

MONOGRAPH No-10
"Management and Control of
Indonesia's Defence Resources"
10 November 2007



PROPATRIA INSTITUTE

Working Group on Security Sector Reform

Jl. Pancoran Barat IV No.2 (003/06) Jakarta Selatan 12780 INDONESIA
Phone/Fax: (62-21) 7996380 - 7990546 Website: www.propatria.or.id,
E-mail: propat@cbn.net.id/propatria.institute@gmail.com

Table of Content

Content	3
Introduction	5
Indonesia's Defence Posture 2004 - 2009	5
The Strategic Gap in Indonesia's Defence Sector	12
The Management of Indonesia's Defence Budget	15
The Budgetary Procedure of Indonesia's Defence Sector	18
Deviations in Defence Budget Management	22
Policy Recommendations on Defence Budget Management	30
Reference	34

Introduction

Military force in a certain country is built to defend the endurance of the state towards other military threats launched by foreign country. According to Peter Paret, military force is an implemented expression of national power applied through the deployment and employment of armed forces.¹ Along with the idea, the development of military force should indicate the entire capacity of national power of the state. If the state fails to build its military strength, the government should take the responsibility over its weaknesses in reinforcing its national resources onto the defence sector.

The placement of military force as an output of national power is based on a universal premise that military organization obtains support of the allocation of national resources, and be able to transform them into specific combat proficiencies. According to Biddle, such transformation process in defence sector could be main indicator to determine the effectiveness of a state in promoting efficiency in the use of its national resources, especially in state defence sector.² Due to it, the reasonable framework to assess the effectiveness of the state to build its defence force must be correlated to the capacity of the state to convert its national resources to become a coercive tool.

There are three major difficulties in such transformation process of the defence sector. *First*, identifies potential components of national resources that are transformable to defence sector. Second, develops the structure of state defence capacity that will be built in an effective and efficient manner. *Third*, establishes a feasible model to convert national resources into defence resources.

Those difficulties could be overcome by setting defence force as an output of national power capacity. Comprehensive analyses towards the capacity of Indonesia's national power are

also needed, so does the acknowledgement on how it could be reinforced effectively to defence sector.³

The conversion process of national resources to defence sector takes place when a state is able to develop sufficient strategic resources. The establishment of strategic resources is determined by the capability of strategic conversion that the government must have. Such capability is key instrument required by the government to develop a grand strategy in defence sector during the peacetime.⁴

Indonesian Defence Posture: 2004-2009

The 2004 Strategic Defence Review gives illustration that in the future, Indonesia must be able to overcome wide-ranging traditional and non-traditional security threats.⁵ This document identifies a kind of traditional threat towards Indonesia's security, which is foreign military invasion or aggression.⁶ In terms of non-traditional threats, the document categorizes the type of threats into 10. They are (1) terrorism, (2) armed-separatist struggle, (3) radical movement, (4) communal conflict, (5) social unrest, (6) maritime piracy, (7) illegal migration, (8) illegal fishing and maritime contamination, (9) illegal logging and trafficking, and (10) disturbances towards regional government.⁷

The assessment above shows that security threats are classified into three major types of conflict.⁸ *First*, conflicts among states that may give serious impacts to Indonesia's territorial integrity. In this category, the conflict will be in form of military invasion launched by other country. *Second*, internal conflicts, such as separatist struggle, communal conflict, and social unrest, to which the warring groups equipped with armed stuffs. *Third*, trans-national conflicts, which is motivated by political interests, such as terrorism, and economic interests, such as illegal

trafficking, drugs trafficking, and maritime piracy. In this category, the types of conflict have new characteristics, such as broaden international links, low-level intensity of conflict, and wide-ranging conflict-thorn areas.

To overcome those conflicts above, Indonesian government should develop its defence sector in a bid to create high-qualified armed forces. Document of Long-Term National Development Plan for the year of 2005 to 2025 says that development of defence sector in Indonesia is projected to enhance defence capacity above the minimum line.⁹ The document also rules that Indonesian defence capacity must be continuously improved to enable the country to step up position in world's diplomatic bargaining upon learning that its defence power have deterrence effects.

Currently, Indonesia's defence posture is still under the minimum line. Neither the structure nor the dispatch of military force has showed significant changes compared to the condition before the Indonesian Military (TNI) introduced its internal reform. Table 1 provides short description about Indonesia's military force in 2006.¹⁰

Table 1. TNI Force Deployment in 2006

Unit	Force Deployment
TNI Headquarters	National Air Defence Command (KOHANUDNAS)
	Kosek I: Jakarta Kosek II: Makassar Kosek III: Medan Kosek IV: Biak 16 Radar's Units
Army (TNI AD)	Central Command
	Army Strategic Reserves Command (KOSTRAD) 1 MaKostrad, 2 Madivid, 3 Mabrigif Linud, 3 Mabrigif, 9 Yonif Linud, 9 Yonif, 2 Yonkav, 2 Kikavtai, 2 Mamenarmed, 6 Yonarmed, 2 Yonarhanudri, 2 Yonzipur, 1 Denintel, 2 Yonbekang, 1 Yonkes, 1 Kikes, 2 Kihub, 2 Kinbengharlap, 2 Kipom, 2 Sat Ajen
	Army's Special Command (KOPASSUS) 1 Makopassus, 2 Magrup Parako, 1 Magrup Sandha, 1 Ma Satgultor, 1 Pusdikpassus, 6 Yon Parako, 3 Yon Sandha, 2 Yonsus, 1 Dennik
	Army's Raider Striking Force Unit 2 Yonif Raider Kostrad
	Regional Military Command 12 Makodam, 41 Makorem, 273 Makodim, 3323 Koramil, 2 Mabrigif, 65 Yonif, 8 Yonif Raider, 8 Yonkav, 4 Denkav, 1 Kikav, 9 Yonarmed, 1 Raiarmed/BS, 1 Mamenarhanud, 7 Yonarhanudse, 1 Yonarhanudri, 4 Denrudal, 2 Raiarhanudri/BS, 6 Yonzipur, 10 Denzipur, 12 Deninteldam, 41 Tim Intelrem, 269 unit Inteldim, 10 Rindam.
Navy (TNI AL)	124 KRI 207 KAL 74 Aeroplane Marine Corps: 1 Mako, 2 Pasmal, 3 Brigmar, 1 Kolatmar, 1 Det Jalamangkara, 8 Lantamal, 48 Lanal, 63 Posal
Air Force (TNI AU)	Air Force Operation Command (KOOPSAU) 2 Koopsau 8 Lanud Induk 30 Lanud Operasi 5 Air Wing 16 Air Squadron 7 Technical Squadron
	Air Force Special Corps (KORPASKHAS) 3 Wing Paskhas 5 Skuadron Paskhas 6 Flight Paskhas BS 1 Den Bravo 1 Den Walkol
	KOHARMATAU 2 Depohar Pesbang 3 Depohar Elektronika/Radar
	KODIKAU 1 Lanud Induk 2 Lanud Operasi

Ministry of Defence has planned to transform the current defence posture by using conceptual framework of *Minimum Essential Forces* (MEF). This concept will bridge the transition process prior to the development of

new defence posture compatible with the concept of policy and strategy on national defence.

Indonesian government introduces the MEF-styled concept in its Mid-Term National Development Plan of the Year of 2004-2009.¹¹ Such introduction of the concept is a must because the current condition of TNI's weaponry system is not in a-100percentage eligible-to-use. Table 2 provides brief illustration concerning the condition of the Air Force's weaponry systems.

Table 2. Operational Eligibility of Air Force's Weaponry System

Carrier Squadron		Helicopter Squadron		Combat Squadron	
Weaponry System	Eligibility	Weaponry System	Eligibility	Weaponry System	Eligibility
22 C-130	8	9 NAS-332	4	4 Su 27/30	4
2 C-130B	1	9 S-58T	3	10 F-16	4
3 F-28	1	10 SA-330	5	8 OV-10	3
5 F-27	2	10 Bell-47G	7	12 F-5E	2
8 CN-235	4	12 BEC-120	8	8 MK-53	3
10 C-212	4			35 Hawk	9
Average Eligibility 45%		Average Eligibility 40%		Average Eligibility 30%	

Source: Figured based on Sesko TNI, *Konsepsi Pengembangan Kemampuan Alutsista TNI dalam rangka Mencapai Keberhasilan Tugas Pokok* (Bandung: Sesko TNI, 2005).

MEF-styled concept in Indonesia's defence posture is brought into reality through the improvement of the Army capacity as well as the development and modernizing of the Naval and the Air Force on minimum scale of strength. Term of achievement in introducing the new defence posture will be in three stages. Stage I (2004 and 2009) intended to create a form of defence posture that is close to the MEF-styled posture. Stage II (2009 and 2019) intended to achieve the MEF-posture. Stage III (2019 and 2029) is intended for the above posture that is the MEF posture. This long-term development is implemented by divining development plan for each service.

Based on Long-Term National Development Plan for the year of 2005-2025, posture

and structure of army force is projected "to enable it to overcome challenges found in different field conditions, to perform rapid deployment of troops across areas and islands, and to quell the threats in efficient operations."

¹² Army's capability is reinforced by gearing up its central command forces, namely Army's Strategic Reserves Command (KOSTRAD) and Army's Special Forces (KOPASSUS), as well as its territorial command forces in 12 Regional Military Commands (KODAM).

The development of posture and structure inside the Navy is projected "to build its capacity to oversee the vast area of Indonesia's maritime, both on surface and underwater, and to enable it to provide support and compatibility towards the mobility of the army and the air force."¹³ The development and modernization of the navy is aimed at fulfilling its requirement on weaponry systems, including so-called Integrated Fleet Weaponry Systems (SSAT), which consists of Striking Force Units, Patrol Combat Units, and Supporting Combat Units, as well as Marine Armaments.¹⁴

The development of posture and structure inside the air force is built to enable it "to oversee the national aerial space, in particular, and some part of regional aerial space, to improve its capacity above the minimum level in guarding national aerial space, to enable it to utilize the outer space, and to enable it to provide supports in a joint exercise involving the navy and the army."¹⁵ The development and modernization of the air force is aimed at fulfilling its Main Capabilities and Supporting Capabilities, which are comprised of Air Control, Air Strike, Air Transport, Information Utilization, Air Surveillance, Electronic Warfare, Air Refuelling, Early Warning and Operation Control Systems, and Special Skills.¹⁶

The MEF-styled defence concept is rooted in "capability-base approach". Thus, the government should combine such approach

with “task-oriented approach” to ensure that the TNI always has high-qualified striking force to launch unexpected short-term military operations. The task-oriented approach is a follow-up towards assertive-approach and territorial control that become the basic concept for military deployment in strategic compartments.¹⁷

Law No. 3/2002 on State Defence and Law No. 34/2004 on Indonesian Military (TNI) have reconstructed the formulation of the TNI's tasks. Article 7 of the Military Law stipulates, “The main tasks of the TNI are maintaining the state sovereignty, defending the integrity of Unitary Republic of Indonesia, and protecting the people and the motherland from any kind of threats that may endanger the national integrity.” The TNI carries out their main tasks by launching two sort of military operations: combat operation and military operation other than war.

The MEF-styled model for defence posture is established through the reinforcement of national resources for defence sector purposes. Mid-term trajectory from 2000 to 2009 has showed that Indonesian government has increased the spending for defence budget since 2000 (see Figure 1). In the period of 2000 to 2004, the administration of then President Megawati has increased the allocation of defence budget to more than 100%.

In 2000, Indonesian government only allocated Rp 10.5 trillions for defence spending. In 2004, the allocation of defence budget was doubled to Rp 21 trillions. When Susilo Bambang Yudhoyono took office, the office of Ministry of Defence filed a proposal to increase the allocation of budget. For 2005 fiscal year, Minister of Defence Juwono Sudarsono proposed the allocation of defence budget to Rp 45 trillions, but the government could only disburse Rp 23 trillions – or only about half from the total budget the Ministry has proposed. The implementation of the policy was repeated in

the other fiscal year when Minister Juwono had only received Rp 28 trillions from a total Rp 56 trillions in defence budget he proposed. Demand to raise the allocation of defence budget will continue as of 2009, during which the Ministry of Defence has planned to propose Rp 141 trillions in state budget for defence spending.

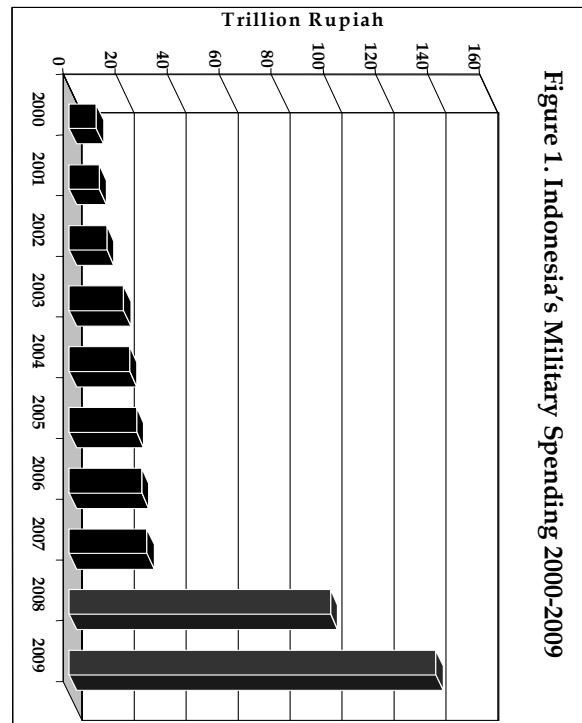
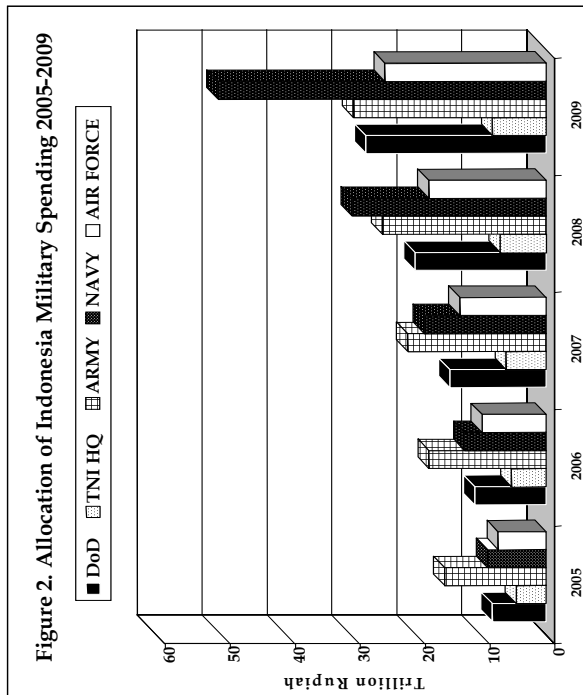


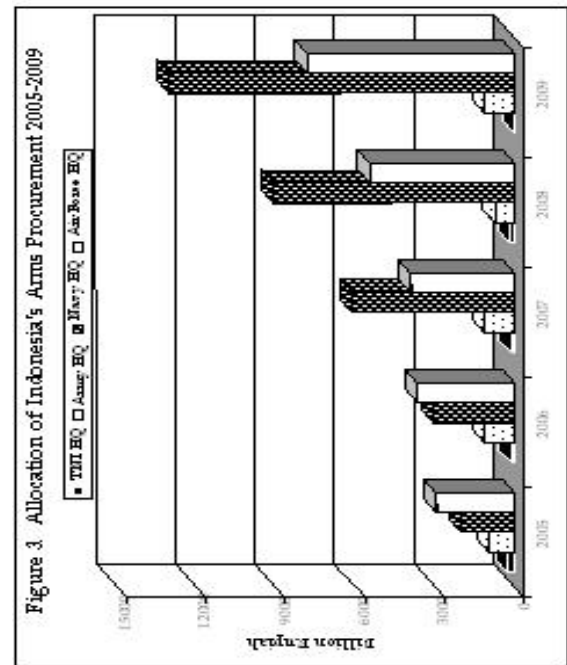
Figure 1. Indonesia's Military Spending 2000-2009

Based on Strategic Defence Review issued in 2004, the allocation of defence budget for the period between 2005 and 2009 should have been projected to improve the capacity of Indonesia's navy and air force. In the Table of Figure below, public acknowledge that Indonesian government has started to focus on the development and modernizing the navy's and the air force's weaponry systems. The Figure also illustrates that beginning of the year of 2008, the navy will receive allocation of budget higher than that of the army's.



Adjustment towards the allocation of defence budget that puts the Indonesian Navy on top priority should be followed up with a policy to spend more of funds for Navy's armament procurement. Figure 3 shows that Ministry of Defence has planned to allocate more funds in form of credit export for the Navy's and the Air Force's armament procurements in 2005-2009 fiscal years. By 2006, the Ministry has been able to cover 70 percent of proposed allocation funds for credit export spent during 2005-2009 fiscal year following support from neighbouring Russia, which has made a plea to provide US\$ 1 billion in funds of the country's State Credit. The loan is worth for Indonesia's future procurement over the next years (2006-2011). Indonesian government has set a target that the shopping spree over the year of 2006 to 2011 for the military will equip the three military forces with combat instruments, such as three Russian-made Su-27 and three SU-30MK2 Jetfighters for the Air Force. The Indonesian government has also planned to purchase two Kilo-class submarines, 20 BMP-3F amphibious tanks, and two anti-ship missiles for the Navy

and 10 Mi-17 U-5 carrier helicopter and five Mi-35P assault helicopter.¹⁸



Concerning the Indonesian Air Force, minimum standard of armed weaponry procurement must be designed to enable the Force to carry out their main tasks to guard the country's aerial space, which include air control capability, air strike capability, air transport service, and reserves provider capability.¹⁹ In the meantime, the Force's real capability is far below the minimum standard requirement that the country must have (see Table 3).

Table 3. The Comparison between the Real Capabilities²⁰ and the Minimum Standard Requirement²¹ that Indonesia Air Force must be designed

Real Capabilities of Indonesian Air Force	Minimum Standard Requirement
7 Combat Squadron	11 Combat Squadron
5 Transport Squadron	10 Transport Squadron
1 Surveillance Squadron	4 Surveillance Squadron
3 Helicopter Squadron	9 Helicopter Squadron
2 Training Squadron	4 Training Squadron
1 VIP/VVIP Squadron	1 VIP/VVIP Squadron
16 Radar Units	30 Radar Units

Indonesian Navy also faces similar condition. In period of 2005-2009, The Navy will have acquired US\$ 1,974,364,000,00 in funds of the allocation of export credit. Such funds will be used to procure four corvettes, two missile-guided destroyers, three submarines, four platform docks (LPDs), and 20 units amphibious tanks. Despite plan of shopping spree for the Navy, the allocation of funds remains low compared to the initial proposal on minimum standard requirement that may cost US\$ 4.5 billions for 2005-2009 fiscal year.

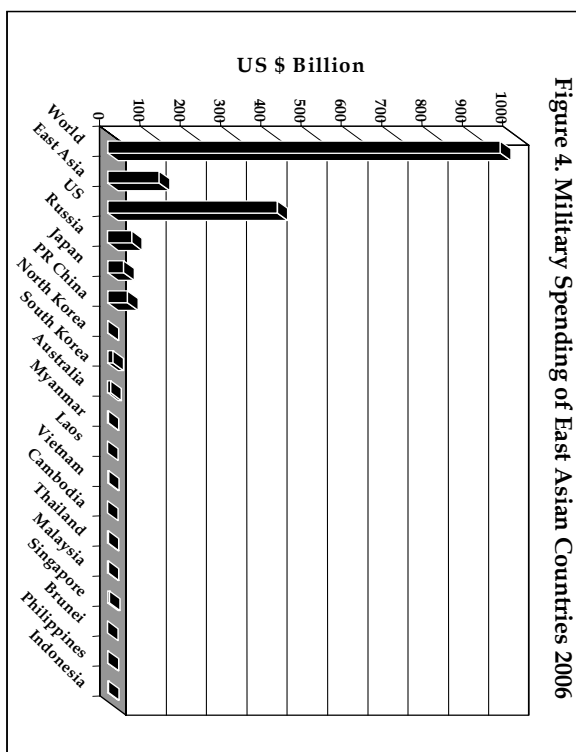
The allocation of budget that is far below an ideal expenditure may affect the development of the Indonesian Navy set as of 2024 that expectedly will be equipped with 274 warships stationed at all 56 Navy bases.²² In a move to create ideal posture, the Navy Headquarters planned to restructure so-called Integrated Fleet Weapon Systems (SSAT) consists of warships, aircrafts, and the marine unit. The planned restructuring program will result in the establishment of Indonesian Navy Fleet Command, which oversees three Naval Command Areas (Kowilla) based in western-side, central, and eastern-side of Indonesia. Description in detail of the Navy's strength that expectedly to be seen as of 2024 is portrayed in Table 4.

Table 4. Navy's strength as of 2024

SSAT Elements	Force Deployment
Naval Command Areas (Kowilla) <ul style="list-style-type: none"> • Western Kowilla • Central Kowilla • Eastern Kowilla 	A Command Headquarter in Surabaya A Command Headquarter in Tanjung Pinang A Command Headquarter in Makassar A Command Headquarter in Sorong
Naval Base <ul style="list-style-type: none"> • Naval Central Command (Lantamal) • Naval Base (Lanal) • Naval Operation Station (Sional) • Naval Detachment (Denal) • Naval Airbase • Naval Observer Post • Naval Facility (Fasharkan) 	59 naval bases 11 Lantamals 24 Lanals 21 Sionals 3 Denals 12 airbases 63 post 9 facilities
Warship <ul style="list-style-type: none"> • Striking Combat Units • Patrol Combat Units • Supporting Combat Units 	274 ships 110 ships 66 ships 98 ships

Naval Aircraft <ul style="list-style-type: none"> • Medium Transport Aircraft • Light Transport Aircraft • Marines Patrol Aircraft • AKPA and AKS Helicopter • Training Aircraft 	137 aircrafts 30 aircrafts 32 aircrafts 36 aircrafts 30 aircrafts 9 aircrafts
Marines <ul style="list-style-type: none"> • Marines Corps (Pasmar) <ul style="list-style-type: none"> • Marines Brigade (Brigmar) • Marines Battalion • Intelligence Unit (Sat Intel) 	3 Pasmar 2 Brigmar BS 11 Battalion 1 Sat Intel

Nonetheless, the improvement of military posture and the increasing of defence spending will do little to enable Indonesia's military to stand equally towards military strength in East Asia region. In terms of defence budget, hegemonic rivalry among East Asia countries will be still dominated by four major powers: the United States, Russia, China, and Japan.²³ In 2005, the US has spent more than US\$ 400 billion in funds for defence expenditures, while Russia, China, and Japan each has spent about US\$ 40-60 billion for defence sector. (See Figure 4)



Source: Figured based on SIPRI Yearbook 2006

It is unrealistic for Indonesia to allocate as many as that amount for defence expenditure. Looking onto projection of Indonesian defence needs proposed by Ministry of Defence, Indonesia would have to be able to provide US\$ 40-60 billion for defence expenditures in 2020-2030 (see Figure 5). Upon realizing that Indonesia will not be able to stand equally towards military strength in East Asia as of 2030, the government faces tough challenge to conclude alternative policy to manage defence economic system in Indonesia.

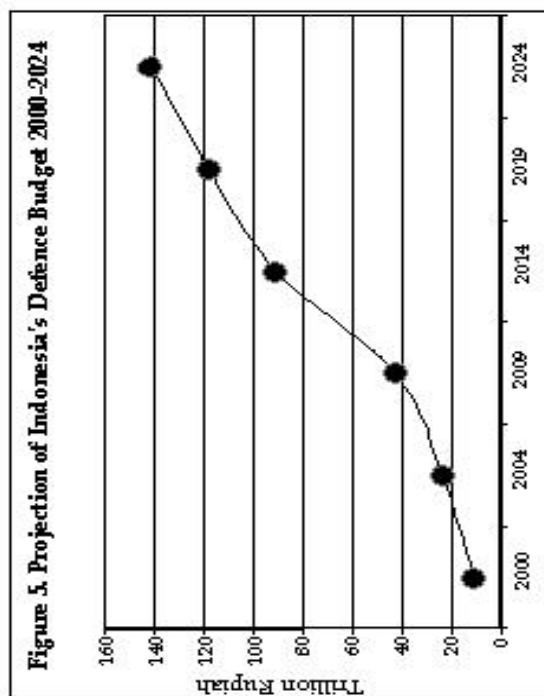
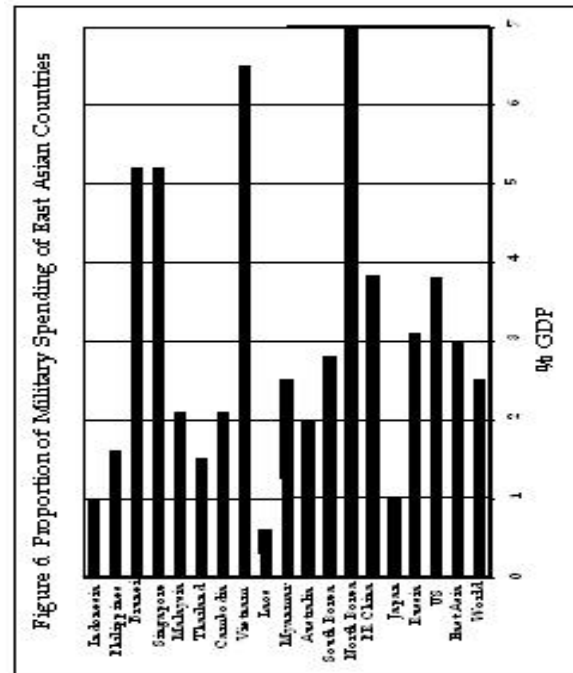


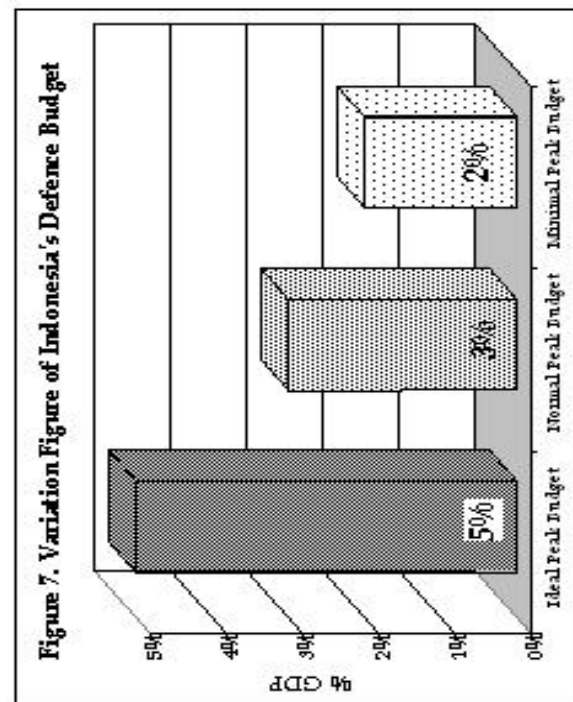
Figure 6 describes the percentage of Indonesian defence budget, which is reach no more than 1% of its Gross Domestic Products (GDP). Indeed, the percentage is lower than the allocation of defence budget that many of other countries receive, including those in South Asia region.

However, there is a plan to increase the proportion of Indonesian defence budget up to 5% of the country's GDP. This policy is inline with the Ministry of Defence's plan to introduce three principles of maximum standards for de-

fence budget taken from the State Budget (APBN). The three principles categories as minimum, average, and effective standards, each of which is reach 2%, 3%, and 5% respectively of the country's GDP (see Figure 7).²⁴



Source: Figured based on SIPRI Yearbook 2006



Actually, the allocation of defence budget in Indonesia synchronizes with international favouritism to cut military spending. IMF and World Bank have made a recommendation for development countries suffering from financial problems to keep a tight rein on their military expenditures and arms procurement.²⁵ A tendency to cut military spending in post-Cold War is known as the term of “peace dividend.”

²⁶ In a document entitled *In Facing One World* (1991) published by Independent Group on Financial Flows to Developing Countries led by Helmut Schmidt, there is a suggestion that financial aid should be given to the countries whose security expenditures not exceed 2% of their GDP. World Bank Annual Conference on Development Economics in 1991 crystallized Arias Code of Ethic, which highlights human resources development marked with bigger allocation of state budget for health and education sectors rather than defence sector.²⁷

Strategic Gap in Indonesia's Defence Sector

Strategic gap between defence needs and allocation of defence budget has become main problem facing Indonesia to develop MEF-styled defence posture. Even though the government has increased the allocation of defence budget to nearly 300% during the period between 2000 and 2007, the policy has done little to bridge the gap.

In 2004, the gap was reached Rp 5-7 trillions in nominal. In 2009, however, the scale of gap may reach Rp 110 trillions in nominal. The increasing nominal calculation of the strategic gap will force Indonesian government to breakthrough the problems by creating innovations to manage economic defence of the country.

An innovative breakthrough that can be applied to overcome strategic gap in defence sector is the promotion of efficiency towards procurement of TNI's hardware. As of 2004, official data shows that Indonesia has 173 types of weapons system produced by 17 different supplier countries. The numerous types of the weapons system has caused difficulties for the TNI to perform integrated military operations consist of all three forces. Instead, the TNI can only be able to carry out solitary military services that may be backed by a joint-command arrangement.

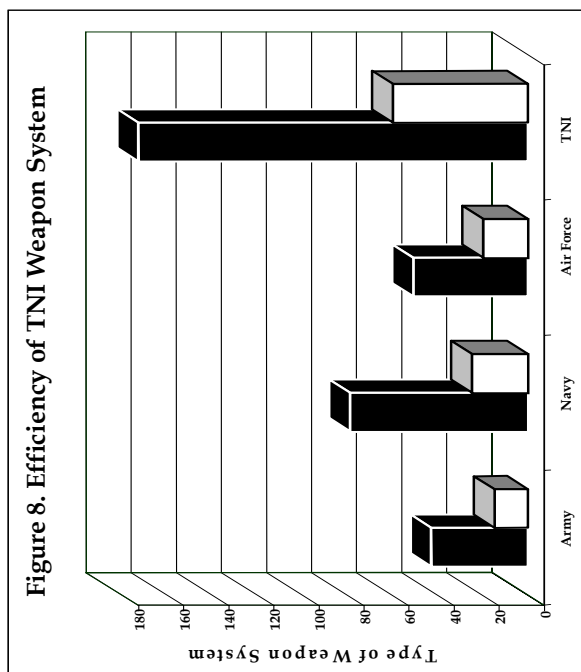
In term of maintenance principle, the highly variety of weapon system also creates serious problems to the Ministry of Defence. The presence of 173 types of weapons system requires extra costs for operational and maintenance purposes. For instance, Indonesia has 87 jetfighters produced by three different supplier countries: the United States (34 jetfighters), United Kingdom (49 jetfighters), and Russia (four jetfighters). The 87-jetfighters comprised with eight F-16A Fighting Falcon, F-5E Tiger, Hawk Mk 209, Hawk Mk 53, A-4 E Sky-hawk CAS, OV-10F Bronco Coin, Su-27SK, and Su-30MKI. Such different types of Indonesia's jetfighters has caused significant increase towards operational and maintenance costs that supposedly considered as part of material procurement program.

This level of variety can be eliminated significantly to just 39-70 types. Should the Ministry of Defence came out with the policy, it certainly needs to promote arms disposal program for each force. As it is shown in Figure 8, level of variety in the Army's weapons system can be cut from 43 to 10-15 types, while in the Air force, the program may lead to the elimination of 51 to 13-20 types and in the Navy, from 79 to 16-25 types.

Ministry of Defence can cope with budget constraints if it can initiates program of

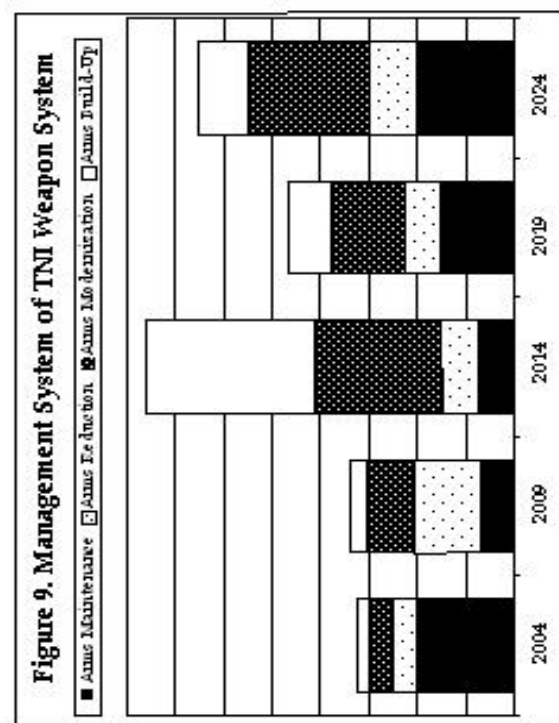
weaponry systems efficiency and makes innovative strategy on arms procurement. Efficiency towards the TNI's weaponry systems can be implemented through three main strategies.²⁸

First, weaponry development program that is initially aimed at focusing on arms maintenance program should be switched onto arms disposal and arms build-up programs. The arms disposal program is necessary to lessen number of military hardware that is both unsuitable for development plan of weaponry system and ineligible to be used. The arms build-up program is carried out to fill the vacant of the armaments supply due to the arms disposal program as well as to strengthen the elements of defence posture.



As illustrated by Figure 9 below, the switching program of weaponry system management must be aimed at promoting efficiency in arms usage. In Indonesia, such efficiency program is carried out by disposing military armaments that have been ineligible to be used or that have been unsuitable towards the latest development of military technology.²⁹ Arms

disposal method actually has been conducted by several states, including Indonesia. The United States cut its defence needs in post-World War II, in post-Vietnam War, and in post-Cold War. Indonesia imposed similar policy for at least three times: after independence revolution (1945-1953), in post-Trikora and Dwikora military campaigns (1967-1973), and during reorganization period inside the Armed Forces (ABRI), to which was under the leadership of General L.B. Moerdani (1983-1991).



Second, elimination of weapons diversification is aimed at creating an integrated TNI weapon systems. For instance, the United States develops F-35-JSF jetfighter series that will soon replace the current inventories of its jetfighters.

Third, the elimination in the number of arms supplier countries is aimed at establishing an integrated weaponry system. Nevertheless, the policy should not be considered that Indonesia would only rely on a certain country as arms supplier. Instead, the main idea of such policy should encourage Indonesia to develop

cooperation with a group of countries that shares the know-how on armaments technology. Indonesia, for certain reason, can turn its eyes to South Korean and Taiwanese arms producers, which are now developing international cooperation with the United States in producing defence technologies (see Table 5).³⁰

Table 5. Arms Production Cooperation involving the US, South Korea and Taiwan

South Korea	Taiwan
1. F-16 Fighting Falcon Fighter	1. F-5E Tiger-2 Fighter
2. F-5E Tiger-2 Fighter	2. F-5F Tiger-2 Fighter
3. F-5F Tiger-2 Fighter	3. F-5F Tiger-2 Trainer
4. H-76 Eagle Helicopter	4. Model 205 UH-1H Helicopter
5. Model 500MD Helicopter	5. AIM-9J Air to Air Missile
6. PL-2 Light Plane Trainer	6. AIM-9L Air to Air Missile
7. M-101 A1 105mm Towed Howitzer	7. MIM-23B Hawk Missile
8. M-109-A2 155 Self-Propelled Howitzer	8. M-60-H Main Battle Tank
9. M-114-A1 Towed Howitzer	9. FFG-7 Class Frigate
10. CPIC Type Fast Attack Craft	10. PL-1B Chienshou Light Plane
11. LCU-1610 Type Landing Craft	11. Lung Chiang Fast Attack Craft
12. PSMM-5 Type Fast Attack Craft	

For Indonesia, main purpose of promoting innovation on arms management system is to reduce financial burden and its impacts towards the balance of payment, as well as to stimulate the development of domestic defence [read: strategic] industry.³¹ Such innovation, therefore, should be part of transitional mechanism on arms procurements budget. The transitional mechanism must be able to assess comprehensively the correlation between: (1) defence strategic plan and development program on defence posture; (2) budget allocation for research and development expenditures for defence sector; (3) resources allocation for strategic industries; and (4) participation of foreign financial resources. Transitional mechanism should also clearly describe mid- and long-terms trajectories to improve efficiency and independency of Indonesian weaponry system in gradual.

The transitional mechanism can be set off by reviewing all financial resources for TNI

arms procurement. Foreign financial resources – including OECD export credit mechanism, export credit from international financial institutions, state credit from Russia, as well as Foreign Military Financing and Foreign Military Sales from the United States – have to be set as one among alternatives prior to the establishment of domestic financial consortium and the development of reputable strategic industries.³²

Furthermore, the transition of financial resource for arms procurement must be parallel with national strategy to develop strategic/ defence industries. The development of strategic industries is one of government's long-term objectives intended to build national independency in terms of defence technology. Therefore, Indonesian government should have political commitment to offer economic solutions for strategic industries, whose market range is circulating around monopsony system to which the state is its sole consumer and has a tendency to enjoy subsidy from the state budget.³³ State subsidy is still necessary in a bid to develop 21st century's state-of-the art on defence technology as part of Indonesia's long-term strategic industries plan (2004-2024).

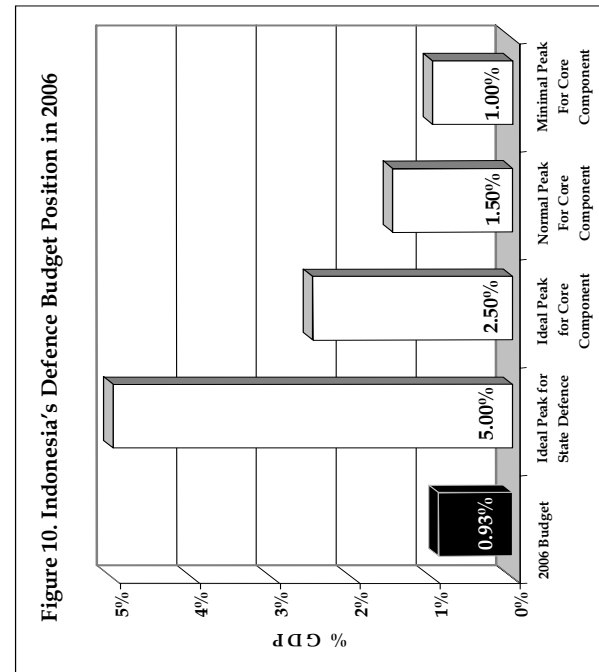
The development of strategic defence industries is one of main agendas divined in Indonesia's Defence White Paper issued in 2003. The 2003 Defence White Paper says that the development of strategic industries will be carried out through partnership model involving three actors in science and technology: strategic industries, academia, and defence institutions. The partnership model is developed through several cooperation programs. These included (a) cooperation in aeronautics, shipping, civil engineering, hardware industry, automotive, electronics, informatics, and other national industrial sectors; (b) to improve the quality of human resources in terms of designing and engineering skills applicable in the manufactures of military air transport, special operational

aircraft, patrol-speed aircraft, warship, armour vehicle, weapons system, communication network system, control command centre, and information system; (c) to empower national industries in a move to create self-sufficiency and to cut back on foreign dependency in defence sector; (d) to promote cooperation aimed at fulfilling other defence equipments; and (e) to conduct joint research and development on defence sector, whose goal is to produce new defence concepts in relation with technology, management and human resources.³⁴

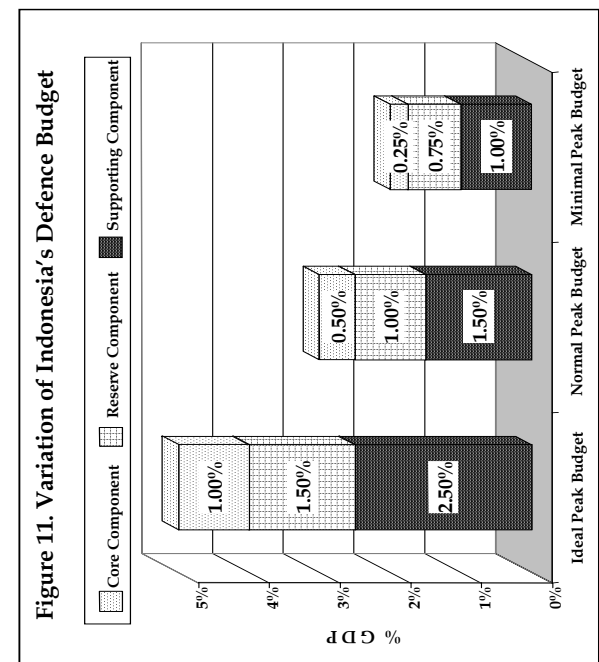
Such working program must be attached with the timeframe of transitional development of Indonesian defence industry. To reach the ultimate goal, which is to develop sophisticated weapons system, the transitional development in defence industry must come with a starting point, which is the maintenance of military equipments.³⁵

The Management of Indonesia's Defence Budget

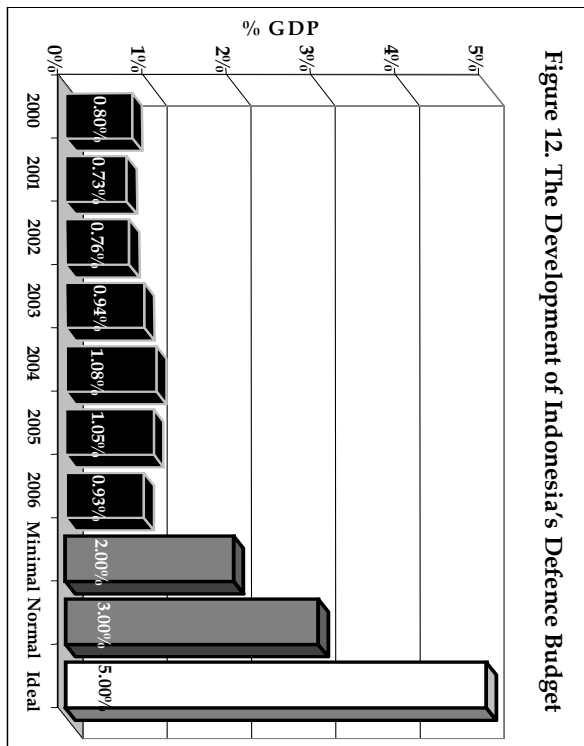
Maximum amount of Indonesian defence budget for 2006 fiscal year had only reach around 1 percent of the country's GDP (see figure 10). It means, the allocation of defence budget can only cover minimum needs in the defence sector. Such condition shows that the allocation of defence budget is not sufficient to enable the country to develop three main components in defence sector as stipulated in Articles 7 and 8 of Law No. 3/2002 on National Defence. The two Articles say that Indonesian defence system puts the TNI as main component, which are backed by reserves component and supporting component. The development of each component demands certain amount of budget, to which the office of Ministry of Defence must arrange.



The Ministry of Defence has developed three variations of maximum amount of defence budget as described in Figure 11.³⁶ The figure below shows that the government fails to provide sufficient budget to develop the three defence components. The allocated budget can only meet minimum spending in defence sector, which is to develop the main component.



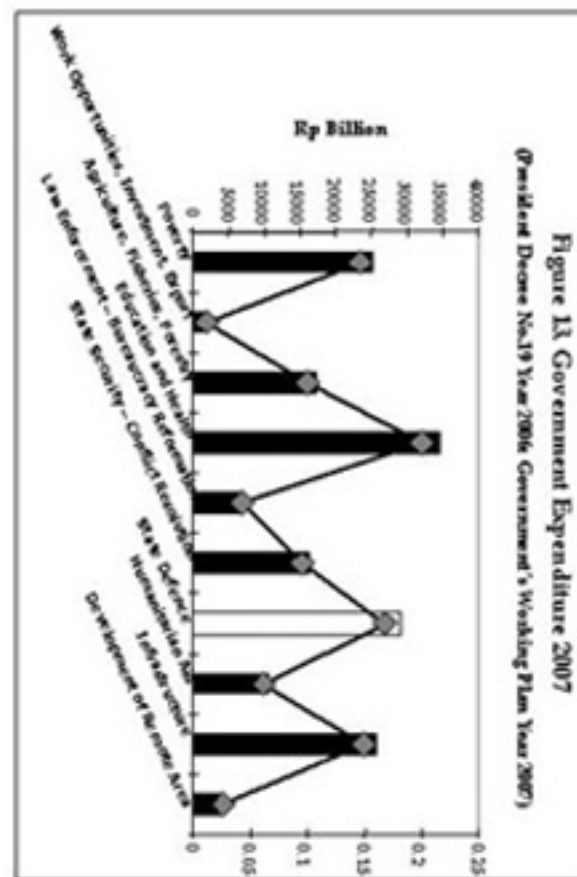
Based on the standard above, increasing budget for Indonesian defence expenditure within the years of 2000 to 2006 is far below the ideal amount proposed by the Ministry of Defence. Further to it, Figure 12 below shows that increasing budget for defence expenditure in Indonesia is yet to meet the world's minimum budget for defence purposes³⁷.



To meet the ideal amount of defence budget, Indonesia must significantly increase its budget allocation to 540% out from the allocation of budget for the 2006 fiscal year. By this means, the government must allocate Rp 150 trillions in defence budget for 2007 fiscal year. If the government wished to allocate funds that is meet the ideal amount, there will be about 86.6% of government spending in 2007 fiscal year that must be allocated merely for defence sector.³⁸

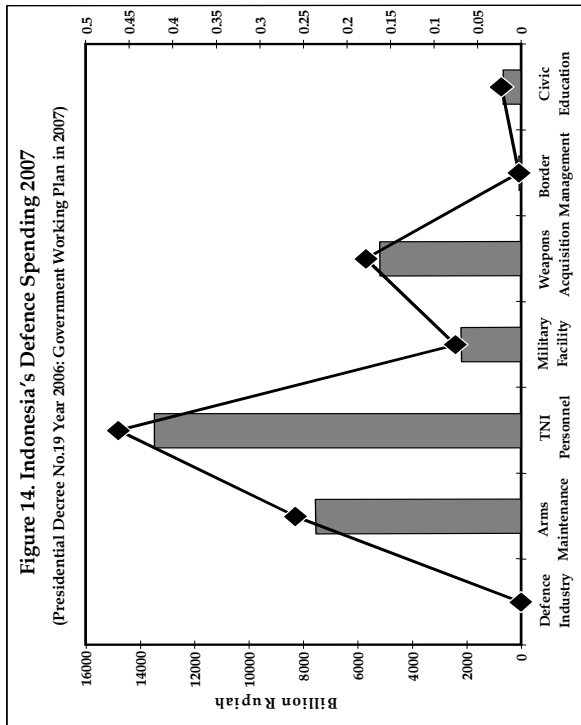
For 2007 fiscal year, defence spending comes to the second largest expenditure after the education sector. Certainly, it must be underlined that such condition is managed to be

happened because the government is yet to allocate 20% of its state budget for education sector as demanded by the 1945 Constitution. So far, budget for defence sector remains higher than that of health sector. Nevertheless, accumulation of budget spending in defence sector and security sectors has become the largest cost to the 2007 state budget, should it is compared to allocation of budget for other sectors. Detail of Indonesian government's spending in 2007 can be seen in Figure 13 below.



Defence expenditure in 2007 indicates that Indonesian government is still facing difficulties to finance expenditures on routine needs for military component and defence facilities. Figure 14 shows that only 40-45% out from the total budget of defence has been allocated for arms maintenance and weaponry system development. A huge amount of the defence budget has been used to cover costs for soldiers'

monthly salary, military facilities, and state-defend program. Figure 14 below also shows that the government will have been failed to provide sufficient budget to develop defence industry as of 2007.



The illustration above shows that Indonesian government has to deal with basic problems concerning the defence budget.

First, a classic problem; is the small amount of budget allocation for the defence sector by looking onto the percentage of the country's total GDP allocated for defence sector compared to the coverage territory and the massive number of population. Should we look into the allocation of defence budget in other Southeast Asian countries, excluding Indochina countries, the allocation of the budget in Indonesia is incomparable as it is will not sufficient to enable Indonesia's defence force stands equally with Malaysia's, Singapore's, and even perhaps Thailand's. The lack of financial support has made the government finding difficulties to divine alternative policies and to develop model

for Indonesian defence force. For worse, the lack of budget has triggered the implementation of off-budget-allocation policy and the never-ending military business activities. *Second*, the unanswered questions as to whether the management of budget allocation has run effectively and efficiently upon looking into the extensive chain of bureaucratic matters. The second problem has been more complex as, *third*, the allocation of budget is yet to reflect a systematic way of thinking on what the objectives of the defence policy and how to achieve them. This problem actually has anything to do with policy and political aspects of the defence sector, of which the government is yet to divine General Policies on National Defence as of today, despite the mandate given by Law No. 3/2002 on National Defence. *Fourth*, the allocation of defence budget reflects interests of executive and legislative influence due to human resource problems, information gaps, and politicking factors.

Before we proceed to discuss those problems above, it is necessary to understand the basic thoughts on why policy on defence budget is crucial towards the promotion of policies on national politics.

First, the defence budget policy is considered as one of several important instruments that can be used by both the government and the legislatures to control/supervise military institution within democracy framework. Defence budget should not be seen as just a technical matter, but more, the issue reflects political authority of the policy maker.³⁹ Further to it, the allocation of defence budget under the circumstances of political well managed will prevent the military from trying to self-financing the armed forces institution. In many cases, military involvement in business deals to earn profits for self-financing purposes has given negative impacts towards their main capacity and competency. The policy to let the military to

run businesses for self-financing purposes will also drive the armed forces to be an independent institution in a head-to-head with political supremacy. For worse, military institution that is allowed to be a money-machine will promote internal relationship that depends on financial-earned factors, instead of command-linked factors. Such condition may endanger socio-capital principle inside the armed forces, which may not only weaken the military professionalism in carrying their task to guard the nation, but more, it may endanger democratic principle.

Second, management of defence budget in terms of fiscal or financial purposes is aimed at determining maximum capacity of budget for defence sector. The allocation of defence budget reflects the government's perspective concerning the national economic condition as well as the position of defence sector towards other sectors. A butter-versus-gun principle will put the defence sector in a strict competition against other sectors in terms of the allocation of state budget. Such condition will encourage the government to create defence policy that is politically accountable, which in general can be used to determine and to control the state capacity in financing the defence sector.

Third, defence budget is one of political mechanisms that may lead into a public debate over the meaning of defence sector. Both parliament and public may not only question the amount of defence budget, but also come out with political arguments concerning issues on defence budget. In specific means, the allocation of defence budget also reflects the roles and the missions of the defence force that are still and wished for being developed. Those above-mentioned may encourage the government to formulate defence policy that represents the stakeholders' interests.

Budgetary Procedure of Indonesian Defence Sector

Defence sector is definitely part of the state function. Therefore, common practices in many countries have that initial budgetary proposal comes from the executive to the legislative.⁴⁰ Legislatives' endorsement over the total amount of defence budget lies on bargaining skills of the Ministry of Defence as well as on civilian participation in sharing ideas during the formulation of national security plan. ***In initiating the formulation of defence budget***, the allocation of budget must underline two substantial issues. They are: (i) the allocation of state budget among the administrative sectors as it may reflect segmented priority; (ii) the allocation of state budget for each sector. Without the two substantial issues, plan over the allocation of defence budget may trigger competition among all three military forces in accordance with their own interests.⁴¹

By book, the formulation of defence budget must meet several principles as follows: *first*, accountability principle that demands the legislatives' authorization prior to the implementation. This authorization is materialized through the formulation of legislation, which is in particular strengthening political legitimacy of the parliament to monitor defence sector, so does any other government's policies in related to defence issues. Consequences resulted from the Parliament's monitoring roles can be seen in the amount and in the allocation of defence budget. *Second*, integrity principle that demands a holistic concept on defence spending compiled within a single document. Such principle is necessary to provide comprehensive argument and framework in regard with proposal of defence budget. *Third*, definite scale-of-time – supposedly held annually- for the government to propose defence budget to the Parliament and a definite

deadline for the allocation of the budget. Specific timeframe for budget allocation will enable the Parliament to conduct monitoring roles over the spending of defence budget. *Fourth*, structure on the defence budget must be manageable and reasonable to encourage the Parliament and the public to monitor the implementation of defence budget policy. *Five*, policy on defence budget must be accessible, so that public may have a basis to supervise defence expenditures. *Sixth*, defence spending must be compiled in a comprehensive report, into which there should be inexplicable expenditures. *Seventh*, defence budget policy must promote transparency in terms of financial resources, objectives, performance, or capacity, and in determining the achievements.⁴²

The establishment of defence budget legislation comes to the next step. There is several level of legislature participation in formulating the defence budget, which is somewhat depending on political system of the country. Mostly of the countries in the world adopt the principle that the parliament or legislative branch is not the key player in budgetary process of defence sector until the government submit the proposed budget to the Parliament, which will review, rearrange, and take into debate prior to the endorsement of the budget proposal. In several other countries, however, the Parliament involved at the first place in divining defence budget. Such countries are including the United States, Germany, and South Africa.⁴³

Two contentious issues may be brought into debate at the parliament by time the proposal on defence budget is submitted by the government. *First*, there may be debate over general amount of defence budget. Pros and cons may come to surface during a series of hearings inside the Parliament upon learning that general amount of defence budget has anything to do with the government's comprehensive

national policy and its priorities. The hearing may conclude the position of defence sector towards other sectors. *Second*, there may be debate concerning the allocation of defence budget whose amount has won approval from the parliament. Debate over the issue is usually occurred in the parliament's budget commission. Rigorous debate over the issues may pave the way to a review over the government's budget proposal. Even though political realism considers the process as common practices, proficient human resources is needed to cope with technical matters that may affect the implementation of defence budget policy.

It happens that government's proposal on defence budget being reviewed prior to the parliament's endorsement. To this point, there are several things that should be observed: (a) key players inside the parliament to whom the constituents deliver their interests; (b) the most influential political parties or parties' factions with firmed consolidation. Political circumstances that allow the Parties to step up consolidation may see that the deliberation of the proposed budget be held during a series of hearing at the parliament. In this case, defence budget policy will be inline with the parties' policy. In case that none of the party has developed consolidation, the legislature may just abide by theirs mid-term interests.

The ***budget allocation will be implemented*** as soon as the parliament approved the government's budget proposal, the disbursement of state funds should be materialized in equivalent with the approved budget allocation. This is such a normal condition. Problems may rise if there are specific circumstances or emergency condition that demands a review over the approved budget. To overcome with possible problems, lawmakers must divine mechanism to enable the review run smoothly, despite emergency condition that requires proper anticipation.

In the phase of **defence budget supervision**, there are several points that must be underlined:

1. Have the budget been used properly? At this point, two main issues require evaluation. They are item or transactions, which supposed to be held properly, and procedure of transactions or procurements of the defence equipments.
2. Have the objectives set in the defence policy been achieved? To determine the achievements in defence sector is more complex rather than that of the other sector because defence issue lies on the worst-case scenario. It remains questionable as to whether the absent of foreign military threats is due to national defence capacity or possibly due to other factors. National defence force is put in the challenge when it has to deal with war threats.

Several actors who conduct supervisory mission over the spending of defence budget are as follows: (a) internal auditor within the military institutions; (b) officials from the office of the ministry of defence. The office holds supervisory mission through centralized mechanism aimed at supervising and evaluating budget expenditures of each military force; (c) auditors from national audit office. Indonesia recognizes Supreme Audit Agency (BPK), or NAO in United Kingdom, or GAO and State Comptroller in Russia; (d) members of the parliament who serve at defence budget commission, Congressional Budgeting Office, etc; (e) members of civil society organizations and press; and (f) international community through international treaties.

Budgetary procedure in defence sector as described above has given portrayal on how the parliament has strategic roles to control budget spending for defence sector. There is a hope that the parliament's strategic roles will lead

into the promotion of effective civilian control over the defence sector.

Implementation of effective civilian control over the defence sector depends on the government's and the parliament's capacity to oversee defence budget expenditure. In the move to promote effective civilian control, the government has homework. They are: (1) to formulate new budgetary mechanism in accordance with performance-based State Budget (APBN) to ensure that the allocation of defence budget has been able to cover all TNI's needs; (2) to divine responsibility mechanism on budget management in cooperation with the DPR. Such mechanism is necessary to promote principles of accountability and transparency; and (3) to draft alternative model applicable to policy to take over military business as mandated by Law No. 34/ 2004 on the Indonesian Military.

Economic management on Indonesian defence sector is a key of success over the promotion of effective civilian control. Providing all TNI's needs in a bid to create professional military is main principle in the economic management on defence sector. Implementation of such principle should not leave the promotion of accountability and transparency principles in the use of defence budget.

Based on Indonesian Constitution, DPR has three main roles: legislative function, budgetary arrangement, and supervisory mission. The roles have strategic mean towards the defence sector. Defence sector has been financed by taxpayers, therefore accountability over the use of the public funds is deemed necessary to avoid mismanagement. Another consideration is that procurement on defence sector should not sacrifice other sectors that have direct impacts to the people's interests.

It may be said that budgetary control over the use of state budget is one of parliament's prominent functions towards the

executive, in this case is the military institution. Such function has been authorized through the formulation of legislation, which is not merely giving mandate to the parliament to endorse proposal on defence budget, but is also regulating mechanism to collect information from the government regarding the implementation of defence policies. Parliamentary supervision over the use of defence budget should not leave several principles as follows: (1) connectivity between defence budget and market price level. The issue has a relation with national-scale macro economy condition; (2) interval measurement of budget spending; (3) accountability in the report on deficit-and-surplus balance in the use of defence budget that must be submitted to the executive; and (4) cross-subsidy mechanism in the allocation of defence budget.

In terms of arms procurement, for instance, DPR has to be able to make comprehensive analyses over the impacts, including financial problems that may sacrifice public's interests. Such analyses aimed at ensuring the use of state budget to purchase military procurements will not affect the government's expenditures in either social or non-military sectors. For this reason, supervisory mission that enforces accountability and transparency principles held by the parliament is deemed necessary to prevent corruption, budget inefficiency and mismanagement over the public funds from taking place. In general, DPR must be granted with access to all documents regarding the allocation of defence budget. It is necessary to set up a special commission and/or sub-commission on defence authorized with access to all documents on defence budget, including documents over the use of military action.

Within the Indonesian context, budgetary process in defence sector is ruled in Ministerial Decree (SKEP) No. 1698/M/X/2002 on Program Structure and National Defence Budget. Based on the Decree, budget-

ary process involved parties who will act as a person-in-charge/project leader, controller, supervisor, and operator over the program, as well as the allocation of budget channelled to all organization units involved in the budgeting process. The organizations are: (a) defence sub-sector level, including Minister of Defence as person-in-charge, Director General of Defence System Planning as controller, and Head of Operating Division (Kabalak) at the office of Ministry of Defence as supervisor; and (b) organizational level, including:

- Organization Unit (UO) at the office of Ministry of Defence (MoD) [Secretary General of MoD as person-in-charge who heads the Program implementation (Kapro); Head of Planning Division (Kabagren Roolta) at the office of Secretariat General of MoD as controller (Dalpro); and Director General/Head of Operating Division at the MoD as supervisor (Waspro)];
- UO TNI Headquarters [TNI Commander in Chief as person-in-charge (Kapro); TNI General Planning Assistant (Asrenum) as controller (Dalpro); and Assistant/Head of Operating Division of TNI is supervisor (Waspro)];
- UO Headquarters of TNI services [Chiefs of Staff of TNI services is person-in-charge (Kapro); Planning Assistant (Asrena) of each TNI service is controller (Dalpro); and Assistant/Head of Operating Division of each TNI service is supervisor (Waspro)];
- TNI's Command Level (Kotama), consisting of: (i) Ministry of Defence [Head of Working Unit (Kasatker) as person-in-charge, Project Controller (Dalgiat/yek) as controller, Secretary of Inspector General/Director General as Project Supervisor (Wasgiat/yek), and Head of

Sub-Working Unit (Kasubsatker) as operator; (ii) TNI Headquarters level (person-in-charge or Head of Project (Kagiat/yek) is held by Head of General Staff (Kasum) of TNI, controller or Project Controller (Dalgat/yek) is held by Pasprogar Kasum of TNI, supervisor or Project Supervisor (Wasgiat/yek) is TNI Assistant/Head of Operating Division, and operator or Head of Project Operator (Kalakgiat/yek); and (iii) Headquarters of TNI services level [Commander /Chief/Head of Kotama acts as person-in-charge, Planning Assistant of Kotama as controller, Assistant/Director/Head of Operating Division of Kotama acts as supervisor, and Head of Working Unit as operator].

Furthermore, mechanism of program and budget management in defence sector consists of: (a) planning; (b) implementation, including authorization, fund distribution, financial reporting and liability, program and budget shift, and specific provisions; (c) controlling; and (d) supervising.

Implementation of the program is held following authorization from Ministry of Defence in form of SKOM (Ministerial Authorization Decree), which delegates the operational matters to Director General of Defence System Planning. The Decree is to be addressed to Secretary General of Department of Defence, TNI Commander, and all Chiefs of Staffs of military forces. Single copy of the decree is also addressed to Central Financial Bureau (Pusku) of the Ministry of Defence.

Secretary General of the Ministry of Defence then issues Implementing Authorization Decree (SKOP), served as program implementation guidelines addressed to Head of Working Unit at the office of the Ministry of Defence. Similarly, TNI's General Planning Assistant, representing TNI Commander, issues

SKOP addressed to TNI's Chief of General Affairs (Kasum). All Chiefs of Staffs of three military forces also issue separate SKOP addressed to Commander/Chief/Head of TNI's Commands Level. Furthermore, based on the issued-SKOP, TNI's Chief of General Affairs drafts a Program Authorization Directive addressed to Head of Working Unit at the TNI Headquarters. Finally, commanders in charge at the TNI's regional command level also issue Program Implementation Directive for Head of Working Units at the TNI's regional command level. The long-chain-of-mechanism in the distribution of financial support is set to be complicated as the process must go through Heads of Central Financial Bureau to Financial Bureau (Kapusku) of the TNI's regional command level. Controlling and supervision functions is carried in accordance to planning documents, Authorization Decrees (SKO), reports, and evaluation with various methods, such as observation, staff visits, corrective measures, and to conduct management and operational audits.

Lack of authority of the Minister of Defence can be major obstacle in the implementation of such mechanism, upon learning that the Minister will have to delegate the authority to the Ministry's Head of Central Financial Bureau. Long-chain-of-bureaucracy, which is equal to the length of chain-of-command, has become another obstacle, so does the overlap authorities between Minister of Defence and TNI Commander. Such obstacles have brought about delay in the procurement process and may open wide to corruption practices.

Deviations in Defence Budget Management

Deviations in the use of state budget inside the TNI institutions could be determined through audit findings concluded by Supreme Audit Agency (BPK). Based on BPK audit reports

from 2000 to 2004, there are several crucial points that must be underlined.

First, the audit reports do not reflect a comprehensive audit into the TNI institution, considering that BPK adopts random mechanism.

Second, the audit reports considered as a tool of control mechanism of state budget, which plays its roles in post budget spending. By this means, BPK carries different roles compared to other tools of control mechanism, that are (i) The parliament, which carries role on budget control by the time the defence budget was proposed; and (ii) Inspectorate General at the Ministry of Defence, which carries budget control by the time the policy on defence budget is being implemented.

Third, looking into scope of deviation level, there are, at least, four levels of deviations, they are: (1) policy level; (2) planning level; (3) accounting and reporting level; and (4) supervisory level. Detail of four levels of deviations described in Table 6 below.

**Table 6. Level of
Defence Budget Deviation**

DEVIATION LEVEL	DETAILS OF DEVIATION
Policy Level	To conduct activities, which are not part of its main functions and duties, implementation of certain activities without operational directive, and budget authorization in post-activities.
Planning Level	Differences between planning and implementation activities
Accounting and Reporting Level	Unorganised in financial accounting and budget distribution
Supervision Level	Supervisory mission which is not optimal.

An example of defence budget deviations is seen in 2004 BPK Audit Reports on SOPS TNI, SLOG TNI, BABEK TNI, and other related TNI institutions in Jakarta, Denpasar, Kupang, and Atambua (see Table 7).

**Table 7. Defence Budget Deviations
implicate SOPS TNI, SLOG TNI, BABEK
TNI, and other military related institutions in
Jakarta, Denpasar, Kupang, dan Atambua**

DEVIATION LEVEL	DETAILS OF DEVIATION	CASE
Policy Level	To conduct activities those are not part of its main functions and duties.	<ul style="list-style-type: none"> SOPS TNI and SLOG TNI carried out pre-duty training. Army Puspom held building construction activities
	To conduct routine operation prior to the issuance of Implementing Authorization Decree (SKOP).	In 2003 and 2004, regional military commands carried out VVIP Security and Counter-Intelligent operations without budget and financial authorization from TNI Commander and TNI's Central Financial Bureau.
	Had just issue budget authorization after carried out Military Emergency and Civil Emergency operations in Aceh.	<ul style="list-style-type: none"> Military Emergency I: 4 Minister Authorization Decrees (SKOM), 34 Primary Authorization Decrees (SKOIN), and 107 Implementing Authorization Decrees (SKOP). Military Emergency II: 1 SKOM and 74 SKOP. Civil Emergency I: 1 SKOM and 6 SKOP.
Planning Level	Belated issued of budget and financial authorization to support Military Emergency and Civil Emergency operations.	Logistic procurement for safety operation of precarious area in Aceh was carried out after the operation has ended.
	Belated deployment of reinforcement troops despite a series of course provided for the soldiers	As of 28 November 2004, TNI personnel from Yonif 473/PSY have yet to be departed to Aceh despite 87-day of pre-duty training.
Accounting and Reporting Level	Unorganized in financial and budget reporting	The financial liability of TNI's Territorial Operation (Giat Opster) in Regional Military Command (Kodam) IX/Udayana has yet been completed in accordance to existing regulation.

Internal Supervision Level	Supervision and control towards the TNI operation and training activities, as well as logistic procurement for the TNI's operation remain ineffective.	<ul style="list-style-type: none"> Logistic/material procurement does not follow the procedure of goods and service department. Detachment Headquarters has procured 12 official vehicle, but only 5 of which were used to support military operation and training activities The operation scale index is above definite scale, including index ratio of Kopassus pre-duty training; rati index of pre-duty training at Kodam Jaya; in-flight meal index of air transportation at Air Force Operational Command (Koopsau) I; and ratio index of VVIP security operation. Irregularity in the procurement of medical and construction tools at Kodam IX/Udayana.
	Channelling of budget for the TNI's operation activity exceeds the real needs.	Financial distribution for VVIP security operation and NIT-RDIL limited security operation exceeded its real needs.

Four, from a view of legal aspect, audit reports of BPK do not use specific terminology, such as violation or deviation. The Agency may use certain terminology, such as, "not in accordance" with the existing regulations. In terms of it, there are about seven regulations that are "considered for not in accordance" or have been violated as impacts of defence budget deviations (see Table 8).

Table 8. Category of Violation against the Existing Regulation as impacts of Defence Budget Deviations

REGULATION CATEGORY	DESCRIPTION	SUBSTANCE OF REGULATION	DEVIATION CASE
Law	Law No.1/2004 on State Treasury	Article 3 rules that Senior Officer who signs and/or authorizes the document in relation to letter of evidence justifying the disbursement of state budget (APBN)/regional budget (APBD), is responsible to material legitimacy and other consequences that may rise following of the use of the letter.	BAP/the partner considers acceptance of working results from BAPP HP as basis of payment. Nevertheless, the letter considered as formality that does not reflect the real condition. Confirmation and other supporting evidence from Sintel Kolindamil shows that ship reparation has not completed yet, or miss the deadline agreed in the working contract.
	Law No. 20/1997 on Non-Tax State Revenue; Law No. 7/1983 on Tax Income (Both Laws have been changed into Law No. 17/2000 on Tax Income, which took into effect since January 2000)	Article 23 lines (1) point C and (2) stipulates that any income received on behalf of any name and form, which is paid by government institution, taxpayer, domestic firm, operator, firm, enterprises or representatives of foreign company, to domestic tax payers or firm enterprises, that are subject to 15% tax from net income or compensation earned from technical, management, construction, consultancy, and other services which have been subject of tax as stipulated in Article 21 line (2). The amount of net income and other services as stipulated in line (1) point C will be regulated by a Decree issued by the office of Tax Directorate General.	Primary loan and penalty due to a delay in paying tax in accordance with Article 23 on reparation/aircraft maintenance that have not been paid to state reach about Rp.499.114.119,19.

President Decree (Keppres)	Decree No. 80/ 2003	The Decree regulates the procurement of Government goods/service; Article 3 rules that goods/service procurement must follow the principles of efficiency, effectiveness, competitiveness, transparency, non-discriminative, and liability.	In the procurement of computer units, there is alleged markup in defence expenditures that reach Rp.284.950.000, 00 or 20,35% from the total amount in the contract worth Rp.1.399.600.000 , 00.
	Decree No. 18/2000	The Decree regulates the procurement of goods/services in Government Institution; Article 7 rules that the main duty of head of office/working unit/ officials appointed to deal with goods/services procurement may decide and authorize self-calculation price (HPS).	Printing and distribution of a Working Group's book is not in accordance with the existing regulation.
	Decree No. 42/2000	The Decree regulates the implementation of State Budget (APBN) a. Article 57 line (1) rules that head of office/working facility/project leader/project sector are responsible to make report on financial and funds under their supervision to make an inventory, and to provide report on financial management and to make an inventory over office stuffs. The report must be submitted to their superior. b. Article 57 verses (2) rules that head of office/working facility/project leader/project sector and treasurer of physical activity must perform discipline administration.	There is no report over revenue and distribution of Working Group's goods and book, causing alleged irregularities of Rp.143.450.000, 00 in state funds.

Joint Decree	Joint Decree between Minister of Finance and Head of National Development Planning Agency (Bappenas)	The Joint Decree regulates technical guidelines on the procurement of goods/service at government institution. Chapter I, point 6 rules that the user of goods/services must have: a. Self-calculation price (HPS), which is based on expertise suggestions; b. Basic price calculation (HPD) is set by a committee and been arranged by the user of goods/services; c. HPS is used as a tool to assess rationality level of offered price, including its detail price. d. HPS is considered as reference to evaluate the offered price.	There is inefficiency in the procurement of some office requirements. Examination into the case shows that the price of goods procurement as agreed in the contract (including compensation fee for partner and 21.5% tax) is more expensive compared to market price. The alleged irregularity has caused Rp 95.763.720, 00 to state losses.
Ministerial Decree	Minister of Defence Decree No: 15/M/XI/ 2000	The Decree regulates the Implementation of State Budget in Ministry of Defence and TNI. a. Article 4 point b rules that Organization Unit, Regional Command Level (Kotama), and Working Unit (Satker) are not allowed to spend state budget for other purposes, which are mentioned in the approved budget. b. Article 27 point b rules that whoever signs and/or authorizes letter of evidence that can be used to legalized the payment or to obtain payment, has a responsibility to ensure that the letter of evidence is valid.	There is no accountability report over the use of routine budget funds totaling Rp. 2.310.82.293, 00.

TNI Commander Decree	Decree No. 09/VI/2002	The Decree regulates the organization structure and procedure inside TNI's Logistics Staff (Slog), including an article that rules that TNI Slog has a duty to carry out staff functions in roles of facility, service, ratio, material, construction, and medic to support TNI operations. TNI Slog also has major functions, such as to formulate policies on training and logistics support; to arrange and to prepare guidelines and program of logistics training in TNI's institutions; to formulate plan and program of logistics support for military operation and training; and to conduct logistics supervision and control.	Working Unit and Regional Command Level to conduct activities that are failed to enforce its major duties and functions, including pre-duty military exercise.
	Operating Guidelines (Juklak) No. 03/VIII/2000	The Guidelines regulates main tasks of TNI's operation expenditures, which is according to point 10: - Form of financial form and equipment report must enlist names of members/ personnel grouped in the Operating Unit without individual signature. TNI commander/operation, however, authorizes the list. - Officials who manage the allocation of funds inline with directive letter is responsible to make accountability report over the allocation of budget and expenditures, and to submit the report to his superior.	Financial report of budget spending of Rp 1.266.675.588,00 at Spamau and Dispamsanau is not authorized by legal evidence in accordance to existing regulation.
	Authorization Decree No. 493/BTS-162/MA/IX/2003	The Decree regulates the organization structure and procedure of TNI academic institutions. The Decree rules that TNI academic activities is held by TNI's Personnel Staff (Spers), which is subordinate to TNI's General Staff at the office of the TNI's Chief of General Affairs (Kasum).	While conducting its activities inside Dikma PAPP and PSDP institutions, TNI's Head of Academic Military Headquarters and TNI's Head of Personnel Staff involved in conflict-of-interest case.

TNI Commander Telegram	Telegram No. STR/299/2004	This Telegram orders the distribution of pre-duty training activities amounting Rp.13.000,00/day/personnel, plus Rp 2000,00 in cash for rice supplement.	Disbursement of operation funds exceed the real needs. It is said that ratio index is Rp 20,000 higher (Rp.30.000, 00 - Rp.10.000, 00), causing the increasing of total payment to Rp.152.100.000,00 (1,521 personnel x 5 days x Rp. 20.000,00/personnel/day).
	Telegram No. STR/74/2004	The Telegram orders that ratio index of routine operation activity is Rp.13.000,00 (including Rp 2000,00 in cash for rice supplement)	Similar to the above case
	Telegram No. STR/01/2003	This Telegram orders that ratio index of routine operation activities is Rp.11.700,00/personnel/day (including Rp.1.700,00 in cash for rice supplement)	Similar to the above case
Chief of Staff Decree of TNI services	Navy Chief of Staff Decree No. 1701/VII/2004	Chapter III, Article 52, point a rules that members of the Control Team must have summary qualification that is usefull, which are: • Examining and studying all documents in relation to the procurement of goods/ services; • Arranging schedule for inspection purposes and reconfirming the schedule to the supplier of goods/ services • Conducting physical inspection during the procurement process of goods/ services. The inspection including: - Inspecting procurement facilities;	There is ineffectiveness supervision/technical representative function with total Rp.152.250.000,00.

		<ul style="list-style-type: none"> - Inspecting supplier's quality control system; - Inspecting the quantity, quality, laboratory test documentary, and others activities in relation to hardware and software materials; - Reporting project development/ progress report to its superior; - Providing suggestion, advise, and warning to supplier in case of any deviations in production process that will affect quality and quantity of goods/service and/or implicate to the condition of goods/service; - Creating report on production control. The report is set to be a reference towards the implementation of other related polices. 	
--	--	---	--

Fifth, from the perspective of law enforcement, sanction imposed against any deviations of defence budget purposes does not followed with court mechanism. It could be that BPK does not consider itself as legal enforcer. Maximum penalty offered by BPK is in form of technical advice. For example, the Table 9 below describes BPK's finding in its audit report of Bukit Barisan Military Command (Kodam) I in 2004 and 2005.

**Table 9. BPK Suggestions
in Audit Report towards
Army Regional Military Command I/
Bukit Barisan in 2004-2005**

No	BPK SUGESSTION	CASE
1.	BPK suggests Commander of Regional Military Command (Pangdam) I/ Bukit Barisan to issue letter of warning, instructing Kazidam I/ Bukit Barisan to report its self-managed activities.	Zidam I/ Bukit Barisan fails to organize report over the spending of state budget allocated to support Harbang and Harfaslat activities.
2.	BPK suggests Pangdam I/ Bukit Barisan to instruct Kazidam I/ Bukit Barisan to recollect surplus of the payment of material procurement from its partner. The amount of recollect funds reach Rp.30.449.318,00, and to handover the funds to State Account as well as to make financial report on budget surplus, which in total reach Rp. 21.380.000,00.	There is a surplus in the payment of construction material procurement for Rehabilitation Project of the Official Residence and Cannon Warehouse. Total amount of the funds reach Rp.51.829.318,00.
3.	BPK suggests Pangdam I/ Bukit Barisan to order the Head of Hospital (Rumkit) Tk.II 01.05.01 located in Medan to make financial report of the budget surplus.	There is surplus of ratio budget (ULP) allocated to a Hospital Tk.II 01.05.01 located Medan. The surplus of budget spending reach Rp.92.792.600,00.
4.	BPK suggests Pangdam I/ Bukit Barisan to instruct Chief of Operation Assistant (Asops) to make accountability report over the surplus of budget and to handover the budget surplus to State Account.	There is surplus of ratio budget allocated to Chief of Operation Staff (Sopsdam) of Kodam I/ Bukit Barisan. The budget aimed as financing the division's activities in 2004, and the total surplus of the budget spending reach Rp. 299.600.000,00.
5.	BPK suggests Pangdam I/ Bukit Barisan to order Asops and Kabekangdam Kasdam I/ Bukit Barisan to make report on budget management.	There is the allocation of Rp 198.083.000,00 in funds to finance ceremonial event, Dansat and Guarding the Ship. Report over the spending of this budget remains unclear.
6.	BPK suggests Pangdam I/ Bukit Barisan to order Asops Kasdam I/ Bukit Barisan to provide financial report.	There is unorganized financial report of Dalwaslat activity in Sopsdam I/ Bukit Barisan totaling Rp.33.750.000,00.
7.	BPK suggests Pangdam I/ Bukit Barisan to instruct Asops Kasdam I/ Bukit Barisan to make report over the budget surplus.	There is surplus of budget allocated to support Sopsdam I/ Bukit Barisan Lansat activities in 2004, which is in total reach Rp.180.494.000,00.

Sixth, scope of assessment of BPK's audit finding has a narrow limit or even worse; it cannot consider as reference in analyzing potential deviations in arms procurement projects. There are no audit reports to confirm whether arms procurements, which are held using export

credit and other mechanism, have been carried out inline with existing regulations. Mostly of BPK's findings documents are focused on budget deviations that might take place in the procurement of non-weapons components. BPK reports have only given implication in a follow-up assessment over budget spending whose amount relatively less significant — within the range of hundreds of millions to one billion rupiahs — given that weapons procurement involves a huge amount of funds, and gives greater implication to state budget policy in the future.

Analyses over the deviations of defence budget purposes identified with several hypotheses as to why such things had happened.

First, deviations in the defence budget management are related with the lack of parliamentary (DPR) role of control. In terms of it, DPR has been accused for enforcing its role merely during the budget planning process — if no to say that it has failed to continue controlling the spending of the budget. Actually, DPR has a mechanism to control budget spending management, but it seems to have found difficulties to exercise it blaming the limitation of authorities.

The first factor is misperception concerning terminologies of transparency and secrecy in the defence sector. It is still debatable at the office of the Ministry of Defence regarding the terminologies. Executives at the office of Ministry of Defence argue that presidential system does not recognize greater authority given to the parliament to monitor budget spending management. This argument comes up following concern whether the transparency of defence budget will endanger the secrecy means in defence sector. With the raising spirit of information freedom, it seems to be impossible for the Ministry to lock the drawer of flowing information. Therefore, the argument concerning defence secrecy is unacceptable.

Military secrecy is usually talking about codes, and operational strategy and tactics. Should the Ministry of Defence insists to maintain secrecy principle in defence sector, there must be a clear legislation that determines as to whether certain condition or specific situation are considered to be state secrecy.

The second factor is political obstacles. There are possibilities on why DPR fails to exercise their role of control effectively. First, current Indonesian political system is still dominated by the interests of political parties and, in the parliament, by the parties' factions. In some cases, public have seen that outspoken lawmakers will have to step aside due to political pressure, especially when they come to criticism towards defence budget policies and the procurement of military goods/services. Such political circumstances have happened because the outspoken lawmakers are representing major parties whose cadres also sit in the Cabinet, which eventually creates conflict of interests among the legislators in carrying out their role to control the budget spending in defence sector. Lack of political will among the lawmaker, especially those serve at the Commission I, is another possibility. Actually, the lawmakers have no argument by saying that they are not authorized with right to control the spending of defence budget because they can enforce DPR's Internal Regulation to conduct budget control. Nevertheless, political attitude among the lawmakers make them believe that they are not independent variable. Instead, they are just dependent variable amidst political bargaining inside the parliament.

The third factor is lack of capacity to understand crucial issues in defence sector. Lack of capacity to get well understanding over the defence issues is not merely determined with few number of expertise; worse, inability of the persons in charge as the expertise so does the lawmakers themselves has made them found

difficulties to understand the complexity of the issues of technical-operational and budget management in the defence sector. To this part, the government is one-step ahead as it is granted with capacity to understand issues of technical-operation as well as greater and access to information in relation to certain aspects on defence policy. There is no equal access towards such information because the legislators will only obtain one-sided information provided by the government. Furthermore, parliament members have a wide-ranging duty, which is not merely focusing on its role to control the defence spending, but also to formulate various legislations. Hectic day in dealing with political affairs has left less of time for the legislators to follow up audit findings on defence budget deviations submitted by BPK.

The fourth factor is difficulties to access off-budget policy. Indonesian Military earns the off-budget resources from its business activities. There is a clause demands the military to make notes of accountability to the parliament, but it is rarely happened – if not to say never. It is believed that the Military also enjoys the off-budget resources from various financial posts provided by several ministries.

First, bureaucratic system in Indonesia. The deviations of budget spending that implicate military institution are considered as a reflection of general condition in the country. It is such a common knowledge that bureaucratic system in Indonesia is far from being ideal, compared to legal- and reasonable-type of bureaucracy introduced by Weberian system. Bureaucracy in Indonesia adopts patrimonial-type principle, which considers the state as financial resources, instead of becoming a place that provides public services. The deviations of defence budget purposes as described in Table I.3 shows that military bureaucracy in Indonesia is far from the ideal Weberian-type system.

Second, characteristic of military bureaucracy in Indonesia. Indonesian Military (TNI) is characterized by its specific tasks in terms of massive and rapid deployment of troops in a state-of-emergency condition. Such characteristic has, somehow, given endorsement to the military to short-cut regulation on defence spending. Table 1.1 above shows that there are several assignments held without authorization on defence budget allocation. Some other cases show that the assignments have been held prior to the authorization of defence budget allocation. Its rigid hierarchy, making the institution find difficulties to appoint the right people at right place in terms of defence budget management, also characterizes military.

Third, lack of legal enforcement. Table I.4 describes two main problems that bring legal enforcement to a standstill. *First*, BPK audit findings that show deviations of defence budget allocation does not followed up with legal enforcement. For worse, such audit findings do not considered as legal evidence over the violation of existing regulations, to some extent has enable all parties to pursue out-of-court settlement through the enforcement of internal affairs mechanism. Efforts to curb deviations on budget spending are facing though challenges following lack of legal sanction imposed to military personnel believed to have been failed to be consistent with existing regulations. Such situation is only fertilizing moral hazard among soldiers. *Second*, considering that BPK is not part of legal enforcers, its audit findings have any means merely during consultative hearing at the DPR. Should such situation mention above continued, DPR will only see its controlling role weaken. For worse, deviations over defence budget purposes will be repeated through the years.

Fourth, regulation on technical-operational in the defence budget spending at the institutional level. There is an assumption saying

that deviations of defence budget spending have occurred because authority to formulate technical regulation and to exercise such regulation lies on the single hand: the military institution, leaving the Ministry of Defence with less of influence. Such condition gives implication to the DPR while carrying its controlling role due to mechanism that is more complicated.

Policy Recommendations on Defence Budget Management

Problems concerning issues on defence budget have given suggestion to the government to modify method on defence budget management. There are four recommended methods that can be followed: the formulation of expenditures classification and codification), analyses over the deviations of defence budget purposes, evaluation over the efficiency in defence budget spending, and development of integrative defence strategic plan (RENSTRA).

The **first method** is to modify the allocation of budget for defence sector through the formulation of defence strategic plan (RENSTRA). The modification of defence budget will determine onto how to develop national defence posture, acquisition of required weaponry system, and the amount of budget.⁴⁴ Strategic planning of defence sector will become ultimate product resulted in a series of strategic defence review programs, which is currently introduced by the Ministry of Defence. Review over defence sector may ensure that the armed forces will be able to conduct military operations effectively.

Strategic defence review consists of three stages.⁴⁵ *Substantive defence review*, which is aimed at determining the connection between national defence strategy and the dynamic of environmental strategy of certain country. Defence Strategic Review analyses the devel-

opment of political environment within certain country and of security condition in regional and international levels, as well as anticipation towards raising demand on the development of new defence capacity to overcome the problems. The second stage is to review the structural defence, which is supposedly held following the formulation of military's main tasks. At this point, Ministry of Defence holds comprehensive reviews to determine as to whether the current defence force posture enable the military to carry out their tasks. In the third stage, review over operational defence is held. Main purpose of the review is to ensure that there will be synchronisation towards developed defence posture, adopted military technology and warfare achievements. Such synchronisation is determined in the number of develop military units can be deployed elsewhere to conduct military operations.

The **second method** is to hold classification and codification over defence spending in a bid to determine as to whether the defence expenditures during a certain fiscal year have been allocated properly from the State Budget.⁴⁶ Classification and codification of defence spending is expected to overcome two main problems. First, to scrap the off-budget financial resources, including revenue earned from military business activities. *Second*, to integrate accountability reports within a certain fiscal year over the use of the state budget for defence sector. Integration of the budget reports will as to whether the allocations of the state budget have been used properly. For example, in a bid to promote integration reports of defence spending, the government is responsible to record the whole process over procurement of defence equipment using foreign export facilities which is classified as defence expenditures. The government is also responsible to make integrated reports over the use of additional budget spending (ABT) for military operation.

The **third method** is to analyse budget deviations. This method is used to clarify the actual defence spending within a certain fiscal year, so that the range of amounts of the proposed budget, the approved budget, and the actual defence expenditures can be measured.⁴⁷ This method is aimed at answering problems on the shifting of defence budget from non-defence spending to defence spending, as well as the impacts of that shifting budget to social sectors, including people's welfare, education and health. Analyses of budget deviations is expected to divine connected points of a linear curve adopted in the butter-versus-gun principle as defence economic principle that has been dominated academic discussion from the era of Father of Economy, Adam Smith.

Budget deviation analyses have become basis to evaluate efficiency in the use of budget, which is determined by the achievement of performance plan. Indicator of success will be determined in the calculation of Measurement Activity Performance (PKK), which is elaborated on paper of Accountability Report of Government Institutions' Performance (LAKIP). Performance plan is a process to arrange performance plan as interpretation of objectives and programs that have been designed in a strategic plan. Operators to carry out the plan are government institutions through their annual activities. In the performance plan, there is an annual working plan, which is considered as performance indicator to determine working plans in simultaneously with arrangement agenda and budget policy. Thus, it is such a commitment set by government institutions within a certain time-of-scale. Performance Working Document tells information about the ultimate goals that expected to be achieved within the same period to that of the targets of performance indicator, achievement plan, program, activities and performance indicator group and its achievement plan.

The **fourth method** is evaluation towards the efficiency of defence budget spending that is aimed at ensuring synchronisation among developed defence posture, adopted technology of military, and battlefield performance.⁴⁸ This synchronization is determined by as to whether developed combat units can be effectively despatched to military operation areas. There are two main factor that determine the achievement of such synchronisation project: (i) the development of new combat methods; and (ii) the ability to adopt technology and arms development in combat platform. The combination of two factors is widely known as battlefield performance, which is measured based on the capacity of armed forces to conduct: (a) rapid troop's deployment in wide-ranging areas and spectrum of conflict; (b) continuing combat manoeuvre with sufficient combat supports and facilities; (c) effective tactical warfare deployment; and (d) flexible battlefield adaptation.

Those four methods above are applied, in particular, to overcome limitations of state capacity to fulfil defence requirements. There are three major perspectives to comprehend the solution towards such difficulty.

First perspective is entitled as "filling the gap." This strategy definitely depends on state's macro economic performance; if it grows significantly, thus this strategy will be a feasible choice. Nonetheless, it should be underlined here that the strategy of feeling the gap is not under jurisdiction of Parliamentary Committee I, Ministry of Defence, and TNI institution.

Second perspective is called as "nothing to do with the gap." This strategy, in essence, is the most pessimistic strategy because it puts defence budget planning and its spending under status-quo condition without any improvement. In other words, defence budget is carried out without any relation with defence policy. Such strategy certainly reflects the ineffective parliamentary control on defence budget and

preserves inertia character of institutional bureaucracy of defence sector.

Third perspective is labelled as “narrowing the gap.” This strategy is intended to improve the practice of defence budget spending based on state financial capacity. The strategy of narrowing the gap seems to be the most realistic choice since it focuses to establish the efficiency of the whole defence expenditures. This strategy could be presumed as preliminary strategy before the strategy of filling the gap is put into practice. Therefore, all recommended policy measure ought to be anchored in this realistic perspective.

To implement the strategy of narrowing the gap, deviations of defence budget spending must be reduced as minimal as possible. Concerning this compulsory requirement, there are six recommendations to reinforce the effectiveness and efficiency of upcoming state budget on defence sector.

First, strengthening the institutional capacity of Indonesian parliament (DPR), particularly Committee I. Strengthening the institutional capacity does not merely endorse the political will of parliament members to exercise their political authority *vis-à-vis* their executive counter-part, but also reinforce the capacity of parliamentary staffers. Both members of parliament and their staffers could attain data and information concerning arms from wide-ranging resources. Consultation with universities, research institutes, researchers, and civil society organization that concern defence sector, in fact, could be carried out efficiently. The other feasible means is by searching information in international publications on defence sector, for example, *Janes*, *Asia Pacific Defence Reporter*, *Military Balance*, *Strategic Survey*, and so on to acquire description concerning the performance of weapons system and the dynamic of strategic regional environment. Those publications are certainly available and accessible for public.

Moreover, information on the price of weapon systems is attainable from arms exhibitions. Although the price shown in the exhibition does not reflect the total amount of arms transaction, which involved many institutions and actors, nevertheless the price information can provide a comparison and critical point, as well as material to discuss the item price of defence procurement, which proposed by government to parliament. This method seems more effective and efficient than the expensive comparison study to several countries.

Second, launching military bureaucracy reform as an integral part of policy package of thorough bureaucracy reform in Indonesia. This reform is focused on the effort to transform patrimonial-type of Indonesian bureaucracy into legal and rational-type bureaucracy. The increase of welfare standard of state officials is certainly one component that should be part of bureaucracy reform policy package.

Third, creating more flexible financial regulation for TNI, in particular related to tasking in perilous area and emergency tasking. Such particular measure is not intended to provide profitable means for TNI, but because of the nature of military institution is not absolutely same with other state institutions. This particular measure has purpose to avoid the occurrence of military tasking without supported by financial authorization.

Fourth, creating regulation to support the effort of strengthening institutional capacity of BPK to audit the entire units of Ministry of Defence and TNI on their defence budget expenditures. This is a compulsory requirement, so that the annual audit report of BPK will be more comprehensive encompassing wide-ranging defence expenditures, particularly arms acquisition.

Fifth, creating regulation to impose sanction towards BPK's audit findings that consulted to parliament. This policy is crucial for two

reasons, which are: (i) to stimulate effective punishment, and (ii) to avoid the persistence of moral hazards.

Sixth, creating regulation to replace technical-operational regulation of defence budget spending from TNI institution to Ministry of Defence. The purpose of this policy is to shorten the span of control of defence budget spending and as an instrument to endorse TNI to be more focus on its professional duties. Such policy is also intended to release TNI from the obligation to report the liability of financial spending by transferring such work to Ministry of Defence.

-PROPATRIA 2007-

This research is accomplished by Working Group of ProPatria Institute, consist of three researchers: Andi Widjajanto, Edy Prasetyono, and Makmur Keliat, with two assistant researchers: Iis Gindarsah and Jessica Evangeline.

REFERENCE

- ¹ Peter Paret, "Military Power," *The Journal of Military History*, Vol. 53, No.3 (July 1989), p. 240.
- ² Stephen D. Biddle, "The European Conventional Balance: A Reinterpretation of the Debate," *Survival*, Vol.30, No.2 (March-April 1988), p. 99-121.
- ³ Ashley J. Tellis (et.al), *Measuring National Power in the Postindustrial Age* (Santa Monica, CA.: RAND, 2000).
- ⁴ Concerning the formulation of grand strategy, see Williamson Murray, MacGregor Knox, and Alvin Bernstein (eds.), *The Making of Strategy: Rules, States, and War* (Cambridge: CUP, 1994). See also, Barry Posen, *The Sources of Military Power: Britain, France, and Germany Between the World Wars* (Ithaca: CUP, 1984).
- ⁵ Direktorat Jenderal Strategi Pertahanan, Departemen Pertahanan RI, *Kaji Ulang Strategis Sistem Pertahanan Tahun 2004* (Jakarta, Departemen Pertahanan, 2004), p. 11.
- ⁶ *Ibid.*, p. 11.
- ⁷ *Ibid.*, p. 12-17
- ⁸ See also Andi Widjajanto (ed.), *Reformasi Sektor Keamanan Indonesia* (Jakarta: ProPatria, 2004), Chapter 2.
- ⁹ Determined with Law No. 17 Year 2007 on Long Term National Development Plan 2005-2025
- ¹⁰ Data according to Direktorat Jenderal Perencanaan Pertahanan, Departemen Pertahanan RI, *Kondisi Postur TNI Saat Ini* (Jakarta: Departemen Pertahanan, 2006).
- ¹¹ Republic of Indonesia Presidential Regulation No. 7 Year 2005 on Mid-Term National Development Plan in 2004-2009.
- ¹² Republic of Indonesia Act No. 17 Year 2007 on Long-Term National Development Plan in 2005-2025, Chapter IV, Sub-Chapter IV.1.4, Point 4.
- ¹³ *Ibid.*.
- ¹⁴ Mabes TNI-AL, *Strategi Pertahanan dalam Perspektif Maritim* (Jakarta: Mabes TNI-AL, 2006).
- ¹⁵ Republic of Indonesia Act No. 17 Year 2007 on Long-Term National Development Plan in 2005-2025, Chapter IV, Sub-Chapter IV.1.4, Poin 4.
- ¹⁶ Sesko TNI, *Konsepsi Pengembangan Kemampuan Alutsista TNI dalam rangka Mencapai Keberhasilan Tugas Pokok* (Bandung: Sesko TNI, 2005). See also Staf Operasi Mabes TNI-AU, *Strategi Udara pada Operasi Militer Perang dan OMSP* (Jakarta: Mabes TNI-AU, 2006).
- ¹⁷ Guy J. Pauker, *The Indonesian Doctrine of Territorial Warfare and Territorial Management* (Santa Monica: RAND, 1963).
- ¹⁸ Memorandum of Understanding on Assistance of Military Cooperation Implementation 2006-2011 between Indonesia and Rusia.
- ¹⁹ Detail description concerning the capability of Indonesian Air Force see Air Force Chief of Staff Decree No: Kep/25/X/2000 on Basic Book Manuals of Indonesian Air Force.
- ²⁰ Direktorat Perencanaan Pertahanan, *Kondisi Postur Pertahanan Saat Ini* (Jakarta: Departemen Pertahanan, 2006).
- ²¹ Mabes TNI, *Postur TNI 2004-2014* (Jakarta: Mabes TNI, 2004).
- ²² Mabes TNI-AL, *Struktur Kekuatan TNI-AL 2024* (Jakarta: Mabes TNI-AL, 2005).
- ²³ Prediction on the defence capability of developed states is provided by Samuels. See Richard J. Samuels, *Rich Nations Strong Army* (New York: Cornell University Press, 1994).
- ²⁴ Departemen Pertahanan Republik Indonesia, *Sistem Perencanaan Pertahanan Negara Yang Efektif* (Jakarta: Departemen Pertahanan, 2007).
- ²⁵ Stephen J. Scanlan, "Guns, Butter, and Development: Security and Military Expenditures of the Modernization versus Dependency Debate" *Journal of Political and Military Sociology*, Vol. 29, No.2, Winter 2001.
- ²⁶ A. Mintz and R.T. Stevenson, "Defence Expenditure, Economic Growth and the 'Peace Dividend.'" *Journal of Conflict Resolution*, Vol. 39, No.2, 1995.

- ²⁷ Further description concerning defence allocation and human development, see W. Dixon dan B. Moon, "The Military Burden and Basic Human Needs" *Journal of Conflict Resolution*, No.30, 1986.
- ²⁸ Michael O'Hanlon, *How to Be a Cheap Hawk* (Washington D.C.: Brookings Institution, 1998).
- ²⁹ *Ibid.*
- ³⁰ S. Deger dan S. Sen, "Military Expenditure, Spin-off and Economic Development" *Journal of Development Economics*, No. 13, 1983.
- ³¹ Anandi P. Sabu, *et.al.*, "Defence, Nondefence Expenditures, and Inflation: An Empirical Analysis", *Quarterly Journal of Business and Economics*, Vol. 34, No.1, Winter 1995
- ³² Detail description concerning financial mechanism, see Andi Widjajanto dan Makmur Keliat, *Reformasi Ekonomi Pertahanan Indonesia* (Jakarta: INFID-PACIVIS, 2006).
- ³³ Ethan B. Kapstein, *The Political Economy of National Security: A Global Perspective* (South Carolina: University of South Carolina Press, 1992).
- ³⁴ Departemen Pertahanan Republik Indonesia, *Mempertahankan Tanah Air Memasuki Abad 21* (Jakarta: Departemen Pertahanan, 2003), h.85-86.
- ³⁵ Richard A. Bitzinger, "Toward a Brave New Arms Industry?" *Adelphi Paper 356* (London: IISS, 2003).
- ³⁶ Taken from *Ibid.*
- ³⁷ Taken from *Ibid.*
- ³⁸ In Indonesia, there is yet research on the impact of military investment towards economic growth. In global, such research has been performed by several researchers. See E. Benoit, *Defence and Economic Growth in Developing Countries* (Boston: Heath, 1973). See also, Jurgen Brauer, "Military Investments and Economic Growth in Developing Nations" *Economic Development and Cultural Change*, Vol.39, No.4, July 1991; J. Fontanel, "The Economic Effects of Military Expenditures in the Third World Countries" *Journal of Peace Research*, No. 27, 1990
- ³⁹ Soedjati Djiwandono, terj., *Pengawasan Parlemen dalam Sektor Keamanan: Azas, Mekanisme, dan Pelaksanaan* (Jakarta: CSIS, 2005), hal. 159.
- ⁴⁰ See Jeanne Kinney Giraldo, "Defence Budget and Civilian Oversight," *Occasional Paper*, No. 9, June 2001, p. 1.
- ⁴¹ For instance, the inexistence of General Policy on State Defence has caused arms procurement is determined by each service in terms of Force Development Program. To overcome such problem, Indonesian government needs to arrange a strategic defence review to assess the size of defence posture development, the purpose of its development, and the required budget allocation.
- ⁴² Djiwandono, *Op.Cit.*, p. 162-163.
- ⁴³ Giraldo, *loc. cit.*, p. 5.
- ⁴⁴ Alain Enthoven and Henry Rowen, *Defence Planning and Organization* (Santa Monica: RAND, 1959). See also Michael O'Hanlon, *How to Be a Cheap Hawk* (Washington D.C.: Brookings Institution, 1998).
- ⁴⁵ The detail description of strategic defence review see Andi Widjajanto, "Transformasi Pertahanan dan Kaji Ulang Pertahanan: Suatu Kerangka Kerja Integratif" in Ikrar Nusa Bhakti (ed.), *Kaji Ulang Pertahanan: Perspektif Politik* (Jakarta: LIPI, 2005).
- ⁴⁶ David Novick, *The Federal Budget as an Indicator of Government Intentions and the Implications of Intentions* (Santa Monica: RAND, 1959).
- ⁴⁷ Alain Enthoven and Henry Rowen, *Defence Planning and Organization* (Santa Monica: RAND, 1959). See also Michael O'Hanlon, *How to Be a Cheap Hawk* (Washington D.C.: Brookings Institution, 1998).
- ⁴⁸ Hugh Gravelle dan Nuno Garoupa, "Optimal Deterrence with Legal Defence Expenditure" *Economic Inquiry*, Vol.40, No.3, July 2002.