

Budget Efficiency vs Public Service: A Critical Evaluation of Presidential Instruction No. 1 of 2025

Munawir ^{a*}, Agus Suherman ^b, Naufal Haidar Ahmada ^c

^{a*} Digital Business Study Program, Institut Teknologi dan Bisnis Muhammadiyah Bali, Denpasar City, Bali Province, Indonesia.

^b Public Administration Study Program, Faculty of Social and Political Sciences, Universitas Islam Syekh-Yusuf Tangerang, Tangerang City, Banten Province, Indonesia.

^c Urban and Regional Planning Study Program, Institut Teknologi dan Bisnis Muhammadiyah Purbalingga, Purbalingga Regency, Central Java Province, Indonesia.

ABSTRACT

This study evaluates Presidential Instruction No. 1/2025 on Budget Efficiency using William N. Dunn's policy evaluation model across five dimensions: effectiveness, efficiency, adequacy, responsiveness, and equity. The policy mandates IDR 256.1 trillion in budget cuts, including IDR 50.59 trillion in regional transfers. The qualitative-descriptive approach analyzes official policy documents, Ministry of Finance publications, Indonesia Corruption Watch data, and international literature on OECD fiscal consolidation practices. While aiming to reduce wasteful spending, the blanket-cutting approach—lacking performance-based evaluation and empirical evidence—threatens service delivery in education, health, and infrastructure. Regional transfer cuts undermine local autonomy and service capacity, particularly concerning given that 88% of regions depend on central transfers. Comparative analysis with Australia, Latvia, and Chile reveals that Presidential Instruction No. 1/2025 lacks critical mechanisms: ring-fencing protections, performance-based evaluation, results-driven incentives, and adequate compensation schemes. The study recommends temporary moratoriums for vital sectors, systematic spending review mechanisms, selective budget reduction targeting ineffective and leakage-prone programs, and strengthened institutional capacity for value-for-money budget management. Implementation requires strong political commitment, effective inter-governmental coordination, and robust information systems to achieve fiscal efficiency without sacrificing public service quality.

ABSTRAK

Penelitian ini mengevaluasi Instruksi Presiden Nomor 1 Tahun 2025 tentang Efisiensi Belanja menggunakan model evaluasi kebijakan William N. Dunn yang mencakup lima dimensi: efektivitas, efisiensi, kecukupan, responsivitas, dan pemerataan. Kebijakan mengamankan pemangkasan anggaran sebesar Rp256,1 triliun, termasuk pemotongan transfer ke daerah sebesar Rp50,59 triliun. Pendekatan kualitatif-deskriptif menganalisis dokumen kebijakan resmi, publikasi Kementerian Keuangan, data Indonesia Corruption Watch, dan literatur internasional tentang praktik konsolidasi fiskal negara-negara OECD. Meskipun bertujuan mengurangi pemborosan belanja, pendekatan pemotongan menyeluruh—tanpa evaluasi berbasis kinerja dan bukti empiris—mengancam penyediaan layanan di pendidikan, kesehatan, dan infrastruktur. Pemotongan transfer ke daerah melemahkan otonomi lokal dan kapasitas layanan, terutama mengingat 88% daerah bergantung pada transfer pusat. Analisis komparatif dengan Australia, Latvia, dan Chile mengungkapkan bahwa Instruksi Presiden No. 1/2025 tidak memiliki mekanisme krusial: proteksi ring-fencing, evaluasi berbasis kinerja, insentif berorientasi hasil, dan skema kompensasi memadai. Penelitian merekomendasikan moratorium sementara untuk sektor vital, mekanisme spending review sistematis, pengurangan anggaran selektif yang menargetkan program tidak efektif dan rentan kebocoran, serta penguatan kapasitas institusional untuk pengelolaan anggaran berbasis value for money. Implementasi memerlukan komitmen politik kuat, koordinasi antar-pemerintahan efektif, dan sistem informasi tangguh untuk mencapai efisiensi fiskal tanpa mengorbankan kualitas layanan publik.

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1. Introduction

With multi-level governance systems, Indonesia as a developing country has been facing challenges in state budget management and public service quality for a long time. Global economic dynamics and domestic fiscal pressures often put the government in a position where it has to choose between saving the budget or fulfilling the basic needs of its citizens. On January 22, 2025, President Prabowo Subianto issued Presidential Instruction (Inpres) Number 1 of 2025 regarding Budget Efficiency in the Implementation of State and Regional Budgets for Fiscal Year 2025. This policy required cuts from operational and non-operational expenditures in various ministries and agencies totaling IDR 256.1 trillion covering office operations, maintenance, official travel, government assistance, infrastructure development as well as equipment procurement (Presidential Instruction of the Republic of Indonesia Number 1 of 2025).

The issuance of Presidential Instruction No. 1/2025 has become a matter of debate among academics, practitioners in public policy, and civil society. On one side, budget efficiency is viewed as an advanced step toward diminishing wastage and increasing the value for money from public spending; however massive cuts to budgets raise fears about deteriorating standards of public service particularly within key sectors such as education, health care provision, and infrastructure development. The underpayment on Revenue Sharing Funds (DBH) amounts to IDR 13.9 trillion plus cuts on General Allocation Funds by IDR 15.6 trillion and Physical Special Allocation Funds (DAK) by IDR 18 trillion brings more complexity into the situation with a reduction in regional transfers amounting to IDR 50.59 trillion (Ministry of Finance, 2025). These cuts may threaten regional autonomy principles as well as local government capacity to deliver basic public services to communities which is mandated under Law Number 23 of 2014 concerning Regional Government.

Budget efficiency policy evaluation is a central theme in international public administration literature, as the budgetary consolidation process has a high impact on public services. According to Cournède *et al.* (2014) in their study on OECD countries, fiscal consolidation strategies involve reconciling three simultaneous objectives: fiscal discipline, economic growth and social equity. Unplanned budget cuts may have negative effects on citizens' welfare and their access to adequate services as emphasized by the research. Schakel *et al.* (2018) further support this finding by analyzing fiscal rules in 32 OECD countries; they found that tight management of the budget without protection mechanisms for vital sectors can worsen quality in public health services. Several countries have developed more structured spending review mechanisms in international practice. Hawkesworth *et al.* (2013) study budgeting practices from Chile integrating performance evaluation with budget allocation and Ketners (2020) documents Latvia's experience on implementation of spending reviews as an essential part of the public sector budgeting processes. Guillemette (2010) also proves that fiscal consolidation strategies worked out in Canada because it took into account very carefully the condition and structure of the economy of Canada. However, literature covering budget cuts impacts in decentralized countries such as Indonesia after Presidential Instruction 1/2025 is limited. Indonesia's fiscal vulnerability results from high dependency on budget transfers from central to regional governments which accounts for an average of 30-40 percent of total revenues at the regional level (Supreme Audit Agency, 2020). This gap should be filled since Indonesia has a peculiar fiscal structure where central-level efficiency policies can asymmetrically affect regional capacities to provide services.

This study uses Dunn policy evaluation model which consists of five dimensions: effectiveness, efficiency, adequacy, responsiveness, and equity. The reason for choosing Dunn model is because it is more suitable for assessing fiscal policies that have general impacts with trade-offs among criteria compared to Bardach's model

which is more concerned with analyzing policy alternatives or Patton & Sawicki's model which focuses on the rational stages in the policy process. Dunn model allows an integrated evaluation of interacting dimensions in public policy (Fischer & Miller, 2017). Dunn has used his evaluative approach in several studies concerning fiscal policy in developing countries. Makin *et al.* (2023) applied Dunn model to the evaluation of village-owned enterprise programs in Indonesia by stating that this approach could help identify trade-offs among evaluation dimensions and subsequently formulate adjustments to make policies more responsive to the needs of local communities. For fiscal policy, it would be relevant to use Dunn model to assess whether budget efficiency as achieved through Presidential Instruction 1/2025 is proportionate with its effects on responsiveness and equity of public services across regions. The perspective taken from Dunn model also aligns with the principles of performance-based budget management regarding accountability, accessibility, and fairness in allocating public resources particularly for sectors that directly affect citizens' lives such as health and education.

The budget efficiency policy was implemented by Indonesia Corruption Watch (ICW) in a rather hasty manner without an adequate assessment of the effectiveness and efficiency of previous budget use (Indonesia Corruption Watch, 2025). Meanwhile, Budiman *et al.* (2025) in their most recent study note that Presidential Instruction 1/2025 has great implications for regional government effectiveness and performance particularly related to fiscal capacity and regional ability to implement priority programs. These concerns lead us to a very fundamental question: Is Presidential Instruction No. 1 of 2025 appropriately balancing budget efficiency objectives with maintaining quality in public service? Based on this background along with identified research gaps, this study intends to: (1) analyze substance as well as implementation of Presidential Instruction No. 1/2025 through Dunn evaluation framework; (2) assess impacts from such policy toward varying qualities of public services across different sectors and regions; (3) look into implications brought about by such a policy on systems concerning regional governments plus fiscal autonomy; and finally (4) formulate evidence-based recommendations for improving budget efficiency policy without sacrificing public services. This research is expected to fill literature gaps regarding evaluations of fiscal policies in decentralized countries while also giving practical inputs toward policymakers for designing more balanced strategies on fiscal consolidations.

2. Methodology

This study employs a public policy analysis approach using qualitative-descriptive evaluative methods. The analytical framework adopts Dunn's (2018) policy evaluation model, which encompasses five dimensions: effectiveness, efficiency, adequacy, responsiveness, and equity. The approach was selected to provide thorough assessment of Presidential Instruction No. 1/2025 implementation and its impact on public services and regional government systems. Dunn's model has proven effective in evaluating fiscal policies across various settings, including studies of local development programs requiring trade-off analysis among evaluation dimensions (Makin *et al.*, 2023). The use of qualitative evaluative methods also aligns with approaches in the Handbook of Public Policy Analysis, which emphasizes the necessity of contextual and interpretative analysis in understanding public policy impacts (Fischer & Miller, 2017).

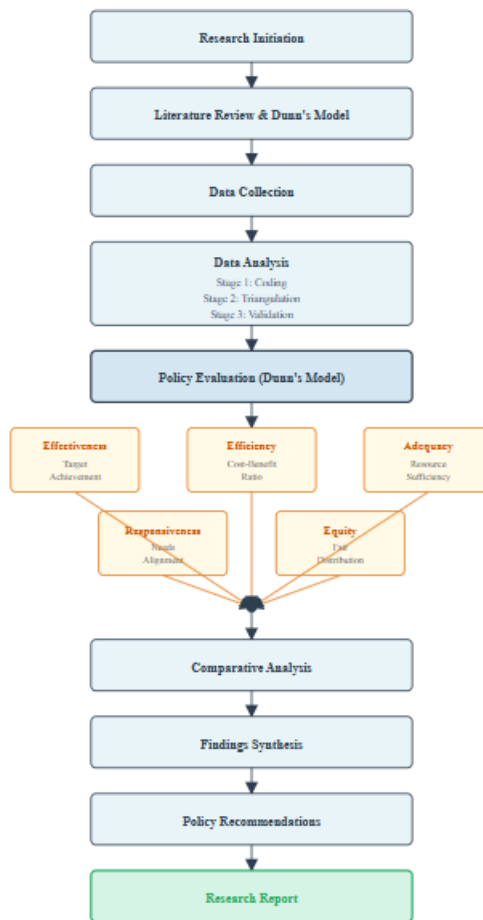


Figure 1. Research Flowchart

2.1 Data Collection Techniques

Primary data were obtained through analysis of official policy documents, including the complete text of Presidential Instruction Number 1 of 2025 concerning Budget Efficiency in the Implementation of State and Regional Budgets for Fiscal Year 2025, Minister of Finance Decree Number 43 of 2025 on Adjustment of State Budget for Fiscal Year 2025, and the Ministry of Home Affairs Circular on Adjustment and Efficiency of Regional Expenditure in Regional Budget FY 2025. Policy document analysis is essential for understanding the substance, implementation mechanisms, and targets established in the budget efficiency policy. Secondary data were collected from various sources, including: (1) official publications from the Ministry of Finance, particularly the Directorate General of Treasury (DJPB) regarding strategic steps and challenges in budget implementation post-efficiency measures; (2) evaluation reports from Indonesia Corruption Watch (ICW) on budget cut impacts; (3) analyses from the Regional Autonomy Implementation Monitoring Committee (KPPOD) related to policy implications for regional government effectiveness and performance; (4) Supreme Audit Agency (BPK) reports on central government financial management; and (5) academic studies and international literature on fiscal consolidation practices and spending reviews in OECD countries (Cournède *et al.*, 2014; Guillemette, 2010; Hawkesworth *et al.*, 2013; Ketners, 2020; Schakel *et al.*, 2018). Data collection from multiple sources enables triangulation to enhance research findings' validity and credibility.

2.2 Data Analysis Techniques

Data analysis was conducted through three crucial stages to ensure evaluation results' credibility and reliability. First, coding was performed on policy documents and statistical data based on Dunn's five model dimensions: effectiveness, efficiency, adequacy, responsiveness, and equity. Each data segment was categorized according to relevant evaluation dimensions to facilitate systematic analysis of policy implementation and impact. The coding follows thematic content analysis approaches that enable identification of patterns and main themes in policy data (Fischer & Miller, 2017). The process includes: (a) content analysis to identify policy substance, cut targets, affected sectors, and implementation mechanisms established in policy documents; (b) impact analysis to evaluate policy implications for public services across various sectors (education, health, infrastructure) and regional government systems, focusing on changes in fiscal capacity and regional ability to implement priority programs; and (c) comparative analysis with budget efficiency practices and spending reviews in other countries, particularly Chile's experience in integrating performance evaluation with budget allocation (Hawkesworth *et al.*, 2013), Latvia's implementation of spending reviews as an essential part of budgeting (Ketners, 2020), and Canada's design of fiscal consolidation strategies considering economic structure (Guillemette, 2010), to provide international perspective and policy learning. Second, data triangulation was conducted by cross-referencing information from government documents, publications from independent institutions such as KPPOD and ICW, BPK reports, and academic studies to verify findings' consistency and validity. Triangulation techniques are essential for reducing bias and improving data quality, as applied in various public policy evaluation studies requiring confirmation from multiple sources (Fischer & Miller, 2017). Triangulation also helps identify gaps between designed policy (policy as designed) and actual implementation (policy as implemented), as well as between policy objectives and impacts experienced by stakeholders. Third, findings validation was strengthened through member checking processes involving fiscal policy experts from universities and independent research institutions to ensure that interpretations and conclusions drawn from data reflect policy implementation reality. The process also involves discussions with public policy practitioners to obtain implementative and contextual perspectives that enrich the analysis. Member checking represents a crucial strategy in qualitative research to enhance research results' credibility and trustworthiness.

Table 1: Operationalization of Dunn's Evaluation Dimensions

Evaluation Dimension	Operational Definition	Indicators	Data Sources	Analysis Technique
Effectiveness	The extent to which policy objectives of budget efficiency are achieved through Presidential Instruction No. 1/2025	<ol style="list-style-type: none"> Achievement of budget cut target (IDR 256.1 trillion) Accuracy of targeted sectors for efficiency Compliance rate of ministries/agencies with the instruction Timeline of implementation 	<ul style="list-style-type: none"> Presidential Instruction No. 1/2025 Ministry of Finance reports BPK audit reports 	Content analysis; Comparative analysis of budget realization pre- and post-policy
Efficiency	The ratio	1. Proportionality	• Minister of	Proportional

	between resources sacrificed (budget cuts) and benefits obtained (improved fiscal sustainability without compromising service quality)	of cuts across sectors	Finance Decree No. 43/2025	analysis; Cross-sectoral comparison; Cost-benefit assessment
		2. Cost-benefit ratio of efficiency measures	• Ministry of Home Affairs	
		3. Administrative costs of policy implementation	• Circular budget reports	
		4. Rationality of allocation reduction relative to public service functions		
Adequacy	Sufficiency of remaining fiscal resources post-budget cuts to meet minimum service standards and public needs	1. Availability of resources for service standards (education, health)	• KPPOD reports • Regional government financial reports • Ministry sectoral data • BPS statistics	Gap analysis; Needs assessment; Service standard compliance evaluation
		2. Gap between needs and available budget post-cuts		
		3. Impact on infrastructure development programs		
		4. Capacity to maintain operational services		
Responsiveness	The degree to which the policy accommodates actual public needs and specific conditions of different regions	1. Alignment with priority public needs	• ICW evaluation reports	Stakeholder analysis; Regional case studies; Policy-needs alignment assessment
		2. Flexibility mechanisms for regional variations	• KPPOD analysis • Regional government responses	
		3. Stakeholder consultation process	• Stakeholder feedback	
		4. Grievance and adjustment mechanisms		
		5. Consideration of regional fiscal capacity differences		
Equity	Fair distribution of budget cut	1. Distribution pattern of cuts	• Ministry of Finance	Disparity analysis;

burdens across regions and sectors, and implications for fiscal capacity gaps	across regions (advanced vs. disadvantaged)	transfer data	Distribution equity
	2. Impact on interregional fiscal capacity disparities	• Regional fiscal capacity reports	assessment; Regional autonomy impact evaluation
	3. Transfer to regions reduction (IDR 50.59 trillion)	23/2014 on Regional Government	
	4. Implications for regional autonomy principles	• Interregional comparison studies	
	5. Access to public services across different regions		

2.3 Evaluation Framework

Policy evaluation uses operational indicators derived from Dunn's five model dimensions, covering: (1) effectiveness, measured from the accuracy of budget cut targets and achievement of efficiency objectives established in Presidential Instruction 1/2025; (2) efficiency, assessed from proportionality of cuts across sectors and rationality of budget reduction allocation to public service functions; (3) adequacy, evaluated from availability of fiscal resources post-cuts to meet minimum service standards in various sectors, especially education and health; (4) responsiveness, analyzed from policy alignment with actual community needs and policy capacity to accommodate specific conditions of different regions; and (5) equity, examined from distribution of cut burdens across regions and implications for fiscal capacity gaps between advanced and disadvantaged areas, as well as impacts on regional autonomy principles as mandated in Law Number 23 of 2014. The evaluation framework also considers availability of risk mitigation mechanisms and protection for vital sectors, referring to international practices that demonstrate the necessity of protection mechanisms in fiscal consolidation policies to prevent public service quality decline (Cournède *et al.*, 2014; Schakel *et al.*, 2018). The analysis aims to produce evidence-based policy recommendations for improving budget efficiency implementation in the future, considering the balance among fiscal discipline, public service quality, and fair distribution of consolidation burdens.

3. Results

3.1 Substance of Presidential Instruction No. 1 of 2025

Presidential Instruction Number 1 of 2025, enacted on January 22, 2025, mandates budget efficiency in the implementation of State and Regional Budgets for Fiscal Year 2025. The policy targets Ministers of the Red and White Cabinet, Commander of the Indonesian National Armed Forces, Chief of National Police, Attorney General, Heads of Non-Ministerial Government Agencies, Leaders of State Institution Secretariats, Governors, and Regents/Mayors. The instruction mandates budget cuts totaling IDR 256.1 trillion, encompassing review and efficiency of expenditure budgets according to each institution's duties, functions, and authorities. Budget expenditure cuts include operational and non-operational spending consisting of at least: (1) office operational expenditure; (2) maintenance expenditure; (3) official travel; (4) government assistance;

(5) infrastructure development; and (6) equipment and machinery procurement.

3.2 Budget Cut Data and Affected Sectors

Based on Minister of Finance Decree Number 43 of 2025, cuts to regional transfers reached IDR 50.59 trillion with the following breakdown: Revenue Sharing Funds (DBH) cut by IDR 13.9 trillion, General Allocation Funds by IDR 15.6 trillion, and Physical Special Allocation Funds (DAK) by IDR 18 trillion. These cuts directly impact regional government fiscal capacity in providing public services. According to Indonesia Corruption Watch (ICW) data, procurement planning budgets at the Ministry of Defense, National Police, and Attorney General's Office reached IDR 49.6 trillion. With estimated project fee practices around 5-15 percent, potential state budget leakage in these three institutions reaches IDR 2.4-7.4 trillion. However, Presidential Instruction No. 1 of 2025 does not specifically target sectors with high inefficiency potential, revealing weaknesses in policy targeting (Fischer & Miller, 2017).

3.3 Stakeholder Responses and Initial Implementation

The Regional Autonomy Implementation Monitoring Committee (KPPOD) notes that the policy contradicts regional autonomy strengthening principles. KPPOD Executive Director, Budiman *et al.* (2025), emphasizes that proceeds from cuts are directed toward central government priority programs, even though regional governments have their own priority programs. Various regions have begun implementing the policy by adjusting their regional budgets. However, initial implementation reveals significant challenges, particularly regarding reduced allocations for infrastructure and basic public services. Several regions report difficulties in maintaining service quality with drastically cut budgets. These findings align with Makin *et al.* (2023), who emphasize the necessity of program evaluation based on local potential utilization in decentralization settings. Indonesia Corruption Watch criticizes that budget efficiency policy was implemented without thorough evaluation of previous budget use effectiveness and efficiency. The approach potentially affects public services and may lead to declining community welfare, particularly in regions heavily dependent on central government transfers. The necessity of data-based evaluation in public policy is also emphasized by Cahyaningsih *et al.* (2025) in the framework of data quality measurement for policy decision-making.

4. Discussion

4.1 Impact on Public Services

Presidential Instruction No. 1 of 2025 creates substantial consequences for public service quality across Indonesia. The blanket budget reduction approach, executed without performance-based evaluation, threatens to lower service standards in critical sectors. Infrastructure budget cuts directly obstruct ongoing development projects and limit public access to essential facilities (Deni, 2019). Education and health sectors face the most severe vulnerabilities under the policy framework. Reduced budget allocations affect facility provision, human resource capacity building, and the quality of human development programs. Regional data reveals that Special Allocation Fund (DAK) reductions have forced local governments to postpone or cancel school construction, community health center development, and other public infrastructure projects. Schakel *et al.* (2018) examined 32 OECD countries and found that rigid fiscal rules lacking protective measures generate adverse effects on health budgets and public service delivery. The most pronounced negative consequence manifests as deteriorating service quality, particularly when budget cuts occur uniformly without considering program priorities and urgency levels. Such an approach contradicts the fundamental governmental responsibility to deliver optimal services to citizens (Fischer & Miller, 2017).

4.2 Policy Effectiveness Evaluation

Presidential Instruction No. 1 of 2025 exhibits several fundamental weaknesses from an effectiveness standpoint. The policy lacks foundation in rigorous evaluation of budget utilization efficiency across different sectors. Without establishing clear baseline measurements, determining appropriate and proportional reduction targets becomes problematic. Sarah & Abbas (2024) stress that evidence-based assessment of policy effectiveness remains essential for achieving stated objectives. The blanket cutting methodology fails to account for efficiency variations among sectors and institutions. Organizations with strong efficiency records receive identical treatment to those plagued by budget governance problems, potentially creating disincentives for institutions that have demonstrated responsible fiscal management. Guillemette (2010) analyzed fiscal consolidation strategies and emphasized the necessity of differentiated approaches reflecting individual sector performance characteristics. The policy also lacks adequate risk mitigation frameworks to ensure that budget efficiency measures do not compromise service delivery outcomes. The focus remains predominantly on input reduction rather than output quality and societal welfare outcomes. Cournède *et al.* (2014) argue that fiscal consolidation must balance economic growth objectives with social equity considerations to prevent long-term detrimental effects. Without such balance, short-term savings may generate far greater costs through diminished human capital development and reduced economic productivity.

4.3 Implications for Regional Autonomy

The IDR 50.59 trillion reduction in regional transfers generates serious ramifications for regional autonomy throughout Indonesia. Supreme Audit Agency (BPK) data from 2020 indicates that 88% of regions maintain substantial dependence on central government transfers, making these reductions severely disruptive to local fiscal capacity. Budget reallocation from regional priorities toward central government programs directly contradicts decentralization principles and regional autonomy provisions established in Law No. 23 of 2014. The practice effectively creates *de facto* recentralization in budget management and regional development planning. Makin *et al.* (2023) demonstrate that regional autonomy plays a vital role in leveraging local potential for sustainable development outcomes. By redirecting resources away from locally-determined priorities, the policy undermines the foundational logic of decentralization and potentially reverses decades of progress in empowering local governance structures.

4.4 International Practice Comparison

Comparative analysis with countries that have implemented budget efficiency reforms reveals the value of measured, incremental approaches. Nations such as Singapore and Australia conduct thorough spending reviews before executing budget adjustments, prioritizing reductions in programs with minimal public service impact. These international experiences offer valuable lessons for Indonesia's fiscal policy development. Australia's spending review practices demonstrate how protection mechanisms ensure efficient resource allocation without compromising service quality. The 2014 Expenditure Review applied ring-fencing principles to health and education sectors, enabling the country to achieve fiscal efficiency while maintaining service standards (Cournède *et al.*, 2014). Australia implemented Zero-Based Budgeting (ZBB) in 2020, creating incentive structures where ministries achieving budget savings while improving service delivery received rewards. The framework postponed budget reductions when service indicators fell below national standards, establishing transparent compensation systems (Hunter, 2010). Such mechanisms ensure that efficiency gains do not come at the expense of public welfare. Latvia's spending review experience emphasizes that protective frameworks are necessary to align resource allocation with broader policy goals. Ketners (2020) found that continuous evaluation

and adjustment of budget expenditures improve state spending efficiency and generate better societal outcomes. Latvia integrated spending reviews as core components of public sector budgeting, incorporating evidence-based evaluation and stakeholder engagement. The approach identifies specific inefficiency areas without imposing uniform cuts that could damage service provision (Ketners, 2020). Chile adopted spending reviews based on program evaluation and institutional performance assessment. Hawkesworth *et al.* (2013) documented how Chile employs rigorous evaluation systems to identify underperforming programs before reallocating resources, ensuring that budget reductions occur selectively and rest on solid evidence. These international practices contrast sharply with Presidential Instruction 1/2025, which lacks explicit compensation mechanisms and performance-based evaluation frameworks. Fiscal policy evaluation through spending reviews in Australia, Latvia, and Chile demonstrates that protection and compensation structures are essential for preserving service quality (Ketners, 2020; Hunter, 2010; Cournède *et al.*, 2014). Performance-based incentives and stakeholder participation enhance implementation effectiveness and responsiveness to community needs. Australian and Latvian reform experiences offer practical guidance for Indonesia in developing successful, sustainable spending review practices (Ketners, 2020; Guillemette, 2010). International best practices reveal several key requirements: evidence-based evaluation mechanisms to pinpoint inefficiency areas; ring-fencing systems protecting priority sectors; performance-based incentives encouraging efficiency improvements; and compensation mechanisms for affected regions. These approaches achieve fiscal efficiency without sacrificing service quality and development outcomes (Fischer & Miller, 2017; Schakel *et al.*, 2018).

5. Conclusion and Recommendations

Analysis of Presidential Instruction No. 1 of 2025 reveals that while the budget efficiency policy aims to reduce state expenditure waste, its implementation generates several serious problems requiring careful attention. The blanket cutting approach operates without performance-based evaluation and evidence, potentially diminishing public service effectiveness. Fischer & Miller (2017) emphasize that effective public policy must rest on thorough, evidence-based analysis. The significant IDR 50.59 trillion reduction in regional transfers threatens regional autonomy principles and local government capacity to provide basic services to communities, contradicting the decentralization spirit that Makin *et al.* (2023) identify as essential for leveraging local potential. The research demonstrates that hasty budget efficiency policies implemented without careful impact and risk analysis create negative trade-offs between fiscal savings and public service quality. Schakel *et al.* (2018) found that strict fiscal rules lacking protection mechanisms adversely affect health budgets and public service outcomes across 32 OECD countries studied. Such conditions violate good governance principles prioritizing public interest and societal welfare, diverging from international best practices applied in countries like Australia and Latvia, which employ ring-fencing mechanisms and performance-based evaluation before executing budget cuts (Cournède *et al.*, 2014; Ketners, 2020). From a policy appropriateness perspective, Presidential Instruction No. 1 of 2025 cannot be considered suitable because it fails to account for efficiency variations across sectors, provides inadequate risk mitigation mechanisms, and potentially disrupts public service stability at regional levels. Sarah & Abbas (2024) stress the necessity of evidence-based policy effectiveness assessment to ensure objective achievement, which remains absent in the instruction's implementation. The policy also neglects to adopt thorough spending review approaches practiced in Chile, which uses rigorous evaluation systems to identify ineffective programs before reallocating budgets (Hawkesworth *et al.*, 2013). The

absence of compensation mechanisms and performance-based incentives as implemented in Australia through Zero-Based Budgeting (Hunter, 2010) represents a fundamental weakness that may create disincentives for institutions managing budgets efficiently.

Based on research findings and lessons from international best practices, several structured policy improvements are recommended. Short-term measures should include a temporary moratorium on budget cuts in vital sectors such as education, health, and basic infrastructure until thorough evaluation occurs, recognizing the necessity of protecting priority sectors as Australia demonstrates through ring-fencing mechanisms (Cournède *et al.*, 2014). Risk mitigation mechanisms must be developed to ensure public service continuity during the budget efficiency transition period, adopting Latvia's approach of continuous revaluation and adjustment of budget expenditures (Ketners, 2020). The government should provide flexibility for regions with high transfer dependency to adjust implementation according to local conditions, considering that 88% of regions still rely on central transfers, making one-size-fits-all approaches ineffective and potentially harmful to local public services.

Medium-term recommendations require developing a thorough spending review system based on program performance evaluation and expenditure effectiveness, following Latvia's practice of integrating spending reviews as essential components of public sector budgeting processes involving evidence-based evaluation and stakeholder participation (Ketners, 2020). Selective budget cutting approaches focusing on programs proven ineffective or exhibiting high leakage potential should be applied, particularly given ICW data showing potential budget leakage reaching IDR 2.4-7.4 trillion in three institutions (Ministry of Defense, Police, and Attorney General's Office), yet these sectors were not specifically targeted in the instruction. Guillemette (2010) emphasizes the necessity of differentiated approaches based on individual sector performance in fiscal consolidation strategies to avoid unnecessary negative impacts. Strengthened monitoring and evaluation systems must ensure that budget efficiency does not sacrifice public service outcomes, adopting clear performance indicator systems as Australia applies, postponing budget cuts when service indicators fall below national standards (Hunter, 2010).

Long-term recommendations necessitate developing a sustainable budget efficiency policy framework involving stakeholder participation and evidence-based approaches, aligning with public policy analysis principles articulated by Fischer & Miller (2017), who emphasize the necessity of involving various parties in policy processes to ensure legitimacy and effectiveness. Strengthening institutional capacity in budget management at central and regional levels through planning and budgeting system reforms becomes crucial, particularly within Indonesia's decentralization framework requiring adequate technical capabilities at local levels as Makin *et al.* (2023) emphasize regarding local capacity in utilizing regional potential. Integrating value for money principles throughout the entire budget management cycle to ensure balance between efficiency and effectiveness must form the foundation of state financial management reform, adopting best practices from Chile's rigorous program performance-based evaluation system (Hawkesworth *et al.*, 2013). Developing integrated, quality information systems also becomes an essential prerequisite, as Cahyaningsih *et al.* (2025) emphasize regarding data quality in effective policy decision-making.

Implementing these recommendations requires strong political commitment from all government levels, effective coordination across governmental tiers to ensure central and regional policy synchronization, and adequate information system support for continuous monitoring and evaluation to ensure budget efficiency policies achieve objectives without sacrificing public service quality and societal welfare. International experience demonstrates that fiscal reform success depends heavily on measured,

gradual, evidence-based approaches with adequate protection mechanisms for priority sectors and vulnerable regions (Cournède *et al.*, 2014; Ketners, 2020; Hunter, 2010). Therefore, revising Presidential Instruction No. 1 of 2025 or formulating more operational derivative policies considering these aspects becomes essential to ensure budget efficiency objectives are achieved optimally without generating counterproductive negative impacts on public services and national development.

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