PPSDP International Journal of Education
Volume 5 (1) 2026, 122-141
E-ISSN 2829-5196
P-ISSN 2830-3229
https://ejournal.ppsdp.org/index.php/PIJED

Between Ambition and Fiscal Reality: Strategic Environment, Budgeting, and Military Modernization in Indonesia (2020-2025)

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Received: 17 November 2025; Revised: 19 November 2025; Published: 3 February 2026

Abstract: This journal article analyses the trends in the strategic environment (lingstra) that underlie the formulation of Minimum Essential Force (MEF) stages I, II, and III, and evaluates the process of preparing Indonesia's defence spending from 2020 to 2025. The analysis uses a qualitative approach and secondary data documentation from the Ministry of Defence, the Ministry of Finance, and the National Development Planning Agency. The article presents the dynamics of policies and the process of formulating the defence expenditure budget, including a comparison between the proposed and approved budgets. It also includes data on financing components from Pure Rupiah Funds, as well as domestic and foreign financing. The findings show that global and regional strategic environmental factors, such as geopolitical competition, military modernization in neighbouring countries, and advancements in defence technology, significantly influence Indonesia's defence priorities.

Keywords: Approved Budget; Defence Policy; Defence Spending; Minimum Essential Force; Strategic Environment

Citation: Yaffid, R., Saputro, G. E. ., & Suwarno, P. (2026). Between Ambition and Fiscal Reality: Strategic Environment, Budgeting, and Military Modernization in Indonesia (2020-2025). PPSDP International Journal of Education, 5(1), 129–149. https://doi.org/10.59175/pijed.v5i1.808

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A. Introduction

Indonesia's national defence policy is formulated by taking into account dynamic and cross-sectoral strategic environmental trends. In this context, Strategic Environmental Trends (*Lingstra*) can be interpreted as a comprehensive analysis of global, regional, and domestic developments that directly or indirectly affect national security. Indonesia's current strategic environment shows increasingly complex symptoms across various parts of the world (Sarjito, 2025). A wide range of traditional strategic issues (such as maritime territorial disputes and the increasing military capabilities of neighbouring states) and non-traditional issues (terrorism, cross-border smuggling,

maritime security, climate change, and others) evolve with their own dynamics. Therefore, understanding the dynamics of the strategic environment becomes an important factor in formulating national defence policies and strategies.

The Strategic Environment framework is an analytical tool used by the Indonesian Ministry of Defence to capture these various trends, such as major-power rivalry in the Indo-Pacific region, the development of advanced military technologies, and non-conventional threats (Triharyono et al., 2025). This enables the resulting defence policies to be more proactive and adaptive to global changes. In practice, the Ministry of Defence integrates strategic trend analysis with the Strategic Plan and the planning for developing the Indonesian Armed Forces (TNI), for example by emphasizing inter-service collaboration and sharpening budget priorities in line with the latest threat dynamics.

Specifically, the urgency of *Lingstra* arises from the need to balance military force development with available budgets and resources. The Minister of Defence emphasizes that defence strategies must be adaptive and responsive to global dynamics while strengthening TNI readiness to safeguard state sovereignty. The articulation of strategic environmental trends also influences the determination of priority areas in defence capability enhancement, such as modernization of weapon systems (*alutsista*) and improvement of personnel professionalism, which are key targets of the Ministry of Defence's current programs. In an era of major-power competition and rapid innovation in defence technology, for example, the Ministry also promotes research and development through the Defence Research and Development Agency to strengthen domestic defence industry self-reliance. This effort is a concrete implementation of the Strategic Environment framework, which translates global defence technology developments into national research agendas.

Historical Context of Defence Policy and the MEF Stages

The current framework for shaping Indonesia's defence posture is built on the concept of the Minimum Essential Force (MEF), formulated under Presidential Regulation No. 41 of 2010 concerning the General Defence Policy. MEF represents the minimum essential core military strength that must be prepared to perform defence duties and functions. To achieve the MEF, its development is divided into three major stages.

1. Stage I (2010–2014) focused on revitalizing the domestic defence industry as an initial step to strengthen the national capability base, partly in response to increasing threats in the South China Sea and the Ambalat border area.
2. Stage II (2015–2019) was directed toward achieving defence industry independence and equipping personnel and major *alutsista*.
3. Stage III (2020–2024) aims to finalize *alutsista* modernization to achieve an adequate TNI defence posture.

In practice, the implementation of all three MEF stages has faced various challenges. Data shows that the physical realization of MEF II by the end of 2019 reached only around 63.19% of the targeted 75.54%, indicating suboptimal progress in force

development programs. Delays in *alutsista* procurement were also reflected in reports from the House of Representatives (DPR), which noted a significant contraction in the realization of the Ministry of Defence's priority program outputs during 2015–2018. This deficit encouraged the government and the DPR to review budget planning and consider alternative financing options, including increasing foreign loans for accelerating MEF fulfilment.

Indonesia's post-Reformasi defence policy history has also been shaped by shifts in the global security paradigm. Beyond conventional military threats, Indonesia's Defence White Paper highlights non-traditional threats such as terrorism, smuggling, and natural disasters, which are increasingly linked to national stability. Maritime issues and transnational crime in regional waters, viewed as the lifeline of the global economy, have become major concerns shaping Indonesia's maritime defence priorities. All these factors push the formulation of defence policies and the MEF roadmap to be multisectoral, integrative, and responsive to the continuously evolving strategic environment.

Structure and Classification of Indonesia's Defence Budget

Indonesia's defence budget is allocated through the State Budget with expenditure categories classified into personnel expenditure, goods expenditure, capital expenditure, and other expenditures. Personnel expenditure includes compensation for military personnel (salaries and allowances), goods expenditure includes operations, maintenance, and procurement of non-permanent equipment, while capital expenditure is allocated for the purchase of *alutsista*, non-*alutsista* equipment, infrastructure, and other defence investments. Aside from domestic APBN allocations, defence funding may also come from foreign loans for procuring weapon systems and strategic projects (for example, the additional foreign loan of US$4 billion or Rp 61.7 trillion for *alutsista* spending in 2024). Thus, cumulative defence spending involves two primary sources: domestic financing through the APBN and foreign financing through loans and grants.

In recent years, the defence budget structure has tended to be dominated by personnel expenditure. DPR analysis shows that the Ministry of Defence's average allocation (2016–2020) comprised 40.3% for personnel, 33.8% for goods, and 26.0% for capital expenditure. Furthermore, personnel expenditure grew relatively high (around 7% annually), while goods and capital expenditure grew only around 2–3% annually. This pattern reflects budget structure pressures, where increases in TNI salaries and allowances absorb a large share of funds, leaving proportionally smaller allocations for *alutsista* modernization. Yet, given the rapid evolution of geopolitical challenges and global security architecture, increasing capital expenditure and defence technology research is crucial to support MEF and safeguard national sovereignty.

An indicator of the urgency to adjust the budget structure can be seen in the comparison of Indonesia's defence spending with neighbouring countries. According to SIPRI (2020), Indonesia's military spending was only around 0.86% of GDP, far

below the minimum threshold of 1% of GDP adopted by several ASEAN states such as the Philippines (~1.01% of GDP) or Singapore (~3.2% of GDP). Considering Indonesia's vast maritime territory and regional conflict potentials (such as South China Sea disputes, border conflicts, and maritime security), many argue that Indonesia should increase its defence budget to above 1% of GDP. DPR reports also emphasize that, for MEF fulfilment to occur, strong political will to allocate significantly higher defence budgets is required. Without increased capital investment and defence spending, TNI modernization priorities from *alutsista* to human resource development and logistical support are at risk of being hindered by current budget limitations.

Overall, the structure and classification of the defence budget are essential instruments in implementing MEF strategic policies. Good governance and transparency, in line with legal provisions, are expected to optimize fund utilization across expenditure categories (personnel, goods, capital, and financing). Strengthening capital expenditure including through international cooperation—is crucial for enabling the TNI to meet the modernization trends of global military technology and achieve the targeted minimum essential force. Thus, defence budget readiness must align with long-term strategic visions to support TNI modernization in facing 21st-century geopolitical challenges. Research Questions in this study were 1) What strategic environmental (Lingstra) factors underlie the formulation of MEF I, II, and III? 2) How is Indonesia's defence spending for 2020–2025 formulated? 3) How does the realized defence budget compare to the proposed budget, including its financing components?

Grand Theory: Realism in International Relations

Within the theoretical framework of international relations, Realism constitutes a grand theory which emphasizes that the state is the primary actor in an anarchic international system, and that security and defence are the foremost priorities of every state (Waltz, 1979). Realism posits those threats to state sovereignty both military and non-military must be addressed through the strengthening of state power instruments, particularly military capabilities. From a realist perspective, states tend to increase defence budgets to ensure their survival, especially when the strategic environment reflects uncertainty and heightened threats posed by both state and non-state actors. In the Indonesian context, efforts to develop defence capabilities through the Minimum Essential Force (MEF) policy and a more proportional defence budget allocation can be understood as manifestations of realist logic in national defence. Realism also recognizes that non-military threats such as transnational crime, terrorism, and natural disasters are crucial variables in national defence strategies because they have the potential to undermine a state's stability and integrity. Consequently, strengthening the national defence posture and allocating defence resources are not only intended to address conventional threats but also to adapt to evolving non-traditional threats.

Middle Theory: National Security and Defence Strategy Theory

As a middle-range theory, the National Security and Defence Strategy Theory provides an operational framework outlining how states identify, formulate, and respond to various types of threats against national security. Buzan (1991), in *People, States and Fear*, asserts that national security is multidimensional, encompassing military, political, economic, social, and environmental aspects. In Indonesia's defence doctrine, this multidimensional approach is reflected in the categorization of threats into military and non-military domains, with the *Total People's Defence* doctrine serving as the adopted model. Indonesia formally aligns its national defence strategy with these dynamics through key policy documents such as the Defence White Paper and the Ministry of Defence's Strategic Plan. This theory underscores the importance of integrating budgetary policy with long-term defence strategy. In other words, the structure of budget allocations must reflect actual needs for strengthening defence capabilities, both for war-fighting military operations (*Operasi Militer untuk Perang*/OMP) and non-war military operations (*Operasi Militer Selain Perang*/OMSP), such as disaster response, intelligence operations, and counterterrorism.

Supporting Theories: Public Budgeting Theory

According to Aaron Wildavsky (1964), public budgeting is "a political instrument and a policy statement," functioning simultaneously as a political tool and a form of policy expression. In the context of national defence, the budget reflects a state's political priorities toward security and national stability. Wildavsky (1964) also stresses that defence budgets are often inertial meaning they tend to be stable and resistant to drastic changes unless significant threats or policy pressures emerge. In relation to Indonesia's defence force development, this theory helps explain why defence expenditures often remain concentrated on personnel and operational spending, and why strong political will is needed to increase strategic capital expenditure for weapon systems and defence technologies.

Non-Traditional Security Theory

This theory stems from the view that threats to national security do not originate solely from foreign military power but also from factors such as natural disasters, climate change, pandemics, transnational crime, and terrorism. According to Caballero-Anthony (2005), non-traditional security approaches require cross-sector collaboration, and the military must adapt to fulfil non-conventional roles. In the Indonesian context, the involvement of the Indonesian National Armed Forces in disaster response, evacuation during the COVID-19 pandemic, and border security operations against smuggling and human trafficking demonstrates that defence force structure and budget allocation must account for these emerging forms of threats.

Total People's Defence Theory

Indonesia's national defence doctrine is rooted in the *Total People's Defence* concept, a system that involves all components of the nation main, reserve, and supporting

components. This concept is derived from Indonesia's geopolitical reality as an archipelagic state requiring synergy between civilian and military elements in confronting threats. Institutionalized through Law No. 3 of 2002 on State Defence, this doctrine provides a conceptual basis supporting the argument that defence budgeting should not be limited to combat capabilities but must also include the development of reserve components, supporting elements, and defence infrastructure readiness, particularly in border and remote areas. Several previous studies reinforce the relevance of this research topic: Dewi (2021), in the *JIHAD: Journal of Law and Administration*, argues that MEF implementation has been suboptimal due to disproportionate budget allocations and delays in capital expenditure realization. Siregar & Nababan (2020) highlight that although non-military threats have increased, defence spending remains overly focused on personnel expenditure and insufficiently supports multinational preparedness. Saputro (2022), in his thesis at the Indonesian Defence University, emphasizes the need for stronger integration between strategic environmental trends and budgetary reform to address multidimensional security challenges.

Analytical Framework

Drawing on the aforementioned theories and prior research, this study's analytical framework positions national defence doctrine as the conceptual foundation (input), operationalized through the allocation of the defence budget (process), and assessed through the state's capacity to address non-military threats (output). The correlation among these elements serves as an indicator of the effectiveness of defence strategy within the dynamics of the 21st-century strategic environment.

B. Methods

Research Approach and Type

This study employs a qualitative approach with a descriptive–qualitative case study. This approach was selected because the research does not seek to test numerical hypotheses, but rather to gain an in-depth understanding of how Indonesia's national defence doctrine influences the structure of defence budget allocations, and the extent to which this contributes to the management of non-military threats in Indonesia. The descriptive–analytical design aims to: 1) Describe how the national defence doctrine is developed and implemented; 2) Analyze the substantive correlation between defence policy, budget planning, and responses to non-military threats.

Research Location and Period

This research is conducted through a document study of national-level defence and budget policy archives, focusing on the following institutions:

1. Strategic Plans Ministry of Defence of the Republic of Indonesia 2020-2025;
2. Ministry of Finance State Budget (APBN) Reports 2020-2025;
3. National Development Planning Agency reports 2020=2025;

4. Indonesian National Armed Forces and related defence institutions reports a publication 2020-2025; and
5. National Disaster Management Agency as a partner in *Operations Other Than War* (OMSP) reports 2020-2025.

The research period covers the retrospective span of 2015–2025 to capture the policy dynamics of MEF II, MEF III, and the transition toward the Essential Force.

Data Sources and Data Collection Techniques

This study utilizes secondary data sourced from official government documents, academic publications, media publications and reports, as well as reports issued by state institutions. Data collection techniques include: 1) Documentation; 2) Literature Review; 3) Policy Analysis.

Data Analysis Techniques

The documents were collected for themes related to: (1) stated strategic threats, (2) MEF procurement priorities, (3) budget negotiation justifications and The collected data are analysed using content analysis and thematic analysis techniques.

C. Results and Discussion

Analysis of Indonesia's Defence Budget, 2020–2025

The Ministry of Defence budget for the period 2020–2025 demonstrates an overall upward trend, with the exception of a slight decline in 2023. The State Budget (APBN) allocations for Kemenhan were recorded as follows: Rp117.97 trillion in 2020, Rp125.9 trillion in 2021, Rp133.9 trillion in 2022, Rp134.32 trillion in 2023, Rp139.27 trillion in 2024, and an initial proposed allocation of approximately Rp155 trillion for 2025. It should be noted that beginning in 2025, a significant portion of the Ministry of Defence budget is separated into direct allocations for the TNI Headquarters (Mabes TNI) and the respective service branches, resulting in a combined approved ceiling for Kemenhan and the TNI of approximately Rp165.16 trillion in 2025.

The main budget components for 2023–2024 are as follows (Table 1): personnel expenditure of approximately Rp54 trillion per year, goods expenditure of Rp44–46 trillion, and capital expenditure of Rp34–40 trillion. Consequently, the proportion of capital expenditure has increased for instance, from 25.4% (Rp34.12 trillion of Rp134.32 trillion) in 2023 to 28.8% in 2024. Meanwhile, personnel expenditure remains relatively stable (around 39–40%), and goods expenditure shows a slight decline (31–34%). This structural adjustment is illustrated in the comparative figure below.

Table 1. Annual Budget Ceiling of the Ministry of Defence and Its Main Components (APBN and indicative data) Source: LKPP/APBN Kemenhan 2020–2024 and Strategic Pland 2025

Year	Total Ministry of Defence Budget (Rp trillion)	Personnel Expenditure (Rp trillion)	Goods Expenditure (Rp trillion)	Capital Expenditure (Rp trillion)
2020	117,97	–	–	–
2021	125,	–	–	–
2022	133,9	–	–	–
2023	134,32	54,16	46,00	34,12
2024	139,27	54,74	44,39	40,11
2025*	~155,0	–	–	–

Based on the data above, it can be observed that the total budget increased significantly from 2020 to 2022 (approximately 13%), and then remained relatively stable in the range of Rp134–139 trillion for 2023–2024. Meanwhile, the increase in the share of capital expenditure is substantial. Capital expenditure realization in 2023 reached Rp70.9 trillion (a 36% year-on-year increase from Rp50.2 trillion in 2022), indicating a strong focus on *alutsista* and infrastructure modernization. Personnel expenditure was maintained at around Rp54 trillion (approximately 39–40% of the total), while goods expenditure declined slightly (from Rp46 trillion to Rp44 trillion). The budget shift toward capital expenditure suggests a prioritization of MEF *alutsista* procurement, but it also reduces the share of routine expenditures, which typically consist of goods and services procurement.

Impact of Budget Realization on MEF III and OMSP Readiness

Budget realization has a significant influence on the achievement of MEF III. The target for MEF Phase III is to reach 100% fulfillment of *alutsista* capability by the end of 2024. However, the realization of Phase II (2015–2019) reached only about 63.2% of the planned target, partly due to the lengthy planning and procurement processes associated with major weapon systems. With the sharp increase in capital expenditure in recent years (for instance, a 36% rise in 2023), the government has sought to accelerate the completion of unmet targets. Data from the House of Representatives (DPR) records that the realization of MEF-related expenditure (*alutsista*, maintenance, and infrastructure) during 2015–2019 was only approximately 47.3% of baseline requirements, underscoring the need for substantial increases in capital allocation to complete MEF III. Overall, the rise in capital expenditure supports the acceleration of *alutsista* modernization and helps move MEF III closer to its intended completion in 2024. Nevertheless, its effectiveness will depend on sustained funding and the resolution of administrative and procurement barriers. Meanwhile, the defence budget also directly affects the readiness of the Indonesian National Armed Forces (TNI) to confront non-military threats through *Operations Other Than War* (OMSP). During the COVID-19 pandemic, for example, President Jokowi instructed that the crisis be controlled "by any means necessary," including the utilization of the military's full capabilities. The TNI was involved in the repatriation of Indonesian citizens from abroad, the distribution of humanitarian assistance, and the provision of medical services and logistical support to affected regions. A CSIS study notes that

OMSP activities during the pandemic consisted of: 1) civic assistance and social service operations (medical services, distribution of health logistics); 2) support to civilian authorities (health, transportation, police) in enforcing health protocols, and 3) the potential deployment of the military to restore domestic stability in the event of a severe crisis.

In this context, adequate budget realization in goods and personnel expenditure is essential to support OMSP, such as the procurement of ambulances, medical supplies, and military transportation assets. The shift in spending from personnel and goods to capital expenditure promotes the modernization of *alutsista*, yet it may constrain day-to-day operational funding. If the share of goods and personnel expenditure is not increased, the TNI risks facing shortages in logistical support and essential training for OMSP operations. This means that the effectiveness of OMSP implementation depends on a balanced allocation of funding between *alutsista* procurement (capital expenditure) and routine operational needs (personnel and goods expenditure). For instance, if capital expenditure increases without a corresponding rise in goods expenditure, OMSP support activities such as field medical posts, evacuation simulations, or disaster mitigation training may be hindered. In other words, a defence budget focused solely on *alutsista* modernization may be insufficient without adequate operational funding for OMSP. Additionally, the Ministry of Defence has also anticipated cyber threats as part of OMSP responsibilities. The Minister of Defence reported that the TNI would address attacks targeting military command systems and critical infrastructure (electricity, telecommunications, transportation). Cyber defence operations include preventing the theft of strategic data and countering disinformation campaigns that could erode public trust. Preparing for these threats requires funding for cyber-defence capabilities, network security, and interagency coordination. Thus, the effectiveness of OMSP—whether in pandemic response, disaster management, or cyber defence is strongly influenced by how the defence budget is realized and allocated to relevant operational areas.

Comparison of Defence Budgets in ASEAN

In a regional context, a comparison of Indonesia's defence budget with those of other ASEAN countries shows that while Indonesia allocates a relatively large absolute amount, its defence spending as a proportion of GDP remains comparatively low. The table below presents the 2022 military budgets (in USD) of selected ASEAN countries:

Table 2. Budget Defence of ASEAN (2022) and percentage to GDP
Source: GoodStats, Bank Dunia

Year	Budget 2022 (USD)	~% GDP
Singapore	11,56 milliard	~3,3%
Indonesia	9,30 milliard	~0,8%
Vietnam	6,24 milliard	(±1,7–2%)
Philippines	4,39 milliard	(±1,1%)

Indonesia ranks as the second-largest defence spender in ASEAN after Singapore. However, when viewed as a percentage of GDP, Indonesia's defence expenditure

(~0.8%–0.9%) is significantly lower than that of Singapore (approximately 3.3%), Vietnam (~2%), and the Philippines (~1%). Given Indonesia's vast archipelagic territory and large population, its relatively small defence spending ratio highlights the need for efficient allocation and utilization of resources. Although the nominal budget is substantial, its effectiveness must be continuously evaluated; for instance, MEF realization for the period 2015–2019 reached less than 50% of the targeted requirement despite increases in budget allocation.

In the regional context, Indonesia's budget strategy must balance the need for *alutsista* modernization and OMSP readiness while ensuring the sustainability of daily military operations. Indonesia must continue to enhance the effectiveness of its defence spending through improved planning and stringent oversight to maintain its strategic position as the strongest military power in ASEAN in an efficient manner. Budget data from 2020–2025 show increased funding for the Ministry of Defence, particularly in capital expenditure aimed at *alutsista* modernization. While this supports the achievement of MEF III, it may reduce the proportion available for routine operational activities. In addressing OMSP tasks (pandemic response, disaster management, and cyber defence), the TNI requires a balanced distribution of funding across operational domains. Compared to other ASEAN countries, Indonesia allocates a large nominal defence budget but maintains a low spending ratio relative to GDP, underscoring the importance of prioritizing effectiveness and long-term program sustainability in defence budgeting policies.

Strategic Environmental Trends (Lingstra) and the Formulation of MEF I, II, and II

Table 3. MEF Stages

MEF Stage	Period	Main Focus	Lingstra Factors
MEF I	2010–2014	Reorganization and fulfillment of initial force levels	South China Sea disputes, separatist threats
MEF II	2015–2019	*Alutsista* modernization and defence industry self-reliance	China's military rise, ISIS in Southeast Asia
MEF III	2020–2024	Strengthening deterrence and force projection	AUKUS, the Quad, and Indo-Pacific tensions

The Defence Budget Formulation Process (2020–2025)

Indonesia's national budget planning system is guided by Law No. 17 of 2003 on State Finance and Law No. 25 of 2004 on the National Development Planning System. The State Budget (APBN) is formulated based on the Government Work Plan, which constitutes the annual elaboration of the National Medium-Term Development Plan (*RPJMN*). The RKP is further translated into the annual Work Plans of Ministries/Agencies (*Renja K/L*). For the Ministry of Defence (Kemhan), the process begins with the Ministry's Strategic Plan for the period 2020–2024, stipulated through Minister of Defence Regulation No. 10/2021. The *Renstra* outlines the five-year strategic objectives, including *alutsista* modernization under the MEF framework.

Based on the *Renstra*, each year the Ministry prepares its *Renja K/L*, which details priority programs and activities. This is subsequently used to draft the Ministry's Budget Work Plan (*RKA-K/L*), which is prepared according to the indicative budget ceiling set by the Minister of Finance. As noted, the *Renja K/L* is translated into the *RKA-K/L* in accordance with the indicative budget ceiling, which serves as the upper limit of the ministry's proposed budget submitted to the Parliament (DPR). The stages are as follows:

1. Stage 1: Kemhan Strategic Plan (Renstra) 2020–2024: A five-year strategic document outlining defence capability targets (MEF I–III), including *alutsista* modernization. The *Renstra* aligns with the RPJMN and the long-term RPJPN.
2. Stage 2: Annual Ministry/Agency Work Plan (Renja K/L): An operational elaboration of the *Renstra*, aligned with national priorities set in the President's RKP. The *Renja* is prepared by the Ministry of Defence and the TNI, in coordination with Bappenas and in accordance with national planning guidelines. It contains performance indicators and the allocation of key programs.
3. Stage 3: Preparation of RKA-K/L: The Ministry of Defence, including the TNI Headquarters and the Army, Navy, and Air Force, prepares a detailed RKA-K/L for each program and activity. The RKA-K/L must remain consistent with the *Renja K/L*. The document includes personnel, goods, and capital expenditure requirements. For example, during a Working Meeting with Commission I of the DPR on 6 June 2022, the Deputy Minister of Defence presented the 2021 Budget Realization and Evaluation along with the 2023 RKA/TKP, covering proposals for TNI operational programs, personnel professionalism, and *alutsista* and defence infrastructure modernization.
4. Stage 4: Determination of the Indicative Budget Ceiling: The Minister of Finance sets the indicative budget ceiling for each ministry based on fiscal projections and national priorities. The indicative ceiling for the Ministry of Defence is deliberated and approved by Commission I of the DPR. For instance, in mid-2024 Commission I approved an indicative ceiling of Rp155 trillion for the 2025 fiscal year, an increase from Rp139.27 trillion in the previous year.
5. Stage 5: Parliamentary Deliberation of the APBN: Once the draft State Budget is submitted by the government (usually between August and September), the DPR, through the Budget Committee (*Banggar*) and Commission I, reviews the allocation for the Ministry of Defence and the TNI. Preliminary meetings often closed-door are held due to the sensitivity of strategic issues such as *alutsista* procurement.
6. Stage 6: Enactment of the APBN: The Ministry of Defence's budget becomes final upon the passage of the annual APBN Law. For example, the 2020 APBN Law (Law No. 20/2019) allocated approximately Rp127 trillion to the Ministry of Defence (as proposed in the 2020 draft APBN prior to revisions).
7. Stage 7: Implementation and DIPA Issuance: After the APBN is enacted, the Ministry of Defence and the TNI receive their Budget Implementation Documents (*DIPA*) and begin executing their programs in accordance with the approved allocations. Any subsequent revisions must follow the official Government–DPR mechanisms.

This process involves extensive inter-agency coordination: 1) the Ministry of Defence (together with TNI Headquarters) prepares the *Renstra*, *Renja*, and RKA-K/L; 2) Bappenas provides guidance through the RKP; 3) the Ministry of Finance sets the budget ceilings; 4) the President determines national priority agendas; 4) the DPR (Commission I and *Banggar*) oversees and approves the budget; and 5) other ministries/agencies (such as the Ministry of Foreign Affairs, Ministry of Finance, and Ministry of Communication and Informatics) engage for cross-sectoral defence requirements. For example, during working meetings with Commission I, the Deputy Minister of Defence directly engages with the Chair of Commission I and senior TNI leadership, demonstrating the institutional synergy between the defence executive and the legislature within the budget planning process.

Political and Fiscal Dynamics

Political and economic factors significantly influence the formulation of the defence budget. The Parliament (DPR), particularly Commission I, often balances defence requirements with social sector demands. For example, in several budget discussions, members of Commission X and Commission XI emphasized the importance of education and health as components of public welfare, implicitly placing constraints on requests for *alutsista* funding. Meanwhile, the central government has continued to prioritize efficiency measures. The COVID-19 pandemic posed a major fiscal shock: the government issued Presidential Regulation No. 54/2020 on the National Economic Recovery (PEN) program, reallocating APBN spending toward economic recovery efforts. As a result, the 2020 Ministry of Defence budget, initially around Rp131 trillion, was reduced to approximately Rp122 trillion. This decision reflected the zero-growth policy and the priority placed on PEN.

As the economy recovered, allocations were subsequently increased. For instance, in 2021 the government proposed Rp134.2 trillion for the Ministry of Defence, a 14.12% increase from 2020 the largest rise in a decade. DPR Commission I member Dave Laksono stated that the increase was understandable given the long-term nature of *alutsista* investments, but also stressed that spending should be controlled through transparent, needs-based mechanisms. Other policy measures, such as restrictions on new civil service recruitment (zero growth), continued to be implemented to improve bureaucratic efficiency.

Global fiscal conditions also affected national budget priorities. When global energy and food prices surged (e.g., in 2021–2022), the government adjusted the APBN to protect the domestic economy and vulnerable populations. Minister of Finance Sri Mulyani explained in July 2023 that the increase in public spending was directed at "shielding the country from the shocks of rising energy and food prices" and supporting post-pandemic recovery. Consequently, fiscal space became limited; the 2021 APBN deficit reached 4.57% of GDP before declining to 2.35% in 2022. As a result, in preparing the 2024–2025 draft budget, the government implemented expenditure efficiencies across ministries. In early 2025, Deputy Minister of Defence Donny Taufanto revealed that the 2025 APBN cut Rp26.993 trillion from the Ministry of

Defence–TNI ceiling (originally Rp166.2 trillion), reducing it to approximately Rp139.2 trillion. These reductions primarily affected goods and capital expenditures, while personnel expenditures remained relatively protected. Under these conditions, the Ministry of Defence was compelled to reorganize spending priorities reallocating funds toward more productive programs in line with government directives.

Politically, the DPR also exerts considerable pressure. Commission I frequently push for the Ministry of Defence/TNI to meet budget realization targets (such as the 99.7% absorption rate in 2021) and requests clarification on strategic *alutsista* development plans. However, when wider issues emerge (e.g., large defence allocations versus domestic welfare needs), other legislative factions may demand budget proportionality. Even so, Commission I generally remain accommodating toward defence requirements as long as procedures are followed. Additional political contexts, such as multiyear budget consolidation, discussions surrounding presidential regulations on *alutsista*, and internal audits (SPI Kemhan) also influence the drafting of RKA-T and negotiations over budget ceilings. In conclusion, the budgeting process is shaped by fiscal–political compromise: the DPR and the government continually seek to balance military capability needs with broader public priorities within prevailing economic conditions.

Influence of Regional and Global Geopolitics

The rapidly evolving strategic environment has also shaped defence spending policies. Global and regional developments introduce new needs and threats, prompting revisions to Ministry of Defence strategies and budget composition. Events such as AUKUS and tensions in the South China Sea have increased the share of maritime *alutsista* spending and investments in border-area bases. Global conflicts, such as the war in Ukraine, highlight the importance of budget allocations for research and development as well as readiness. The intensifying U.S.–China rivalry requires Indonesia to remain flexible: adopting best practices from both sides while safeguarding national interests. Accordingly, the Ministry of Defence's strategies and spending structure (including the balance among personnel, operations, and asset maintenance) are continuously adjusted in response to these evolving geopolitical dynamics.

Defence Budget Data (2020–2025)

Table 4. Defence Budget Data for 2020–2025
Source: APBN 2020–2024, 2025 Financial Notes, LKPP, Ministry of Defence

Year	Proposed Budget (Trillion)	Approved Budget (Trillion)	Pure Rupiah	Domestic Loans	Foreign Loans
2020	160,0	117,9	80,0	15,0	22,9
2021	175,0	136,9	95,2	11,0	30,7
2022	185,0	133,9	84,0	13,1	36,8
2023	210,0	134,3	87,2	12,0	35,1
2024	225,0	135,4	90,0	10,5	34,9
2025*	240,0	145,0 (projection)	95,0	10,0	40,0

A significant gap can be seen between the proposed budget and the approved budget. This reflects national fiscal constraints as well as the presence of competing national priorities. The bar chart below illustrates the annual comparison between the budget proposed by the Ministry of Defence and the budget approved by the Parliament (DPR):

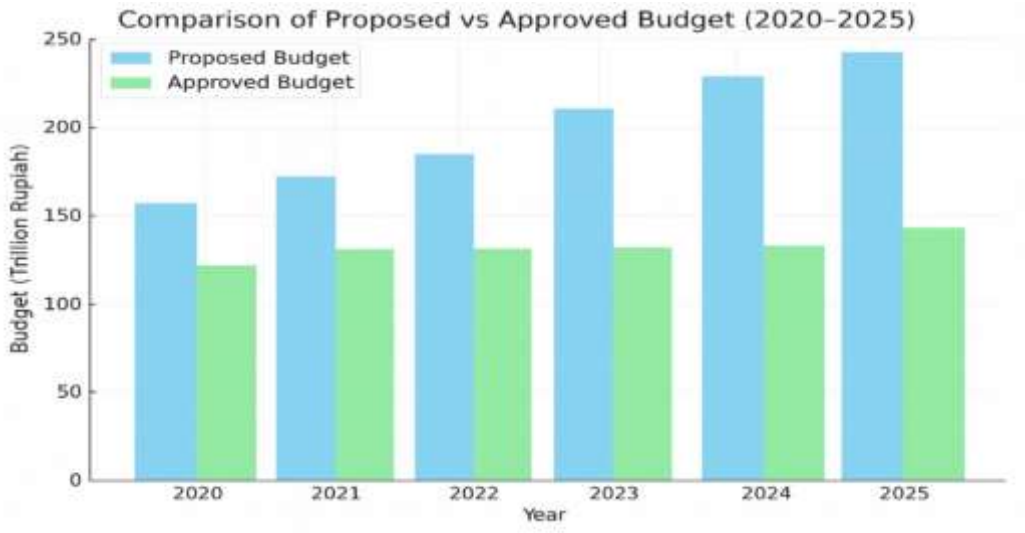

Figure 1. Comparison of Proposed vs. Approved Budgets (2020–2025)

The bar chart shows a consistent gap between the budget proposed by the Ministry of Defence and the budget approved by the government and Parliament (DPR). For example, in 2020 the Ministry proposed Rp160 trillion, but only Rp117.9 trillion was approved, while in 2025 the proposed amount reached Rp240 trillion, with only around Rp145 trillion approved (projected). This reflects: 1) The existence of national fiscal constraints; 2) The need for efficiency in prioritizing defence programs; 3) The political reality of budgeting, which must also consider other sectors such as health, education, and infrastructure.

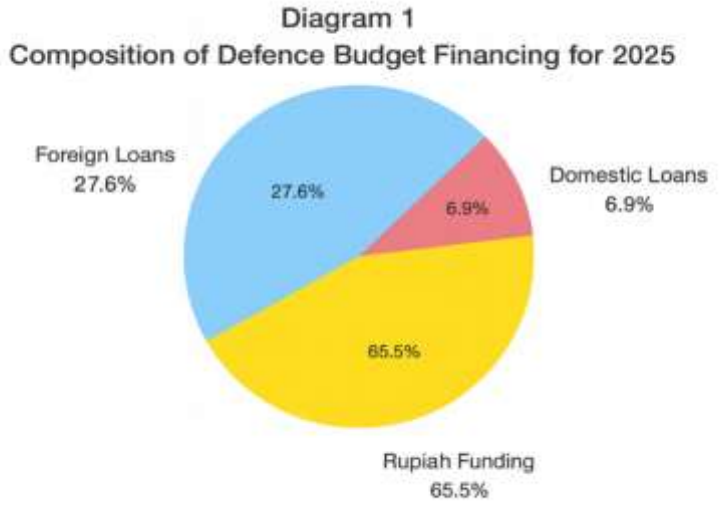

Figure 2: Composition of Defence Budget Financing for 2025

The composition of defence financing in 2025, as illustrated in the pie chart, shows that the budget remains dominated by Pure Rupiah Funding (Rupiah Murni/RM) at 61.3%, followed by Foreign Loans (PLN) at 25.8% and Domestic Loans (PDN) at 6.5%. Within this financing structure, it is evident that Pure Rupiah Funding consistently remains the primary component, accounting for an average of 65% of the approved total budget. Meanwhile, Foreign Loans have tended to increase over time, reaching approximately Rp40 trillion in 2025, indicating a growing reliance on export credit arrangements (ECA) for the procurement of strategic weapon systems. Domestic Loans, by contrast, have remained relatively stable but declined proportionally from Rp15 trillion in 2020 to Rp10 trillion in 2025.

This trend reflects a shift in the Ministry of Defence's (Kemhan) financing strategy, from relying predominantly on domestic funds toward a more hybrid model incorporating foreign loans—particularly for the acquisition of high-technology strategic weapon systems such as radars, submarines, and fighter aircraft. The diagram reinforces the finding that dependence on foreign loans remains high to meet modernization and procurement needs for strategic systems that cannot be produced domestically. Although Pure Rupiah Funding has increased nominally from year to year, the increase is not commensurate with the rising cost of procurement and maintenance of major weapon systems. Domestic Loans also remain stagnant due to limited creative financing schemes in the domestic context, such as public–private partnership arrangements (PPP/KPBU) or the utilization of defence bonds. These patterns highlight the importance of diversifying national defence financing mechanisms and strengthening domestic defence industries to gradually reduce reliance on foreign loans.

Throughout the period 2020–2025, there has been a consistent gap between the amount of funding proposed and the amount ultimately approved. The annual gap averages 25–30%, with the largest difference occurring in 2023 (Rp75.7 trillion, or 36% of the proposed amount). This pattern indicates that although the Ministry of Defence aims to expand defence spending, the state's fiscal capacity especially during and after the COVID-19 pandemic has been a major limiting factor. The DPR and the Ministry of Finance tend to align defence requirements with national economic conditions, considering fiscal deficit pressures and competing domestic priorities such as education, health, and energy subsidies.

Policy Interpretation and Strategic Implications

Impact of the COVID-19 Pandemic (2020–2021)

The COVID-19 pandemic caused a significant reduction in budget realization in 2020, when only Rp117.9 trillion was approved out of Rp160 trillion proposed. This was consistent with emergency fiscal measures mandated by Presidential Regulation No. 54/2020 and No. 72/2020, which cut ministry budgets to support the economic and health response. Consequently, several modernization programs were postponed or rescheduled, including the procurement of fighter aircraft and armored vehicles.

Rebound and Consolidation (2021–2023)

Between 2021 and 2023, the Ministry of Defence again proposed larger budgets owing to economic recovery and rising regional tensions (AUKUS, South China Sea). Nevertheless, the approved amounts remained relatively stagnant at Rp133–135 trillion, suggesting fiscal skepticism toward sharp increases in defence spending. Kemhan optimized available resources using priority mechanisms, including multiyear procurement (warships, aircraft, radars) and technology offset arrangements in foreign weapon system contracts.

Projections for 2024–2025: Strategic Adjustments

In 2024 and 2025, the Ministry once more submitted higher proposals (Rp225 trillion and Rp240 trillion). However, the government approved only Rp135.4 trillion and Rp145 trillion (projected). Deputy Minister of Defence Donny Taufanto noted that Rp26.9 trillion was cut from the 2025 defence ceiling due to broader APBN adjustments and mandated expenditure efficiency. This prompted a strategic shift: prioritizing maintenance and optimization of existing weapon systems rather than merely acquiring new ones. This approach is referred to as "life-cycle cost management."

Strategic Impacts on Defence Self-Reliance

The consistent gap between proposed and approved defence budgets during 2020–2025 has significantly affected progress toward the Minimum Essential Force (MEF) targets, especially in the naval (Navy) and air force (Air Force) domains. These branches historically require greater funding due to the high cost of modernizing major platforms such as fighter aircraft, radars, submarines, and frigates, all of which require complex technology transfer.

Implications for Achieving MEF

The MEF III target (2020–2024) focuses on strengthening deterrence through improved force projection, maritime–air manoeuvre capabilities, and enhanced command-and-control (C2) systems. Persistent budget limitations have delayed several modernization programs, including the procurement of 4.5-generation fighter aircraft, multi-role frigates, and layered air defence systems. This has resulted in: 1) Continued reliance on legacy weapon systems with high maintenance costs; 2) Limited TNI interoperability in joint and multinational operations; 3) Increased strategic risk in border and maritime areas such as Natuna and Indonesia's archipelagic sea lanes (ALKI).

Alternative Strategies: International Cooperation and Innovative Financing

To overcome fiscal constraints, the Ministry has adopted adaptive and pragmatic strategies to strengthen defence self-reliance:

Strengthening Bilateral Government-to-Government (G-to-G) Cooperation

Kemhan intensified bilateral cooperation with partners such as France, South Korea, Turkey, and Italy. Key aspects include: 1) Bundled procurement with training, technology transfer, and maintenance (MRO); 2) G-to-G contracts that reduce intermediary costs and provide political and legal guarantees; 3) Concrete examples include the G-to-G procurement of Rafale fighter aircraft and Scorpène submarines from France, and the joint development of the Kaplan–Harimau medium tank with Turkey.

Strengthening the Domestic Defence Industry

Defence self-reliance depends on empowering the national defence industry (BUMNIS), including: 1) PT Pindad for armored vehicles; 2) PT PAL for fast attack craft, hospital ships, and Sigma-class frigates; 3) PT Dirgantara Indonesia (PT DI) for CN-235 aircraft, helicopters, and trainer aircraft; 4) Participation in co-production and technology transfer programs, such as the KFX/IFX fighter project with South Korea.

Optimizing Foreign Loan Schemes for Strategic Weapon Systems

Foreign loan schemes are selectively used for complex, high-technology systems that cannot yet be produced domestically.

Strategic Assessment and Challenges

Despite these opportunities, several medium-term challenges remain: 1) Long-term reliance on foreign loans may create debt burdens if not offset by enhanced domestic production capacity; 2) Technology transfer remains suboptimal due to foreign supplier constraints and limited domestic absorptive capacity; 3) Coordination gaps between defence institutions, industry, and fiscal agencies hinder program efficiency. Nevertheless, with long-term planning toward the Post-MEF "Essential Force 2025–2045," the government has an opportunity to consolidate these approaches into a unified roadmap for defence capability development based on domestic technological and industrial progress.

Challenges in the Realization of MEF III and the Essential Force 2025–2045 Planning

Delays in MEF III Achievement: Between Fiscal Reality and Strategic Ambition

The MEF framework - MEF I (2010–2014), MEF II (2015–2019), and MEF III (2020–2024) aims to achieve 100% of TNI's essential core capability. However, by the end of 2024, MEF III achievement remained at 70–75%, reflecting significant delays. Budget constraints stagnating at Rp130–145 trillion annually created structural fiscal gaps that hindered procurement for the Navy and Air Force. External factors such as the COVID-19 pandemic, South China Sea tensions, and rupiah–dollar exchange rate fluctuations also reduced procurement efficiency.

Formulating the Essential Force 2025–2045: A New Vision for Defence Transformation

To address MEF delays and future threats, the Ministry has formulated the Essential Force Roadmap 2025–2045, shifting from the quantitative MEF approach toward a more adaptive, sustainable, and technologically sovereign defence posture. The Essential Force framework focuses on: 1) Adapting to Future Defence Technologies: Including military digitalization, UAV deployment, AI-enabled control systems, cyber defence, and electronic warfare. This requires integration of fourth- and fifth-generation systems and upgraded human resource capabilities; 2) Reorienting Spending from Quantity to Quality: Unlike MEF's quantitative focus, the Essential Force emphasizes deterrence efficiency through interoperability, integrated command structures, and readiness improvement; 3) Strengthening the Domestic Defence Industry: The government targets domestic production to meet 50–60% of national weapon system needs through offsets, technology transfer, and strategic partnerships.

Implementation Challenges for the Essential Force 2025–2045

Implementation will face multidimensional challenges: 1) Long-term fiscal constraints: Defence spending remains below 1% of GDP; an increase toward 1.5% is required; 2) Dependence on high-technology imports: Domestic industry cannot yet produce advanced systems such as fifth-generation aircraft or AIP submarines; and 3) Cross-agency coordination issues: Inconsistent long-term planning, bureaucratic delays, and investment regulations hamper implementation. Overall, delays in MEF III require a comprehensive evaluation and strategic reorientation. The Essential Force Roadmap (2025–2045) emerges as a refinement focused on long-term resilience, fiscal efficiency, and technological sovereignty. Its success, however, depends heavily on political commitment, consistent industrial policy, and technological readiness across TNI and the Ministry of Defence.

D. Conclusion

This study demonstrates that Indonesia's defence policy in the period 2020–2025 has been shaped and constrained by a set of interrelated strategic factors: national fiscal limitations, regional geopolitical tensions, and the imperative of weapons system modernization within the framework of Phase III of the Minimum Essential Force (MEF) development. Through an analysis of strategic environmental trends (*lingstra*), it is found that changes in the global landscape, including great-power rivalry in the Indo-Pacific, the escalation of tensions in the South China Sea, and advances in military technology, have driven Indonesia to accelerate its modernization efforts and strengthen its deterrence posture. Nevertheless, there is a persistent gap between the defence budget proposed by the Ministry of Defence and the amount ultimately approved in the State Budget (APBN). On average, defence allocations amount to only about 65–70% of total proposals, reflecting limited fiscal space and competing development priorities. This imbalance has contributed to delays in achieving MEF III targets, particularly in the air and naval domains. To address these constraints, the government has adopted adaptive alternative strategies: optimizing foreign financing

schemes (external loans), strengthening bilateral G-to-G cooperation for *alutsista* procurement, and accelerating defence industrial self-reliance through state-owned strategic industries (BUMNIS) such as PT PAL, PT Pindad, and PT Dirgantara Indonesia. Given that MEF III targets have not been fully achieved by 2024, the Government of Indonesia has designed the Essential Force 2025–2045 roadmap as a continuation of long-term defence capability development. This roadmap takes into account emerging challenges such as rapidly evolving military technologies, budgetary constraints, and the urgency of self-reliance in strategic technology. Going forward, the sustainability of TNI force development will require strong political commitment, transparent reform of defence procurement, and close synergy between the Ministry of Defence, the Ministry of Finance, Bappenas, and the national defence industry.

E. Acknowledgement

Thanks to Rector of Universitas Pertahanan and all lecturers who helped us in this article.

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