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THE MULTIPLIER MIRAGE: THE POLITICAL ECONOMY OF PUBLIC PROCUREMENT AND FISCAL CENTRALIZATION IN INDONESIA'S 2026 STATE BUDGET

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Abstract:
The 2026 Indonesian State Budget (APBN) represents a profound paradigm shift in the nation's fiscal strategy, departing from two decades of progressive decentralization in favor of a highly centralized, front-loaded expenditure model. This pivot is primarily operationalized through two massive socioeconomic initiatives: the Free Nutritious Meal (Makan Bergizi Gratis – MBG) program and the consolidation of subsidized goods distribution via the Red and White Village Cooperatives (Koperasi Desa Merah Putih – KDMP). Grounded in the theoretical promise of leveraging the demographic dividend to maximize government spending multipliers, these programs aim to stimulate regional economies and mitigate deflationary pressures inherited from early 2025. However, early implementation reveals a macroeconomic paradox: unprecedented state expenditure coexisting with stagnant domestic aggregate demand and regional liquidity starvation. This paper utilizes a political economy framework to analyze this discrepancy, conceptualized here as the "multiplier mirage." By examining the mechanisms of public procurement, this study identifies severe institutional bottlenecks characterized by both active waste (rent-seeking and opaque vendor appointments) and passive waste (administrative centralization and supply chain monopolization). Anchored in foundational literature on fiscal multipliers in developing nations and the mechanics of state clientelism, the analysis concludes that bypassing transparent e-procurement systems and crowding out local agricultural supply chains effectively extracts wealth from the regions rather than stimulating them. The paper argues that without immediate structural reforms—specifically, mandatory open electronic contracting and the enforcement of localized sourcing quotas—the intended fiscal stimulus will continue to be intercepted by systemic inefficiencies, ultimately jeopardizing Indonesia's macroeconomic stability.

Keywords: Indonesia, APBN 2026, Public Procurement, Fiscal Multiplier, Decentralization

INTRODUCTION

In the aftermath of the severe deflationary pressures that characterized the Indonesian economy in early 2025, the government's fiscal strategy for 2026 marks a historic and aggressive pivot. Abandoning the traditionally gradual and decentralized mechanisms of regional transfers (Transfer ke Daerah - TKD) and organic Village Funds (Dana Desa), the 2026 State Budget (APBN) relies heavily on a massive, centralized, and front-loaded expenditure model (BRIGHTS, 2025; Salam & Anugrahanto, 2025). The cornerstones of this fiscal expansion are the Free Nutritious Meal

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program (MBG), administered by the newly empowered National Nutrition Agency (Badan Gizi Nasional BGN, formally established via Perpres No. 83/2024), and the systemic consolidation of subsidized goods distribution through a state-sponsored network known as the Red and White Village Cooperatives (KDMP) (Hapsari & Ismoyo, 2024; Strategics, 2026).

With a combined budgetary allocation representing a massive share of state expenditure for the 2025–2026 transition period, the political economy rationale appears theoretically sound: utilize vast state consumption to directly stimulate grassroots economies, improve human capital, and generate a robust fiscal multiplier effect (Trading Economics, n.d.). Theoretically, direct state investment in youth nutrition and local cooperative logistics should yield high economic returns. However, macroeconomic observation of the domestic market reveals a stark disconnect. The anticipated economic momentum has stalled, giving rise to a phenomenon this paper identifies as a "multiplier mirage."

Despite record daily expenditures by the central government, aggregate domestic demand remains weak, the private sector is under acute pressure, and regional economies report severe liquidity starvation. This article investigates this macroeconomic paradox by analyzing the institutional architecture connecting state capital to the domestic market: the public procurement system.

This study is scoped to the institutional and macroeconomic analysis of Indonesia's 2026 APBN, with a specific focus on the implementation failures of the Free Nutritious Meal (MBG) and Red and White Village Cooperatives (KDMP) programs. While not an exhaustive macroeconomic audit, the research limits its analysis to the structural bottlenecks inherent in centralized public procurement systems. The study employs a dual theoretical framework, synthesizing Keynesian fiscal multiplier theory, specifically regarding demographic-linked consumption, with the political economy of procurement waste as conceptualized by Bandiera, Prat, and Valletti (2009). Methodologically, this paper adopts a qualitative analytical approach, utilizing descriptive institutional mapping and theoretical application to evaluate how mechanisms of active and passive waste disrupt the intended economic stimuli.

The central research question driving this inquiry is: To what extent does the centralized fiscal architecture of the 2026 APBN influence the efficacy of local economic multipliers in Indonesia? This study contributes to the literature by providing a structural analysis of the 2026 APBN, distinguishing its specific institutional design from previous decentralization efforts and highlighting unique procurement bottlenecks that act as institutional friction. To answer this, this paper deploys a political economy lens to evaluate the vendor appointment processes and distribution frameworks within the MBG and KDMP programs. Extant literature on developing economies has long established that the effectiveness of public spending is inextricably linked to the quality of the institutions managing the funds (Mauro, 1995; Rodrik, 2008). By applying theoretical models of active and passive waste in public procurement (Bandiera et al., 2009), this paper argues that structural opacity, persistent rent-seeking behavior, and hyper-centralization are acting as severe economic leakages. These institutional frictions effectively destroy the velocity of money at the local level, allowing capital to be captured by centralized elites rather than circulating within the grassroots economy.

THEORETICAL FRAMEWORK

The expectation that massive social programs will catalyze broad economic growth is rooted in Keynesian multiplier theory, specifically modified for demographic structures. The fiscal multiplier measures the ratio of a change in national income to the change in government spending that causes it.

Recent macroeconomic literature has established that these multipliers are not static; they are highly dependent on the demographic structure of the target population. Basso and Rachedi (2021) demonstrate that government spending multipliers are highly age-dependent; expenditures targeting younger populations tend to generate significantly higher localized multipliers (often exceeding 1.5). This occurs because youth-oriented spending—such as education and nutrition—simultaneously stimulates immediate local supply chains (e.g., agriculture, food logistics) and boosts long-term future productivity. In a targeted study of school meal programs in developing contexts, Afridi (2010) highlighted how mandated nutritional programs can activate robust localized agricultural economies if properly integrated with local supply lines.

Therefore, on paper, a national school meal program serving millions of beneficiaries is an optimal mechanism to maximize the multiplier effect of government spending in Indonesia. However, empirical macroeconomic consensus warns that the output effect of government consumption is systematically smaller in developing economies than in advanced ones. Ilzetzki, Mendoza, and Végh (2013) found that the fiscal multiplier in developing countries is often close to zero, and sometimes even negative.

This diminished multiplier is primarily driven by "leakages"—situations where state capital fails to circulate within the domestic economy. While traditional macroeconomic literature focuses on high import propensity, exchange rate volatility, or sovereign debt levels as the primary leakages (Kraay, 2012), this paper extends the framework to identify institutional and procurement friction as the dominant leakage in Indonesia’s fiscal structure. When the state injects capital, but the procurement mechanisms are captured or inefficient, the money does not reach the intended local actors (farmers, local logistics providers), thereby severely depressing the multiplier effect.

To understand the failure of capital transmission within the state budget, we must evaluate the efficiency of the state’s purchasing mechanisms. Government procurement is highly susceptible to inefficiency due to the principal-agent problem: the government (agent) is spending the public's (principal) money, leading to misaligned incentives. Bandiera, Prat, and Valletti (2009) provide a foundational framework for this analysis by categorizing the economic cost of public services into two distinct typologies: "active waste" and "passive waste."

Active waste is defined as systemic inefficiency from which public decision-makers, bureaucrats, or politically affiliated networks derive direct personal or political utility. This encompasses classical corruption, bribery, nepotism, and targeted mark-ups. In the context of developing economies, active waste is often the result of deeply entrenched clientelistic networks (Rose-Ackerman, 1999). In Indonesia, the political economy is heavily influenced by alliances between political and business elites. Fisman (2001) demonstrated the massive economic value of political connections in Indonesia, showing how corporate valuations are intrinsically tied to political patronage. Furthermore, Kristiansen and Ramli (2006) and Henderson and Kuncoro (2004) have mapped how rent-seeking behavior permeates the Indonesian civil service and public contracting sectors. When the state rapidly scales up expenditure without corresponding checks and balances, the procurement apparatus becomes highly susceptible to capture by these rent-seeking elites (Shleifer & Vishny, 1993). Active waste manifests when contracts are awarded not to the most efficient provider, but to the most politically connected one, resulting in inflated costs and substandard public goods (Kenny, 2009).

Conversely, passive waste arises without deliberate corrupt intent. It is the inefficiency generated by excessive red tape, lack of regulatory clarity, poorly designed monopolies, and insufficient systemic capacity (Bandiera et al., 2009). In many public procurement systems, passive waste actually accounts for a larger share of fiscal loss than active corruption. Acemoglu, Johnson, and Robinson (2001) frame this dynamic through the broader lens of institutional quality and extractive behavior—systems designed to concentrate power and resources, rather than creating broad-based incentives for economic participation. When a government enforces top-down monopolies (such as exclusive mandates for state cooperatives), it creates massive passive waste. By deliberately crowding out organic, existing market mechanisms in favor of an untested, centralized bureaucratic entity, the state generates administrative bottlenecks that destroy economic efficiency.

METHODS

Data Selection and Coding Procedure: The analysis utilizes a rigorous document analysis of primary state documents (including APBN 2026 and Perpres No. 83/2024), academic literature, and civil society reports. Sources were triangulated to ensure data consistency. The coding procedure applied the typology of Bandiera et al. (2009), systematically categorizing evidence into "Active Waste" (e.g., non-transparent vendor selection, e-catalogue circumvention) and "Passive Waste" (e.g., logistical bottlenecks, supply chain monopolization).

Limitations: As the 2026 fiscal year is an ongoing event, this analysis provides structural and institutional diagnostics. Observations regarding growth and deficit outcomes are preliminary, and findings should be viewed as analytical indications of potential risk rather than conclusive historical evidence.

To investigate the divergence between the theoretical goals of the 2026 APBN and its observed macroeconomic outcomes, this study employs a qualitative case study design grounded in institutional political economy. This approach is highly suitable for examining complex, contemporary phenomena within their real-life contexts, particularly when the boundaries between the phenomenon and the context are not clearly evident (Yin, 2018).

Given the contemporary nature of the 2026 fiscal pivot, data collection primarily relies on rigorous document analysis. Document analysis is a systematic procedure for reviewing and evaluating both printed and electronic documents to extract empirical meaning and develop empirical knowledge (Bowen, 2009). The data corpus was categorized into three distinct tiers of Primary State and Legislative Document, Macroeconomic Datasets, and Institutional and Civil Society Reports

The extracted data was subjected to thematic analysis, a method for identifying, analyzing, and reporting patterns within data (Braun & Clarke, 2006). The coding framework was directly derived from Bandiera et al.'s (2009) typology of public sector waste. Active Waste Data points indicating non-transparent vendor selection, circumvention of LKPP e-catalogues, price mark-ups, and the appointment of politically affiliated foundations Passive Waste data points indicating logistical delays, supply chain monopolization, debt assumption by the state, and the crowding out of local SMEs. Macroeconomic Impact data points tracking the flow of capital (e.g., centralized capital accumulation versus regional liquidity starvation). By synthesizing these coded themes, the study mapped the institutional frictions that intercept the transmission of state capital to the grassroots economy.

It is imperative to acknowledge that the 2026 fiscal year is an ongoing macroeconomic event. Consequently, the data regarding final localized economic growth figures and definitive fiscal

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deficit outcomes are preliminary. However, analyzing the structural architecture of the procurement systems allows for highly valid predictive and diagnostic assessments of policy efficacy, ensuring the study remains robust despite the chronological limitations.

RESULT AND DISCUSSION

Historical and Institutional Context: The Pendulum of Decentralization

To fully comprehend the structural risks inherent in the 2026 APBN, it is necessary to contextualize it within Indonesia's historical fiscal trajectory. Following the collapse of the authoritarian New Order regime in 1998, Indonesia embarked on one of the most rapid and comprehensive decentralization programs in modern history, colloquially termed the "Big Bang" decentralization (Fitrani et al., 2005).

The primary objective of laws enacted in 1999 and implemented in 2001 was to shift political and fiscal power away from Jakarta to the district and municipal levels. This was driven by the rationale that local governments possess superior informational advantages regarding the needs of their constituencies, thereby enabling more efficient resource allocation and public service delivery (Lewis, 2017). For over two decades, fiscal stimulus was largely channeled through decentralized transfer mechanisms. This paradigm was further deepened with the introduction of direct fiscal transfers (Dana Desa) to Indonesia's tens of thousands of villages, intending to trigger highly localized economic multipliers by funding community-led infrastructure and empowerment projects (Rehema, 2026).

However, Indonesian decentralization was not without profound political economy challenges. As Hadiz (2004) and Aspinall and Berenschot (2019) have extensively documented, the decentralization of state funds was frequently accompanied by the decentralization of corruption and clientelism. Local elites and predatory alliances successfully adapted to the new democratic institutions, capturing state resources through manipulated local procurement and vote-buying networks.

Despite these inefficiencies, the decentralized model ensured that a significant portion of state capital remained geographically dispersed. Even when captured by local elites, the capital often circulated within the regional economy, sustaining a baseline level of local liquidity.

The current fiscal framework represents a drastic reversal of this two-decade trend. By executing massive programs like the MBG and KDMP through top-down mandates and centralized vendor appointments, the state has effectively re-centralized vast swathes of public expenditure. This pivot fundamentally alters the political economy of Indonesia, moving away from localized patronage networks back toward potential for centralized resource allocation and governance risks—a shift that has immediate and severe consequences for the domestic macroeconomic multiplier.

Structural Analysis of the 2026 Fiscal Pivot

Applying these theoretical frameworks to the empirical realities of the 2026 APBN reveals deep structural flaws in the implementation of the MBG and KDMP programs. The transition from policy design to policy execution has been severely compromised by both active and passive waste.

The MBG program requires an unprecedented logistical undertaking, necessitating the rapid establishment of thousands of Nutritional Service Units (SPPG) and the daily procurement of massive quantities of perishable goods. However, the political expediency demanded by the administration to launch the program at an aggressive scale resulted in a critical regulatory

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vulnerability. The National Nutrition Agency (established via Perpres No. 83/2024) faces immense pressure to deploy funds rapidly. When rapid disbursement is prioritized over rigorous oversight, the environment becomes highly permissive for active waste (Badan Gizi Nasional, 2026). Instead of utilizing open, competitive bidding through the National Public Procurement Agency (LKPP) e-catalogue for all logistical components, the vendor appointment process has faced observed deviations from standard LKPP e-catalogue protocols, which present potential institutional risks regarding transparency and competitiveness (Badan Gizi Nasional, 2026). In practice, supply and logistics contracts are highly vulnerable to being awarded to conglomerates and entities holding direct affiliations with political actors.

This dynamic mirrors the findings of Olken (2007) regarding "missing expenditures" in Indonesian infrastructure projects, where lack of independent monitoring leads to massive mark-ups. Furthermore, Lewis-Faupel et al. (2016) demonstrated that e-procurement in Indonesia significantly improves the quality of public works by increasing competition. By circumventing electronic open contracting for MBG vendors, the state enables systemic rent-seeking. The result is classic active waste: the state pays a premium for food and logistics, the quality of the goods is compromised to maximize vendor profit margins, and the capital is captured by urban elites rather than circulating to local food producers.

The KDMP Monopoly: Passive Waste and Extractive Centralization

Beyond the active corruption risks in the MBG program, the fiscal rollout is severely hindered by passive waste generated through forced centralization under the KDMP. By mandating that this cooperative network serve as the primary distributor of heavily subsidized goods, the government artificially creates a massive logistical bottleneck.

Prior to this consolidation, rural distribution in Indonesia was managed by a complex, albeit sometimes fragmented, network of independent Small and Medium Enterprises (SMEs), private regional logistics firms, and legacy Village Unit Cooperatives. The centralized mandate effectively crowds out these organic supply chains. Because newly formed or rapidly expanded state-backed branches often lack the mature operational capacity, warehousing infrastructure, and human capital required to handle sudden national volume, distribution stalls. In this regard, The SME and labor-intensive manufacturing sectors are under severe pressure. The Ministry of Manpower recorded 88,519 layoffs in 2025, a 13.54% increase from the previous year, with this trend continuing into 2026 (The PRAKARSA, 2026).

This passive waste—inefficiency driven by the top-down imposition of a state monopoly rather than market readiness—results in delayed deliveries, agricultural spoilage, and administrative paralysis. Furthermore, when the state absorbs massive debts incurred by these inefficient entities, it acts as a bailout. This debt assumption creates a profound moral hazard; it signals to centralized networks that operational inefficiencies and financial mismanagement will be unconditionally underwritten by sovereign debt, completely disincentivizing competitive performance (World Bank, 2020)

The Mechanics of the "Multiplier Mirage"

The synthesis of active waste in the MBG program and passive waste in the KDMP network fully explains the macroeconomic paradox of the current fiscal trajectory. The central finding of this paper is that highly centralized and opaque procurement structures are systematically destroying the anticipated economic multiplier, creating a "multiplier mirage." In a healthy fiscal multiplier scenario, as envisioned by Basso and Rachedi (2021), state funds designated for rural school meals

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would be utilized by local SPPGs to purchase rice, poultry, and vegetables directly from local farmers and regional traditional markets. The money would instantly enter the village economy. The farmers, experiencing an increase in income, would then increase their own consumption of local goods and services, thereby stimulating other local businesses in a virtuous cycle of aggregate demand (Badan Gizi Nasional, 2026).

However, the reality of procurement capture disrupts this cycle at its inception. Because vendor appointments favor centralized, politically connected aggregators, the raw materials for massive state programs are frequently sourced in bulk from national corporate agribusinesses. These conglomerates often rely on imported inputs or massive monoculture plantations that do not integrate with smallholder farmers. The goods are then shipped into the regions, with the local unit acting merely as a low-value assembly and distribution point (The PRAKARSA, 2026). Consequently, the massive outflow of APBN funds bypasses the local agricultural economy entirely. Rather than injecting liquidity into the regions, this centralized monopsony effectively extracts it. The profit margins are repatriated to corporate headquarters in Jakarta or provincial capitals. This dynamic leaves rural markets starved of capital, explaining why unprecedented state spending fails to alleviate the weak purchasing power of the middle-to-lower classes or offset the deflationary scars of previous economic cycles.

The multiplier mirage is thus not a failure of Keynesian theory, but a failure of institutional integrity. When public procurement is captured by rent-seeking elites (active waste) and choked by centralized inefficiency (passive waste), government spending ceases to be an instrument of macroeconomic stabilization and becomes a vector for wealth extraction and systemic inequality.

Policy Recommendations

To prevent the APBN from fundamentally distorting the domestic market, the Indonesian government must urgently restructure its public procurement architecture. The transition from a politically expedited, closed model to a competitive, decentralized framework is critical for macroeconomic survival.

The executive must strictly enforce regulations mandating that all procurement for the BGN and state-backed cooperatives be fully integrated into the LKPP e-catalogue. Bypassing electronic open contracting under the guise of "emergency" or "expedited delivery" must be strictly prohibited and audited. Empirical research by Neupane et al. (2012) and Lewis-Faupel et al. (2016) confirms that strict compliance with electronic public procurement systems is a non-negotiable prerequisite for reducing active waste. Digitization and transparency force competition, which naturally drives down mark-ups and severs the link between political patronage and vendor selection.

Furthermore, to restore the velocity of money in regional economies, the government must introduce strict geographic localization quotas. The National Nutrition Agency must mandate that a minimum threshold (e.g., 60%) of all perishable ingredients be procured directly from verified independent farmers, local cooperatives, and SMEs physically located within the specific regency or municipality of operation. The proposed 60% localization threshold is presented here as an illustrative policy option for policymakers to consider. By introducing such a quota, the government would legally enforce the decentralization of the supply chain, ensuring capital reaches the grassroots level and triggers the intended demographic multiplier.

Policies granting exclusive rights to specific state-sponsored cooperatives to distribute subsidized goods must be reviewed and liberalized. While state-backed entities can operate, they must compete on equal footing with existing local cooperatives, private regional distributors, and

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legacy SMEs for government distribution contracts. De-monopolization is the only effective method to eliminate the passive waste bottlenecks currently choking rural supply lines.

Traditional retrospective audits are insufficient given the daily burn rate of nationwide nutritional programs. The Supreme Audit Agency (BPK) and the Corruption Eradication Commission (KPK) must dedicate resources to real-time expenditure tracking (Prabowo & Cooper, 2016; Schütte, 2012). Furthermore, all procurement datasets must be published openly. Empowering civil society organizations and academic institutions to monitor price standardizations independently is the most cost-effective defense against systemic procurement fraud (World Bank, 2020).

CONCLUSION

Indonesia's massive fiscal strategy, characterized by the monumental scale of programs like the MBG, holds the theoretical potential to profoundly elevate the nation's human capital and stimulate broad-based economic growth. However, macroeconomic outcomes are dictated not merely by the volume of capital injected, but by the integrity of the institutions managing its flow.

This paper highlights that the current procurement architecture facilitates a "multiplier mirage." Active waste in the form of opaque, politically affiliated vendor appointments, combined with the passive waste of forced supply chain monopolies, severs the vital connection between state spending and grassroots economic stimulation. This paper suggests that the current procurement architecture may unintentionally starve regional markets of liquidity, potentially exacerbating domestic market stress and concentrating economic power. While further longitudinal data is required to confirm these trends, the structural analysis points to significant institutional risks that warrant immediate policy attention.

Resolving this crisis requires acknowledging that effective public policy relies entirely on competitive, transparent, and decentralized public procurement. The APBN cannot function as a tool for national recovery if it is structurally designed as an instrument for elite capture. Only by enforcing open e-contracting, dismantling state-sponsored monopolies, and mandating localized agricultural sourcing can the Government of Indonesia convert fiscal expenditure into sustainable, equitable economic recovery.

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