget Committee (Plenary Session Meeting Minutes, 13 February 2015).[22]

As this discussion suggests, the dynamics of the budget discussion were dominated by the conflict between the Sectoral Commissions and the Budget Committee rather than between the governing and opposition coalitions. And since the process surrounding the revised budget was disconnected from the political constellations that dominated the legislature in early 2015, the government's minority status in the legislature did not obstruct the passing of Jokowi's first budget, which was approved by a legislature dominated by the opposition coalition.

### *The 2016 Budget*

By the time the legislature embarked on discussions on the 2016 budget, the political context had changed significantly. Jokowi had reshuffled his cabinet, giving PDIP an extra ministry. The nature of the coalitions had also changed. PAN had joined the governing coalition, giving it control of 46 per cent of seats in the legislature. In the meantime, the opposition coalition, which now controlled just 43 per cent of seats, was further weakened by internal conflict in both the Golkar Party and PPP. However, this consolidation of power did not guarantee parliamentary support for Jokowi's 2016 Budget Bill. The majority of parties,

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[21] As stipulated in Law No. 17/2014 on Legislative Institutions, known as the MD3 Law, sectoral commissions are responsible for scrutinising the budget within their counterpart sectoral ministries, while the budget committee has the authority to scrutinise the allocations for all ministries.

[22] It is common in Indonesia's legislative decision-making process to move unresolved issues to smaller group discussions (lobby forums) involving key decision makers including fraction coordinators, commission and committee leaders and the House speaker in order to reach consensus.

including those in his alliance, rejected the bill, forcing the government to freeze its capital injections into state-owned enterprises.

Before the discussions began, it was not evident that the majority of parties were planning to reject the budget. The government had submitted a document outlining its fiscal policy and budget priorities in May 2015. This document was principally a pre-budget statement that included a description of its macroeconomic framework, fiscal policies and priorities, revenue and proposed expenditure. It had also submitted an annual Working Plan, which included working plans for the individual spending ministries. The intended results of the pre-budget discussion were confined to the range of macroeconomic assumptions to be used by the government in formulating the state budget proposal. In this phase, legislators from both coalitions had the opportunity to insert their political agendas into the budget proposal. However, the general exchange of views between the government and the legislature revealed no fundamental difference between the two coalition camps (Plenary Session Meeting Minutes, 28 May 2015). Indeed, the main point made by various party fractions in the House, regardless of coalition affiliation, was criticism of the government's slow disbursement of the budget. As stated by Bambang Soekartono from Gerindra, 'the DPR is united. There is no more KMP, no more KIH. We are committed to supporting the government in accelerating budget disbursement' (Plenary Session Meeting Minutes, 25 August 2015).

The 2016 budget was proposed under the pressure of slow economic growth and fluctuations in the exchange rate. The assumption that the exchange rate would drop from Rp 12,500 per USD in the 2015 revised budget to Rp 13,400 per USD in the 2016 budget proposal proved to be too modest. The exchange rate weakened during the budget discussions, forcing the government to revise its underlying assumptions to Rp 13,900 per USD and reduce expectations of economic growth from 5.5 per cent to 5.3 per cent (Table 4.6). These adjustments increased the budget deficit from 2.14 per cent to 2.46 per cent, or around Rp 39.3 trillion. The Budget Committee asked the government to reduce the budget deficit to 2.15 per cent of GDP based on new macroeconomic assumptions approved by the committee (Observation of the Budget Committee Meeting, 15 October 2015). The government then announced a proposal to cap ministry spending at around Rp 21.3 trillion. As a director in the Ministry of Finance later explained, 'We had to cap the budget to secure the budget deficit; we will suspend non-priority spending, and hopefully, if the tax revenue increases, we can adjust for the budget suspension in the revised budget' (Interview, 21 October 2015).

**Table 4.6. Macroeconomic Assumptions, 2015–16**

| Indicator/Item | 2015 Revised Budget | 2016 Budget Proposal | 2016 Enacted Budget |
|---|---|---|---|
| Economic growth (%yoy) | 5.7 | 5.5 | 5.3 |
| Inflation (%yoy) | 5.0 | 4.70 | 4.70 |
| Rupiah exchange rate (Rp/USD) | 12,500 | 13,400 | 13,900 |
| Average 3-months interest rate (%) | 6.20 | 5.50 | 5.50 |
| International crude price (USD/barrel) | 60.0 | 60.0 | 50.0 |
| Oil production (thousand barrels per day) | 825 | 830 | 830 |
| Gas production (thousand barrels per day) | 1,221 | 1,155 | 1,155 |
| Revenue (trillion rupiah) | 1,761 | 1,848 | 1,822 |
| Tax revenue | 1,489 | 1,846 | 1,820 |
| Non-tax revenue | 269 | 280 | 273 |
| Expenditure (trillion rupiah) | 1,984 | 2,121 | 2,095 |
| Central government spending | 1,319 | 1,339 | 1,032 |
| Fiscal transfer to the regions | 664 | 782 | 770 |
| Surplus/deficit (trillion rupiah) | (222) | (273) | (273) |

Source: Author compilation from the Financial Notes to the 2015 Revised Budget, the 2016 Budget Proposal and the 2016 Budget.

As a consequence of these changes in the macroeconomic climate, the government had to cut allocations to 38 ministries in order to reduce the budget deficit. In contrast to the 2015 revised budget, in which most of the ministries received additional funds from the reallocation of funds earmarked for fuel subsidies, allocations to the ministries dropped from Rp 795.5 trillion to Rp 780.3 trillion in the 2016 budget proposal. However, the working committee also decided to allocate additional funds of around Rp 23.6 trillion to 21 of the ministries. As shown in Table 4.7, this supplementary allocation consisted of priority spending of Rp 18.1 trillion and urgent spending of Rp 5.5 trillion.

The simultaneous cutting and raising of ministerial budgets drew criticism from PKS's Ecky Muharam (Observation of the Budget Committee Meeting, 15 October 2015). Commenting on this issue, an informant from the Ministry of Finance explained that the supplementary budget would be sourced from increased non-tax revenue according to the

**Table 4.7. Additional and Suspended Funds in the 2016 Budget**

| Ministry/Agency | Additional Funds | | Suspended Funds |
|---|---|---|---|
| | Priority Spending | Urgent Spending | |
| National Police | 6.4 trillion | 2 trillion | 1 trillion |
| Ministry of Defence | 3.46 trillion | 3 trillion | 3.1 trillion |
| Ministry of Public Works and Housing | 2.9 trillion | | 2.6 trillion |
| Ministry for Villages and Remote Regions | 1.5 trillion | | 214 billion |
| House of Representatives | 740 billion | | |
| National Search and Rescue Body | 520 billion | | 75.4 billion |
| State Intelligence Body | 480 billion | | |
| Ministry of Home Affair | 360 billion | | 203 billion |
| Coordinating Ministry for Maritime Affairs | 250 billion | | |
| Ministry of Law and Human Rights | 200 billion | | 204 billion |
| National Anti-Terrorism Body | 200 billion | | |
| National Disaster Management Body | 200 billion | | |
| State Cryptography Agency | 100 billion | | |
| Ministry of Research and Higher Education | 170 billion | | |
| Supreme Court | 150 billion | | 150 billion |
| National Standardisation Body | 100 billion | | |
| Ministry of Labour and Transmigration | 100 billion | | 103 billion |
| Coordinating Ministry of Political Affairs, Security and Defence | 100 billion | | |
| Ministry of Trade | 75 billion | | 158.5 billion |
| National Archive Body | 40 billion | | |
| Ministry of Industry | 20 billion | | 102.3 billion |
| Ministry of Youth and Sport | | 500 billion | 49.4 billion |
| Other Ministries/Bodies/Agencies | | | 14.2 trillion |
| **Total** | **18.1 trillion** | **5.5 trillion** | **21.3 trillion** |

Source: Author compilation from observation of the Budget Committee meeting on 15-16 October 2015.

decisions of the Budget Committee. The informant noted that the supplementary funds fell under the authority of the Budget Committee, and that those funds could not be used to offset part of the budget suspension (Interview, 21 October 2015). However, the decision on budget cuts and additional allocations was not taken in this meeting (Observation of the Budget Committee Meeting, 15 October 2015). Rather, it was reported to the working committee meeting by the Finance Minister, having been made elsewhere.

This move to allocate additional funding at a time of budget austerity triggered questions from Budget Committee members from Hanura, PPP and PKS regarding the criteria used to determine which ministries would be provided with additional funds, especially when some ministries identified by the Sectoral Commissions as requiring additional funding to the value of Rp 274 trillion had so far received nothing (Observation of the Budget Committee Meeting, 16 October 2015).[23] The Sectoral Commissions also questioned the budget suspension, which delayed the plenary budget meeting by one week. The rejection of the budget suspension in fact proved to be a political blunder. Four parties—PKB, PPP, PAN and Hanura—agreed to pass the 2016 Budget Bill. However, Gerindra refused to support the bill, while PDIP, PKS, PAN, the Democrat Party and the Golkar Party said that they would only accept the Budget Bill if the government accommodated their objections, which focused primarily on the proposed capital investment in state-owned enterprises (Budget Committee Report, 30 October 2016).[24] Eventually, the DPR including Gerindra passed the Budget Bill after the government agreed to freeze capital investment and to attach all fraction notes to the Budget Bill (Plenary Session Meeting Minutes, 30 October 2015). As this suggests, Jokowi's consolidation of power was not enough to secure acceptance of his budget policy.

## Conclusion

This chapter has presented an analysis of the relationship between the political configuration following the 2014 election and the political dynamics that informed the 2014–15 parliamentary budget discussions. It has shown that the relative size of the two parliamentary coalitions was not a determining factor in the budgetary arena, as evidenced by the fact that the minority government won parliamentary support for its budgets.

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[23] It is important to note here that typically the budget committee members from the sectoral committees fought to increase the budgets of their counterpart ministries then forced their counterpart ministries to accommodate their political interests, especially in the form of projects for their constituency regions, known as the 'aspiration fund'. The aspiration fund is the subject of the following chapter.

[24] The reasons why most of the fractions rejected the capital investment proposal are discussed in the following chapter.

The fact that competition between the two coalitions did not translate into the budgetary arena can be explained by two analytical points. First, minority coalitional presidentialism does did not always lead to legislative gridlock. Discussions of the 2015 budget and the 2015 revised budget support this argument. The 2015 budget occurred in a context of high political tension. The Constitutional Court had rejected Prabowo’s challenge to the election results and the opposition coalition, which dominated the ongoing legislature, had passed a law to abolish direct local elections. Yet even though the fuel subsidy had been a hot political issue for a decade, the opposition coalition did not use its majority power in the legislature to block the budget. A similar situation materialised in discussions of the 2015 budget revisions. Although the legislature was dominated by the opposition coalition, Jokowi won enough parliamentary support to pass his first Budget Bill despite its strong departure from standard budgetary practice and the fact that it both removed the fuel subsidy and dramatically increased the capital investment allocation to state-owned enterprises. Second, the presence of a minimal winning coalition can make the President hostage to his own supporters. By the time of the 2016 budget discussion, KIH controlled 46 per cent of seats in the legislature, as opposed to the 43 per cent of seats held by KMP. Yet the majority of the party fractions, including that of his own party, rejected Jokowi’s 2016 budget proposal, which suggests that party loyalty to the coalition was weak. This finding confirms Sherlock’s (2012) argument that the coordination between parties, fractions and alliances in the policy making process is at best inconsistent and temporary.

The disconnection between the political configuration within legislature and the political dynamics in the budgetary arena raises important questions. Why did coalition size not matter? How did the minority government acquire support from a House dominated by the opposition? What incentives did it provide? What made the government coalition join with the opposition coalition to oppose the President’s agenda? These questions are explored through the three case studies presented in the following chapters.

# Chapter 5: Capital Injections into State-owned Enterprises

In the decade before Jokowi came to power, the issue of capital injections into state-owned enterprises was not a government priority. Then, in the revised budget for 2015, a significant amount of capital investment (around Rp 70 trillion) was allocated to 39 state-owned enterprises for the first time in the history of Indonesian fiscal policy. These capital injections were controversial for two reasons. First, at more than seven times the average allocation for the preceding ten years, it was not business-as-usual fiscal policy, especially since in the initial 2015 budget, the average allocation was just Rp 5.1 trillion. Second, the savings that made the capital injections possible were derived from the President's decision to cut fuel subsidies by up to Rp 205 trillion. These savings were being diverted away from the people affected by the removal of the subsidies and into state-owned enterprises.

In Chapter Four, I explained that the political dynamic informing the 2015–16 budget deliberations did not reflect the political configuration following the 2014 elections. By using state capital injections into state-owned enterprises as a case study in this chapter, I aim to show that the parties' standpoints on this policy were not related to their platforms, but rather depended on the extent to which political incentives were provided to legislators and party elites from both coalitions. I do so by addressing the following question: Why did a legislature dominated by non-government coalition parties approve the capital injections in the revised 2015 budget and then reject them in the 2016 budget, after the government had captured the balance of power in the House?

The chapter consists of four sections. The first sets the scene by describing the political economy of state-owned enterprises, explaining their development and problems, their political connections, and their economic contribution to GDP. The second and third sections focus on the political dynamics of the budget discussions on capital injections in the revised 2015 budget and the 2016 budget. These sections discuss the interaction between the government and the legislature, and between the Sectoral Commissions, the Budget Committee, and individual legislators from both coalitions. In these two sections, I will demonstrate that—rather than being determined by party platform and coalition size—the standpoint of the parties on capital injections into state-owned enterprises was driven by the interests of individual legislators. The final section summarises the main variables that prompted the legislature to pass the Budget Bills.

**The Development of Indonesia's State-owned Enterprises**

Indonesia's state-owned enterprises have been the subject of political controversy since the New Order period, when they were seen not only as significant contributors to economic development, but also as part of the patronage networks that helped Suharto stay in power for 32 years. During that time, state-owned enterprises provided jobs for Suharto's supporters from the military and senior ranks of the bureaucracy, as well as his friends and relatives (McLeod, 2000). The state-owned enterprises—especially the oil companies and state banks—were also exploited as cash cows, providing privileges through business transactions for Suharto's inner circle, family companies and the conglomerates (McLeod, 2005, 2008). As a result, they were politically sensitive, and policies related to them were potential areas of conflict.

The fallout from the Asian financial crisis of 1997–98 added to the political sensitivities surrounding state-owned enterprises. According to Article 33 of the 1945 Constitution, 'Sectors of production that are important and affect the life of the people shall be controlled by the state'. This article provides the main basis for the state's role in national economic development through state-owned enterprises. Following the 2003 financial reforms described in Chapter Three, the government issued Law No. 19/2003 on State-owned Enterprises, which restates the position that these enterprises are not only dedicated to pursuing profits and contributing to state revenue as government business entities, but must also serve the public interest. At the same time, this law defined the role of the Ministry of State-owned Enterprises as including responsibility for restructuring and privatisation. The threat of privatisation triggered nationalist sentiment among those concerned that strategic sectors of the economy would fall into hands of foreign parties (Wicaksono, 2008). As defined by the new law, restructuring involved the development of a national holding company for state-owned enterprises. The main argument for a holding company was that it would build a 'sense of cooperation' and simplify the bureaucratic structures normally characteristic of government entities (Kamal, 2010).[25] As shown in Figure 5.1, there was a decrease in the number of non-listed state-owned enterprises as a result of the formation of this holding company.

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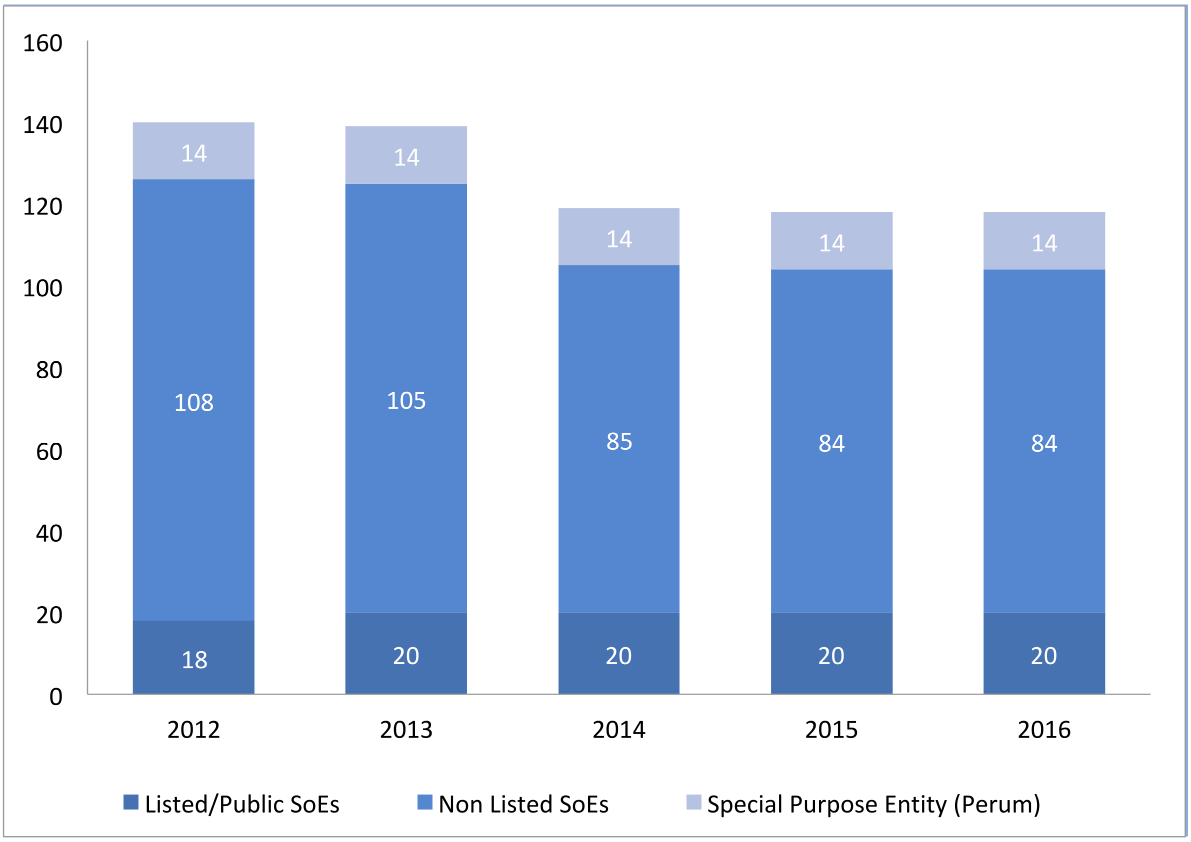
[25] As Wicaksono (2008) notes, the strategy of merging state-owned enterprises was not new. Sofyan Djalil had served as the Deputy Minister to the previous Minister for State-owned Enterprises, Tanri Abeng, who formulated the master plan for state-owned enterprises to merge under a holding company.




Source: Ministry of State-owned Enterprises

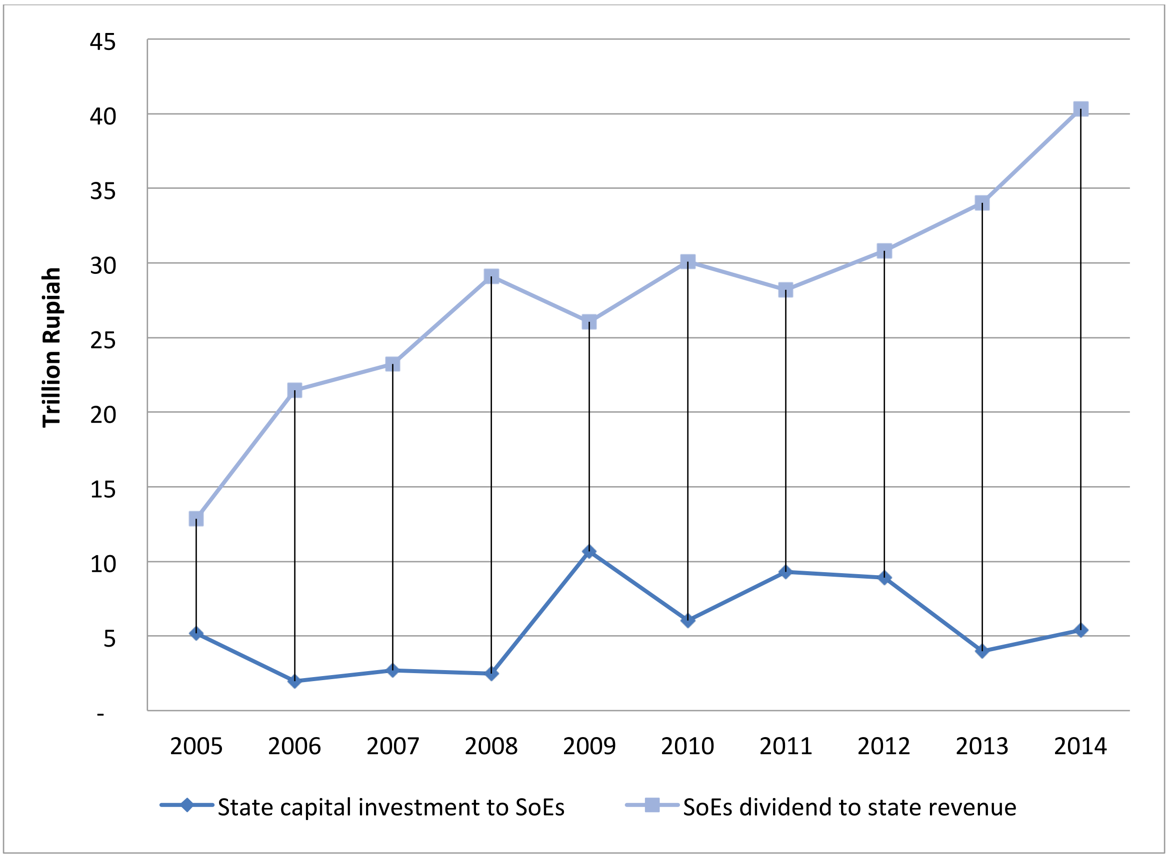
**Figure 5.1. The Development of SoEs, 2012–16**

As of 2007, there were 157 state-owned enterprises in Indonesia, across diverse business sectors. In 2015, the government wanted to slash the number of these enterprises to just 25, but this target was never realised, since most of the Ministers for State-owned Enterprises came from political parties that were not committed to the plan to establish a holding company (Wicaksono, 2008). As shown in Figure 5.1, there were still more than 100 state-owned enterprises in 2016. This figure includes all profit-oriented state-owned enterprises, which are categorised as listed and non-listed state-owned enterprises, the latter being special purpose entities (Perusahaan Umum, Perum).

The fact that ministers come to their positions from particular political parties means that the Ministry of State-owned Enterprises has never been free from political interference. This interference can operate in many ways. The government can use positions on boards of commissioners to provide jobs for their supporters, as occurred regularly under the Suharto regime and was also prevalent in the post-Suharto period. Six months after President Jokowi's inauguration, for instance, there were 16 politicians and campaign volunteers who held positions on boards of commissioners in state-owned enterprises (Asril, 2015a). These enterprises are also subject to scrutiny by the House in the context of the budget. As the representative of the government, the Ministry of State-owned Enterprises discusses the allocation of capital injections and dividend contributions to revenue as part of its budget discussions with Commission VI and the Budget Committee. In practice, the House also negotiates directly with state-owned enterprises that require capital injections or make dividend contributions. This means that to a large extent, decisions regarding state-owned enterprises are driven more by political factors than commercial business considerations. The involvement of the House in these negotiations provides an opportunity for rent extraction.

Another way in which politicians and bureaucrats seek rents from state-owned enterprises is through their Corporate Social Responsibility (CSR) programs. It has been acknowledged that legislators have used CSR programs in this way to serve their constituency regions. For example, Endang Handayani from Golkar distributed a CSR contribution from a state-owned bank to her constituency (Ade, 2017). In other examples, Ramson Siagian from Gerindra distributed CSR funds from the State Electricity Company (Perusahaan Listrik Negara, PLN) to his constituency (Triyono, 2016), as did Refrizal, a legislator from PKS (Zulkifli, 2016). CSR funds derived from state-owned enterprises can also be manipulated to serve bureaucratic interests. For example, the Ministry of Energy and Mineral Resources sent a letter to Pertamina requiring it to provide health insurance for the Ministry's employees (*Tempo*, 26 December 2016).

Yet, despite problems of ownership and political interference, state-owned enterprises have become increasingly important for Indonesian economic development. At the end of 2006, their market capitalisation had reached Rp 493.26 trillion, a sum equal to 40.23 per cent of total market capitalisation on the Jakarta Stock Exchange (Wicaksono, 2008). A decade later, their assets were worth Rp 6,325 trillion, or more than three times the value of the 2016 budget. As shown in Figure 5.2, although state capital injections did not exceed Rp 10 trillion in any one year under the Yudhoyono presidency, the dividends paid by state-owned enterprises increased significantly. During the last five years of the Yudhoyono administration, taxes and dividends from state-owned enterprises contributed about 10 per cent of state revenue (Ministry of State-owned Enterprises, 2016).




Source: Author compilation from the State Budgets, 2005–14

**Figure 5.2. Capital Investment in SOEs and Dividends, 2005–14**

Aware of these trends, Jokowi attempted to optimise the potential economic benefits of state-owned enterprises after becoming President in 2014. In Jokowi's strategy document, the Nawacita (Nine Priorities), state-owned enterprises were described as 'agents of development', particularly in the area of infrastructure development (Visi, Misi dan Program Aksi Jokowi dan Jusuf Kalla). The government contended that new investment in these enterprises was essential to support infrastructure programs that had been allocated through the spending ministries and agencies. To obtain an injection of capital, state-owned enterprises were required to address government priority programs, including public infrastructure, food sovereignity and maritime services (*Kompas*, 29 January 2015). Jokowi's strategy of optimising the role of state-owned enterprises by injecting new capital was risky, since the policy could trigger a political backlash. The way in which the new government revitalised state-owned enterprises in the 2015 revised budget and the 2016 budget is discussed in the next section.

## State-owned Enterprises in the 2015 Revised Budget

Jokowi's plan to revitalise state-owned enterprises must be seen not only in terms of the formal relationship between the executive and the legislature, but also in its political context. As discussed in Chapter Four, Jokowi faced several political challenges at the time of his first budget, not least among them the fact that the opposition coalition held the majority of seats in the legislature and controlled the speakership. As a newcomer to national-level politics, without any experience of deal-making with the national elites, Jokowi's position within his own coalition was also weak. Yet, his proposal to increase state capital injections into state-owned enterprises by more than ten times those provided for in the 2014 budget passed through the legislature with only minor changes.

This section examines the political dynamics surrounding these capital injections. As argued below, there was no clear division between the ruling and opposition coalitions on the issue of state capital injections in these discussions. This was because the government provided incentives for opposition leaders to support the policy, and public opinion put pressure on the opposition coalition to fall into line.

### *The Debate on State Capital Injections*

The debate on state capital injections required seven sessions of the Budget Committee before a decision could be reached. These lengthy discussions involved actors from the government, the legislature and the state-owned enterprises themselves. As this section shows, the discussions were the result of the departure from the business-as-usual position on state-owned enterprises, rather than competition between the coalitions. In fact, the massive increase proposed in state capital injections drew criticism from legislators regardless of their party affiliation.

Actors involved in these discussions included key players from the executive and the House. On the executive side, they included representatives of the Ministry of Finance and the Ministry of State-owned Enterprises, but also the directors of all the state-owned enterprises in line for capital injections. While the Ministry of Finance represented the government in the all the budget deliberations, the Ministry of State-owned Enterprises played a vital role in the discussion of state capital injections. President Jokowi appointed Rini Soemarno, the former chief of his transition team, to head the Ministry.[26] Rini's first task

[26] Rini was known to have a close relationship with former President Megawati. As the Minister for Trade for three years in Megawati's administration, she was expected to become a mediator between

was to convince the legislature to approve the massive increase in capital injections into state-owned enterprises in the revised 2015 budget. In the legislature, two Sectoral Commissions had responsibility for scrutinising the capital injections proposed for each of the state-owned enterprises: Commission VI, the counterpart of the Ministry of State-owned Enterprises, and Commission XI, the counterpart of the Ministry of Finance. The Budget Committee reviewed the budget allocation to each of the enterprises, based on the decisions made by the two Sectoral Commissions.

Initially, the issue of capital injections produced strong reactions among members of the Budget Committee. Regardless of their coalitional affiliation, most members at first rejected the proposal for a massive increase in investment in state-owned enterprises. It was only after the seven Budget Committee meetings on the topic that the committee reached agreement on the issue of capital injections, and even then only with several adjustments. The Chairperson of the Budget Committee, Ahmadi Noorsupit, stated:

> We have discussed the capital injections many times. It was really tough to get approval from us. In the last few years, there was only a small number of SOEs that we thought needed an injection of new capital. And now, enormous capital injections are proposed (Budget Committee Meeting Minutes, 20 January 2015).

The rejection of capital injections into state-owned enterprises came not only from parties outside the ruling coalition, but also from parties within it. For example, Daniel Tobing, a Budget Committee member from PDIP, questioned the capital injections in the absence of a five-year roadmap for the enterprises, raising concerns that it would lead to inefficiencies (Budget Committee Meeting Minutes, 20 January 2015).

The capital injections were rejected by the Budget Committee for three reasons. First, the committee argued that the government needed to focus on reform of state-owned enterprises prior to injecting new capital. This position was put by Sukur Nababan, a Budget Committee member PDIP, who observed in a meeting of the committee, 'I have spent five years in Commission VI, so I know precisely what the problem with state-owned enterprises is. It does not relate to financial capital. The problem is mismanagement' (Budget Committee

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PDIP and Jokowi. Hasto Kritiyanto, the Deputy Head of the transition team and a Deputy Secretary within PDIP signalled that Rini would serve as Minister for State-owned Enterprises before Jokowi officially announced her appointment (Ericssen, 2014).

Meeting Minutes, 20 January 2015). Problems in relation to the management of state-owned enterprises were also identified in the audit findings of the Supreme Audit Body, which sent a report to the Ministry of State-owned Enterprises, the Ministry of Finance and the legislature noting that 86 separate findings, to the value of Rp 3.15 trillion, in fourteen state-owned enterprises, had not been followed up (Badan Pemeriksa Keuangan, 2015).

Second, the most common concern among the Budget Committee members was that the capital injections would be misallocated. The committee wanted to know why each of the state-owned enterprises selected for the injection of new capital had been chosen. For example, Bowo Pangarso, a Budget Committee member from Golkar, questioned the need for capital injection into Bank Mandiri, which is a public company and is therefore able to generate capital on the financial market without the need for capital injections from the state. Daniel Tobing from PDIP also questioned why the state-owned electricity firm (Perusahaan Listrik Negara, PLN) was not slated to receive an injection of capital when the government had initiated an ambitious project involving the generation of 35,000 megawatts (MW) of power (Budget Committee Meeting Minutes, 20 January 2015).

Third, there were also perceptions in the legislature that state-owned enterprises should be contributors to state revenue, not recipients of capital injections from the state budget. It was pointed out that Article 2 of Law No. 19/2003 on State-owned Enterprises explicitly states that the purpose of state-owned enterprises is to contribute to economic development and boost state revenue. In the revised 2015 budget, the government was not only proposing an increase in the size of capital injections but also a reduction in the dividend paid by state-owned enterprises, from Rp 44 trillion to Rp 35 trillion. The government argued that this reduction was necessary, in order to strengthen the capital structure of state-owned enterprises and to support their function as agents of development (Budget Committee Meeting Minutes, 3 February 2015). The Budget Committee was not convinced, however. As its Chairperson, Ahmadi Noorsupit, observed, 'Normally we focus on how state-owned enterprises can provide a dividend, which is their purpose. So I think my colleagues in the Budget Committee were shocked, because this has never happened before' (Budget Committee Meeting Minutes, 3 February 2015). In short, the Budget Committee's objections focused on the unusual nature of the government's request. Importantly, however, this did not give rise to conflict between the ruling and opposition coalitions, which were united in their criticism of the government's proposal to inject such large amounts of capital into enterprises owned by the state.

***Reaching a Compromise***

Despite these objections, a consensus was finally reached between the Budget Committee, the Ministry of Finance and the Ministry of State-owned Enterprises. As demonstrated below, this consensus was made possible through an incentive for members of the Budget Committee to approve the measure in the form of an increase in the dividends paid by state-owned enterprises—an increase that enabled the generation of an optimisation fund. As is discussed in Chapter Six, the optimisation fund gave the government the means to appeal to legislators' self-interest, especially in the form of rewards for their constituencies, or to provide them with benefits that were otherwise beyond their reach.

After a period of intense bargaining between members of the Budget Committee and the Ministry for State-owned Enterprises, the government ultimately agreed to increase the dividend paid by state-owned enterprises from Rp 34.9 trillion to Rp 37 trillion. At least five Budget Committee members, including three from PDIP, were active in forcing this increase (Budget Committee Meeting Minutes, 3 February 2015). Ecky Mucharam from PKS, for example, engaged in a lengthy discussion with the Secretary of the Ministry. He questioned the logic in the reduction of the dividend, based on the payout ratio in previous years and the profit share of net income that companies pay to the state as a shareholder. Ecky's argument was reinforced by Budget Committee members from PDIP and Golkar, who asked the Secretary to agree to an increase in profit-sharing by state-owned enterprises (Budget Committee Meeting Minutes, 3 February 2015).

During the Budget Committee's seventh session, the government finally agreed to make some adjustments. In total, capital injections were reduced from Rp 48 trillion to Rp 39.9 trillion (Table 5.1). This target was achieved by rejecting capital injections to three state-owned enterprises and reducing the amount of capital to be injected into a further four. However, two other state-owned enterprises, namely PLN and PT Askrindo, the State Insurance Company, were allocated new capital not included in the initial proposals.

However, these proposed adjustments did not win the approval of all parliamentary fractions. Committee members from PPP and Gerindra, from the opposition coalition, continued to argue that the policy was unacceptable. Amir Uskara from PPP questioned the criteria under which capital injections had been awarded. Wilgo Zainal from Gerindra was of a similar opinion:

> On behalf of my colleagues in the Gerindra fraction, I want to say that I do not agree with the allocation approved by the Budget Committee. We must review and discuss

this issue further within our fractions. So, the Gerindra fraction does not support this motion (Budget Committee Meeting Minutes, 4 February 2015).

NasDem, a member of the government coalition, also consistently rejected the capital injections proposed in the first meeting of the Budget Committee because it considered them unacceptably high (Budget Committee Meeting Minutes, 21 January 2015).

**Table 5.1. Adjustment of Capital Injections in the 2015 Revised Budget**

| State-owned Enterprise | Sector | 2015 Revised Budget (in Rp Billion) | | |
|---|---|---|---|---|
| | | Proposed | Approved | Deviation |
| **Rejected Capital Injections** | | | | |
| PT Rajawali Nusantara Indonesia | Trade and agroindustry | 280 | – | |
| PT Krakatau Steel | Mining | 956 | – | |
| PT Bank Mandiri | Bank | 5,600 | – | |
| **Reduced Capital Injections** | | | | |
| PT Angkasa Pura II | Airport services | 3,000 | 2,000 | 1,000 |
| Perum Perumnas | Housing | 2,000 | 1,000 | 1,000 |
| PT Kereta Api Indonesia | Transportation | 2,750 | 2,000 | 750 |
| PT Aneka Tambang | Mining | 7,000 | 3,500 | 3,500 |
| PT Perusahaan Pengelola Aset | Asset management | 2,000 | 1,000 | 1,000 |
| **New Capital Injections** | | | | |
| PT Perusahaan Listrik Negara | Electricity | – | 5,000 | |
| PT Asuransi dan Jaminan Kredit Indonesia (Askrindo) | Insurance | – | 1,000 | |

Source: Author compilation from the Financial Notes to the Revised 2015 Budget

Nevertheless, Budget Committee members from these three fractions altered their standpoints in the committee's final meeting. The purpose of this final meeting was to formulate the committee's report to the Plenary Session of the House. Fractions from the government and opposition coalitions all delivered their views on the budget to this meeting, and all supported the committee's decision on capital injections (Budget Committee Meeting Minutes, 13 February 2015). Nevertheless, the Plenary Session to approve the revised 2015 budget had to be postponed for around five hours to resolve a dispute between the Budget Committee and Commission VI. The dispute arose because the Budget Committee had decided to reject a capital injection for PT Krakatau Steel to the value of Rp 956 billion that had been supported by the Commission (Plenary Session Meeting Minutes, 13 February 2015).

In summary, although the Budget Committee initially refused to countenance capital injections, the government was able to win its support by agreeing to increase the dividend from state-owned enterprises to generate an optimisation fund. The government also allowed the Budget Committee to amend the allocation of new capital between state-owned enterprises. The conflict that arose from a later decision by the Budget Committee and Commission VI raises an important question about the role of political identity in the Budget Committee. This is the subject of the next subsection.

### *Political Identity and Political Incentives*

The dynamics of the debate on capital injections in the revised 2015 budget reveal the way in which the government worked around its minority status to win the support of a legislature dominated by the opposition coalition. It did so by providing incentives to individual legislators and to party leaders within the opposition coalition, blurring the lines of demarcation between political parties to such an extent that coalition membership was no guide to a party's stance on the issue of capital injections.

A number of significant conclusions emerge from the nature of this debate. First, the legislature's initial rejection of the capital injections was sparked by the dramatic increase in their value and the shift in the role of state-owned enterprises from revenue-raisers to agents of development, rather than by political fragmentation. Second, the debate indicated that the identity of legislators tends to be more strongly aligned with their committee membership than their party affiliation. This was illustrated in a statement by Riski Sadig, a Budget Committee member from PAN, in his response to the rejection of capital injections by two of the parliamentary fractions: 'I do not feel comfortable with these two fractions taking a dissenting position in this decision-making process. This is highly unusual' (Budget Committee Meeting Minutes, 4 February 2015). The strength of committee identity meant that the budget debate on capital injections was dominated by conflict between Commission VI and the Budget Committee, rather than between the government and opposition coalitions.

The approval of capital injections into state-owned enterprises was also influenced by two external factors. The first was public opinion, which drove the opposition coalition to support the move. According to PKS's Fahri Hamzah, the Secretary of the opposition coalition who also served as the House's Deputy Speaker, the coalition's elites took public support for Jokowi as the newly elected President into account. Reflecting on this situation, Fahri observed that 'the coalition did not want to be seen as standing in the new government's way, which would have been the case if we rejected the government's proposal' (Interview, 14 September 2015).[27] In short, the opposition coalition recognised that the President had majority public support, and so decided not to actively block presidential programs in the budget discussion, even though it had the numbers to do so. Second, elites within the opposition coalition were offered political incentives when Jokowi approached them for support for his nomination for Chief of Police. As mentioned in Chapter Four, this controversial appointment occurred at the same time as the discussion of the revised 2015 budget. Jokowi was under pressure from his primary party supporter to inaugurate Budi Gunawan, who had been named by the Corruption Eradication Commission as a graft suspect. At the time, Jokowi faced a difficult choice: either to lose public support, or face a backlash from within his own coalition. In an attempt to avoid either outcome, Jokowi chose to seek the support of the opposition leader Prabowo Subianto, his former rival during the presidential election campaign. A meeting between Jokowi and Prabowo discussed both Budi Gunawan's nomination and the revised 2015 budget. After the meeting, Prabowo stated that he would support whatever decision Jokowi made (Ihsanuddin, 2015d). By brokering this agreement, Jokowi signalled to the ruling coalition that he would abandon them if they continued to interfere with his decisions. At the same time, he provided a political incentive for his former rival to support his decisions, since Prabowo's support would demonstrate to the public that he remained part of the power structure.

Jokowi's move succeeded in winning the opposition coalition's support, or at the very least ensured that opposition members would not block his budget proposal, including his

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[27] The prescience of this position was confirmed by a Lembaga Survei Indonesia (LSI) survey released in February 2015, which found that satisfaction with Jokowi's performance remained high, at 61.6 per cent. More than 80 per cent of respondents also believed that Jokowi's welfare programs, such as the Smart Indonesia Card (Kartu Indonesia Pintar, KIP), the Healthy Indonesia Card (Kartu Indonesia Sehat, KIS) and the Prosperous Family Card (Kartu Keluarga Sejahtera, KKS) would be useful (Lembaga Survei Indonesia, 2015). The Smart Indonesia Card and the Healthy Indonesia Card were implemented when Jokowi was Governor of Jakarta. During the presidential campaign, he promised to extend the benefits of the cards across Indonesia. In November 2014, after his inauguration, Jokowi launched and distributed the cards without waiting for the 2015 budget to be revised. The Smart Indonesia Card targeted poor students, by providing financial assistance to meet their educational needs.

plans for capital injections into state-owned enterprises. Gerindra's Bambang Haryo, a Budget Committee member, confirmed that he had received a direction from Prabowo to support capital injections wherever they related to people's needs (Interview, 8 September 2015). Ahmadi Noor Supit, the Budget Committee Chairperson from Golkar, explicitly confirmed the opposition's support for the President's program, saying 'We will provide an opportunity for the new government to implement its programs according to its vision and missions' (Budget Committee Meeting Minutes, 3 February 2015). In short, tension around capital injections within the legislature was a product of the dramatic increase in the size of the capital injections, which took them out of the realm of business-as-usual, as well as conflict among key committees, rather than coalition size or political fragmentation in the legislature.

**State-owned Enterprises in the 2016 Budget**

The government's designation of state-owned enterprises as agents of development also figured in the design of the 2016 budget, although this time a considerably lesser amount (Rp 48 trillion) was allocated to capital injections. As discussed in Chapter Four, the 2016 budget deliberations coincided with the beginning of a period of political consolidation under Jokowi. Nevertheless, the discussion on capital injections did not produce the expected outcome: they were rejected by the majority of parties in the House, including PDIP. As the analysis in this section will show, this was because they ran counter to the interests of individual legislators.

***The Dynamics of the Debate on Further Capital Injections***

In May 2016, the government delivered its macroeconomic framework and fiscal policies for 2016 (Kerangka Ekonomi Makro dan Pokok-Pokok Kebijakan Fiskal), and the Government Work Plan to the House. These documents clearly stipulated that the government would continue to make capital injections into state-owned enterprises that supported its program priorities, including energy and food sovereignty, infrastructure development and maritime services. The preliminary budget discussions involved both an examination of the fiscal policies in the Budget Committee and a review of the government plan in the Sectoral Commissions. Although these two documents did not indicate which state-owned enterprises were earmarked for capital injections, they described the policies that would be used as the basis for formulating the 2016 budget proposal. For the legislators, this stage of the budgetary process was crucial, because it gave them the opportunity to influence the budget policy before the government submitted the Budget Bill. Moreover, legislators had a longer window of engagement, as this was a full budget, not simply a revision. However, they appear to have overlooked the capital injections at this stage, in the push to insert the aspiration fund described in Chapter Seven into the 2016 state budget proposal (Ihsanuddin, 2015b)

The government officially delivered the 2016 budget proposal in August. Although Jokowi did not specifically mention capital injections in his 2016 budget speech to the House, the government's plan was included in the budget's financial notes. This document spelled out the allocation of capital injections, which had decreased from Rp 70.3 trillion in the 2015 revised budget to Rp 48.2 in the budget proposal for 2016. The government also proposed a reduction of Rp 5 trillion in the dividends to be paid by state-owned enterprises.

**Table 5.2. Fractions' Positions on Capital Injections in the 2016 Budget Proposal**

| Fraction | Position |
|---|---|
| PDIP | Capital injections must only be made to state-owned enterprises that support the government's priorities |
| Golkar | Did not mention capital injections |
| Gerindra | Did not mention capital injections |
| PD | Did not mention capital injections |
| PKB | Dividends are expected to increase; capital injections will accelerate government programs |
| PAN | The government needs to control dividends; disbursements of capital injections to state-owned enterprises were low |
| PKS | The contribution of state-owned enterprises to the state budget was low; capital injections need to be evaluated based on performance |
| PPP | Did not mention capital injections |
| NasDem | State-owned enterprises need to increase their dividends |
| Hanura | Did not mention capital injections |

Source: Fractions' views on the State Budget Proposal 2016

As shown in Table 5.2, views on the capital injections were delivered by four fractions within the government coalition (PDIP, PKB, PAN and NasDem). Among members of the opposition coalition, only PKS criticised the proposed injections. The other two largest parties in the opposition coalition, Golkar and Gerindra, did not mention capital injections when they presented their views. Although the exchange of views between the government and the House in the two Plenary Sessions was more ceremonial than substantive

(Hawkesworth et al., 2009), the opposition coalition in the House could have made use of this forum to place its standpoint before the public, if it had had strong views it wished to display.

***The Decision-making Process***

In contrast to the debate on capital injections during the revision of the 2015 budget, only one meeting of the Budget Committee was required to reach a decision on capital injections in the 2016 budget (Observation of the Budget Committee meeting, 12 October 2016). In that meeting, the Budget Committee approved the capital injections with only minor adjustments. In fact, as shown in Table 5.3, the Budget Committee approved the increase of around Rp 1 trillion in capital injections into state-owned enterprises that had been discussed by Commission VI. Compared to capital injections in the 2015 budget, the amendments made by the legislature were not significant. The legislature increased the size of capital injections into four state-owned enterprises, added one new injection and cut injections into two state-owned enterprises.

During the Budget Committee meeting that specifically discussed state capital injections, only five committee members questioned the government's proposal. Kahar Muzakar from Golkar suggested that capital injections should not be used to cover company losses. The Chairperson of Commission VI, Iskandar Saihu (PPP), and Commission member Bambang Haryo (Gerindra) asked why the government continued to inject state capital into state-owned enterprises and why the disbursement of capital injections in 2015 had been so slow (Observation of the Budget Committee meeting, 12 October 2016). Although most of the questions came from members of the opposition coalition, this did not mean they were opposed to capital injections as such. In fact, there were no objections from the opposition coalition when the Budget Committee made the decision to support the proposal.

The Budget Committee did, however, succeed in forcing the government to increase the dividends paid by state-owned enterprises, from the Rp 31.1 trillion proposed by the government to Rp 34.1 trillion. The meeting's Chairperson, Said Abdullah (PDIP), requested the increase, and although the Secretary of the Ministry for State-owned Enterprises argued against it, saying that dividend should be retained by the enterprises, Said was supported by Golkar's Ahmadi Noorsupit, who declared: 'The dividend of the state-owned enterprises can't be Rp 31 trillion—that would mean a further decrease. This makes no sense … The dividend must increase to around Rp 34–35 trillion' (Observation of the Budget Committee

**Table 5.3. Adjustment of Capital Injections Approved in 2016**

| State-owned Enterprise/Program | Capital Injection *(Billion Rupiah)* | | |
|---|---|---|---|
| | Proposal | Approval | Deviation |
| **Food Sovereignty** | | | |
| Perum Bulog | 2,000.0 | 2,000.0 | |
| PT Perikanan Nusantara | 29.4 | 29.4 | |
| PT Rajawali Nusantara Indonesia | 692.5 | 692.5 | |
| PT Perusahaan Perdagangan Indonesia | 500.0 | 1000.0 | 500.0 |
| PT Sang Hyang Seri | | 500.0 | 500.0 |
| **Infrastructure and Maritime Services** | | | |
| PT Sarana Multi Infrastructure | 5,000.0 | 4,160.0 | –840.0 |
| PT Sarana Multigriya Finansial | 1,000.0 | 1,000.0 | |
| PT Penjaminan Infrastruktur | 1,000.0 | 1,000.0 | |
| PT Hutama Karya | 3,000.0 | 3,000.0 | |
| PT Wijaya Karya | 3,000.0 | 4,000.0 | 1,000.0 |
| PT Pembangunan Perumahan | 2,000.0 | 2,250.0 | 250.0 |
| Perum Perumahan Nasional | 235.4 | 485.4 | 250.0 |
| PT Angkasa Pura II | 2,000.0 | 2,000.0 | |
| PT Jasa Marga | 1,250.0 | 1,250.0 | |
| PT Pelayaran Nasional Indonesia | 564.8 | 564.8 | |
| PT Amarta Karya | 32.1 | 32.1 | |
| **Energy Sovereignty** | | | |
| PT Perusahaan Listrik Negara | 10,000.0 | 10,000.0 | |
| PT Geo Dipa Energi | 1,160.0 | – | –1,160 |
| Strategic Industry Development | | | |
| PT Krakatau Steel | 2,456.5 | 1,500.0 | |
| PT Industri Kereta Api | 1,000.0 | 1,000.0 | |
| PT Barata Indonesia | 500.0 | 500.0 | |
| **Economic Sovereignty** | | | |
| PT Bahana Pembinaan Usaha | 500.0 | 500.0 | |
| PT Askrindo | 500.0 | 500.0 | |
| Perum Jakrindo | 500.0 | 500.0 | |
| **Total** | **39,420.8** | **40,420.8** | **1,000** |

Source: Author compilation from the Financial Notes to the 2016 Budget Proposal.

meeting, 1 October 2016). The Ministry for State-owned Enterprises eventually agreed to increase the dividend. From the perspective of the Budget Committee, this was a significant victory, since the additional revenue could be used to generate the optimisation fund.

***Interest Disruption***

The decision on capital injections was, however, reversed at the end of budget discussion session. Although the Budget Committee had approved the allocation, the fractions ultimately rejected it in the Plenary Session, because spending cuts in several ministries ran counter to the interests of other members of the House.

As discussed in Chapter Four, the suspension of the spending ministries' budgets proposed by the government resulted in a delay of one week in the scheduling of the Plenary Session. The delay led to speculation that the opposition coalition was planning to block the budget altogether. NasDem, a member of the government coalition, blamed the opposition for the delay in the approval of the 2016 budget, which did not accommodate the opposition's proposal for an aspiration fund, as is discussed in Chapter Seven. Hidayat Nurwahid, a PKS member, rebutted NasDem's statement, asking it not to politicise the delay (Kami, 2015b).

A day before the final meeting of the Budget Committee, the opposition coalition elites held a meeting to discuss the budget. Abrizal Bakrie, the then Chairperson of Golkar and head of the opposition coalition's presidium, accused the budget of not being 'pro-poor'. In his statement, Bakrie highlighted insufficient spending on forestry and agriculture compared to capital injections into state-owned enterprises (Prabowo, 2015a). However, the opposition coalition meeting did not reach an agreement on the budget proposal, as evidenced by the views of the fractions in the last Budget Committee meeting before the Plenary Session. In that meeting, Gerindra was the only party to refuse to pass the bill. Other members of the opposition coalition agreed to do so on the condition that some objections be noted (Budget Committee report on the 2016 budget proposal).

As shown in Table 5.4, nine fractions expressed a position on capital injections in the last session of the Budget Committee meeting. PAN, PKB and NasDem, all members of the ruling coalition, accepted the capital injections. The other six fractions, including PDIP and four members of the opposition coalition, requested a reallocation and expressed a determination to block the capital injections in their objection notes. Since the fractions in the Budget Committee did not reach an agreement on the Budget Bill by the end of the Budget Committee session, the unresolved issues were taken to the Plenary Session for resolution. Although it is common in the legislative process to bring problems still outstanding in committee meetings to the Plenary Session, in normal circumstances this rarely resolves the issue. In this case, however, capital injections had not been a contentious issue during Sectoral Commission meetings, or even the Budget Committee meetings. The Budget

Committee had even approved the allocation of state capital injections in their working committee meeting.

**Table 5.4. Fractions' Positions on the 2016 State Budget and Capital Injections**

| Fraction | Position in 2016 | Stance on capital injection |
|---|---|---|
| PDIP | Accept with five notes | Reallocate the capital injections |
| Golkar | Accept with six notes | Reconsider capital injections |
| Democrat | Accept with 14 notes | Reconsider capital injections |
| PAN | Accept with five notes | Capital injections only for state-owned enterprises working on infrastructure and food security |
| PKB | Accept with three notes | Optimise capital injections |
| PKS | Accept with 17 notes | Reallocate and re-evaluate capital injection recipients |
| PPP | Accept with six notes | Concerned about the potential misuse of the capital injections |
| NasDem | Accept with seven notes | Agreed to capital injections with some notes |
| Hanura | Accept with nine notes | – |
| Gerindra | Reject with three notes | Reject capital injections |

Source: Budget Committee Report on the 2016 State Budget discussion (author compilation)

This unusual situation led to questions from legislators in the Plenary Session regarding the changes in the parties' standpoints on capital injections. For example, the Vice Chairperson of Commission VI, Farid Alfauzi from Hanura, made the following statement to the House:

> I am disappointed with the inconsistent attitudes of a number of fractions in this Plenary Session. In the Commission VI [meetings], none of the fractions rejected the capital injections, including the fraction [Gerindra] that rejected the budget. They all agreed … As Deputy Chairperson of Commission VI, I have provided sufficient time for the fraction coordinators to consult with their respective members. In fact, the decision [on capital injections] has had to be postponed many times because we were waiting for some fractions to consult with their parties (2016 Budget Bill Plenary Session Meeting Minutes, 30 October 2015).

Farid’s statement was countered by Aria Bima, a member of PDIP. Acknowledging that PDIP had agreed to the capital injections in Commission VI, Aria nevertheless argued that the party had the right to alter its decision as long as the budget deliberations were on-going (2016 Budget Bill Plenary Session Meeting Minutes, 30 October 2015). Both statements suggest that initially, the issue of capital injections had not been a political issue.

Although nine fractions had accepted the Budget Bill with some objections, the rejection of state capital injections forced Jokowi’s administration to lobby party elites and the House speakers to make a deal. The President instructed Finance Minister Bambang Brodjonegoro and Vice President Jusuf Kalla to lobby Prabowo Subianto (Prabowo, 2015b). He also asked senior minister Luhut Panjaitan to lobby the speakers of the House to approve the Budget Bill (Kami, 2015a). However, these efforts came too late, and did not succeed. After a break of more than three hours for lobbying, the legislature passed the 2016 Budget Bill on the condition that the capital injections were ‘frozen’ (2016 Budget Bill Plenary Session Meeting Minutes, 30 October 2015).

The debate on capital injections in the Plenary Session demonstrated once again that the interests of individual legislators must be accommodated if government policy is to be realised in the budget. In this case, the interests of members of the Sectoral Commissions were disrupted by budget cuts, which threatened to affect aspiration programs embedded in their counterpart ministries, as I discuss in Chapter Seven. This undermining of their interests prompted the political elites in both the opposition coalition and the President’s own party to turn capital injections into a political issue. In other words, capital injections were not rejected for reasons of policy or because of ideological differences between the coalitions, but rather in response to the undermining of an existing form of rent-seeking. This was evidenced in the following chain of events.

First, capital injections only emerged as a controversial issue at the end of the budget deliberations, after the government cut the budget allocation. Before that time no objections had surfaced, either in Commission VI, which is responsible for scrutinising allocations to particular state-owned enterprises, or in the Budget Committee, which discussed the allocation of capital injections as a whole. In fact, the Budget Committee agreed on the allocation of state capital injections as approved by Commission VI.

Second, capital injections were not the only issue raised by parties in the legislature. PAN, for instance, also challenged budget cuts in the defence sector and rejected the renovation of the Bung Karno Sports Centre (Budget Committee report on the state budget proposal 2016). Cuts to the defence sector were also questioned by the Democrat Party.

Gerindra, the only party to reject the 2016 Budget Bill, did so for several reasons, not just because of its opposition to capital injections. Moreover, the government only proposed to 'freeze' capital injections, not revoke them, yet all fractions passed the Budget Bill, suggesting that capital injections were not a fundamental issue for the parties.

Third, the legislature's refusal to approve capital injections was not a product of contestation between the coalitions. Jokowi's own party joined with the opposition coalition to block the move. As noted in Chapter Four, although Jokowi had added one more ministry position in the first cabinet reshuffle, PDIP was still dissatisfied with his decision to retain Rini Soemarno in his cabinet. This was because Rini had disappointed PDIP leader Megawati when, as head of the transition team, she had failed to secure more seats for PDIP in the cabinet (Interview with a member of the PDIP board of trustees, 29 July 2015). PDIP's standpoint on capital injections was, therefore, not related to the substance of the matter, but rather was a means of exerting political pressure on Rini (Kami, 2015c). This reading was confirmed by Farid Alfauzi, the Vice Chairperson of Commission VI from Hanura, who said in the budget approval Plenary Session: 'It would be strange if PDIP rejects the capital injections in the plenary, when they fought for it in the Commission' (2016 Budget Bill Plenary Session Meeting Minutes, 30 October 2015).

Fourth, Jokowi did not provide any political incentive for Prabowo, as he had done during deliberations on the revised 2015 budget. With no incentive to act otherwise, Prabowo took advantage of the situation by calling on his allies to reject the capital injections. Realising his error, Jokowi finally instructed his Finance Minister and the Vice President to lobby Prabowo, but it was too late to change the trajectory of the vote. Although Gerindra eventually altered its position and accepted the Budget Bill, its refusal to approve the capital injections had already drawn together the political interests of individual legislators, PDIP and the political elites in the opposition coalition.

**Conclusion**

The analysis of the budget debate over capital injections in the revised 2015 budget and the 2016 budget presented in this chapter illustrates that the standpoints adopted by the various parties on the issue were determined by (a) the extent to which the interests of individual members of a particular party were accommodated and (b) the kinds of political incentives the government had provided to win support from the political elites of both coalitions.

In the case of the revised 2015 budget, approval for state capital injections was motivated by the pressure of public opinion and incentives offered to the political elite and individual legislators. Under the pressure of public opinion, the opposition coalition did not want to be seen as preventing the new President from implementing his campaign promises. Jokowi also provided an incentive for the opposition leader to support the budget by giving Prabowo the opportunity to show the public that he still held influence, despite losing the 2014 presidential election. Rather than conflict between the coalitions, the tension that occurred during budget deliberation was the result of conflict between the Budget Committee and Sectoral Commissions which was driven by committee affiliation, not party affiliation.

By contrast, in the 2016 budgetary process, the interests of individual legislators were threatened by budget cuts, leading to the resurrection of party identity within the opposition coalition. In addition, the President failed to provide incentives for the opposition leader's support, causing him to mount a public show of political force by rejecting the budget's capital injections. The President's own party supported the opposition coalition in its rejection of capital injections because it too had been denied political incentives in the form of a cabinet reshuffle to remove the Minister for State-owned Enterprises from her post.

To conclude, the budget discussions on capital injections did not proceed according to policy considerations. There was no clear policy or ideological distinction between the parties' standpoints on capital injections, nor did tensions between the coalitions during the budget debate on capital injections stem from conflicts between coalition platforms. The main determinant of the outcome of the budget debate on capital injections was the government's failure to accommodate the interests of individual legislators or to provide political incentives for support from party leaders.

# Chapter 6: The Optimisation Fund

In coalitional presidential systems like Indonesia's, the legislature's power to amend the budget is a critical point in the relationship between the executive and the legislature. The centrality of this power in the budgetary process obliges the executive to allocate resources in a way that serves the interests of legislators, in order to obtain support for its proposed budget. As the literature on multiparty presidential systems acknowledges, a fragmented legislature presents the executive with a means by which it can win support for its budget proposal (Chaisty et al., 2015; Limongi & Figueiredo, 2007; Pereira & Mueller, 2004). Legislators, meanwhile, use their power to make amendments in order to maximise the benefits of the budget for their constituents and to improve their chances of re-election. According to Pereira and Mueller (2004), who studied legislative behaviour in Brazil's budgetary process, the legislature's power to amend the budget provides the executive with a low cost instrument for winning support. In the case of Indonesia, one consequence of this power has been the emergence of a pool of uncommitted funds known as the optimisation fund.

This chapter argues that the establishment of the optimisation fund, which provides incentives for all legislators regardless of party affiliation, has led to budget discussions dominated by the political interests of individual legislators, rather than party programs. Since members of both the government and opposition coalitions have equal access to the fund, the size of the governing coalition does not determine the government's ability to pursue its agenda, as long as the optimisation fund continues to benefit all legislators. As this chapter shows, the revision of the 2015 budget demonstrated how a minority government could gain the support of the legislature on this basis. By contrast, the 2016 budget negotiations showed that a Budget Bill may be rejected, even by a legislature dominated by the ruling coalition, if the political interests of individual legislators are threatened by budget cuts.

The chapter is organised into three main sections. It begins with a brief discussion of the formal rules and informal practices associated with the legislature's power to generate the optimisation fund in the process of amending the budget. The second section examines how the optimisation fund operated in the revision of the 2015 budget and the discussion of the 2016 budget. The chapter concludes with some reflections on how the optimisation fund, as an instrument for moving the budget agenda forward, meets the interests of both the executive and the legislature.

## The Development of the Optimisation Fund

To understand the way the legislature's power to amend the budget influences the budgetary process, it is necessary to begin with an analysis of the interplay of the formal rules and informal norms that govern the interaction of the major players in budgetary discussions. These include the distribution of power, the role of each of these players in the budgetary process and the incentives provided to them under that process (Hallerberg et al., 2009; Santiso, 2005). The formal rules governing budget discussions are made up of constitutional provisions and the statutory budgetary law, which together shape the decision-making process. However, the way in which the budget players exert power in the actual process is also governed by unwritten traditions and informal norms. This section shows that both formal rules and informal practices have played a part in the creation of the optimisation fund, which has led to corruption scandals and a subsequent limiting of that power. The discussion begins with a review of the formal rules and informal practices that govern the relationship between the executive and the legislature in actual budget discussions. It then analyses the use of the optimisation fund, which has led to cases of corruption and a decision by the Constitutional Court to limit the legislature's power over the budgetary process.

### *Formal Rules and Informal Practices of the Parliamentary Budget Power*

As discussed in Chapter Three, after the political reforms of 1998, the relationship between the executive and legislature shifted from one dominated by the executive to one characterised by a more proportional distribution of power. Following a series of constitutional amendments, the legislature no longer functioned simply as a rubber stamp for the government's budget proposals. In fact, the legislature came to play a much more powerful role in in the actual process of budget-setting than the rules that formally regulate the legislature's budgetary powers would suggest.

Under the 1945 Constitution, the legislature is mandated to take a key role in budget deliberations. The Constitution clearly stipulates that the President must submit the budget proposal to the legislature for approval. The House has the right to reject the bill and force the government to maintain its previous budget (Article 23 Clauses 2 and 3, Indonesian Constitution 1945). The strength of the legislature's budgetary power was confirmed by

Ahmadi Noorsupit, the Chairperson of the House Budget Committee from Golkar, who stated:

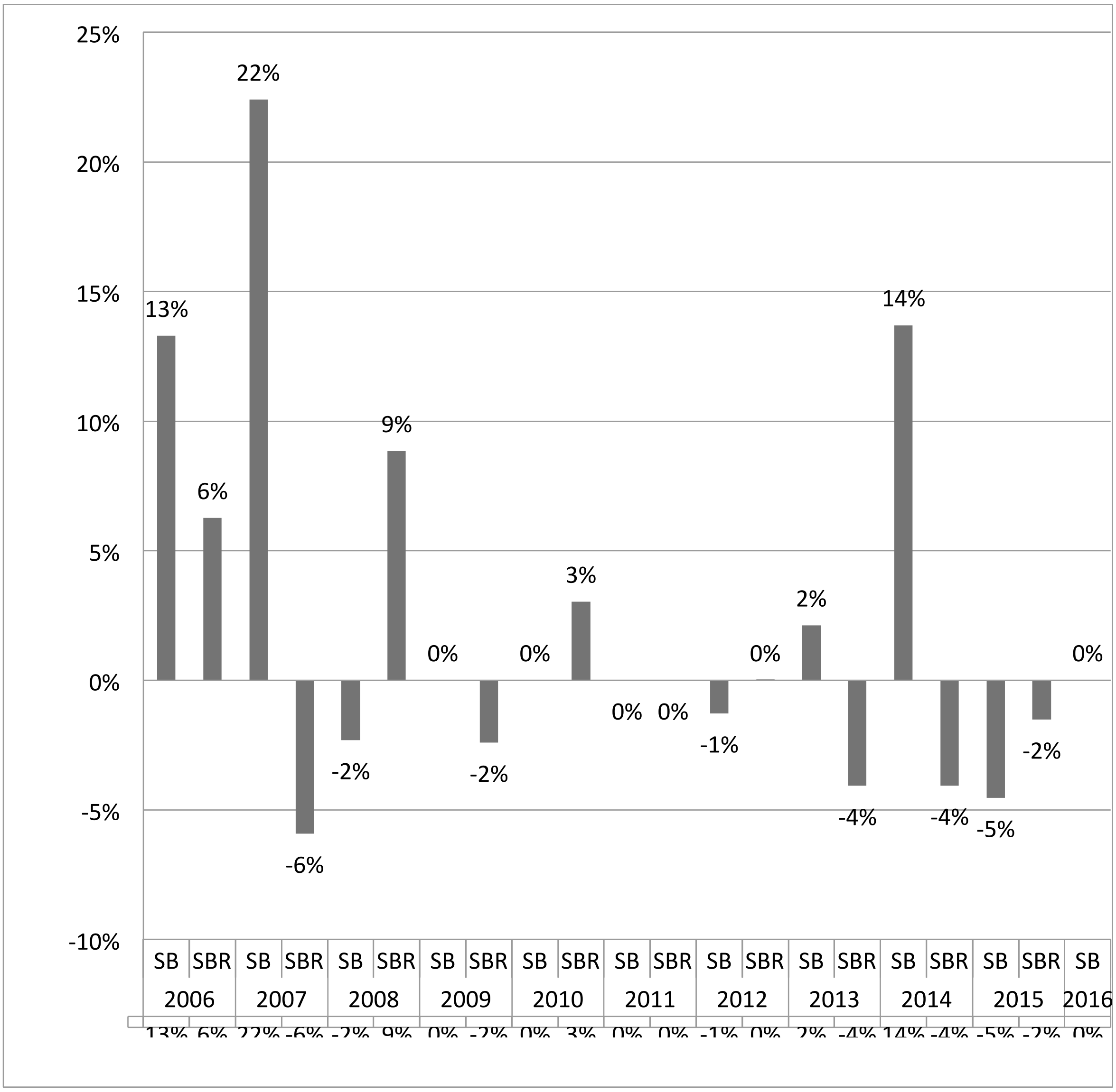
> The government and the House have relatively the same bargaining position with regard to legislation and oversight, but the House has a stronger position when it comes to the budget. The House has a right to reject Budget Bills proposed by the government, although we can’t propose a Budget Bill (Interview, 5 September 2015).

As Ahmadi Noorsupit observes, the the legislature now has the power to reject a Budget Bill. In practice, budget gridlock has never occurred, but the power is nevertheless regularly invoked as a means of intimidating the executive. As a former Minister of Finance explained when describing his experience of budget discussions with the legislature, ‘They often threaten to impose deadlock on the budget discussions, though I believe it would never happen’ (Interview, 31 September 2015). In other words, the the legislature’s power to reject the Budget Bill can be used to pressure the executive to reshape the budget in ways that serve the interests of its members.

Besides having the constitutional power to reject a Budget Bill, the legislature also has the power to amend the budget, as stipulated in Law No. 17/2003 on State Finance. This law allows the legislature to amend proposed revenue and expenditure as long as the amendment does not result in an increase in the projected budget deficit (Article 15 clause 3). The amendment powers of the legislature can also be used to create an uncommitted budget allocation—the so-called optimisation fund—which can be used by legislators to fund particular activities as part of the budget, for example to secure additional infrastructure projects for their own constituencies. Thus, it is the legislature’s amendment powers that give the Budget Committee and Sectoral Commissions the ability to create the optimisation fund. As noted earlier, the Budget Committee has the power to amend the budget on the revenue and expenditure side, while the amendment power of the Sectoral Commission is limited to expenditure within individual ministries. Eka Sastra, a member of the Budget Committee from Golkar, explained the way in which the optimisation fund is generated:

> We raise revenue, increase the oil production and economic growth targets. Then we reduce government expenditure, to make it more efficient, for example, by cutting unnecessary items. This combination of increasing the revenue side and reducing spending generates the optimisation fund (Interview, 1 July 2015).

Importantly, the formal rules are not always followed in the legislature's attempts to maximise the funds available to it through this mechanism. Often, the deficit limit in the budget proposal is increased, in violation of the legal provisions. As shown in Figure 6.1, during budget discussions from 2006 to 2016, there were seven occasions on which the legislature's budget amendments resulted in an increase in the projected budget deficit.




Notes: SB = State Budget, SBR = Revised State Budget

Source: Author compilation from State Budgets for 2006–16

**Figure 6.1. Budget Deficit Changes (%), 2006–16**

Agun Gunanjar, a former Budget Committee member from Golkar, confirmed that the legislature often forced the government to increase the budget deficit target when the political interests of its members were not accommodated in the budgetary process (Interview, 25 August 2015).

Besides changing the revenue and expenditure sides of the budget, the optimisation fund can also be generated or increased by changing the macroeconomic assumptions. The macroeconomic indicators used in assembling the budget proposal consist of economic growth, inflation, the exchange rate, the interest rate, the international crude oil price, oil production and gas production. These are the essential indicators used in formulating revenue targets, expenditure, and financing. As outlined in Article 13 of the state finance law, the government must submit its fiscal policy and macroeconomic framework to the legislature during the preliminary budget discussions. In theory, the government then uses the indicators agreed to during the preliminary budget discussions to formulate its budget proposal, and the legislature has no legal power to further amend those macroeconomic assumptions during discussions of the Budget Bill.

In reality, however, macroeconomic indicators are discussed again when the government submits the budget proposal to the House, leading to revisions to the budget position on revenue, expenditure and financing. The macroeconomic assumptions related to energy, such as the oil price, and oil and gas production, are discussed by Commission VII, while Commission XI discusses the remainder of the macroeconomic assumptions. The Budget Committee then uses the macroeconomic adjustments agreed to by Commissions VII and XI to formulate the budget position, with implications for either the revenue or expenditure side of the budget.

In addition to these formal procedures, informal practices have also evolved in the allocation of the optimisation fund. Although the law outlines the legislature's power to amend the budget, it does not regulate how the use of surplus funds is to be determined; this is the responsibility of the executive. Article 13 Clause 2 of Government Regulation No. 90/2010 on the Formulation of Ministerial Work Plans and Budgets states that the government must refer to the policy direction of the President in the use of budget allocations from the optimisation fund. However, as explained by a former Ministry of Finance official, this regulation does not apply to the legislature, so in practice the allocations from the optimisation fund are decided by the Budget Committee and the Sectoral Commissions (Interview, 31 September 2015). According to this same official, the fact that there are no criteria governing the role of the Budget Committee in the distribution of the optimisation fund to the spending ministries means that it is determined by the political interests of individual legislators (Interview, 7 August 2015).

The informal power of the legislature is also revealed in the scheduling of the budget approval. Budget approval in Plenary Sessions of the House is often more ceremonial than substantive, and budget discussions between House and the various ministries in fact continue after the Budget Bill has passed in the Plenary Session (Interview with Ministry of Finance official, 28 July 2015). As shown in Table 6.1, the Ministry of Finance introduced regulations that provide additional time for ministries and agencies to discuss the detailed budget with the relevant Sectoral Commissions after the Plenary Sessions. The mass media and public are not permitted to attend discussions once they leave the formal arena of the legislature, since these discussions take place in private. The distribution of the optimisation fund is also determined through informal channels, typically in the last days of the budget discussions (Interview with Budget Committee member Eka Satra, 1 July 2015; interview with Budget Committee member Harry Aziz, 14 September 2015).

**Table 6.1. Time between Plenary Session and the Final Budget**

| Fiscal Year State Budget (APBN) | Date of Plenary Session of Budget Approval | Completion of Discussion of Budget Detail based on MoF Regulation |
|---|---|---|
| SBR 2010 | 3 May 2010 | 15 May 2010 |
| SB 2011 | 26 October 2010 | 12 November 2010 |
| SBR 2011 | 22 July 2011 | 16 August 2011 |
| SB 2012 | 28 October 2011 | 14 November 2011 |
| SBR 2012 | 31 March 2012 | 04 June 2013 |
| SB 2013 | 23 October 2012 | 30 November 2012 |

Source: Author compilation. (SBR = State Budget Revised; SB = State Budget)

This situation is made possible because Clause 4, Article 15 of the State Finance Law gives the legislature the authority to approve Budget Bills that contain detailed organisational units, functions, programs, activities and types of expenditure. This has led to the House spending a great deal of time scrutinising details in the budget. It is worth noting that currently the state budget consists of 130 programs and 19,945 spending agencies (Satuan Kerja), which makes it virtually impossible to scrutinise every aspect of the budget in the space of three months. Another consequence of these additional budget discussions has been the emergence of the legislature's power to block certain expenditure items. The budget is effectively blocked when the legislature is unable to reach agreement on a particular aspect of spending and requires further discussion with the relevant ministries. According to the records of the Directorate-General of Budgeting in the Ministry of Finance, approximately Rp 63.4 trillion of the total budget was blocked by the Sectoral Commissions in 2011; Rp 78.5 trillion was blocked in 2012, and Rp 163.5 trillion in 2013 (Direktorat Jenderal Anggaran–Kementerian Keuangan, 2011).

In summary, this subsection has shown that the legislature's power to generate the optimisation fund extends far beyond that attributed to it in the formal rules. The legislature has been able to take advantage of the weakness in the legal framework to make covert deals. As explained by the Golkar Budget Committee member, Eka Sastra, an allocation from the optimisation fund may first be offered to officials from the spending ministries or local governments, who then arrange for their business partners to handle the project. In return, the business partners provide 'kickbacks' for members of the Budget Committee (Interview, 1 July 2015). These practices were exposed in 2011–13, leading to a number of corruption scandals which are discussed in the next subsection.

### *Corruption Scandals*

The power of the legislature to substantively amend the budget attracted public attention when several members of the Budget Committee were charged with corruption in relation to their use of the optimisation fund. These scandals occurred in a context where corruption among politicians had dominated public discourse since 2009 (Kramer, 2013), and they ultimately led to restrictions on the legislature's budgetary powers. In this case, four members of the Budget Committee, known as the 'budget mafia' (*mafia anggaran*), were found to have been involved in corrupt practices, mostly related to kickbacks in return for allocations to certain projects or for arranging for certain companies to handle the projects identified (Table 6.2).

The exposure of these corrupt practices drew a public outcry. In 2013, the Indonesian Corruption Watch, the Indonesian Legal Aid Institute (Yayasan Lembaga Bantuan Hukum Indonesia, YLBHI), the Indonesian Forum for Budget Transparency (Forum Indonesia untuk Transparansi Anggaran, FITRA) and the Indonesian Budget Centre mounted a judicial review of the legislature's budgetary powers by the Constitutional Court.[28] The groups involved

[28] I was involved in this process as Secretary General of FITRA and an Expert Witness.

believed that budgetary corruption derived from the budgetary powers of the legislature as defined by Law No. 17/2003 on State Finance and Law No. 27/2009 on the Structure of the Legislature. They questioned the permanent status of the Budget Committee, the legislature's power to intervene in budget detail, its power to block certain budget items, and the budget revision process (Constitutional Court, 2014).

**Table 6.2. Corruption Scandals, 2011–13**

| Name | Party | Case Description |
|---|---|---|
| **Muhammad Nazaruddin** | Democrat | Accepted a fee of Rp 4.6 trillion in return for arranging a project tender for the Athlete Guesthouse (Wisma Atlet) and securing a budget allocation from the optimisation fund for the project. In court, Nazaruddin claimed that Budget Committee members from other parties were also involved. Nazaruddin also played a role in arranging an optimisation fund allocation for the Hambalang Sport Centre project. He is allegedly involved in several other corruption cases still in process. |
| **Waode Nurhayati** | PAN | Accepted a fee of Rp 6 billion in return for securing a budget allocation through a fiscal transfer called the Infrastructure Adjustment Fund. During the court case, Nurhayati observed that all Budget Committee members have a quota under which they can allocate money from the optimisation fund as they please. |
| **Angelina Sondakh** | Democrat | As budget coordinator in Commission X, which is the commission responsible for education and sport, she received a kickback of Rp 12.5 billion in return for arranging a budget allocation for construction projects in particular universities and the Wisma Atlet. |
| **Dzulkarnaen Djabar** | Golkar | As a member of the Budget Committee from Commission VIII, which oversees allocations to the Ministry of Religious Affairs, Dzulkarnaen received a fee of Rp 14.3 trillion in return for arranging an allocation from the optimisation fund and intervened to secure a contract for a colleague's company for the procurement of computers for Islamic high schools and printing of the Quran. |

Source: Author compilation from Corruption Court verdicts.

In May 2014, the court issued a verdict that limited the role of the House in the budgetary process, insofar as it no longer had the authority to discuss activities and types of expenditure in the detailed budget known as ‘Satuan 3’. The legislature was also prevented from blocking disbursements after the Budget Bill had been approved (Constitutional Court, 2014).

This verdict had substantive implications for the budgetary process. In the actual budget discussions, legislators still have access to the detailed budget, although they are not allowed to discuss and change the budget through these activities (Interview with an official of the Ministry of Finance, 28 July 2015). However, as the Second Director for State Budget Formulation confirmed, ‘Since the the constitutional court decision, the legislature has no longer been able to mark particular items with an asterisk [i.e. block them]’ (Interview, 7 August 2015). The verdict triggered strong reactions from Budget Committee members, who argued that access to the detailed budget was an important mechanism of budget control (Interview with Elviana, a Budget Committee member from the United Development Party, 5 October 2015). Wahyu Sanjaya, a Budget Committee member from the Democrat Party, confirmed Elviana’s assessment, arguing that ‘since “Satuan 3” was removed, the legislature has lost its ability to monitor the budget, leaving it powerless’ (Interview, 23 June 2015).

As a result of the court’s verdict, the House reformed its internal rules in a way that made the Budget Committee no longer the most powerful committee in the budget decision-making process in the legislature. As House speaker Fahri Hamzah explained, although Budget Committee members still had access to the optimisation fund for fiscal transfers to the regions in which their constituencies were located, Sectoral Commissions now also had access to the fund (Interview, 14 September 2015). As a consequence, the benefits of the optimisation fund no longer accrued solely to members of the Budget Committee, but were also available to members of the Sectoral Commissions. Under the new rules, Sectoral Commissions have the authority to make allocations from the optimisation fund to the spending ministries. Moreover, the decisions of the Budget Committee must now refer to decisions made by the Sectoral Commissions, as stipulated in the Law No.17/2014 on Legislative Institutions. For example, in deciding macroeconomic assumptions, the Budget Committee must now make reference to decisions taken by Commission XI, which has oversight of economic growth, inflation, the exchange rate and the interest rate, and Commission VII, which has oversight of the international crude oil price, as well as oil and gas production.

The government has also tried to impose further constraints on the use of the optimisation fund in the wake of this verdict. In particular, it has attempted to restrict uncontrolled allocations from the optimisation fund, following an evaluation of budget allocations made from the fund. Since 2014, the government has asked the Control Agency for Budget and Development (Badan Pengawas Keuangan dan Pembangunan, BPKP) to review the projects that have received allocations from the optimisation fund (Interview with Ministry of Finance official, 28 July 2015). In doing so, the BPKP has assessed the extent to which these allocations are consistent with government priorities. When it identifies a suspicious case, the BPKP alerts the Directorate-General of Budgetary Matters in the Ministry of Finance, which then blocks that particular allocation. The former Minister of Finance confirmed the process through which the government has come to control the optimisation fund:

> We presented the review of the optimisation fund from BPKP to the Cabinet meeting. I convinced the President to use the results of that review and a warning from the KPK [Corruption Eradication Commission] to freeze the disbursement of the optimisation fund. He then announced in a Cabinet Meeting that he planned to freeze the optimisation fund … I began this practice in 2014 (Interview, 31 September 2015).

However, attempts to control the legislature's capacity to reshape the budget were at best partial. In the next section, the discussion focuses on how the court's verdict affected the legislature's power to generate and disperse the optimisation fund in practice.

**The Implementation of the Optimisation Fund after the 2014 Elections**

The Constitutional Court's verdict limiting the legislature's budgetary powers, which came into force from the 2015 budget onwards, changed the way in which the optimisation fund operated. From this time, the Budget Committee was no longer able to allocate the optimisation fund as it pleased. As shown in Figure 6.2, the optimisation fund now had to be shared with the Sectoral Commissions and, through them, the spending ministries.

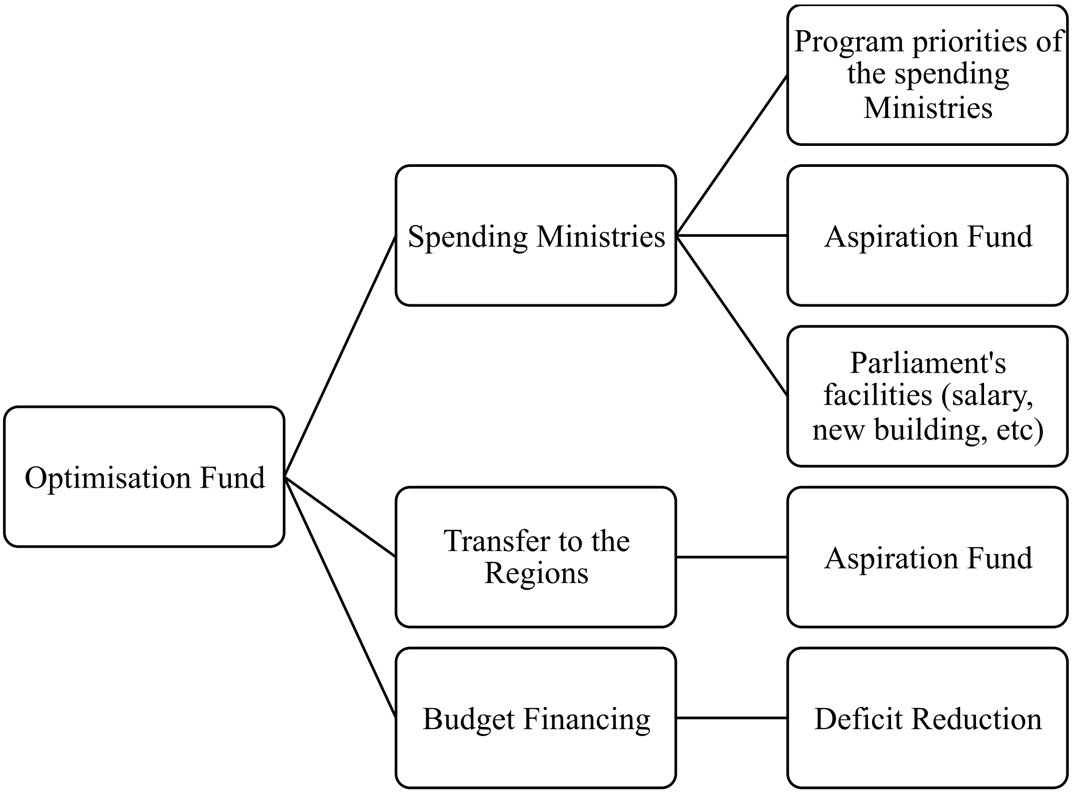



**Figure 6.2. Operation of the Optimisation Fund**

This section examines the way in which this shift influenced budget deliberations in the revision of the 2015 budget and in the 2016 budget. As the discussion shows, the changed institutional environment in which the optimisation fund now operates is nevertheless still a critical part of the structure through which the government obtains support from the legislature.

In this new environment, the fund's benefits are shared not only between all legislators, but are also deployed to serve government interests. This collective benefit, in turn, has diminished the role of political parties and coalition identities in budget discussions.

***The Optimisation Fund in the Revision of the 2015 Budget***

As discussed in Chapter Three, the revision of the 2015 budget was critical for two reasons. First, the budget deliberations occurred at a time of high political tension between the majority opposition coalition and the minority government coalition. Second, the budget proposal itself was unusual, since the fuel subsidy was halved and capital injections into state-owned enterprises were increased 14-fold. The results of the revision were surprising, insofar as the Budget Bill was passed by the legislature without significant change, despite the weak position of the ruling coalition. This section argues that this surprising result can be explained by the capacity of the optimisation fund to accommodate the interests of all legislators, meaning that the fund provided the incentives needed for the legislature to pass the Budget Bill. In the process, the optimisation fund led to the blurring of political party identity in both coalitions, which in turn minimised competition between them during the budgetary process.

In this particular budget round, the optimisation fund was not generated through adjustments to macroeconomic variables to increase state revenue. In fact, as was reported by the Minister of Finance in the working committee meeting, almost all the macroeconomic indicators were revised downward, leading to a decrease in revenue. As shown in Table 6.2., the economic growth indicator was decreased by 0.1 per cent, while inflation remained at 5 per cent. The assumed international crude oil price was downgraded by USD 20 per barrel and oil production by 24,000 barrels per day. These adjustments affected non-tax revenue from natural resources by Rp 14.27 trillion (Budget Committee Meeting Minutes, 6 February 2015). As a consequence of these changes in the macroeconomic variables, projected revenue decreased by Rp 7.3 trillion.

**Table 6.3. Macroeconomic Indicators and the Revised 2015 Budget**

| Indicator/Item | Budget Proposal | Enacted Budget | Margin |
|---|---|---|---|
| Economic growth (%yoy) | 5.8 | 5.7 | (0.1) |
| Inflation (%yoy) | 5.0 | 5.0 | 0 |
| Rupiah exchange rate (Rp/USD) | 12,200 | 12,500 | 300 |
| Average 3-month interest rate (%) | 6.2 | 6.2 | 0 |
| International crude price (USD/barrel) | 70.0 | 60.0 | (10) |
| Oil production (thousand barrels per day) | 849 | 825 | (24) |
| Gas production (thousand barrels per day) | 1,177 | 1,221 | 44 |
| Revenue (in trillion rupiah) | 1,768 | 1,761 | (7) |
| Expenditure (in trillion rupiah) | 1,995 | 1,984 | (11) |
| Surplus/Deficit (in trillion rupiah) | (226) | (223) | 3 |

Source: Author compilation from the Financial Note to the Revised 2015 Budget

Rather than adjustments to macroeconomic variables, the 2015 optimisation fund was generated through reductions in expenditure. Bambang Brojonegoro, the Minister of Finance, stated that 'reductions in expenditure are higher than reductions in revenue, which means that there might be an extra allocation' (Budget Committee Meeting Minutes, 6 February 2015). He went on to explain that the biggest decrease in expenditure was the result of a decrease of Rp 17.1 trillion in the fuel subsidy. The committee and the government also agreed to suspend the social protection fund for two months, generating a further Rp 6.5 trillion. Overall, the Minister of Finance reported that the meeting freed up the capacity for additional spending to the value of Rp 20.9 trillion—the optimisation fund—which would be allocated on the basis of discussions in a working committee.

The Working Meeting between the Ministry of Finance and the Budget Committee revealed that despite the changes, the Budget Committee still had more power to determine the allocation of the optimisation fund than the Ministry of Finance. In the Budget Committee meeting, a Ministry of Finance representative proposed that the optimisation fund be divided into three categories: funds allocated to the spending ministries; funds allocated to the regions; and funds allocated to achieve a budget deficit reduction of 1.9 per cent of GDP, as stated in the budget proposal (Budget Committee Meeting Minutes, 6 February 2015). The very fact that the Ministry made this proposal indicates that the Budget Committee still had the discretion to determine allocations under the fund, even though in this case, the committee agreed to the Ministry's proposal (Interview, Harry Azhar, former Chairperson of the Budget Committee, 14 September 2015). In that meeting, Rp 16.3 trillion was allocated to the central government's ministries, Rp 3 trillion went to the regions through the Special Allocation Fund (Dana Alokasi Khusus, DAK) and Rp 1.5 trillion—of an optimisation fund of Rp 20.9 trillion—was allocated to reducing the budget deficit (Budget Committee Meeting Minutes, 6 February 2015).

Importantly, however, it was clear that the decision on the distribution of the optimisation fund was not made in the working committee meeting. The committee did not discuss the distribution of the fund; it only reported on the decision which had already been taken outside the Budget Committee's formal meetings. As an official from the Ministry of Finance explained, 'The discussion [of the optimisation fund] between the Minister of Finance and the Chairperson [of the Budget Committee] was not open. It took place in the lobby forum, and the outcome of that discussion was presented to the formal meeting of the Budget Committee for approval' (Interview, 28 July 2015). This was confirmed by Eka Sastra, who explained that the informal meeting where the allocation was determined was attended by the key parliamentary stakeholders:

> The distribution of the optimisation fund was decided in an informal forum. It was all arranged before the formal Budget Committee meeting started. Intensive meetings were held among the House Speakerships, the Budget Committee leaders, the leaders of the Sectoral Commissions, and the fraction coordinators (Interview, 1 July 2015).

This statement also explains why the response of the Budget Committee members in the formal meeting was unenthusiastic. There was no incentive for them to take an active part in the discussions, because the agreement to share the optimisation fund benefits among all fractions and the Sectoral Commissions had been made prior to the formal meeting. Indeed, only three of the Budget Committee members responded to the report when it was delivered by the Director General of Budgetary Affairs, Askolani. Moreover, there was little in their responses that related to the actual content of the optimisation fund (Budget Committee Meeting Minutes, 29 January 2015).

Despite the fact that the decision had been taken in an informal forum, it was clear that the distribution of the optimisation fund to the ministries was not based on the formula proposed by the government. The government had identified three criteria that were consistent with the Government Work Plan 2015: that allocations be efficient, effective and accountable, with tangible outputs. In practice, these criteria were invoked only to legitimate decisions that had already been taken. As shown in Table 6.4, several ministries received the same amount from the optimisation fund, which suggests that the distribution was not based on program or ministry needs.

According to the Director for State Budget Formulation, the spending ministries approached their respective Sectoral Commissions to increase their budgets, agreeing in return to include allocations in the interests of legislators, such as constituency programs, in their requests (Interview, 7 August 2015). Hence, the optimisation fund was leveraged to accommodate both the interests of legislators and the requests of the ministries seeking additional funding. Furthermore, given that allocations to the spending ministries did not relate to public services, it is clear that the entire distribution of the fund was in line with the personal interests of stakeholders within the ministries. The highest allocations went to the Ministry of Defence and the Indonesian National Police. According to Eka Sastra, this additional spending was mostly for equipment for the police and the military; furthermore, 'we already knew which companies would get the project, as these companies were willing to pay in advance' (Interview, 25 August 2015). Eka's assessment was confirmed by an official from the Ministry of Finance, who stated that the Ministry of Defence and the Indonesian

National Police were Budget Committee 'favourites' because monitoring institutions like the BPKP were unwilling to review their optimisation fund allocations (Interview, 21 October 2015). Indeed, the Indonesian National Police has been known to provide lucrative extractive opportunities, ever since the New Order period (Baker, 2015).

**Table 6.4. Optimisation Fund Allocations in the Revised 2015 Budget**

| Ministry/Agency | Counterpart Commissions | Amount (billion rupiah) |
|---|---|---|
| Ministry of Defence | I | 4,725 |
| National Police | III | 3,850 |
| Ministry for Villages and Remote Regions | V | 2,100 |
| House of Representatives | | 1,635 |
| Ministry of Research and Higher Education | VII | 1,200 |
| Ministry of Law and Human Rights | III | 450 |
| Regional Representative Council | III | 375 |
| Ministry of Youth and Sports | X | 374 |
| People's Consultative Assembly | III | 365 |
| State Intelligence Body | I | 200 |
| State Cryptography Agency | I | 200 |
| National Search and Rescue Body | V | 200 |
| Ministry of Foreign Affairs | I | 150 |
| Audit Body | XI | 100 |
| Supreme Court | III | 100 |
| National Security Agency | I | 100 |
| National Security Council | I | 100 |
| Meteorological, Climatological and Geophysical Agency | V | 50 |
| Ministry of Cooperative and Small Enterprises | VI | 50 |
| | **Total** | **16,324** |

Source: Ministry of Finance, 2015

In the revised 2015 budget, the optimisation fund also provided direct benefits to all legislators. An additional amount of Rp 1.6 trillion was allocated for improvements to the parliamentary facilities, for example, the designing of a new parliament building, the provision of operational budgets for members' constituency offices (Rumah Aspirasi), provision of funds for legislators to visit their constituents, and support for staffing and salaries. These measures benefited members of both the opposition and government coalitions. Arif Budimanta, a member of the Advisory Team in the Ministry of Finance and also a former legislator from PDIP explained one of the reasons why the conflict between the Red-White Coalition and the Great Indonesia Coalition did not surface in the revision of the 2015 budget:

> KIH and KMP were not relevant in the budget discussions because the political interests of individual members of each coalition had been accommodated in the budget. The budget accommodated their constituencies and also proposed an additional budget for a new building and facilities (Interview, 8 July 2015).

While members of the Sectoral Commissions gained access to the optimisation fund through the spending ministries, the Budget Committee members received allocations through the transfer of funds to their electoral regions through the Special Allocation Fund. As will be discussed in Chapter Seven, additional spending of Rp 3 trillion was allocated to the DAK in the form of the constituency development fund (also known as the aspiration fund) for Budget Committee members, regardless of their coalitional affiliation.

In summary, changes to macroeconomic indicators and revenue projections in the revision of the 2015 budget did not restrict the Budget Committee's ability to generate a sizeable optimisation fund by cutting proposed expenditure items. Although the Constitutional Court had acted to limit the power of the legislature to amend the budget, the government allowed it to do so because the benefits of the optimisation fund were shared by the executive, which wanted to reduce the budget deficit, and by the spending ministries, which were seeking to increase their budget allocations. Moreover, the distribution of the optimisation fund, which had been decided behind closed doors, provided benefits to all legislators regardless of their coalitional affiliation, in turn diluting their political identities. In other words, incentives from the optimisation fund pushed the legislature toward individualistic rather than party- or coalition-oriented behaviour. Thus, the minority government was able to obtain the legislature's approval for its budget by ensuring that it also served the interests of individual legislators.

***The Optimisation Fund in the 2016 Budget***

The 2016 budget discussions took place at a time when Jokowi was beginning to consolidate his power. Its results, however, were completely divorced from developments in the Presidential Palace. Despite the fact that the KIH now had a majority of seats in the legislature, the budget was not passed. As this section shows, this was the case because other interests had been disadvantaged by budget cuts prompted by changes to its macroeconomic assumptions.

**Table 6.5. Macroeconomic Indicators and the Budget Position, 2016 Budget**

| **Indicator/Item** | **Budget Proposal** | **Enacted Budget** | **Margin** |
|---|---|---|---|
| Economic growth (%yoy) | 5.5 | 5.3 | (0.2) |
| Inflation (%yoy) | 4.70 | 4.70 | 0 |
| Rupiah exchange rate (Rp/USD) | 13,400 | 13,900 | 500 |
| Average 3-month interest rate (%) | 5.50 | 5.50 | 0 |
| International crude price (USD/barrel) | 60.0 | 50.0 | (10.0) |
| Oil production (thousand barrels per day) | 830 | 830 | 0 |
| Gas production (thousand barrels per day) | 1,155 | 1,155 | 0 |
| Revenue (trillion rupiah) | 1,848 | 1,822 | 26 |
| Expenditure (trillion rupiah) | 2,121 | 2,095 | 26 |
| Surplus/deficit (trillion rupiah) | (273) | (273) | (222) |

Source: Author compilation from the Financial Notes to the 2016 Budget Proposal

The 2016 budget entered the legislature under the shadow of a global economic slowdown, which forced the government to revise its macroeconomic assumptions in the course of the budget discussions. As shown in Table 6.5, the government revised its assumptions on economic growth, down from 5.5 per cent in the budget proposal to 5.3 per cent in the Budget Bill. The exchange rate was adjusted to Rp 13,900 and the international crude oil price dropped by USD 10 per barrel. As a consequence, predicted revenue declined by Rp 48 trillion; expenditure decreased by Rp 8.7 trillion; and the budget deficit grew by Rp 39.9 trillion, or from 2.2 per cent to 2.46 per cent of GDP. This situation, in turn, forced the government to suspend Rp 21.3 trillion in spending allocations to the ministries in order to reduce the budget deficit (Observation of the Budget Committee meeting, 15 October 2015).

| | |
|---|---|
| Said Abdullah: | As a leader of the Budget Committee, we ask the ICT Ministry to increase [non-taxable] revenue by Rp 3 trillion. |
| ICT Ministry: | Last year we increased revenue from Rp 14 trillion to Rp 15 trillion, or by around Rp 900 billion … this increase is set every year because we calculate it based on a formula. So it's reasonable. We do not have access to any sources for the larger increase in revenue requested by the committee. |
| Djoko Susilo: | We are only asking for a contribution. By how much can you raise it? If you [the ICT Ministry] are not willing to compromise, we will postpone this discussion and re-examine the formula you used in the Commission meeting. |
| Wayan Koster: | I suggest you increase [revenue by] Rp 1.5 trillion, so you don't need to discuss the formula again with Commission I. |
| Said Abdullah : | We have heard from the Chairperson of the Budget Committee, who asked you to increase revenue by Rp 3 trillion and Mr Koster, who asked you to increase it by Rp 1.5 trillion. What if we take the middle road? We do not want to take up time with a long discussion, because we have to finalise the budget position on Monday. |
| ICT Ministry: | …based on our calculations, we can increase [revenue] by Rp 2 trillion. |

**Figure 6.3. Dialogue between the Budget Committee and the ICT Ministry**

Given the severity of these adjustments, it seemed unlikely that an optimisation fund could be generated. Indeed, as Ministry of Finance officials reported to the Budget Committee, the Working Committee (Panja A) had revised both revenue and expenditure, increasing the former by Rp 22.4 trillion and decreasing the latter by Rp 16.9 trillion (Observation of the Budget Committee meeting, 15 October 2015). The Budget Committee nevertheless allocated Rp 23.6 trillion in extra funding to the 22 spending ministries, demonstrating that the committee was willing to act outside the parameters set by the government. In other words, instead of using savings intended to ameliorate the impact of the revisions to the budget's macroeconomic assumptions, the Budget Committee pressed on with its standard practice, namely using its power to allocate additional money to the ministries in return for the accommodation of its own interests.

The optimisation fund has thus continued to be a product of the Budget Committee's ability to exert pressure on the executive. A striking example of this pressure was its 2015 decision to request the Ministry of Information, Communication and Technology to increase its non-taxable revenue. As shown in Figure 6.3, the committee intimidated the Ministry by threatening to postpone the budget discussions if the Ministry did not raise the requested revenue (Observation of the working committee meeting, 1 October 2015):[29]

As occurred in the revision of the 2015 budget, the distribution of the optimisation fund had already been decided in an informal meeting. Said Abdullah, the Vice Chairperson of the Budget Committee from PDIP, explained the formal process as follows:

> When commissions propose [additional funds], we ask the House speakership to facilitate a meeting with all the Chairpersons of the commissions … the commission proposals have to be part of the government work plan, which is approved in a trilateral meeting between the Ministry of Finance, the Development Planning Agency and the sectoral ministers (Interview, 26 August 2015).

In fact, however, as shown in Table 6.6, the optimisation fund was distributed to all counterpart Sectoral Commissions as a transactional instrument with the executive, rather than with reference to any formal criteria. The budget cuts applied to all spending ministries prompted the ministries to seek other ways to maintain their budget allocations. Eka Sastra confirmed that this was the way in which the Budget Committee distributed the optimisation fund: ‘The government asks for funding for the programs they think are important and require an allocation from the optimisation fund’ (Interview, 1 July 2015). Jazilul Fawaid, the Vice Chairperson of the Budget Committee confirmed Eka’s statement by saying that the ministries requested extra funds for their program priorities when they met with the Sectoral Commissions, which were then discussed by the Budget Committee (Interview, 26 August 2015). In short, the distribution of the optimisation fund in 2016 was the result of a political consensus among the leaders of the Sectoral Commissions, the fraction coordinators, the House speakership, the Budget Committee and the executive.

[29] This dialogue was recorded at the Budget Committee meeting. Said Abullah is the Chairperson of the Budget Committee from PDIP, Wayan Koster is a Budget Committee member from PDIP and Djoko Susilo is the Chairperson of the Budget Committee from the Democratic Party and Commission I.

**Table 6.6. Allocations from the Optimisation Fund in the 2016 Budget**

| **Ministry/Agency** | **Counterpart Commission** | **Additional Funding** |
|---|---|---|
| National Police | III | 8.4 trillion |
| Ministry of Defence | I | 5.46 trillion |
| Ministry of Public Works and Housing | V | 2.9 trillion |
| Ministry for Villages and Remote Regions | V | 1.5 trillion |
| House of Representatives | | 740 billion |
| National Search and Rescue Body | V | 520 billion |
| State Intelligence Body | I | 480 billion |
| Ministry of Home Affairs | II | 360 billion |
| Coordinating Ministry for Maritime Affairs | IV | 250 billion |
| Ministry of Law and Human Rights | III | 200 billion |
| National Anti-Terrorism Body | III | 200 billion |
| National Disaster Management Body | VIII | 200 billion |
| State Cryptography Agency | I | 100 billion |
| Ministry of Research and Higher Education | VII | 170 billion |
| Supreme Court | III | 150 billion |
| National Standardisation Body | VI | 100 billion |
| Ministry of Labour and Transmigration | IX | 100 billion |
| Coordinating Ministry of Political Affairs, Security and Defence | II | 100 billion |
| Ministry of Trade | VI | 75 billion |
| National Archive Body | II | 40 billion |
| Ministry of Industry | VI | 20 billion |
| Ministry of Youth and Sport | X | 500 billion |
| **Total** | | **23.6 trillion** |

Source: Observation of the Budget Committee Meeting

During the formulation of the 2016 budget, the President was aware the practices surrounding the optimisation fund, although decisions were made by the legislature and the Ministry of Finance. As was confirmed by Said Abdullah, the Vice Chairperson of the Budget Committee from PDIP:

> Currently, the procedure which generates the optimisation fund in the Budget Committee is as follows: first, we ask the President for approval to generate an

> optimisation fund; second, we hold a 'trilateral meeting' [between the Ministry of Finance, the Ministry of the Planning Agency and the spending ministries] to decide on program priorities for each spending ministry. If the President agrees on the optimisation fund, it is his prerogative to identify priority spending ministries under the Nawacita [Nine Priorities] … But [the optimisation fund] is just transactional. As long as it doesn't disrupt the Nawacita, it's okay … For example, Nawacita programs might be allocated around Rp 1,500 trillion, while programs proposed by other colleagues are allocated no more than Rp 60 to Rp 70 trillion (Interview, 26 August 2015).

This statement confirms that the optimisation fund was used as a transactional instrument to ensure the President's program priorities were adequately represented in the final budget.

Finally, it needs to be emphasised that the optimisation fund is not a transaction between the President and the opposition coalition, but between the President and the legislature as a whole. Since the budget was amended collectively by the full legislature, all its members sought to benefit from the transaction, regardless of their party affiliations. It is clear, then, that the legislature's power to amend the budget as an executive tool to win the support of the legislature comes at a high political cost.

**Conclusion**

As this chapter has demonstrated, the executive may have power over budget formulation and execution, but the legislature uses its powers of amendment to generate an optimisation fund that serves the interests of both the legislature and the government. Moreover, the legislature is clearly the more dominant actor in the actual budget discussions. Although the legislature's power to amend the budget is restricted by regulations governing the size of the budget deficit, the budget must be approved by the legislature, and this approval power can be used to intimidate the executive.

The legislature's approval power means that the government's budget proposals are unlikely to be passed without informal mechanisms to benefit individual legislators. This continued to be the case even after the Constitutional Court decided to limit the legislature's amendment powers. Indeed, the Court's decision had little effect on the ability of the legislature to generate the optimisation fund. The decision did reduce the domination of the Budget Committee, but it did not have the effect of eliminating the optimisation fund. The benefits may now be shared more broadly, but the optimisation fund continues to function primarily as a means of rewarding legislators for passing the budget.

The distribution of the optimisation fund is based on an informal understanding between the executive and the legislature. The legislature and the executive agree to divide the funds into three categories, adhering to the current legal framework by allocating funds in a way that reduces the budget deficit and advances government priorities. This agreement is the basis for the process of negotiation that leads to the allocation of the optimisation fund. The negotiation process benefits legislators, who can lobby for allocations through the spending ministries or through special allocations to the regions. This mechanism also serves the interests of the spending ministries, as it provides an alternative channel through which the ministries can maximise their funding, especially in areas they have lost out during the budget formulation process within government.

Since the optimisation fund process is based on a mutual exchange of benefits between the executive and the legislature, it runs smoothly. For the executive, the optimisation fund provides an instrument for moving the budget agenda forward while accommodating the interests of the spending ministries. The Sectoral Commissions can offer funds to spending ministries seeking a budget increase in return for compensation, for example, the relocation of programs to their constituencies. The optimisation fund also provides direct benefits to all legislators in the form of salary increases and additional spending for constituency meetings. It has even provided them with a new building. The optimisation fund also allocates fiscal transfers to the regions, which can be utilised as constituency development funds by members of the Budget Committee.

In short, there is no significant difference of opinion regarding the distribution of the optimisation fund between the legislature and the executive, as both benefit from its existence. Hence, the optimisation fund generated through the legislature's power to amend the budget is a form of political currency, which the government can employ to avoid gridlock in the budget discussions. Since the optimisation fund is distributed covertly and equally, party affiliation has little influence on the behaviour of individual legislators in budget discussions. To put it differently, the demarcation of party identity is subverted, because individual legislators have equal access to the benefits of the optimisation fund. However, given that the distribution of the optimisation fund ignores party alignment, it is an expensive executive tool. And, since the optimisation fund is generated and allocated in collective and secretive ways, it is of course also prone to corruption.

# Chapter 7: The Aspiration Fund

The aspiration fund is a national budget allocation for development projects in the constituencies of individual legislators. As noted in Chapter Six, it is sourced from the optimisation fund produced by the legislature through its power to amend the budget. It was first proposed by the two largest parties in the ruling coalition formed after the 2009 election, namely the Democrat Party and Golkar. Even though the government, with the backing of NGOs like FITRA, has repeatedly rejected attempts to incorporate it into the state budget, the aspiration fund has continued to be deployed through informal channels. As is in many countries, the fund has provoked controversy, because it involves legislators in the utilisation of public resources to fund projects that improve their prospects of re-election (Tsubura, 2013).

The aim of this chapter is to investigate the factors that led to the development of the aspiration fund and to explain why it continues to exist, despite having been formally rejected so many times. As it shows, the aspiration fund has its origins in the introduction of an open list system of proportional representation, which shifted the focus of election campaigns away from parties to an emphasis on personal votes. This shift forced legislators to seek budget resources to fund programs in their constituencies, in order to maximise their chances of re-election.

The first section describes the emergence of the aspiration fund during Yudhoyono's presidency and the corruption that resulted from its covert management by the Budget Committee. The second section examines demands to legalise the aspiration fund, which were prompted by inequalities in access to the fund among parliamentary committees. The third section discusses the extent to which the aspiration fund was implemented in the revision of the 2015 budget and the 2016 budget deliberations. The chapter argues that legislators have continued to engage in covert distribution of the aspiration fund either to provide tangible benefits for their constituencies or to secure illegal resources for private gain.

### The Emergence of the Aspiration Fund

The concept of an 'aspiration fund' first emerged in preliminary budget discussions for the 2011 fiscal year. The 2011 budget discussion, which began in May 2010, was the first time a budget had been discussed by the legislators elected in 2009. As explained below, although the aspiration fund was formally proposed by fractions representing the political parties in the

House, it had its origins in the actions of individual legislators seeking to enhance their chances of re-election by demonstrating their capacity to serve their constituencies.

Internationally, funds of this type are known as Constituency Development Funds (CDFs). A key characteristic of a CDF is that individual legislators exert a degree of control over the way it is spent (International Budget Partnership, 2010). Although it can be seen as an example of 'pork barrel' spending, a CDF is a somewhat different method of deploying public funds. While 'pork barrelling' is typically informal in nature, a CDF is an institutionalised mechanism through which funds are allocated in the annual budget process as compensation for the legislature's limited capacity to amend the budget under the Westminster system (Baskin et al., 2010). However, like Indonesia's aspiration fund, both CDFs and pork-barrel spending are primarily political projects. As several scholars have suggested, the main motivation for the existence of such funds is the need to cultivate personal votes in an open list system of proportional representation (Baskin et al., 2010; Sutter, 1999).

Although the informal manner in which Indonesia's aspiration fund came to operate mimicked the informal processes of spending found in the US and elsewhere, the institutionalised version of the fund proposed by Golkar was more like a CDF. When it first proposed the fund in 2010, Golkar expressed the view that it was needed to enhance the role of House members in their own constituencies. The party also argued that the proposed fund would reduce the fiscal gap between the regions and make the legislature more accountable (Golkar view on the preliminary budget discussion, 25 May 2010). The aspiration fund was politically necessary, Golkar argued, to fill gaps in the planning and budgeting processes, where biases could shape different regional development programs, depending on the distribution of political party dominance (Interview with Golkar Chairperson of the Budget Committee 2009–10, 17 June 2015). The Democrat Party took a similar line, asserting that 'the Government needs to consider an aspiration fund that is delivered by legislators to their constituencies to ensure the budget allocation to the regions is effective' (Democrat Party view on the preliminary budget discussion, 25 May 2010).

Golkar's proposal included an explanation of the criteria and mechanism through which the aspiration fund would be implemented. Under its proposal, the fund would be managed by both the central and local governments. An amount of Rp 15 billion, to be audited by the Supreme Audit Body, would be allocated to each constituency (Golkar view on the preliminary budget discussion, 25 May 2010). Golkar claimed that its proposal was approved by the 'joint secretariat', a government coalition consisting of the Democrat Party, Golkar, PAN, PKS, PPP and PKB. Hatta Rajasa, PAN's Chairperson and also the Coordinating Minister of Economics, stated 'We support [the aspiration fund]. The role of the DPR is only to be a facilitator. District heads will propose a program to the DPR on behalf of their districts' (Suhendi, 2010). The Golkar proposal was also supported by PDIP, the major party outside the government coalition (Mayasanto, 2010). At this point, then, the aspiration fund was not a contentious issue within the legislature, since PDIP support meant that it had the backing of both the government and opposition coalitions.

The proposal immediately became headline news and drew widespread public criticism, especially from civil society groups (Tomsa, 2010). For example, FITRA rejected the proposal on the grounds that the aspiration fund would violate existing laws, blur the separation of powers between the executive and legislature, and potentially lead to corruption (Seknas Fitra, 2010). It also pointed out that Golkar's proposal to distribute Rp 15 billion per year to the constituency of each legislator would exacerbate inequality between the regions. For example, the province of West Papua, a remote area with a poverty rate of 35 per cent, would receive just Rp 45 billion, since the province had only three legislators, while the province of West Java, with a poverty rate of 11 per cent, would receive Rp 1.3 trillion. In other words, the proposal for a flat allocation from the aspiration fund did not take into account the differences in regional needs. Moreover, since there was no legal provision for it, the aspiration fund would disrupt the system of fiscal transfers to the regions, which was designed to reduce development disparities (Seknas Fitra, 2010).

Following the public outcry, a number of parties in the government coalition's joint secretariat shifted their positions to a rejection of Golkar's proposal. PAN's Chairperson, Hatta Rajasa, who had initially supported the aspiration fund, refused to discuss it any further, while the Democrat Party's Chairperson, Anas Urbaningrum, declared his outright rejection of the proposal. As Tomsa (2010) points out, this represented a betrayal of Golkar by the other parties in the joint secretariat, which had previously endorsed the proposal. The rebel parties were joined by PDIP, which had previously also supported the proposal. Indeed, all other parties followed suit.

***Pursuit of the Aspiration Fund through Illegal Channels***

The aspiration fund proposal vanished from public discussion after President Yudhoyono expressed his disagreement and the Ministry of Finance spokesperson, Agus Matowardojo, declared that the government would not support it (Tomsa, 2010). However, this was not the end of the story. In the 2011 budget discussions, a new budget item emerged in the section that dealt with fiscal transfers to the regions called the Infrastructure Development Adjustment Fund (Dana Penyesuaian Infrastruktur Daerah, DPID). The DPID offered the Budget Committee a mechanism for the allocation of around Rp 7.7 trillion to the regions (at district and municipality level). The stated aims of this fiscal transfer were to accelerate the development of infrastructure, improve the fiscal capacity of the regions, and reduce the fiscal gap between regions (Budget Committee Meeting Minutes, 25 October 2010). It is worth emphasising here that the DPID was not part of the Budget Bill proposed by the government (Article 28, the 2011 Budget Bill).

The DPID, which was not regulated under the existing law, overlapped with other types of fiscal transfer to the regions, such as the Special Allocation Fund. The aspiration fund also potentially violated Law No. 33/2004 on Fiscal Balance and disrupted the fiscal transfer system (Farhan, 2015). Moreover, while the criteria governing the operation of the DPID were agreed to by the government and the Budget Committee, its implementation was based on decisions made by the Budget Committee alone. According to the criteria, the selection of recipient regions would depend on fiscal capacity, a term that referred to the ability of local governments to finance development. In practice, however, this was not the case. Pramudjo, the Director of Fiscal Transfers in the Ministry of Finance, stated that the designation of eligible regions according to the government's assessment of fiscal capacities and poverty rates across all regions was not used by the Budget Committee, which reduced the number of recipient regions from 398 to 297. The Budget Committee also decided to fund regions that were not included in the government's proposal (The Central Jakarta Corruption Court, 2012).

The Budget Committee created this new category of funding to serve their constituencies but also to capture rents from the state budget. Six months after the DPID was implemented, the KPK arrested Wa Ode Nurhayati, a member of the Budget Committee from PAN (Central Jakarta Corruption Court, 2012). Nurhayati was found guilty of receiving Rp 6.2 billion in bribes from brokers and businesspeople, intended to secure allocations from the DPID to Aceh Besar, Piddie Jaya, Bener Meriah and Minahasa. The brokers had served as mediators between local governments seeking additional funds from the central government, the businesspeople who expected to win tenders for the projects by paying fees in advance, and the Budget Committee member who had the authority over allocations from the DPID fund (The Central Jakarta Corruption Court, 2012). These transactions not only benefited Nurhayati herself but all other members of the Budget Committee, regardless of their party affiliation. In the Corruption Court, Nurhayati revealed that the allocation of funds were distributed to the constituency of the Chairperson of the Budget Committee, all party fraction coordinators and members of the Budget Committee:

> … every fraction coordinator and the Budget Committee Chairperson was allocated between Rp 200 billion and Rp 300 billion from the DPID, while every Budget Committee member was allocated Rp 100 billion (The Central Jakarta Corruption Court, 2012).

Nurhayati's description of the allocation of funds was confirmed by Nando, a witness from the Budget Committee secretariat, who stated that codes were used to distribute the funds: 'codes P1 to P4 refer to the leadership [where P stands for *pimpinan*—leadership—of the Budget Committee Chairs from all factions including the opposition party]; codes 1 to 9 refer to the fractions in the House. These codes were used to calculate allocations from the DPID' (The Central Jakarta Corruption Court, 2012). As these statements by Nurhayati and Nando reveal, the DPID was distributed proportionally and across the parties.

In short, the DPID clearly served a political purpose since, as Nurhayati had explained to the Corruption Court, every member of the Budget Committee received a budget allocation for his or her constituency. This practice was also acknowledged by Tamsil Linrung, the Vice Chairperson of the Budget Committee, who served as a witness in the trial of Nurhayati. According to Tamsil's statement to the court, 'the distribution of the DPID to the recipient regions was based on the constituencies of the members [of the Budget Committee]' (The Central Jakarta Corruption Court, 2012). Since distribution to recipient regions was decided outside the formal meetings in the House, the potential for corruption was high.[30] In Nurhayati's case, for example, funds were allocated on her behest to Aceh Besar, Piddie Jaya, Bener Meriah and Minahasa, all of which are located outside Southeast Sulawesi province, where her own constituency is located.

[30] Tamsil also confirmed to the court that the DPID was sourced from the optimisation fund.

As is the case also with the optimisation fund, the aspiration fund came at a cost to the parties. The fund was distributed proportionally to all Budget Committee members regardless of their party affiliation, which eroded the party identity of Budget Committee members and reduced the incentive for them to behave as party or coalition members. Even though the aspiration fund had been debated among the parties in the first instance, in its execution, it was allocated without taking party affiliation into account. This practice was confirmed by Abdullah Dahlan, the Coordinator of Indonesian Corruption Watch's Political Division, who observed that 'when we talk about the aspiration fund, we are no longer talking about party lines. We're talking about the mutual interest that binds individuals within those political parties, in hijacking state resources' (Interview, 12 October 2015). The case also showed that the Budget Committee had better access to the resources allocation compared to the Sectoral Commissions. As noted by Eva Sundari, a former of legislator from PDIP:

> The emergence of the aspiration fund was triggered by jealousy, because only the Budget Committee could allocate projects in the budget … (Interview with Eva Sundari, 29 July 2015).

As Eva's statement suggests, unequal access to the illegal aspiration fund triggered a demand for a more institutionalised mechanism for the pork-barrelling that it enabled.

***The Legalisation of the Aspiration Fund***

Although public discussion of the aspiration fund ceased after the corruption scandal involving Nurhayati, this did not mean that the legislature surrendered its hopes that it could be institutionalised. The House had been quietly making use of its legislative power to provide a legal basis for the fund through the revision of Law No.27/2009 on the People's Consultative Assembly, the Legislative Council, the House of Representatives, and the Regional Houses of Representatives—the so-called the MD3 law (MPR, DPR, DPD and DPRD). The revision of the MD3 law was first officially discussed in a Plenary Session on 23 January 2013, a few months before the 2014 legislative elections and was passed a day before the 2014 presidential election.

The passage of the bill is noteworthy, as it occurred in a context of heightened political tension between the two coalitions in the lead-up to the presidential election. After the results of the legislative elections were announced, the coalitions became engaged in conflict when the opposition coalition's proposal that the speaker and deputy speakers be elected by a majority decision in the House was rejected by PDIP, PKB and Hanura, all of which were part of coalition that nominated Jokowi for the presidential race (Plenary Session Meeting Minutes, 8 July 2014).[31] However, parties in Jokowi's coalition had little to say about the aspiration fund, which was included in an article in the bill, where it was described using the term, 'Program Proposals for Constituency Development' (Usulan Program Pembangunan Daerah Pemilihan, UP2DP).[32]

The discussion of the aspects of the MD3 bill that dealt with the aspiration fund was far removed from political debate. In fact, the parties that rejected the aspiration fund in 2010 now supported its formalisation. For instance, Benny Harman, the Coordinator of the Special Committee (Panitia Khusus, Pansus) for the MD3 bill from the Democrat Party, described the situation in terms that were the complete opposite of his party's stance in 2010: 'The special committee requests clear norms guaranteeing the obligation of legislators to fight for their constituencies. Every House member has a right to an allocation from the state budget' (Special Committee on the MD3 Bill Meeting Minutes, 12 June 2014). A similar expectation was also voiced by Agoes Purnomo, a Special Committee member from PKS, who had also previously rejected the aspiration fund. He explained that a similar mechanism had been successfully implemented at the province level, where local legislators received an aspiration fund allocation of between Rp 5 billion and Rp 10 billion per year (Special Committee on the MD3 Bill Meeting Minutes, 20 May 2014).

The government was also less strident in its rejection of the aspiration fund this time around. At the beginning of the MD3 bill discussion, the government, represented by the Ministry of Law and Human Rights, argued that the President as Head of State had the authority to manage state finances (Special Committee on the MD3 Bill Meeting Minutes, 14 May 2014). However, in the final meeting in which the bill was discussed, the concluding statements of the government and the fractions in the House made no mention of the fund (Special Committee on the MD3 Bill Meeting Minutes, 7 July 2014). As a result, the

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[31] Previously, the House speaker and deputy speaker positions automatically went to the party with the most seats in the House (in this case PDIP) and the next biggest parties.

[32] A draft bill must be equipped with an academic paper that describes how the problem is to be addressed, places it in a theoretical framework, and identifies its philosophical, sociological and judicial foundations. The academic paper prepared for the MD3 bill failed to identify the aspiration fund as a critical issue. Nor did it provide further explanation or justification for the establishment of this fund. It was simply described as a member entitlement, insofar as a House member had the right to 'propose and fight for a development program for his or her constituency'.

aspiration fund gained a legal basis through two articles of the MD3 law. Firstly, Article 80 (j) stipulates that 'legislators have a right to propose and fight for the development of their constituencies'. Secondly, the constituency development program is mentioned in Article 110 (e), in the context of the Budget Committee's duty to integrate the constituency development programs brought to it by the Sectoral Commissions. Although the MD3 bill was rejected by three fractions in the House, their basis for doing so was not related to the aspiration fund.

It retrospect, it was clear that the aspiration fund did not emerge as a political issue during the MD3 bill deliberations for two reasons. First, political debate around the MD3 bill was largely focused on control of the speakership. Second, the MD3 bill was discussed by the outgoing legislature, where less than half of all legislators had not been re-elected, and there was no significant political incentive for outgoing legislators or incumbents to reject the aspiration fund. For their part, incumbents needed the fund to serve their constituencies and in doing so enhance their chances of re-election. Outgoing legislators, meanwhile, had nothing to gain from rejecting the fund.

It was also clear that the formalisation of the aspiration fund was triggered by unequal access to the optimisation fund. At issue was the fact that the Budget Committee had better access to the fund than other committees in the House, since their members only have the opportunity to meet with ministers, and to propose programs, in the areas of responsibility of the Sectoral Commissions (Interview with Elviana, Budget Committee member from the PPP and also a member of Commission X, 5 October 2015). Fahri Hamzah, the Vice Speaker of the House, also described the different access which the House committees had to programs of benefit to their constituents:

> Legislators not serving on the Budget Committee are not relevant in the eyes of their constituents. I, for example, have been sitting on Commission III for five years. When I go to my home region, I am irrelevant, because I can only propose budget allocations for the police department in my constituency (Interview, 14 September 2015).

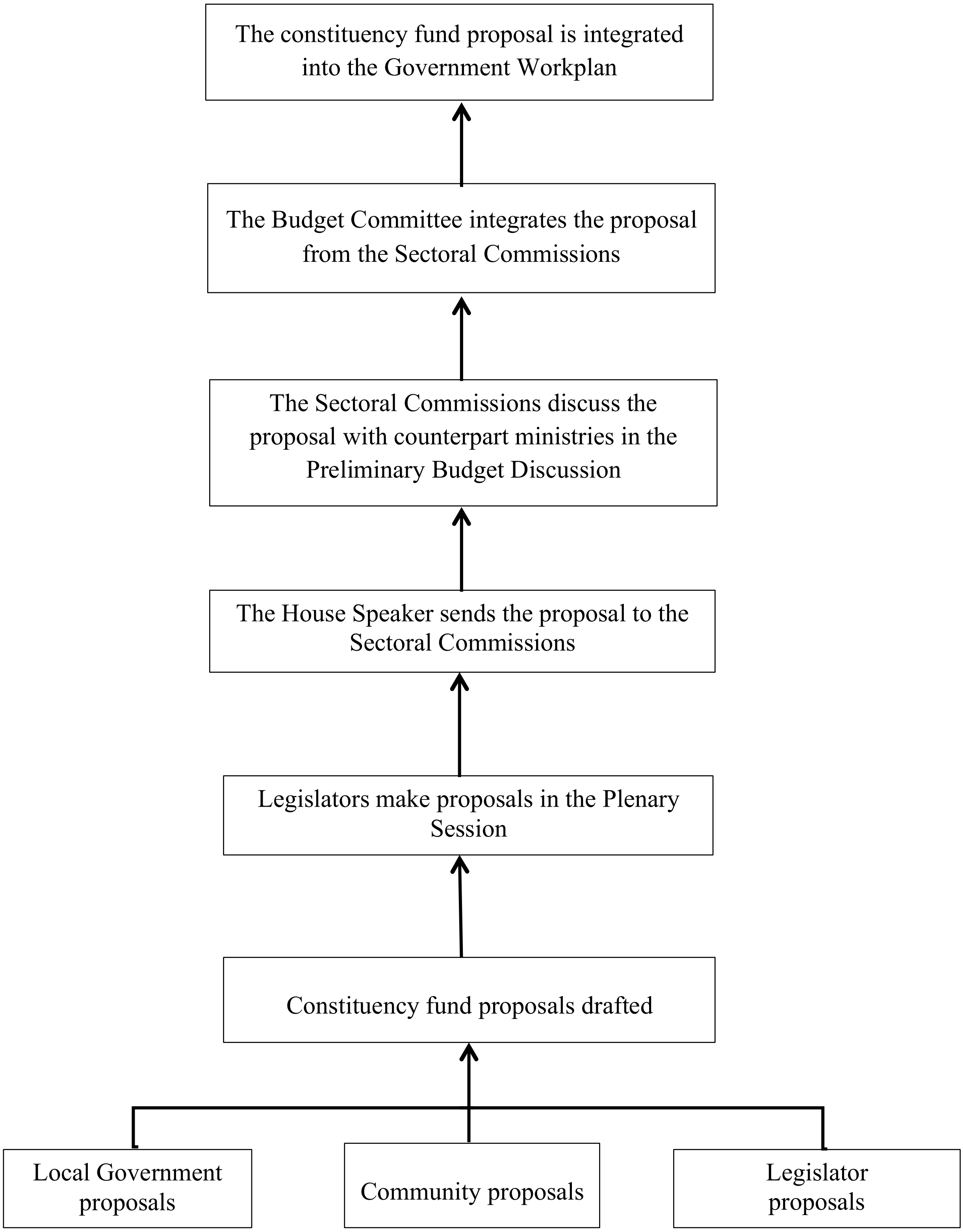
This differential access to this fund is what led to the demand for the formalisation of the aspiration fund, as was confirmed by Jazilul Fawaid, the Vice Chairperson of the Budget Committee from PKB, who noted that 'the aspiration fund nowadays is only for those who have access … They are happy for it to be unregulated because then they can keep playing with it' (Interview, 26 August 2015). In short, the formalisation of the aspiration fund was pursued in order to provide equal access for all legislators to budget allocations for their constituencies (Interview with Harry Aziz, former Budget Committee Chairperson from Golkar, 17 June 2015).

**The Implementation of the Aspiration Fund**

The MD3 law was fully operational when the new legislature took office in October 2014. This meant that the aspiration fund could legally form part of the budgetary process in the revision of 2015 budget and the formulation of the 2016 budget. Nevertheless, formalisation did not guarantee that the aspiration fund would be put to use, as it had been the subject of vigorous public criticism and lacked the support of legislators who had benefited from the previous arrangements.

To increase the viability of the fund, the legislature prepared detailed guidelines (Peraturan Tata Tertib DPR RI), which were incorporated into Article 195 of the Code of Conduct of the Indonesian legislature. These guidelines stipulated the criteria to be used in the allocation of the fund and outlined a mechanism through which it could be incorporated into the budget. As illustrated in Figure 7.1, programs supported by the aspiration fund could be proposed by local government or communities in a particular constituency, or by the legislators themselves. However, the guidelines failed to specify the way in which the legislature would collect proposals from local governments or communities.

In the House Plenary Sessions, each legislator was to be given an opportunity to present aspiration program proposals identified by their constituencies. This step, it was believed, would enhance the transparency of the aspiration fund process, since the public could check whether the programs as proposed met local community needs. Next, the House speakership would deliver the proposals to the related Sectoral Commissions for discussion with their counterpart ministries in the preliminary budget discussions. This phase was intended to ensure that the relevant spending ministries would adopt the aspiration programs in their work plans. Following this step, the House Budget Committee would consider the proposals from the Sectoral Commissions and send them back for any necessary clarification before integrating them into its planning. Finally, the results of the aspiration fund proposals would be integrated into the Government Work Plan, which acts as a reference for all spending ministries when they formulate their budget proposals. This allowed legislators to ensure their aspiration fund proposals were included in the budget proposal. The next subsection discusses the way in which this mechanism was implemented in the 2015 revised budget and the 2016 budget.




Source: Author illustration based on Article 195, Code of Conduct of the Indonesian Legislature

**Figure 7.1. Mechanism for Constituency Fund Proposals**

***The Revision of the 2015 Budget***

The revision of the 2015 budget was put before the legislature in January 2015, less than three months after the new legislature was inaugurated. This was the first budget to be discussed in a legislature now dominated by new legislators, but it was not the composition of the House itself that prevented the fund from being adopted at this time. Rather, the fund could not be integrated into the 2015 budget because there had been no preliminary budget discussion to integrate it into the government work plan. This meant that there had been no opportunity for legislatgors to deliver aspiration fund proposals, as required by the MD3 law. Loath to forego the leverage that the aspiration fund gave it, the Budget Committee continued to apply the constituency fund informally, as had been the case previously.

The fact that Budget Committee members had access to this informal stream of funding meant that there was little incentive for it to support the formalisation of the fund, as was confirmed in the discussions regarding fiscal transfers to the regions. In these discussions, Budget Committee members asked the government for flexibility in selecting recipient regions for the DAK (Budget Committee Meeting Minutes, 10 February 2015). For example, Miryam Haryani from Hanura argued that the criteria proposed by the government did not suit her constituency in Indramayu, West Java. Ecky Mucharam from PKS claimed that ‘the criteria concerning the receiving region and program type should not be too strict’ (Budget Committee Meeting Minutes, 10 February 2015). The next day, Boediarso Widodo, the Director General for Regional Fiscal Balance in the Ministry of Finance, agreed to revise the DAK criteria to make them more flexible, and opened up the possibility of adjusting the list of recipient regions (Budget committee Meeting Minutes, 11 February 2015). The Budget Committee report also noted that the DAK had increased to Rp 23 trillion, in order to accommodate local government proposals approved by the legislature (Budget Committee Meeting Minutes, 13 February 2015).

The adoption of the aspiration fund as part of the DAK was noted in Law No. 3/2015 on the Amendment of Law No. 27/2014 on the Indonesian Budget for the 2015 Fiscal Year, although it was not explicitly identified as such. Article 10 (6) of the law included the following sentence: ‘DAK Priority Program Support for Kabinet Kerja [the name by which Jokowi’s cabinet was known] (P3K2) and DAK Local Government proposals approved by House of Representatives of the Republic of Indonesia amount to Rp 23 trillion.’ The clandestine nature of this manoeuvre was confirmed by Sastra, a NasDem expert staff member, who stated that the aspiration fund was implemented covertly, as evidenced by the fact that the DAK had not been formulated according to its stated criteria (Interview, 7 July 2015).

Once again, the informal distribution of the aspiration fund revealed that the Budget Committee had better access to the fund compared to the Sectoral Commissions. The Vice Chairperson of the Budget Committee, PDIP member, Said Abdullah, confirmed that the Budget Committee was better placed than the Sectoral Commissions with regard to securing allocations from the DAK, since Despite the Sectoral Commissions could only access aspiration fund programs that related to their counterpart ministries (Interview, 26 August 2015). For example, a legislator in Commission X, which deals with sport and education, could only propose use of the aspiration fund for programs within the Commission's area of responsibility (i.e. sport and education). By contrast, Budget Committee members had access to all kinds of aspiration fund programs through the DAK.

### *The 2016 Budget*

The controversy surrounding the aspiration fund resurfaced when the House sought for a second time to implement it, as required by the MD3 law, during the preliminary budget discussions for the 2016 fiscal year. The amount proposed was Rp 20 billion per member per year, or a total of Rp 11.2 trillion for all 560 legislators (Ihsanuddin, 2015a). Shortly after, the aspiration fund became headline news, generating widespread public criticism (Ihsanuddin, 2015a; Iqbal, 2015). As a consequence, while the use of the aspiration fund had been legalised, and its insertion into the 2016 budget initially had the support of the majority of the parties in the House, ultimately attempts to implement it formally again failed.

Initially, the majority of parties in the House agreed to insert the aspiration fund into the 2016 budget. As Taufik Kurniawan, the Vice Chairperson of the House, and member of PAN, explained, the legislature's regulation of the aspiration fund was approved by all fraction coordinators in internal discussions (Plenary Session Meeting Minutes, 23 June 2015). However, the situation changed when this regulation was delivered at the Plenary Session of the House. While the aspiration fund had not been a core issue for parties, public criticism triggered a debate between the parliamentary fractions in the House. Ultimately, PKB was the only party in the ruling coalition willing to accept the constituency development program in the Plenary Session. The other three parties—PDIP, NasDem and Hanura—rejected it (Plenary Session minutes, 23 June 2015). For example, Arif Wibowo from PDIP argued:

> The constituency development program is not compatible with our electoral system, because legislators represent all the people of Indonesia, not just their own constituencies. The constituency development program will erode the unity of the nation—it will exacerbate the disparity among regions and generate conflict between legislators in the same electoral districts, because they will all want to claim personal credit for the distribution of projects (Plenary Session Meeting Minutes, 23 June 2015).

Arif's concerns regarding the potential for disparity among regions were echoed by Elviana, a Budget Committee member from PPP: 'The weakness of the aspiration fund is that it is not fair for my home province of Jambi. We have seven legislators, compared to our neighbour West Sumatra, which has fourteen' (Interview, 5 October 2015). The government also indicated that it would refuse to fund constituency development proposals, as indicated by the Head of Bappenas, Andrinof Chaniago, who stated that the President disapproved of the aspiration fund because it would overlap with development planning based on the President's program (Asril, 2015b).

Public criticism and the rejection of the fund by three fractions did not stop the proposal of the aspiration fund in the House. The constituency development program was proposed to the Ministry of Finance, representing the government, during the Plenary Session (Plenary Session Meeting Minutes, 1 July 2015). In contrast to the situation in 2010, when almost all the parties altered their position to reject the aspiration fund proposal after it drew public criticism, this time it was rejected only by PDIP, NasDem and Hanura (Table 7.1). NasDem staged a walk-out from the Plenary Session, simply stating its disagreement with the fund. PKB put forward an alternative, suggesting that all legislators should be able to propose constituency programs. Reflecting on this proposal, Jazilul Fawaid, PKB's Vice Chairperson of the Budget Committee, stated:

> The aspiration fund can make legislators work. They earn a high salary; so, we must give them a job. Otherwise, they only sit and wait … The aspiration fund forces them to find out what their constituencies need (Interview, 26 August 2015).

In the meantime, all the opposition parties agreed to propose constituency programs. Gerindra, PAN, PKS and PPP, which previously rejected the constituency funds, altered their standpoints and joined Golkar in supporting the initiative. Bambang Riyanto from Gerindra asserted that 'the program is the only tool legislators have to pursue their constituents' needs' (Plenary Session Meeting Minutes, 1 July 2015). Tamsil Linrung, the former Vice Chairperson of the Budget Committee (PKS), argued that 'if the constituency fund is approved, legislators will be more focused on strategic policy and its oversight role' (Interview, 10 June 2015). The Democrat Party—the only party outside the two coalitions—took a different stance, choosing not to deliver proposals for the scheme in the session and instead nominating five conditions that should be met for program implementation (Plenary Session Meeting Minutes, 1 July 2015). At this point, although all opposition parties supported the aspiration fund, the issue did not engender political competition between the coalitions, since PKB ultimately agreed to support the fund. The willingness of parties to alter their position is further evidence that the aspiration fund was not a priority in party programs, as was also evidenced by the fact that the government's rejection of the fund did not lead the opposition coalition to demand the inclusion of the fund in the 2016 budget.

**Table 7.1. Party Positions on the Aspiration Fund, 2010 and 2015**

| Party | Position in 2010 | Position in 2015 |
|---|---|---|
| PDIP | Rejected after public criticism | Rejected |
| Golkar | Proposed the aspiration fund | Agreed to propose constituency programs |
| Gerindra | Rejected | Proposed constituency programs |
| Democrat Party | Rejected after public criticism | Conditional support for constituency programs |
| PAN | Rejected after public criticism | Agreed to propose constituency programs |
| PKB | Rejected after public criticism | Agreed to propose constituency programs |
| PKS | Rejected | Agreed to propose constituency programs |
| PPP | Rejected after public criticism | Agreed to propose constituency programs |
| NasDem | – | Rejected |
| Hanura | Rejected | Rejected |

Source: Author compilation from the House Plenary Session minutes.

After the failure to insert constituency programs into the preliminary budget discussions through formal channels, the legislature's attempts to apply the aspiration fund covertly continued throughout the 2016 budget deliberations. This continued push was clear in interactions between the Budget Committee and the Ministry of Finance. A Budget Committee meeting chaired by Jazilul Fawaid from PKB had agreed to add the words 'the House's proposal' to the budget bill article referring to the allocation of the DAK (Observation the Budget Committee meeting, 20 October 2015). After media and public criticism, the Ministry of Finance eventually removed the words 'the House's proposal' from the Budget Bill (Ihsanuddin, 2015c). The following day, the Budget Committee announced the postponement of the Plenary Session to pass the 2016 Budget Bill, as discussed in Chapter Four. This decision—which served to hold the government hostage by delaying the budget—demonstrated that the Budget Committee was highly committed to retaining the aspiration fund.[33]

These efforts succeeded, and aspiration fund continued to operate informally, which meant that it could be accessed in two ways: through the Budget Committee, and through the Sectoral Commissions that dealt with public infrastructure (Interview with former Vice Chairperson of the Budget Committee Tamsil Linrung, 10 June 2015). In the Budget Committee, the aspiration fund was extracted from the optimisation fund and inserted into the budget through fiscal transfers to the regions (Dana Perimbangan), by creating a new budget line item or by including it in the DAK. Said Abdullah, the Vice Chairperson of the Budget Committee and PDIP member, confirmed the role of the DAK as a channel for the dispersal of the aspiration fund: 'The DAK is a political instrument used by Budget Committee members to reach out to our constituencies. This is what we, as Budget Committee members, sell to our constituencies' (Interview, 26 August 2015).

The aspiration fund was also generated through budget discussions in the Sectoral Commissions. Eka Sastra, the Golkar Budget Committee member, explained the way in which the aspiration fund was accessed in the Sectoral Commissions:

> In the Commissions, members attempt to increase the budgets of their counterpart ministries so that they can be allocated to their constituencies. However, most of these funds don't end up in the member's actual electoral districts, but rather in regions

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[33] House pressure to formally implement the aspiration fund resurfaced in the 2017 budget discussions. Commission XI urged their counterparts, the Ministry of Finance and Bappenas, to accommodate members of Commission XI who had not secured programs for their constituencies through the aspiration fund (*Kompas*, 15 September 2016).

> where businessmen are 'ready' [to provide a fee/kickback], like Maluku and Papua (Interview, 1 July 2015).

Eka's description of this process was confirmed by a new corruption scandal involving Damayanti Wisnu, a member of Commission V, which oversees transportation and infrastructure. Damayanti, a PDIP member who represents a district in West Java, was charged with receiving bribes from businessmen in exchange for allocating her aspiration fund to a construction project in Maluku. In the Corruption Court, Damayanti claimed that she was not the only member of the commission to be allocated an aspiration program in the Ministry of Public Works and Public Housing. Indeed, she claimed that 54 other members of Commission V had also been allocated them in the budget (Gabrillin, 2016). In the course of the hearing, Damayanti revealed that Commission V had allocated Rp 2.8 trillion to aspiration fund programs involving the Ministry of Public Works. She also said that the commission leaders, fraction coordinators and all commission members all received budget allocations for aspiration programs (Gabrillin, 2016). Damayanti's case also revealed the aspiration fund could be allocated in such a way that it did not go to a member's constituency but rather to another region capable of paying a fee to the member, as in the earlier case involving Nurhayati.

In short, despite the fact that the aspiration fund had been legalised, its legal status was not sufficient to ensure that fund was formally adopted in the 2016 budget. It was blocked by ambivalence from the parties, for which it was not a priority, and the actions of individual legislators who stood to benefit more from the existing informal arrangements, including members of the Budget Committee and Commission V. As a consequence, it continued to be implemented informally. While formalisation of the fund would have brought its own problems, its continuing informality meant that individual legislators were free to continue to manipulate the fund for their own benefit.

## Conclusion

This chapter has demonstrated that the emergence of the aspiration fund was triggered by the shift in the electoral system to an open list proportional system in the lead-up to 2009 election, which drove legislators to seek access to state resources to enhance their chances of re-election. The open list system allowed voters to select candidates instead of a party, thus generating strong incentives for candidates to cultivate personal rather than party votes. As a consequence, it was more important for legislators to build direct relationships with their constituencies than prioritising their links to their political parties (Pereira & Mueller, 2004) . These new incentives meant that policy debate around the aspiration fund was dominated by the interests of individual legislators rather than the interests of the political parties—which, in turn, led to a situation where parties' stance on the fund was easily swayed by pressure from legislators intent on maintaining their own access to the aspiration fund.

It has been recognised that electoral systems shape the behaviour of political actors (Ames, 1995). As such, it is unsurprising that demands for an aspiration fund surfaced during budget discussions involving legislators elected in 2009. The ways in which this fund was deployed were also influenced by the electoral system (Ames, 1995; Cox & McCubbins, 1986; Lancaster, 1986). Politicians wanting to improve their individual chances of re-election need to provide tangible benefits to their constituencies. And the most direct way elected politicians can win credit from voters is by providing specific services through pork-barrelling (Golden, 2003). In post-2009 Indonesian legislatures, the most effective mechanism for pork-barrelling was through the informal allocation of the aspiration fund.

The formalisation of this fund through the UP2DP scheme promised to transform this pork-barrelling into into a legitimate transfer to constituencies. As Tamsil Linrung confirmed: 'Now that the constituency fund exists, incumbents' chances of re-election are much greater than those of a new candidate , as long as the electoral district does not change' (Interview, 10 June 2015). However, as international experience has demonstrate, CDFs also distort the allocation of public resources since, as Hicken and Simmons (2008) argue, electoral systems that focus on personal votes exacerbate inefficiencies in public spending. This is certainly the case with the aspiration fund, as illustrated by the potential gap in the distribution of funds to West Papua and West Java. In this case, the wealthier region (West Java) stood to benefit more than the remote region (West Papua) by virtue of the different number of legislators representing each province.

The value of personal votes in the open-list proportional representation system has also increased the potential for corrupt behaviour. By escalating the cost of the campaign for individual candidates, it has put pressure on incumbents to access illegal resources (Chang, 2005). Unsurprisingly, the emergence of the aspiration fund was not only important because it provided tangible benefits for constituents but also because provided an opportunity for corruption. The combination of access to the budget through the aspiration fund, control over the distribution of resources, and access to funds to cover campaign costs meant that the aspiration fund was prone to corruption (Hicken & Simmons, 2008), as evidenced by corruption cases involving Budget Committee members and some Sectoral Commissions.

# Chapter 8: Conclusion

This study has explored parliamentary behaviour in the national budget-making process in Indonesia, with a focus on the interplay between the formal and informal political institutions that determine the distribution of power and resources among political interest groups within the legislature. As it has demonstrated, parliamentary behaviour is influenced by the constitutional budgetary power of the President, but also by electoral rules that incentivise legislators to prioritise access to patronage resources over party affiliation. On the one hand, the executive exercises its constitutional budgetary powers to influence the behaviour of legislators, with the aim of moving its budget agenda forward in a multiparty presidential setting. On the other hand, the value of the personal vote in Indonesia's open-list proportional system encourages individual legislators to abandon their coalitional/party affiliations in their efforts to leverage the budget-making process, resulting in a form of cartelisation within the legislature based around individual interest rather than party allegiance. In other words, interactions between the executive and the legislature in the budget-making process are shaped by a combination of formal political institutions (multiparty presidentialism, electoral rules, constitutional budgetary powers) and informal practices (cartel-like behaviour in seeking control over patronage resources). In short, the budget decision-making process is driven by a combination of the executive's need to advance its budgetary agenda, the absence of political party direction and discipline and legislators' need to secure patronage resources.

In demonstrating this interplay between the executive and the legislature, the analysis presented here offers a number of fresh perspectives on the study of politics and budgeting. *First,* it brings a political economy perspective to the study of Indonesian budget-making, a field dominated by technical analyses that draw on the new public management and institutional reform approaches. *Second,* it complements accounts of clientelism that focus on the relationship between politicians and voters during election campaigns by providing a deeper understanding of how clientelism influences parliamentary practice. *Third*, it provides an Asian perspective on the study of the politics of budgeting in a literature dominated by analyses of Western and Latin American countries. *Fourth*, it makes a theoretical contribution to the literature on the politics of budgeting through its focus on the relationship between formal and informal political institutions and their impact on interactions between the executive and the legislature in multiparty presidential democracies.

Each of cases studies has revealed the political determinants of the budgetary process. Chapter Four examined the relationship between the political configuration following the 2014 election and the political dynamics that informed the 2014–15 parliamentary budget discussions. This chapter illustrated the that the size of the Presidential coalition was not a determining factor in the budgetary arena. In order to explain the extent to which party affiliation determines the political dynamics of the budget making, I examined the party standpoints on capital injections in Chapter Five. As it showed, rather than being determined by party affiliation, the standpoint of the parties on this policy was driven by interests of individual legislators. The budget discussions on state capital injections into State-Owned Enterprises, meanwhile, displayed a contradictory process and contradictory outcomes.

Chapter Six offered an explanation on the disconnect between the president partisan power (coalition size) and the political dynamic in the budgeting process, as discussed in Chapter Four and Five. Here I argued that the legislative power to amend the budget is a key element for the stability of the budget decision-making. As Pereira and Mueller (2004, p. 781) suggest, the budget process gives the executive a low-cost and useful political means to garner political support in the legislature. The power of the legislature to amend the budget produces a pool of uncommitted fund or optimisation fund through both formal rules and informal practice of the parliamentary budget power, which can be used to this end. The individualistic behaviour of legislators, who lack programmatic distinctiveness in the budget decision-making, is in turn driven by the shifting of electoral rules from parties to personal votes, as explained in Chapter Seven. This chapter argues that this change drove individual legislators to seek state resources through both formal and informal channels either to provide a tangible benefit for their constituencies in order to enhance their chances of re-election, or for private gain.

**Main Findings**

As this study has shown, the multiparty presidential system adopted by Indonesia in 2004 changed the dynamics in Indonesia's legislature. Multiparty presidentialism strengthens the separation of powers between the legislative and executive branch but also generates a 'difficult combination', such that a president with minority support in the legislature is forced to negotiate gridlock (Mainwaring, 1993, p. 198). This was the case during the first term of the Yudhoyono presidency, when the legislature remained split for a period of two months. The gridlock was only resolved when Vice President Kalla was elected as Golkar

Chairperson and Golkar joined the governing coalition, giving President Yudhoyono majority support in the legislature (Liddle & Mujani, 2006).

In his second term, Yudhoyono strengthened his partisan power by forming an 'oversized coalition' to build legislative support, as suggested by the literature on the coalitional presidential approach (Chaisty et al., 2015; Raile et al., 2011). However, it became clear that this coalition was unstable when the PKS decided to move to the opposition coalition after the government proposed the removal of fuel subsidies in the 2012 and 2013 Budget Bills. This incident called into question the effectiveness of coalition size as a means of ensuring stability.

The early stages of the Jokowi presidency confirmed that coalition size is not a determining factor in the budgetary arena. As discussed in Chapter Four, Jokowi assumed government in October 2014 with minority support in the House. His governing coalition held just 37 per cent of seats when he proposed the 2015 budget revision in January 2015, a proportion that rose to 46 per cent in August 2015, when the 2016 budget was proposed, and 69 per cent by mid-2016. Although Jokowi was unwilling to blur the lines between the ruling and opposition coalitions, he was able to secure support for his first Budget Bill without forming an oversized coalition. Although the coalitions were locking horns on direct local elections at the time, this conflict had no impact on budget decision-making during the transition period, when the 2015 Budget Bill was formulated. Instead, the opposition coalition, which dominated the outgoing legislature, chose not to block the removal of fuel subsidies even though they had been a sensitive political issue for more than a decade. The opposition coalition also chose not to use its majority power to block the 2015 revised budget, which was also the first Jokowi budget designed to implement his campaign promises. The opposition coalition did not even attempt to use the budget discussions to signal the weakness of the minority government by increasing its deficit target, as Falcó-Gimeno and Jurado (2011, p. 554) suggest is normally the case. Although the budget proposal was radically different from those of Jokowi's predecessor, the bill was passed by the legislature with only minor changes.

As in the Yudhoyono years, the effectiveness of presidential coalitions was again brought into question in the 2016 budget discussions, when Jokowi's coalition controlled a slim majority of seats. In that round, a majority of party fractions, including that of his own party, refused to support the 2016 Budget Bill at the final stages of the process, forcing the government to freeze capital injections into state-owned enterprises. Moreover, as this development suggests, the size of the ruling coalition was only one determining factor in regard to partisan power; the fact that Jokowi had little influence within his own party made it difficult for him to maintain party support. Thus, the partisan power is not only about the size of a presidential coalition; it is also influenced by the extent to which a president can control his/her own allies. Consequently, as Raile et al. (2011, p. 324) suggest, a 'lack of party loyalty and discipline means that a minimal "winning" coalition may be not enough to win consistently'.

The disconnect between the President's partisan power (coalition size) and the political dynamic in the budgeting process is mediated by the legislature's power to amend the budget. Institutional reforms made in 2002 shifted the distribution of power between the executive and legislature in many areas, including budget decision-making, such that the President is no longer dominant. Although the executive has the power to formulate and execute the budget, the legislature has the significant power to amend the budget over the course of the deliberation process. Thus while the Budget Bill is the only bill that must be initiated by the President, the legislature has authority to reject and to modify the bill, increasing the possibility of deadlocks in relation to the budget. This outcome has been largely avoided, however, because the budget-making process provides space for negotiations between the executive and legislature with the aim of building consensus with regard to budget outcomes.

As demonstrated in the case study of the optimisation fund, the legislature's power to amend the budget produces a pool of uncommitted funds that can be used in their favour. This is permitted under the formal rules of the process but, in practice, legislators' ability to generate a pool of uncommitted resources extends far beyond that attributed to it in the formal rules, for example when proposed amendments to the budget exceed the permitted budget deficit. The optimisation fund functions smoothly because it is based on an exchange of benefits between the executive and legislature. For the executive, the fund provides an instrument for moving its budget agenda forward while accommodating the interests of the spending ministries. However, since the budget is amended collectively by the full legislature, rather than by individuals or parties, the President is unable to use parliamentary budget amendments to provide selective incentives to secure political support. For legislators, the fund not only provides direct benefits to all legislators in the form of salary increases and better facilities; it can also be utilised as patronage resources in their constituencies.

At first glance, then, the operation of the optimisation fund may seem to confirm the findings of proponents of the cartel party approach, namely that political parties put aside ideology and programmatic principles to behave as a group to capture state resources

(Ambardi, 2008). However, a closer examination reveals that Indonesia's system is quite different from those found in some other multiparty presidential democracies, such as Brazil's, where the President has the capacity to veto the budget and reward individual legislators and parties (Alston & Mueller, 2006; Ames, 2001; Pereira & Acosta, 2010; Raile et al., 2011; Zucco, 2009). Since the optimisation fund is distributed covertly and without reference to party affiliation, it encourages legislators to act without reference to party membership or coalitional affiliation. In other words, it fosters collusion between individual legislators rather than between parties.

To assess the extent of the influence of party affiliation on the political dynamics of the budget-making process, the thesis examines the party standpoints on capital injections to state-owned enterprises. Budget discussions around proposed state capital injections in successive budget rounds have been deeply contradictory. In the 2015 revised budget, which was negotiated at a time when the government coalition held a minority of seats, the value of proposed capital injections was more than ten times those included in the 2014 budget. Although they were the subject of prolonged debate within the Budget Committee, they were ultimately passed by the legislature. By contrast, the much smaller capital injections proposed in the 2016 budget proposal coincided with the beginning of a period of political consolidation for Jokowi. Yet, despite the fact that they had been approved in a single Budget Committee session, the party fractions represented on the committee later rejected the proposal during the Plenary Session. As these contradictory outcomes reveal, party affiliation is not always a determining factor in budget deliberations.

Further insights into the (ir)relevance of party affiliation in these deliberations can be gleaned through a comparison of the debates around capital injections and those around attempts to remove fuel subsidies in the 2012 and 2013 revised budgets, when some parties *had* indicated their policy positions from the outset of the budget deliberations. In the case of capital injections in the 2016 budget round, the proposal was not rejected on the basis of policy positions or inter-coalition rivalry, but rather in response to a threat to an important source of patronage resources, namely the aspiration fund, which benefits legislators as individuals, rather than as members of a given party. In this case, then—rather than being determined by party affiliation—the outcome was driven by interests of legislators as individuals.

As explained in the case study dealing with the aspiration fund, individualistic behaviour in the legislature has been driven in large part by the shifting of electoral rules from an arrangement favouring the party machines to one that privileges personal votes. As

Ames (2001) shows, the electoral system is an important factor in determining the way in which legislators behave in office. In Indonesia's case, the shift to a more candidate-centred system has prompted candidates to build personal relationships with their constituents rather than prioritising their links to a given political party. This phenomenon is widely recognised in studies of electoral campaigns, but it is also evident in the behaviour of legislators, where it drives individuals to seek rents from the budget process, sometimes for private gain, but also to secure tangible benefits for their constituents, and thus enhance their chances of re-election. The aspiration fund is an important mechanism for achieving these goals, because it is distributed on the basis of electoral districts, and thus can be used to provide patronage resources in return for political support.[34] Importantly also, it is distributed to all Budget Committee members, as well as to members of several strategic parliamentary committees regardless of party affiliation. This feature of the process undermines the party identity of Budget Committee members by reducing the incentives for them to behave as party or coalition members.

The importance ascribed by legislators to the preservation of this mechanism, which began as an informal institution, is evident in their efforts to formalise it through the MD3 Law. Rather than being a matter of contestation between parties, debates around the aspiration fund in this context focused on inequalities in access to it among parliamentary committees. Although this and other attempts to institutionalise the fund have repeatedly been rejected, an undercover aspiration fund can be identified in different funds, like the Special Allocation Fund and the Infrastructure Adjustment Fund, which are managed by the Budget Committee, and in other forms of funding inserted through the spending ministries by the sectoral committees. These forms of funding not only produce inefficiencies in resource allocation but also make the budget process more vulnerable to corruption (Hicken & Simmons, 2008, p. 110).

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[34] Note, however, that in contrast to electoral systems that incorporate single-member districts—where incumbents can claim direct credit for pork-barrelling (Lancaster, 1986, p. 70)— Indonesia's large electoral districts and system of multi-member representation make it difficult for a single legislator to claim personal credit for the allocation of a particular project. Theoretically, as Lancaster (1986, p. 71) argues, a free-rider problem exists by which other legislators representing the same electoral district can claim the credit as well. This element of the system may help explain why re-election rates are relatively low.

**Implications of the Study**

This study's findings have implications for our understanding of both the Indonesian political system and multiparty presidential systems more generally. In relation to the former, the study adds to the body of literature that challenges the utility of the oligarchy thesis (Hadiz & Robison, 2013; Winters, 2013) in understanding the relationship between the executive and legislative branches of government. It does not dispute the influence of the very wealthy in Indonesian politics, as was all too evident in the 2014 elections.[35] However it does reveal the shortcomings of the oligarchy thesis when it comes to accounting for the day-to-day interactions between the legislature and the executive branch in the context of the budget decision-making process. Although there are some loopholes in the budget process that enable political elites to influence resource allocation, institutional constraints and the cartel-like behaviour of individuals within the committee system mean that there is little opportunity for oligarchs to influence the budget decision-making process within the legislature. This is the case even when budget measures have a direct and deleterious effect on oligarchic interests, as occurred when the legislature rejected proposed capital injections into state-owned enterprises.

The study also identifies some limitations in the application of cartel theory to the behaviour of political parties in Indonesia by Slater (2004) and Ambardi (2008). Cartel theory, as it applies to Indonesia, has three main characteristics, namely the absence of an opposition party, the existence of oversized coalitions, and the blurriness of distinctions between parties in terms of their ideology and programs (Ambardi, 2008; Slater, 2004). The lack of programmatic and ideological distinctiveness among parties is confirmed by observations of three rounds of budget discussions. Indeed, party ideology and programs are irrelevant to the standpoints taken by their members in budget discussions. However, as noted above, there was no evidence of collusion between political parties in the budget-making process. Instead, cartel-like behaviour is observable between individuals in each of the various committees responsible for the budget. In other words, as a consequence of the failure of political parties to coordinate or direct legislators, there is no party-based cartel effect in the budgetary arena. There is, however, collusion between legislators for their individual benefit, rather than the benefit of the parties they represent.

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[35] See for example Mietzner (2015, p. 58) and Muhtadi (2015, p. 360); Mieztner observes the influence of oligarchic forces in both candidates' campaigns and Muhtadi illustrates how oligarchs pushed Jokowi to inaugurate Budi Gunawan as police chief.

In relation to the exercise of constitutional power in Indonesia's multiparty presidential system, the findings of this study are in line with other studies that point to the role the President's budget-making powers play in maintaining the parliamentary support needed to move his or her policy agenda forward (Pereira & Mueller, 2004; Pereira & Orellana, 2009). However, the use of the Indonesian President's budget-making powers in this way comes at a particularly high political cost, for four reasons. *First*, allocations are not only dispensed among the members in the governing coalition but to all legislators regardless of their party affiliation. In other words, members of the opposition coalition potentially have equal access to the budget as members of the governing coalition, since budget amendments are made in the committee system, in which individual members of each committee act collectively and collusively as a cartel. *Second,* the Indonesian President lacks the power to veto the whole budget or a single line item to provide rewards to individuals or parties. *Third*, while a president's budgetary power can be used to reach compromises on other items on the legislative agenda in some contexts, in Indonesia the 'political currency' of the legislature's power to amend the budget is limited to moving the Budget Bill forward. *Fourth,* since budget amendments are negotiated in committees that have no obligation to be transparent, there is significant opportunity for inefficient resource allocation, but also rent-seeking and corruption.

By contrast, the study's findings challenge many of the assumptions that underpin the literature on partisan power in multiparty presidential systems. Coalitions are widely seen as a panacea for presidents with minority support in in the legislature (Chaisty et al., 2015; Raile et al., 2011). Indeed, many scholars have suggested that they can operate in the same way as parliamentary systems, if presidents succeed in building stable multiparty coalitions to win the support of the legislature, for example, through the strategic distribution of cabinet portfolios and the exercise of budgetary power (Chaisty et al., 2014; Pereira & Acosta, 2010; Pereira & Mueller, 2004; Raile et al., 2011). However, this study has demonstrated that in the Indonesian case, the presence or absence of a governing coalition is not the determining factor in providing stability in the budget decision-making process. This is the case for three reasons. *First*, since parties in a governing coalition are not bound by the principle of loyalty to the coalition, nominal majority support in the legislature may not translate into support for government policy. *Second*, although the political party law gives parties the power to recall legislators who violate party rules, party discipline is seldom enforced in the legislature, in part because of the widespread use of consensus-based decision-making (*musyawarah/mufakat*) rather than voting. *Third,* individuals have a pronounced role in decision-making, reflecting a lack of programmatic distinctiveness among parties and the incentives provided by the open-list proportional system for legislators to seek to secure additional funding for their constituencies. When combined, these factors encourage legislators to act in a cartel-like manner within particular committees in pursuit of individual interests rather than according to party affiliation.

**Significance for Future Work**

There is a large body of literature on the relationship between the executive and the legislature in the policy arena, but the study of the impact of informal institutions on those relationships is still in its infancy. By taking into account both formal and informal institutions, this study has provided new insights into the political imperatives and incentives that drive Indonesia's national budget-making process. These insights shed light on parliamentary behaviour at the national level by revealing that—in the budget-making process, at least— legislators prioritise access to patronage resources over party affiliation. Further study of the impact of other informal institutions, such as populism, are an obvious focus for further research on the causal mechanisms that determine the interplay between different kinds of institutions, their impact on relations between the executive and legislature, and the political outcomes they produce.

In Indonesia's decentralised system, it is also necessary to look beyond the national level. It is clear from the number of budget-related cases investigated by the Corruption Eradication Commission—all involving the local executive and members of the local legislature from a number of political parties—that cartel-like practices of the kind found at the national level are likely to found also at the local level.[36] However, further research is required to understand their exact workings, since coalitions exist only temporarily during election campaigns and the local government head does not have the same kinds of resources, for example cabinet seats, to distribute to supporters from different parties at this level. As a consequence, it is likely that the budget's value as 'political currency' is even more important. Systematic studies at the local and provincial levels are thus needed to improve our understanding of their budget decision-making processes and, at the same time, the relationships between the executive and the legislature in Indonesia.

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[36] The KPK investigated four cases of the budget-related corruption at the local level in the second half of 2017 alone. These cases involved Mojokerto City (Ihsanuddin, 2017), Malang City (Belarminus, 2017), West Sulawesi Province (Junaedi, 2017) and Jambi Province (Gabrillin, 2017).

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