

# Opportunity Cost Analysis and Fiscal Accountability of Indonesia's Board of Peace Membership Commitment 2026: A Public Finance and State Budget Management Perspective

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## ABSTRACT

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This study analyzes the Indonesian government's financial commitment of US\$1 billion (approximately IDR 16.76 trillion) to secure permanent membership in the Board of Peace (BoP), formalized on January 22, 2026. The analysis applies a public expenditure framework integrating opportunity cost, value-for-money, and fiscal accountability to evaluate three key aspects: the trade-offs within the 2026 State Budget, compliance with national financial regulations, and potential risks to fiscal stability. The findings highlight three critical issues. First, the allocation represents a significant opportunity cost, as the amount is equivalent to around 5% of the Free Nutritious Meals program and nearly 7% of the national health budget. It could alternatively fund the annual salaries of approximately 300,000 contract teachers, indicating substantial foregone social benefits. Second, the financing approach of reallocating the Ministry of Defense budget without formal approval through a revised State Budget raises concerns about compliance with the principle of budget specificity, as mandated by Law No. 17 of 2003. This suggests a potential misalignment with established fiscal governance standards and legislative oversight mechanisms. Third, the commitment introduces additional fiscal pressure outside the approved budget structure, which may constrain fiscal space amid ongoing expenditure efficiency policies in 2025–2026. This condition increases the risk of undermining the deficit target of 2.68% of GDP. Overall, this study contributes to public finance discourse by demonstrating how international financial commitments can influence domestic fiscal discipline, accountability, and sustainability in emerging economies.

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## 1. INTRODUCTION

On January 22, 2026, Indonesia committed to contributing US\$1 billion (approximately IDR 16.76 trillion) to secure permanent membership on the Board of Peace (BoP), creating a critical policy issue within the national fiscal framework. This decision emerges amid a constrained 2026 State Budget, characterized by high expenditure and a deficit target of 2.68% of GDP. The central research problem lies in how such a large international financial commitment affects domestic fiscal priorities, compliance with public finance regulations, and overall budget sustainability [1].

To address this issue, this study adopts an integrated analytical approach combining opportunity cost analysis, value-for-money evaluation, and fiscal risk assessment. This framework is intended to systematically examine trade-offs in resource allocation, assess the efficiency and effectiveness of spending, and evaluate potential pressures on fiscal stability. Through this approach, the study provides a structured framework for evaluating whether the policy aligns with sound public financial management practices [2].

The objectives of this research are threefold: (1) to measure the fiscal opportunity cost of the IDR 16.76 trillion allocation relative to priority programs in the 2026 State Budget; (2) to evaluate the transparency and accountability of the financing mechanism based on Indonesia's public finance regulations; and (3) to assess the potential fiscal risks associated with the commitment, particularly its impact on the budget deficit.

Theoretically, this study is grounded in public finance principles emphasizing value-for-money, efficiency, and effectiveness [3], as well as regulatory frameworks such as Law No. 17 of 2003 and Law No. 1 of 2004, which mandate accountability and budget discipline [3]. Previous studies have examined fiscal sustainability and government expenditure efficiency, yet limited research links international financial commitments with domestic fiscal governance, particularly in emerging economies [3]. This study is expected to provide empirical insights into the implications of external policy commitments for national budgeting systems, offering both academic contributions and practical recommendations to strengthen fiscal accountability, transparency, and sustainability.

## 2. LITERATURE REVIEW

### Opportunity Cost Theory in Public Finance

The concept of opportunity cost is one of the most fundamental principles in economics, stating that the cost of a choice is the value of the best alternative forgone [4]. In public finance, opportunity cost has a more complex dimension, encompassing not only financial value but also social, economic, and distributional impacts of budget allocation choices [5].

Emphasizes that under constrained fiscal conditions, budget trade-offs become sharper and any unplanned expenditure will automatically shift allocations from previously planned programs [6]. In the context of Indonesia's 2026 APBN, which already stands at a deficit posture of 2.68% of GDP, approaching the constitutional threshold of 3% of GDP, any additional spending has a real and measurable opportunity cost [7].

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Furthermore, Seneviratne and Martino [8] distinguish, within modern budgeting theory, between expenditures that produce measurable output and those that are reputational or symbolic in nature. This categorization is relevant for analyzing the BoP commitment: does Rp16.76 trillion generate measurable fiscal outputs and outcomes, or is it merely symbolic and reputational?

### **Value-for-Money Principles and Fiscal Accountability**

Value-for-money (VfM) is a public expenditure evaluation framework integrating three dimensions: economy (obtaining inputs at minimal cost), efficiency (optimally converting inputs into outputs), and effectiveness (outputs achieving desired outcomes) [9]. This framework, popularized by the UK Audit Commission [10] and adopted by various national audit institutions, including Indonesia's Supreme Audit Agency, has become an international standard for assessing the quality of public spending.

Fiscal accountability in Indonesia's public finance context is operationalized through two main principles: (1) the principle of budget specificity, every expenditure must have a specific budget line in the DIPA; and (2) the principle of expenditure legality, every expenditure must have a valid legal basis [11]. Violations of these principles are categorized as material findings in state audits and may result in state losses [12].

### **Fiscal Risk and Management of International Financial Commitments**

In the international fiscal literature, Hana Polackova (1998) developed the concept of a fiscal risk matrix, which classifies fiscal risks along explicit-implicit and direct-contingent dimensions [13]. International financial commitments, such as the BoP, can be categorized as direct, explicit fiscal risk obligations that must be legally and contractually fulfilled from the state budget regardless of prevailing fiscal conditions [14].

In Indonesia's context, the Fiscal Policy Agency (BKF) of the Ministry of Finance regularly publishes fiscal risk reports in the State Budget Financial Note. Unplanned commitments not listed in fiscal risk documents have the potential to surprise the state financial management system and complicate the medium-term fiscal planning process (Medium-Term Fiscal Framework/MTFF) [15].

## **3. METHOD**

This study uses a descriptive–quantitative approach, with a public expenditure analysis, to examine the fiscal implications of Indonesia's financial commitment to the Board of Peace (BoP). The analysis relies on document-based data sources. Primary data include Presidential Regulation No. 118 of 2025 on the 2026 State Budget details, the 2026 State Budget Financial Note issued by the Ministry of Finance, the official statement of the Minister of Finance regarding the funding source of the BoP commitment (CNBC Indonesia, February 3, 2026), and the Board of Peace Charter signed on January 22, 2026. Secondary data are obtained from CELIOS reports and FITRA reports, as well as comparative public finance information from the OECD.

Opportunity cost estimation is conducted through comparative budget analysis. The BoP commitment of US\$1 billion is converted into rupiah using the 2026 State Budget

reference exchange rate of IDR 16,760/USD, resulting in IDR 16.76 trillion. This value is then compared proportionally with the budget ceilings of selected priority programs in the 2026 State Budget to estimate its relative fiscal magnitude and potential alternative uses. Some comparisons also use average program cost estimates, such as annual teacher salaries or program expenditure per beneficiary.

Fiscal accountability is evaluated using the Value-for-Money (VfM) framework, which assesses public expenditure based on economy, efficiency, and effectiveness, in accordance with the public sector audit standards of Indonesia's Supreme Audit Agency (BPK). Fiscal risk analysis applies Polackova's Fiscal Risk Matrix to identify potential risks arising from international financial commitments within the Indonesian State Budget framework.

#### 4. RESULTS AND DISCUSSION

##### State Budget Fiscal Posture 2026: The Macro Context of BoP Commitments

To understand the significant fiscal implications of BoP commitments, an understanding of the overall 2026 State Budget posture is essential. Based on the 2026 State Budget Law, ratified in the Plenary Session of the House of Representatives on September 23, 2025, the 2026 State Budget posture is determined as follows:

Table 1. 2026 State Budget Posture and Comparison with BoP Commitments

2026 State Budget Component	Value (Rp Trillion)	Proportion Relative to the Rp16.76T BoP Commitment
State Revenue	3,153.6	BoP = 0.53% of total revenue
State Expenditure	3,842.7	BoP = 0.44% of total expenditure
Budget Deficit	689.1 (2.68% of GDP)	BoP = 2.43% of total deficit
Ministry of Defense Budget	187.1	BoP = 8.96% of the Defense budget (funding source)
Ministry of Foreign Affairs Budget	~8.5 (est.)	BoP = ~197% or nearly 2× Foreign Affairs budget
BoP COMMITMENT	16.76 (= US\$1 billion)	Not listed in the 2026 State Budget structure approved by Parliament

Source: Ministry of Finance of the Republic of Indonesia (2025); Presidential Regulation No. 118/2025; Directorate General of Taxes (DGT) of the Ministry of Finance (2026); CNBC Indonesia (2026); author's calculations

The data in Table 1 reveal a critical fact: the BoP commitment of IDR 16.76 trillion is equivalent to 2.43% of the total 2026 State Budget deficit and nearly 9% of the Ministry of Defense's total budget, which is the main source of financing. Most significantly, this expenditure is not included at all in the 2026 State Budget (APBN) structure officially approved by the House of Representatives (DPR) in September 2025, meaning there is no authorized budget item to finance it.

Table 1 presents the fiscal posture of the 2026 State Budget and the relative scale of the Board of Peace (BoP) commitment within the national budget structure. The empirical results show that although the BoP contribution represents a relatively small proportion of

total state expenditure, its magnitude becomes more meaningful when compared with several individual budget components, particularly the fiscal deficit and ministerial allocations. In addition, the analysis indicates that the BoP commitment is not explicitly listed as a separate expenditure item within the approved State Budget structure. These findings suggest that the commitment constitutes a fiscal obligation that exists outside the formally defined budget allocation framework [16]. From a public finance perspective, the absence of a clearly defined budget line raises questions regarding compliance with established budget procedures. Within the Indonesian state financial management system, expenditures with significant fiscal implications are generally expected to be incorporated into the approved budget structure and subject to parliamentary oversight, which highlights potential governance challenges in aligning international policy commitments with domestic budgetary procedures.

### Quantifying Opportunity Cost: Comparative Analysis

The core of this fiscal analysis is measuring the opportunity cost, the value of the best alternative sacrificed due to the IDR 16.76 trillion commitment. This measurement is conducted by comparing the BoP commitment value to the actual budget allocations for priority programs listed in the 2026 State Budget and the real needs of the Indonesian people.

Table 2. Opportunity Cost Analysis: IDR 16.76 Trillion from the Perspective of the 2026 National Priority Programs in the State Budget

Alternative Budget Use	Ceiling / Estimated Cost (Rp Trillion)	Proportion of Rp16.76T	Output / Social Impact
Free Nutritious Meals Program (MBG)	335.0	5.0% of the MBG budget	Nutrition for 82.9 million children for 18 full days
National Health Budget	244.0	6.9% of the health budget	Additional free health check-ups at 9,000+ community health centers
Social Protection Budget	508.2	3.3% of the social protection budget	Additional protection for 1.5 million vulnerable families
Honorary Teacher Salaries (@Rp4 million/month)	14.4 (300,000 teachers × 1 year)	Exceeds total cost	300,000 honorary teachers are fully paid for one year
Village Infrastructure (avg. Village Fund)	~0.30 per village/year	Equivalent to funds for 55,800 villages	Infrastructure development across all Indonesian villages (75,265 villages)
Indonesia's ASEAN Contribution (per year)	~0.033	Equivalent to 500 years of ASEAN dues	Full participation in the ASEAN agenda for 500 years
Indonesia's UN Contribution (per year)	~0.335	Equivalent to 50 years of UN dues	Full Indonesian representation at the UN for 50 years
Ministry of Foreign Affairs Budget (per year, est.)	~8.5	Equivalent to 2× Foreign Affairs budget	Funds the entire Indonesian diplomatic apparatus for 2 years
Disaster Reconstruction (Sumatra, NTT)	Urgent 2026 needs	Significant for rehabilitation needs	Accelerated recovery for 2.3 million disaster-affected citizens

Source: Presidential Decree No. 118/2025; Ministry of Administrative and Bureaucratic Reform (2025); Dino Patti Djalal/FPCI (2026); CELIOS (2026); FITRA (2026); BPS (2025); author's analysis and calculations

The data in Table 2 demonstrate a substantial opportunity cost. The most striking finding is that the value of the BoP commitment exceeds the cost of a full year's salaries for 300,000 honorary teachers, a chronic problem that has long been a social and fiscal burden on the Indonesian government. Proportionally, Rp16.76 trillion is also equivalent to 5% of the MBG budget and nearly 7% of the national health budget, two programs that directly impact the people's welfare and were President Prabowo's own campaign promises. From a public finance perspective, this opportunity cost becomes even more significant given the increasingly constricted regional fiscal conditions: Regional Transfers (TKD) were cut from IDR 919.9 trillion (2025) to just IDR 693 trillion (2026), a decrease of IDR 226.9 trillion, or almost 25%. This cut directly burdened basic public services in 514 regencies/cities across Indonesia (KPPOD, 2026; Tempo, 2026). In this context of severely depressed regional fiscal conditions, the IDR 16.76 trillion commitment to an international forum is crucial.

Table 2 compares the value of the BoP commitment with several priority expenditure programs in the 2026 State Budget in order to estimate its potential opportunity cost. The empirical findings indicate that the monetary value of the commitment is comparable to a measurable portion of major social and development programs. This comparison shows that the fiscal resources allocated to the BoP could also finance several domestic programs with direct social impacts. In public finance theory, opportunity cost reflects the value of the best alternative use of limited resources (Mankiw, 2021; Musgrave, 1959). Therefore, the findings demonstrate the trade-offs inherent in government budget allocation decisions. When fiscal space is constrained, allocating funds to international commitments may reduce the available resources for domestic welfare programs. This does not necessarily imply that international commitments are unjustified; however, it emphasizes the importance of evaluating whether the expected diplomatic, political, or strategic benefits justify the domestic programs that may be forgone.

### **Fiscal Accountability Evaluation: Value-for-Money Analysis**

International fiscal accountability standards adopted by the Indonesian Supreme Audit Agency (BPK RI) in their performance audit standards require that all public expenditures meet three VfM criteria. The following table evaluates BoP commitments based on these standards (Table 3).

The VfM evaluation results in Table 3 indicate that the BoP commitment fails to meet all dimensions of fiscal accountability required by international standards and Indonesian state financial regulations. The most critical finding is in the Economy dimension: the Ministry of Foreign Affairs itself acknowledged that a regular (non-permanent) membership option without mandatory financial contributions was available, yet Indonesia chose the permanent membership option, valued at IDR 16.76 trillion (Ministry of Foreign Affairs of the Republic of Indonesia, 2026). Under public finance principles, a more expensive option without a verifiable technical justification is an indication of budget inefficiency.

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Table 3. Value-for-Money Evaluation of the IDR 16.76 Trillion BoP Commitment

VfM Dimension	Indicator	Actual Condition of BoP Commitment	Assessment
Economy	Is the membership cost minimal and proportional?	Regular (non-permanent) membership option available without financial contribution; Indonesia chose the costly Rp16.76T option (MoFA, 2026)	NOT MET: A more economical option existed but was not chosen
Efficiency	Do inputs produce optimal outputs?	No independent audit mechanism; BoP Charter contains no measurable fund performance indicators (KPIs); no mandatory output reporting.	CANNOT BE ASSESSED: absence of a monitoring and reporting system
Effectiveness	Do outputs achieve the claimed Gaza peace outcome?	The BoP Charter does not explicitly mention Palestine/Gaza; no verification mechanism for fund usage for the claimed purpose (YLBHI, 2026)	HIGHLY QUESTIONABLE: main outcome not verified in the charter
Legal Accountability	Is there a valid DIPA budget line in the 2026 State Budget?	No specific budget allocation in the DIPA of the Ministry of Defense or other ministries for the BoP contribution in the approved 2026 State Budget	NOT MET: violates the budget specificity principle under Law 17/2003 Article 3
Transparency	Is the decision-making process transparent to the public and Parliament?	Signing conducted without prior parliamentary consultation; funding source announced only after signing via press conference (CNBC Indonesia, 2026)	NOT MET: ex-post announcement rather than ex-ante deliberation

Sources: Ministry of Foreign Affairs of the Republic of Indonesia (2026); YLBHI (2026); Law No. 17/2003; Audit Commission (1983); CNBC Indonesia (2026); author's analysis based on the audit standards of the Supreme Audit Agency (BPK RI).

Table 3 evaluates the BoP commitment using the Value-for-Money (VfM) framework, which assesses public expenditure based on the dimensions of economy, efficiency, and effectiveness. The empirical assessment indicates that several aspects of the VfM framework are difficult to verify due to limited publicly available information regarding the cost structure, performance indicators, and monitoring mechanisms associated with the BoP contribution. As a result, it is challenging to determine whether the commitment meets the accountability standards generally applied to public expenditures. From a policy perspective, fiscal accountability requires that public spending demonstrate clear objectives, measurable outputs, and transparent reporting mechanisms [17]. The absence of explicit performance indicators or monitoring arrangements complicates the evaluation of whether the expenditure produces measurable public benefits. Strengthening

transparency and establishing clearer reporting mechanisms would therefore be necessary to ensure that international financial commitments remain consistent with the accountability principles embedded in Indonesia's public financial management framework [18].

### Fiscal Risk Analysis of the 2026 State Budget Target

Based on Polackova's Fiscal Risk Matrix (1998), adapted for the Indonesian context, BoP commitments can be categorized as direct explicit fiscal liabilities, obligations that are contractually binding and must be met from the state budget. Given the 2026 state budget's fiscal deficit of 2.68% of GDP, this additional unplanned obligation creates at least three risk scenarios:

Table 4. Fiscal Risk Matrix of BoP Commitments to the 2026 State Budget

Risk Scenario	Mechanism	Potential Impact	Risk Level
Scenario 1: Defense Budget Reallocation	Funds taken from the Rp187.1T Defense budget without revising the State Budget	Domestic defense programs reduced; military equipment capacity disrupted; violates the budget specificity principle under Law 17/2003	MEDIUM-HIGH
Scenario 2: Issuance of New Government Bonds	The government issues additional sovereign bonds to cover the commitment	State budget deficit may exceed 3% of GDP (statutory limit); rising bond yields; pressure on the rupiah exchange rate	HIGH
Scenario 3: Multi-Year Installments	US\$1 billion commitment paid gradually from 2026 to 2028 through annual budgets	The budget burden spreads across 2–3 fiscal years, reduces medium-term fiscal flexibility, and requires a revision to the MTFF.	MEDIUM
Precedent Risk	International commitment without parliamentary approval becomes a precedent for future commitments.	Weakening of fiscal checks and balances; the executive may make unlimited commitments; long-term fiscal risk	VERY HIGH (long term)

Source: Polackova (1998); Ministry of Finance of the Republic of Indonesia (2025); Directorate General of Taxes (DGT) (2026); Law No. 17/2003; [15]; author's analysis

Of the four scenarios in Table 4, the precedent risk is the most concerning from a long-term public finance perspective. If this Rp16.76 trillion commitment without DPR approval does not receive a corrective response from the legal and budgetary systems, it will set a precedent that weakens legislative control mechanisms over state finances, a serious setback for public finance reforms that have been underway since 2003.

Table 4 outlines several fiscal risk scenarios associated with financing the BoP commitment, including budget reallocation, additional government borrowing, and the implementation of multi-year payment arrangements. The empirical findings suggest that

each scenario carries different implications for fiscal stability and medium-term budget planning [19]. From a fiscal policy perspective, international financial commitments can constitute explicit government liabilities that must be incorporated into fiscal planning and risk management frameworks [20]. If such obligations are not formally integrated into fiscal risk documentation or medium-term fiscal frameworks, they may create additional pressure on budget management and reduce fiscal flexibility [21]. Consequently, transparent integration of international commitments into official fiscal planning documents becomes essential for maintaining sustainable public finance management [22].

### **International Comparison: Best Practices for International Financial Commitments**

To provide a comparative perspective, the following are the practices of several countries in managing unplanned international financial commitments:

Table 5. Comparison of Governance Practices for International Financial Commitments

Country	Control Mechanism	Minimum Requirement	Relevance for Indonesia
Germany	Bundestag Vote	Parliamentary approval for commitments > €50 million	Indonesia has a similar rule (Article 11(2) of the 1945 Constitution), but it was not applied in the BoP case
Australia	Parliamentary Joint Committee	Mandatory review for all treaties with fiscal implications	Equivalent to a DPR special committee mechanism that should have been activated
South Korea	National Assembly Ratification	Mandatory ratification for agreements imposing financial burdens on the state	Indonesia has Law No. 37/1999 with similar provisions, but it has not been optimized.
Indonesia (Expected)	Parliamentary Approval (Art. 11(2) of the 1945 Constitution)	Consultation + parliamentary approval before signing	Not implemented in the BoP case, the decision was taken unilaterally by the executive and only announced after signing

Sources: OECD (2025); Parliamentary Budget Office Australia (2024); National Assembly of Korea (2025); 1945 Constitution; Law No. 37/1999; author's analysis

The comparative data in Table 5 show that Indonesia already has legal instruments equivalent to those of countries that implement good governance in international financial commitments. The problem is not the absence of regulations, but rather the weak implementation and enforcement of existing regulations, a fundamental governance issue [23].

## **5. CONCLUSION**

### **Conclusion**

This study highlights that large-scale international financial commitments must be positioned within a disciplined public finance framework to avoid undermining domestic fiscal priorities. The analysis demonstrates that allocating substantial state resources to external obligations requires not only strategic justification but also strict adherence to budgeting procedures, transparency standards, and accountability principles. Without these

elements, such commitments risk weakening fiscal governance and reducing the effectiveness of public expenditure in achieving social welfare objectives.

From a theoretical perspective, this research reinforces the relevance of the value-for-money framework and fiscal accountability principles in evaluating government spending decisions, particularly those linked to international diplomacy. In practice, the findings underscore the importance of integrating external financial obligations into formal budgeting systems, fiscal risk assessments, and medium-term expenditure planning to preserve fiscal sustainability. Strengthening institutional coordination and legislative oversight is a critical step to maintaining checks and balances in public financial management.

This study is limited by its reliance on publicly available data and policy documents, which may not fully capture internal government considerations or confidential fiscal negotiations. In addition, the analysis focuses on a single policy case, limiting broader generalization across different countries or types of international commitments.

Future research is encouraged to expand comparative analysis across multiple countries to better understand how international financial commitments are managed within diverse fiscal systems. Further studies could also incorporate quantitative modeling of long-term fiscal impacts or explore the political economy dimensions that influence such decisions.

Overall, this research contributes to the broader public by offering a structured evaluation of how state financial decisions at the international level can affect domestic budget integrity, thereby supporting more informed policy discourse, improved governance practices, and greater public accountability.

## **Recommendations**

Based on the research findings, five evidence-based recommendations are proposed:

First, the DPR RI needs to schedule the right to ask questions immediately and, if necessary, to request an inquiry into the Minister of Finance and the Minister of Foreign Affairs to obtain a comprehensive explanation of the sources, mechanisms, and accountability for financing BoP commitments.

Second, the Supreme Audit Agency (BPK RI) needs to conduct a specific-purpose audit (ADTT) of the BoP commitment budgeting mechanism to ensure that no state expenditure occurs without a valid legal basis.

Third, the Fiscal Policy Agency (BKF) of the Ministry of Finance needs to incorporate BoP commitments into official fiscal risk documents as direct explicit liabilities and assess their impact on the 2026-2029 Medium-Term Fiscal Framework (MTFF).

Fourth, an International Financial Commitment Review Mechanism (IFCRM) is needed, a legislative mechanism that requires every international financial commitment above a certain threshold (for example, IDR 1 trillion) to undergo a fiscal review process and approval from the House of Representatives before being signed.

Fifth, in the medium term, Indonesia needs to develop a Sovereign Participation Policy that systematically regulates the criteria, procedures, and financial thresholds for

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selecting international forums to participate in, ensuring that each commitment is based on a measurable cost-benefit analysis rather than merely short-term diplomatic calculations.

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