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## Defence Budgeting in Indonesia: Some Policy Options

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21 November 2007

*The Indonesian armed forces have been engaged in off-budget business activities since the 1970s. Now, a newly democratic Indonesia would like to end that dependence on off-budget income and fully support the military with funding from the governmental budget.*

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**INDONESIA'S** armed forces, TNI, celebrated its 62<sup>nd</sup> anniversary on October 5. The Jakarta media, while crediting the TNI for undertaking impressive reforms, lamented that so little had been done to address the manner in which the TNI raises money outside the government budget through its network of legal and illegal businesses. In 2004, a law was passed requiring the government to take over all military businesses by 2009 so that the TNI can focus purely on its defence responsibilities. However, implementing regulations for the law have yet to be issued. Since Juwono Sudarsono was appointed as Indonesia's Defence Minister, he has suggested that the national defence budget be raised. Yet, the question remains: how should it be done?

### Small budget, big needs

Indonesia's defence budget is relatively small. The defence budget up to 2006 had absorbed 0.93% of the Gross Domestic Product (GDP) or 4.36% of the State Budget (APBN). As a comparison, the defence budgets of other Southeast Asian states have generally reached above 2% of their GDP. Ideally, in the next five years, Indonesia's defence budget should range within 3% to 4% of GDP.

The government only allocated 10.5 trillion Rupiah (around US\$ 1.2 Billion - Rp 9.118/US Dollar in 9 November 2007) in 2000. In 2004, there was a significant increase to 21 trillion Rupiah (US\$ 2.4 billion), consisting of routine expenses, 13.74 trillion Rupiah (US\$ 1.506 billion), and development expenses, 7.68 trillion Rupiah (US\$ 7.7 billion). By 2005, the allocation was limited to 21.97 trillion Rupiah (US\$ 2.5 billion), which consist of personnel expenses (9.62 trillion Rupiah/US\$ 1.1 billion), equipment expenses (4.38 trillion Rupiah/US\$ 480 million) and capital expenses (7.96 trillion Rupiah/US\$ 873 million). The breakdown of defence expenditure (in US dollar equivalents) is as follows:

TNI General Headquarters	: US\$ 237 million
Army	: US\$ 996 million
Navy	: US\$ 354 million
Air force	: US\$ 261 million
Department of Defence	: US\$ 560 million

In terms of programmes, the budget allocated for integrative defence development is US\$ 236 million for the procurement of common use items of weapons and ammunitions. In addition, the development programme for the Army is slated for US\$ 993 million, Navy US\$ 349 million, Air force US\$ 260

million and US\$ 2.9 billion for the TNI General Headquarters' State Defence Programme. Meanwhile, TNI's social (*bhakti*) operations receive US\$ 346 million and the defence strategy and system development programme got US\$ 5.8 billion.

Regarding expenses, personnel salary and benefits cost US\$ 1.1 billion, where US\$ 1.1 billion is disbursed through the Office of State Treasury and Budgeting (KPKN) and other personnel expenses cost US\$ 14 million. For the services and equipment, the budget allocated US\$ 481 million, which consist US\$ 346 million for equipment, US\$ 115 million maintenance expenses, and US\$ 21 million for travel expenses.

In 2006, as outlined by Law No. 13 dated 31 November 2005 on the 2006 State Budget, the Department of Defence and TNI would be allocated US\$ 3.1 billion. This would consist of personnel expenses US\$ 1.1 billion, equipment expenses US\$ 712 million) and capital expenses US\$ 1.1 billion. The budget allocation for the Department of Defence/TNI in terms of programmes would consist of: US\$ 291 million) for integrative defence, US\$ 1.2 billion for Army development, US\$ 460 million for Navy development, and US\$ 362 million for Air force development. Other budget allocations would include: programmes to maintain state sovereignty (US\$ 84 million), state defence development programmes (US\$ 121 million), strategy and system development (US\$ 7.044 million), defence industry development (US\$ 553 million), international military cooperation (US\$ 5 million), defence research and development (US\$ 4.2 million) and TNI social (*Bhakti*) operations (US\$ 3 million).

### **Where the money goes to**

Meanwhile, in terms of organizational units, the users would include: TNI General Headquarters (US\$ 370 million), Army (US\$ 1.2 billion), Navy (US\$ 483 million), Air Force (US\$ 362 million), and Department of Defence (US\$ 680 million). In terms of expenses, the total budget allocated is approximately US\$ 1.3 billion, with the Army allocated the largest share (US\$ 889 million), and followed by the Navy (US\$ 203 million), Air Force (US\$ 110 million), TNI General Headquarters (US\$ 86 million), and the Department of Defence (US\$ 36 million).

According to the State Defence Development Strategic Plan 2005-2009, for the fiscal year 2007, the TNI and Department of Defence need a minimum budget of US\$ 8.2 billion. In fact, they would receive an indicative credit ceiling of US\$ 3.5 billion. This would consist of US\$ 1.4 billion for personnel expenses, US\$ 932 million for equipment expenses, and US\$ 1.2 billion for capital expenses.

Although the defence budget for the Department of Defence and TNI has increased over the years, the total budget required does not accord with reality. Indeed, the state budget has not been pro-defence sector even though building the state's defence capability is essential to maintaining territorial integrity.

Thus far, the development of the defence sector has only resulted in a defence posture with limited force projection capability due to personnel limitations of the TNI. Today, troop personnel is the main component of the TNI numbering 376,375 soldiers consisting 288,857 in the Army, 59,189 in the Navy, and 28,329 in the Air force. The TNI's main defence equipment system (*alutsista*) is aging, majority between 25 to 40 years old, are qualitatively below standard, and quantitatively, have yet to meet the needs outlined by the TNI's Organization and Equipment Chart (*Tabel Organisasi dan Peralatan* or TOP) and Personnel and Equipment Formation List (*Daftar Susunan Personel dan Perlengkapan* or DSPP), although they are continuously refurbished for operations.

### **Policy Options for TNI**

There is a close relationship between the professionalism of TNI and the defence budget. In the monograph *Post-Suharto Civil-Military Relations in Indonesia* (2007), four main elements are key indicators of the TNI's professionalism: soldiers' welfare, soldiers' training continuity, clear and strict

laws regarding the TNI, and a sufficient military budget. Faced with budgetary shortcomings, defence development now aims at acquiring a Minimum Essential Force, namely, the optimum level of forces needed to meet Indonesia's defence strategy. To do so, the following policy options should be considered when planning the defence budget.

Firstly, to determine when and what priorities are to be fulfilled using the available funds. Therefore, in a planning process, establishing clear short, medium, and long term objectives should be determined.

Secondly, budgetary targets should be divided according to particular time periods and adjusted in accordance to revenue available during that period. Based on realistic projections, the funds obtained would be insufficient to cover all needs. Hence, a decision should be made to prioritise what needs should be financed first and what could be postponed for the next fiscal period.

Thirdly, the challenge of meeting needs based on available revenue at a particular time period. This is important since oftentimes there are alterations in revenues and expenses. For example, if today oil prices were to rise to US\$ 60 per barrel, the government is expected to subsidize 60 trillion Rupiah (around US\$ 6.6 billion) per year to control domestic prices. At the same time, the increase in oil prices would lower the income levels of society, which theoretically, would also reduce tax revenues for the government. Therefore, projects that require huge sums of money can only be partially executed or transferred to the next fiscal year.

Getting the Indonesian military out of business and on budget remains an immensely complex undertaking. Its business interests are deeply rooted and include a vast array of commercial enterprises, non-profit foundations, cooperatives, and rent-seeking activities. This aspiration though is an essential step in consolidating democracy, rooting out corruption, and meeting the desire of Indonesians for good governance.

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