

**Decentralization in Indonesia:
Efforts to Address Issues on High Cost
Economy, Public Services Inequality,
and Civil Service Reform**

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Abstract

The main objective of decentralization in Indonesia is to improve government functions to serve the people better. The implementation of decentralization has brought about some undesired effects. Even though the decentralization process is generally running well and there has been no excessive political friction so far, the Government of Indonesia has to put more attention on several issues since the performance of local governments remains low and thus the investment attractiveness will be threatened. This paper identifies and discusses at least three main issues to be addressed in the implementation of decentralization. Firstly, the emergence of high cost economy (HCE) in the regions, which was caused by local governments' policy that was oriented more to increase local own revenues than public service improvement. Secondly, difference in fiscal capacity between regions cause lack of uniformity in public service quality between regions. This may further cause problems in population distribution and increase the gap in investment attractiveness between regions. In addition, difference in quality of public services between regions also caused difference in living quality between regions. Thirdly, the need for civil service reform at local level as well as at national level is also discussed that will improve public service performance and bureaucracy efficiency in Indonesia.

Background

Decentralization and restructuring of subnational governments have been widely adopted worldwide. This is true in federal as in many unitary countries. Decentralization has been used as a means to achieve development goals, especially in the provision of better public services. This tendency in part, reflects political shift where democracy is tried to be implemented more effectively. The shift is also hoped to help increased participatory nature of government.

Since the fall of Soeharto's administration in 1998, Indonesia underwent a major political transformation with democratization as its main pillar. The old centralized system of government was replaced by a decentralized one, while this transformation became effective in 2001. The idea of decentralization is actually not new for Indonesia. During 1900–1930, the colonial government devolved some of its powers to provincial administrations in Java. However, this can not be accounted as an implementation of decentralization. The devolution of powers had been highly centralized in nature and in practice — both in the appointment and in monitoring process (Booth, 2002). Up to 1949, the idea of federal constitutional structure was actually a serious option. Even Prime Minister Hatta, who then became a prominent

figure in dissolving federal structure, was once among those who advocated a federalist model. Nevertheless, incidents with Dutch experiment in federalism during 1946–1949 forced the Indonesian leaders to discard the option. This was a rather expected situation if one recalls what the Dutch had done to implement its scheme of a federal Indonesia.

Nonetheless, in a brief period of 1950–1959, issue of regional disparities had already came to light. Occurrence of discontent in the 1950s was mostly caused by the fact that exporting regions (provinces outside Java), albeit their contribution to national wealth, were neglected when it came to decision on their expenditure. Two laws were passed in 1956. First was Law 32/1956, on financial relations between the center and the autonomous regions, which provides “important concessions to the regions in that it allowed the proceeds of both income taxes and foreign trade taxes to be shared between provinces where the tax revenues originated and the centre”, and; second, Law 1/1957, on local government, sets up “procedures governing the relationship between appointed regional heads and regional parliament” (Booth, 2002). Under Law 1/1957, regional parliament had more power vis-a-vis the regional executive, and local government elections did take place in Java during 1957. However, the 1959 Presidential Decree made this first attempt to embrace a decentralized system to be halted. This is why that for some, as Booth (2002) argued, Law 22/1999 may be seen to achieve the same objectives as Law 1/1957 but in somewhat different political and economic backgrounds.

During the early 1990s, while the country was preparing to embark in its second long-term development stage, issues on regional disparity emerged once again especially, if one compares the development benefits received between the western and the eastern parts of Indonesia. In 1997, the Asian crisis hit the country resulting to a major political change – the collapse of Suharto’s administration. During the transition period, Habibie’s administration passed two laws (Law 22/1999 and Law 25/1999) – the key laws which modified the centralized system of the country.

Nowadays, the political transformation in Indonesia provides local governments with key pivotal roles and additional resources in the delivery of core basic goods and services to their citizens. The essence of decentralization is to improve the people’s welfare through the betterment of public service provision. Since people live within local administrative boundaries, they tend to directly interact with their respective local government more than with the central government. Devolving or delegating authority to lower government tiers is one way to increase the efficiency and effectiveness of relationships between governments and citizens. The vision of fiscal decentralization in Indonesia is to achieve faster, more equitable, and better quality development in the regions through implementation of improved fiscal decentralization policies and financial management practices.

Nonetheless, implementation of decentralization has brought some undesired effects. Many local governments focus more only on raising their own revenues by introducing local government regulations that hampered the economy at a much larger scale and created high cost economy. The drawback of decentralization also implies non-uniformity of the quality of public services. Each local government has

a responsibility to determine the quality of public services based on their local budget capacity. Therefore, it is also difficult to assess if the undesired results are truly the effects of political change or just signals of prolonged crisis (Indonesia experienced monetary crisis since mid 1997). Moreover, low salaries of local civil servants encourage them to indulge in rent-seeking and illegal activities such as accepting bribes, asking favors or some forms of compensation for services rendered. These problems generate unattractive business climate in several regions.

Theoretically, greater role of local governments can cut transaction costs, increase transparency, and accountability, thus support improved governance with better reflection of local demand. To conduct its responsibilities, the local government needs resources, such as capable officers, sufficient funds, and comprehensive regulations. Funds, as one important resource, can be raised both from local sources and from other regions. On the other hand, loose lines of responsibility and control in the delivery of basic public services have generated another problem. The quality of public services has not always improved and in many cases may have declined. Even though there is as yet no comprehensive assessment of trends in the quality of public services in the decentralization era compared to prior times, popular reporting and opinion indicates that there are many problems arising especially in the health and education sectors.

Decentralization and Regional Development in Indonesia

Regional development is an important component of national development. Regional development provided to provincial and local governments comes with responsibilities for them to provide assigned public goods and services to local communities based on principles of quality, efficiency, transparency, community participation, and accountability. Consistency is needed between national development plans and policies for fiscal decentralization, including consistency between fiscal decentralization policies and national sector policies in key areas such as health, education and transport, so as to achieve consistent nation wide efforts and an appropriate sharing of resources, rights, obligations and responsibilities.

Since the commencement of major decentralization reforms in 2001, successive administrations have sought to assist development in the capacities of regional administrations and institutions, particularly with regard to financial management and financial performance, including enhanced local community participation and accountability of locally elected officials. The current central government administration seeks to further stimulate the development of effective and efficient local governments based on diversity of communities. Aligned with this effort, regional development receives high priority in the government's development plan. Regional development represents a key component of national development.

Decentralization brings government closer to the people; consequently it should improve the quality of local public services. Citizens expect and deserve certain basic standards in the services they receive regardless of their location. Certainly, some differences in service delivery capacities across regions cannot be avoided due

to the uniqueness of local conditions, for instance in remote areas, a local hospital may not have a cardiologist. However, Minimum Service Standards (MSS) could ideally give guidance on how citizens in remote locations can access specialized treatment for heart disease, perhaps through a regional centre hospital.

Decentralization principles and laws require regional governments to manage administrative and fiscal assignments in line with obligations and responsibilities that have been set out in laws. Within scarce resources available to them, regional governments are required to focus on increasing the basic welfare and well being of diverse local communities by focusing on core obligatory functions assigned to them. Central government will continue to focus on ensuring that regional disparities do not widen excessively due to differences in natural resource bases.

Each level of government is required to complement other levels in a balanced relationship based on good cooperation and coordination so as to enhance prosperity and living standards and decrease inequality and poverty. Importantly, decentralization in Indonesia must be firmly based on a balanced relationship between local governments and the central government leading to national integration to achieve the vision and mission of the Republic of Indonesia. Broad objectives of decentralization proposed include: (a) promotion of development equality; (b) improved prosperity of citizens; and (c) enhanced democratization through increased local participation.

The Indonesian legal framework currently sets out particular roles for central and local governments with regards to: (a) stabilization; (b) fairness of wealth and income distribution; and (c) the effective allocation of public resources. For reasons of operating economic efficiency, allocation is largely made a local responsibility, while the stabilization and equitable distribution roles remain with the centre. Stabilization is a central responsibility because of the general economic openness of subnational governments, and the basic tools of stabilization rest with the Bank of Indonesia and the Central Fiscal Agencies. Effective and efficient allocation of resources requires both central and regional involvement. The allocation of functional responsibilities is a critical area of intergovernmental financial policy which requires clear directions from the center, but also effective cooperation and communication between different levels of government. Important allocation decisions apply not only to broad functions, but also within functions.

Basis for Change

Lack of order in the bureaucracy and legislation system, particularly regulation of business permits and investment, will have an adverse impact on regional economic development in the future. As described by Stimpson, Stough, and Roberts (2002), the government performs an important role in developing regional competitive advantage. The government's role is required through the implementation of a public policy which promotes business and investment climate. McKinsey Global Institute (2005) stated that to achieve sustainable economic development, at least four foundations (namely institution, education, and health system, infrastructure,

and financial system) and four supporting pillars (political and leadership stability, clarity of legislative regulations, strong economic fundamentals, and microeconomic efficiency and competitiveness) should be possessed. Observing various investment problems faced by Indonesia, it is evident that Indonesia cannot yet lay strong foundations and pillars of sustainable economic development.

Basic improvement to realize sustainable development must be mutually implemented between the central and regional governments. Establishment of Law No. 22/1999 and 25/1999 (and were further revised by Law No. 32/2004 and 33/2004) have altered the structure and hierarchy of development in Indonesia. Based on the two laws, decentralization is actively applied to all regions of Indonesia in district/city level. The authority, initially dominated by the central government, was then mostly submitted to regional government as the foremost entity in economic development.

Establishment of decentralization in Indonesia basically has a background of a regional wish to build the respective regions themselves. Such development must be based on core competence and competitive advantage owned by each region. Such development also involves the aspect of improved regional services. For instance, the Sumatra region is superior in the plantation sector, particularly crude palm oil, such that in the future, regions with vast plantation areas can develop sectors that are continuations of crude palm oil processing. Conversely, Java's coastal areas have potential in processing industry and trade development so that, in the future, the two sectors will become movers of the economy of Java coastal regions.

However and in fact, behind the initial objective of promoting optimized development and regional independence, implementation of decentralization — that formally began since 1 January 2001 — contrarily gives the impression of only promoting change in the administrative structure constellation realized in the form of increasingly higher demand to establish new administrative regions. No less than five provinces and scores of new districts/cities have been established as the outcome of division (totaling 440 districts/cities in 33 provinces up to 2007).

Regional division that took place only made regions continue to be dependent on distribution of DAU and DAK from the central government, and government services toward the community have not improved. In fact, the regions often translated decentralization as freedom to determine regional regulations that are distortive to economic development with the focus of regional economic policy only on the increase of local own revenue (PAD), a short term orientation that contrarily creates uncertainty for investment activities and other regional economies (KPPOD, 2002). Up to 2005, improvement of regional investment climate still did not show satisfactory development. Results of investment competitiveness rating of districts/cities made by KPPOD in 2005 indicated that the average investment competitiveness score of districts/cities in Indonesia was only 6.06, still far from the perfect score of 9 for competitiveness.

Addressing High Cost Economy (HCE) in the Local Economy

HCE becomes an issue which is often encountered by economic players, mainly investors, so that it will impact on low investment interest of those investors. Undeniably, regional autonomy implementation produced greater authority for local government to determine various local regulations related to efforts of increasing local own revenue (PAD). However, efforts of increasing PAD are often perceived by imposing various taxes or local charges toward every economic activity undertaken. And yet, the effort will cause an effect of higher transaction cost of each economic activity. As a result, regional competitiveness can be lower, and will be unable to move the real sector optimally.

The above will be aggravated by the fact that HCE is not only caused by charges of official nature, but also by unofficial charges. Rent seeking practices produce the phenomenon of higher production cost that should not be borne by businessmen if the government also attempts to implement the good governance concept. Besides costs arising due to levies, high cost economy in several regions is caused by overly complicated, inefficient, and time-consuming bureaucratic processes. The economic cost burden will appear here as opportunity cost, and not merely accounting cost which must be borne by investors. HCE is also worsened by poor condition of regional infrastructure. Poor infrastructure will bring a consequence of high transportation and communication costs.

Regional autonomy implementation marked with fiscal decentralization actually gave opportunity for the region to more optimally manage development. The purpose of the policy was to enable government to improve services to the community and develop democratization in the regions. Assignment of receiving authority to regional level aims at providing incentive to the region in order to increase fiscal capacity and finance several public services themselves, and limit taxes that bother and may impede private sector investment. Problems will arise if efforts to increase income contrarily produce cost burden for the community. This is similar to zero sum game in which increase of regional financial capacity is accompanied by decrease in value added created in the economy. On the excuse of increasing PAD, various taxes and charges in effect will only hinder private investment and ultimately the objective of PAD increase will contrarily not be achieved.

In regional economics, it is described that several factors affect a company's consideration to select a location. Besides the power of agglomeration economy, location decision is affected by local input factors such as infrastructure, energy sources, local policies and regulations, and so forth. At least 2 types of local input namely infrastructure and government regulation also determine the decision of private investment location. Therefore, bureaucratic reform and regional infrastructure development are absolute requirements to reduce high cost economy in the regions.

In the current globalization era, competition to be an investment location not only occurs between countries, but also between regions, and even between specific

locations. This is the reason why every region should have attention for efforts to enhance its competitiveness through various anti-high cost economy policies. In any case, investment plays a key role in facing the challenges of globalization. Investment is useful to boost economic growth, create employment opportunities, and increase competitiveness. Regions should recognize that globalization and economic competitiveness are 2 inseparable matters. Capital flow is important for investment and eventually regional economic growth, mainly used for productive activities. The risk of regional investment must be reduced by the presence of legal certainty that can lessen HCE. Efforts to improve regional investment climate by reducing high cost economy can be undertaken through 3 approaches. First, there needs to be improved investment appeal by straightening up local inputs.

Secondly, with institutional improvement mainly in administration of investment permits, and

Thirdly, by the creation of political and social stability. In general two types of risks are present, i.e. microeconomic and macroeconomic risk. Macroeconomic risk is of course not part of the regional government's role, in light of the fact that many macroeconomic variables are affected by national-scale economic activities. For this reason, microeconomic risk related to cost of productive activities can be minimized through regional government policy intervention.

During fiscal decentralization, many resources were uselessly wasted in the last several years only for harmonization between central and regional regulations. Synchronization of various regulations is indeed required as there are still many regional regulations that only create disincentives for regional development and are not in line with central government policy. And yet, strong and non-fragmented domestic growth is an absolute requirement for a country to enhance its international competitiveness. A fragmented domestic economy will weaken national competitiveness.

Interesting to be observed is the influence of political and social instability toward the occurrence of high cost economy. The more conflicts occur in a region, the greater the investment risk borne by capital owner. Why so? Poor socio-political stability will impact on high production and distribution costs. Extra costs are required to avoid socio-political risks. And yet social and political instability can be incited by poor public services provided by local government and discrimination in services.

Various literatures indicate that several regional governments in Indonesia have commenced actual bureaucratic reform. Several forms of implementation have emerged such as one stop services, consistent good governance practices, and cancellation of various regional regulations considered to impede private investment. This will naturally become a positive response to the learning process occurring during the period of decentralization. Despite having proceeded for only a few years, application of one stop services has provided positive benefits to regional development. At least, it has promoted private investment development as a source of economic growth.

The above description is aimed at improving regional economic system and that

of Indonesia as a whole, mainly in facing globalization and increased investment, particularly in addressing the problem of high cost economy. However, it is not sufficient to improve investment climate by only improving bureaucracy. There are several conditions that should be met by the regions. Firstly, there should be simplified investment rules to avoid various illegal charges. Secondly, improvement of basic infrastructure such as roads, ports, clean water, telecommunications and energy to reduce production cost burden. Thirdly, improve financial institution to facilitate various transactions and serve capital needs in the regions.

The city of Batam, Sleman District, and Balikpapan city are three areas in Indonesia that can become benchmarks for other regions to overcome the problem of high cost economy. Each region has its own specific specialty in the framework of improving investment climate. Sleman is a region with advantage in regulating economic activities and public sector management. The local government of Sleman always prepares annual financial reports according to government accounting standard. The report illustrates that transparency and accountability of public institutions are maintained by the region. With improved transparency, private sector confidence will rise and investment climate will improve. Clarity of regulations in Sleman also have positive impact, namely lessening uncertainty for businessmen in conducting their businesses.

Batam and Balikpapan also became best practices in the matter of regional competitiveness and creation of more conducive investment climate. In 2005, the two regions obtained "A" rating in a survey of business competitiveness made by an independent organization to monitor implementation of decentralization. The two regions formulated plans based on competitive advantage of their regions. Batam development orientation is directed at optimizing its strategic position near Singapore, the world's busiest port area. Batam was established as a free trade zone and developed infrastructure that is able to complement the role of Singapore. Meanwhile, Balikpapan took position as oil and gas refining industrial zone. Balikpapan's competitive advantage in the oil and gas refinery sector prompted Balikpapan city government to direct all development policies for development of this sector, including providing specific infrastructure for the oil and gas industry.

Another important factor supporting success of development in several regions of Indonesia is the application of one stop services system in handling all affairs related to investment, whether business permits or business licenses. This can shorten the bureaucratic path, reduce possibility of bribery and corruption, and accelerate time of handling investment administrations.

Equal Living Standards through Application of Minimum Service Standard (MSS)

The diversity in quality of public services provided in each region will be able to initiate emergence of social conflict and inequality in the quality of life of the Indonesian people. The difference in quality of public services is caused by several factors, among others, difference in financial capacity between regional government,

difference in development orientation between regions, economic and geographic condition, and non-uniform quality of regional government apparatus. It is easy to imagine that with over 17 thousand islands, the distribution of economic activities and public services will obviously not be equal. To create more equal community living standard, the central government established MSS to be complied with by each region. The simple logic is for every person living anywhere in Indonesian territory to obtain services of the same minimum standard. This will prevent a decline in quality of life, for instance, for someone who lives in Jakarta then moves to Papua. Establishment of MSS is also aimed at ensuring implementation of public rights.

In order to ensure the abovementioned implementation of public rights, Law No. 32 of 2004 on regional government in articles 11, 13, and 14 established management of public service as the government's duty required to be implemented by the region. Therefore, good governance must be able to provide minimal services since it is a responsibility or accountability to be conducted by the region under the guidelines of PP (government regulation) No. 65 of 2005 on Guidelines for Formulation and Implementation of Minimum Services Standard. This is meant for regional government performance to be in line with the national objective of creating equal rights for all Indonesian citizens. This government regulation was further underscored by Minister of Home Affairs' regulation no. 6 of 2007 that became the technical guide in formulating and establishing MSS by Minister/Head of Government/Non Department Institution.

MSS is a provision on the type and quality of basic services that every citizen is entitled to minimally obtain. MSS is part of basic services required to be fulfilled by the local government and impacting on the enhanced welfare of the people. People's welfare is an objective of conducting the state and is ensured by the Constitution. In its implementation, MSS must ensure public access to basic services from the local government in accordance with measurements determined by the government. MSS is established by the Central Government and must become one of the references for the local government to formulate planning and budgeting on conducting Regional Government.

In the implementation of decentralization, democratization is an important prerequisite and gives room for public participation. This has an important meaning for local government accountability as a sub-system of the unitary state of the Republic of Indonesia towards the community.

The local government is demanded to be able to conduct appropriate basic services, without social, cultural, economic, and political discrimination. This mandate must be translated and elaborated well by the system and instruments of local government. Development in Indonesia is currently oriented more at human development, in which man is the final objective of development itself.

In its implementation, MSS must ensure public access to obtain basic services from the local government according to measurements determined by the Central Government. Therefore, formulation of MSS in Indonesia is based on several main principles; namely, the indicators used must be simple, concrete, measured, and can

be accounted for, and have achievement target that can be conducted in phases. Simple means that indicators used in MSS are easily understood by the entire local government. Concrete means that indicators set are not new indicators and are indeed the priorities of national development. Measured refers to clear data used that must be quantitatively measurable while Accountability mean MSS must aim at equal living standard for the entire Indonesian people and its implementation is accounted for by all local governments.

Although nationally, the quality of public service has improved, many constraints are being faced such as, government service performance is not yet optimal. This is due to lack of good understanding of apparatus in the essence of decentralization. Local government service performance is an important factor in public service quality enhancement. The poor performance, among others, may be seen from several indicators such as inadequate proportion of local civil servants quality and quantity, that will have an impact to poor public services performance of the local government.

In the division of tasks, there are government affairs that are the local government's authority. These consist of 2 types of tasks, i.e. obligatory and optional. Obligatory functions are affairs of government related to the provision of basic rights and services for their citizens to protect constitutional rights, national objectives, community welfare, and public safety and order in the framework of maintaining integrity of the Unitary State of the Republic of Indonesia, and to fulfil national commitment related to international agreements and conventions.

With decentralization, the local government, willing or not, must be able to implement various authorities, so far implemented by the central government, including several types of public services, more effectively and efficiently. Consequently, the local government is demanded to be better able to provide higher quality services, in the sense that these are oriented at community aspiration, in more efficient, effective and accountable manner. In other words, implementation of decentralization is also a form of effort to improve the quality of public service in Indonesia.

Currently in Indonesia, MSS is still in the process of formulating its various indicators. The slow progress of formulating MSS is more due to poor coordination between relevant technical ministries at central government level. Each technical ministry perceives MSS differently, thus, not many MSS indicators are mutually agreed upon at central level. Apart from that, MSS also brings a consequence of increasing the local government budget needs. The problem is, it is unclear what solution must be taken if it should prove that the local government does not have sufficient resources to finance implementation of MSS. Take for instance, one of the indicators of MSS for the health field is health care for pregnant women, in which a minimum of 95% of the pregnant women in a region must obtain check up services at least 4 times during the pregnancy process. In order to meet the standard, regions need to add health facilities and of course supporting medical staff. For health field alone, MSS indicators are quite numerous. The cost that the local government has to bear is very large.

However, implementation of MSS, despite facing many constraints, needs to be immediately realized. MSS is a measurement of evaluating local government performance in conducting decentralization. The weakness of decentralization implementation in Indonesia so far is the absence of local government performance evaluation. And yet many demands for regional split have an impact of squandering the national budget. Decentralization in Indonesia may only be said to succeed if the local government is able to prove that it can provide better public service compared with that during the centralized system. Decentralization in Indonesia may also be said to succeed if it equally improves the quality of life of the entire population.

Good Governance and New Public Management in Civil Service Reforms

Laws 32/04 and 33/04 have significant inconsistencies with broader civil service laws and regulations with regard to employment policies. These issues are being dealt with by government under the proposed "action plan for bureaucracy reforms" which is being prepared under Minister of Civil Service Reforms along with a rewrite of Government Regulation 8/2003. Personnels that operate regional institution administering autonomy assignments — that becomes region's domain — are important factors in regional governance organization. Those personnel, in turn, administrates strategic public policy, which is crafted by political officers, namely, regional people's representatives assembly (DPRD) and the The Head of Region. In compliance with Law 43/1999, that Civil Servant (PNS) management system utilizes combination of unified system and separated system, so that PNS is the adhesive bond of Unitary State of the Republic of Indonesia.

PNS all over Indonesia, either in the Central or in Local Governments, is expected to have equal quality, so that, in the implementation, should apply the same norms, standard, and employment management. In addition, the implementation of both vertical and horizontal Civil Service reassignment needs to be consulted to the higher government organization, so that PNS' career fostering principle within the framework of Unitary State of RI may be realized. Furthermore, those will be very beneficial in embodying accuracy of Civil Service reassignment data in supporting the allocation of Equalization Grant nationally.

If the organizing of governance administration can be completed correctly, the institution formed is also appropriate, and the personnels, that will function as institutional operators, are people who have sufficient capacity and professionalism, then almost certainly, decentralization organization in the future will be improved, so that it will be able to increase the service and improved the people's welfare.

During the early stage of decentralization, civil service institution was considered weak in terms of their capacity as agent of change. Public confidence in the state is yet to be restored. Such unfavorable situation was highly detrimental to the effectiveness of regional developments in Indonesia. Despite all these hardships, the people of Indonesia continue to have expectations about a comprehensive civil service reforms that have not yet fully materialized. Two main forces have shaped re-

form in civil service administration: (a) new public management, and (b) good governance. Public administration, in classical Weberian context, encompasses organization, processes, and individuals tasked with accomplishing legislated objectives, in accordance with laws and rules. New public management (NPM), on the other hand, is a global reform movement that redefines the relationship between government and society. Good governance has emerged as the new paradigm in public administration, replacing the old one developed by Weber. Such a paradigm involves the cooperation of three actors: (a) government; (b) civil society; and (c) business.

Good governance relates to the ability of the government to deliver goods and services to their citizens. As we are all aware, good governance refers to the removal of mal-governance and the creation of good governance through democratic processes and rule of law so that citizens of a region do not suffer. Good governance deals with various agents of political system and this concept should be viewed as a guidance for the implementation of local government intervention and regulation in each region, including marginalized and the vulnerable communities. Good governance improves capacity of the people to get better and dignified life, more options to choose from, and ensures transparency in administration.

Good governance assures a better today as well as a brighter future for all people. It had been said that to have a functional democracy, legal safeguards and rights must exist. To function appropriately, democratic society must have a free exchange of information and ideas through public participation in each part of policy cycle. Good governance also implies an absence of corruption and each tier of governments must attempt to free themselves of corruption and collusion. Corruption will damage economic development and reform, obstructs the capability of regions to attract investment, hampers the growth of democratic institutions, and concentrates power in few people. The greatest way in fighting corruption is for all tiers of governments to be opened and transparent. At last, good governance obliges that governments invest in their people and policy to preserve the welfare of their citizens, without regards upon gender, race or ethnicity. Governments should devote their resources to health care, education, and fighting poverty. They should strive to generate an economic condition through job creation and provide a conducive business climate.

New public management (NPM) calls upon governments to focus on achieving results rather than primarily conform to procedures; and adopt market-like competition, innovations, and entrepreneurial strategies (Osborne & Gaebler, 1993). Good governance entails sound public sector management (efficiency, effectiveness, and economy) accountability, free flow and exchange of information (transparency), and a legal framework for development (justice, respect for human rights, and liberties) (The World Bank, 1993b). It "means creating an effective political framework conducive to private economic action: stable regimes, the rule of law, and efficient state administration adapted to the roles that government can actually perform, and a strong civil society independent of the state" (Hirst, 2000).

Regardless of the approach, the role of civil servants (or human resources in the

bureaucracy) is very important and indispensable. The bureaucracy is a key actor in government processes, either in central or regional government. It enables accomplishment of goals, targets, or missions that are to be achieved by the nation for the prosperity and well-being of its people. Therefore, the role of the bureaucracy, or civil servants, in the development of good governance is a crucial factor, especially in the era of decentralization.

Table 1 highlights some of the unique characteristics of each one of the three main approaches:

Table 1 Three models of public administration

Variables	Public Administration	Public Management	Responsive Governance
Citizen-state relationship	Obedience	Obedience	Empowerment
Accountability of senior officials	Politicians	Customers	Citizen and stakeholders
Guiding principles	Compliance with rules and regulations	Efficiency and result	Accountability, transparency, and participation
Criteria for success	Output	Outcome	Process
Key attribute	Impartiality	Professionalism	Responsiveness

Source: World Public Sector Report (United Nations Department of Economic and Social Affairs, 2005).

The Indonesian Civil Service

Social and political changes have had profound impacts on Indonesia society. These, include among others: democratization, decentralization or regional autonomy, transparency, and openness of information against the backdrop of globalization. In order to adapt to the situation, the Indonesian government started straightening up the bureaucracy, an exercise that involved changes in structure and systems that would result in a modern and efficient bureaucracy. The human resources development interventions are expected to improve the quality of services to the community.

Number of civil servants. Indonesia had around 3.74 million civil servants in 2005. Given a population of 220 million, every civil servant would serve 58–59 people. This has been the situation after 2003. In 2003, there was a slight drop in the ratio (1: 55–56). While in the early years of the so-called New Order Government (1966–1998), the ratio was only 1: 47–48. This was because the number of civil servants was less than half the present number, and the Indonesian population almost one-third of the present time. The whole picture of the civil service in Indonesia during 1974–2005 can be seen in Table 2.

By the implementation of decentralization or regional autonomy via Law No. 22 of 1999, at the beginning of 2001 and subsequently in 2003, the regional civil service was divided into provincial civil service, and regency or municipality (local) civil service (Table 2). From 2002 onwards, the number of civil servants at the regional

Table 2 Total civil servant in Indonesia, 1974–2005

No.	Job Placement	1974		2002		2003		2005	
		Number	%	Number	%	Number	%	Number	%
1	Central Government	1,312,254	78.3	915,660	24	840,007	23.1	896,211	24
2	Provincial Government	362,617	21.7	2,907,426	76	311,047	8.5	303,724	8.1
3	Regency of Municipality (Local Governments)					2,496,951	68.4	2,541,560	67.9
Total		1,674,871	100	3,823,086	100	3,648,005	100	3,741,495	100

Note: * Since 2003, the regional civil servants have been classified as: (a) provincial civil servants, and (b) regency or municipality civil servants. However, in 2002, it was difficult to calculate the division.
Source: National Civil Service Agency (BKN); various publications, Jakarta.

levels happened to be far higher than in the central government. This phenomenon is in line with the objective of the government of providing better quality services to the public as well as moving closer to the society.¹

Salary. Although civil servants in Indonesia comprise only around 1.7–1.8 percent of the total population, the quality of the government employees is considered rather low. This situation is partly contributed by the salary structure of civil servants in Indonesia, which is considered unattractive. In order to have a clean, effective, and efficient administration, employee welfare measures should be considered seriously by the government.

The remuneration system for government employees in Indonesia is called Sistem Skala Gabungan (combination scale system). It is a combination of the single scale, and the double scale system. The single scale system means that the same level or rank, regardless of the type of job and level of responsibility receive the same amount of salary. The double scale system means that salaries are given to employees based on the level of responsibility and the type of job. Therefore, some civil servants might have higher salaries when compared with their colleagues at the same level/rank under the Sistem Skala Gabungan.

The based salary for a civil servant in rank Ia (primary and junior high school graduates), regardless of the job and responsibility, is around US\$ 66 per month (a little above US\$ 2 per day). The salary for the highest-ranking government employee, rank IVe with 32 years in service, is only around US\$ 207 per month. This is equivalent to six percent of the salary drawn by the president, director, or CEO of even ordinary state-owned enterprises. The complete details of the salary structure of the Indonesian civil service (1993–2005) is given in Table 3.

The ratio between the lowest and the highest earners started changing from the year 2001.² If in 1993 the ratio was 1: 7, starting 2001, it was 1: 3. While in recent years governments have become aware that they need to link salaries to the market in order to attract and retain the talent necessary to improve and sustain civil service performance, salary structures in Indonesia discourage most of the best graduates from well-know universities to become a government employee.

Table 3 Basic salary for government employee
(1,000 rupiah/month)

Rank	A					B				
	1993	1997	2001	2003	2005	1993	1997	2001	2003	2005
I	78	135	500	575	661.3	92.2	151.1	537.5	619.7	712.6
	150.8	254.6	689.3	767.7	882.8	173.8	271.4	723.1	809.2	930.5
II	110.1	182.9	620	725.6	834.4	129	204.8	667.3	782	899.2
	277.3	409.3	832.8	1,047.10	1,204.20	294	425.7	686.5	1,091.40	1,255.20
III	150.2	241.8	760.8	905.4	1,041.20	154	251.5	788.3	943.7	1,088.20
	374.2	527.9	1,129.40	1,292.10	1,485.90	390.8	549	1,170.20	1,346.80	1,548.80
IV	168.6	282.9	878.8	1,068.60	1,228.90	176.4	294.2	908.4	1,113.80	1,280.90
	450.2	617.6	1,301.60	1,525.10	1,753.80	474	612.3	1,348.60	1,589.60	1,828.00
Rank	C					D				
	1993	1997	2001	2003	2005	1993	1997	2001	2003	2005
I	94.7	157.1	557.1	645.9	742.8	97.2	163.4	577.2	673.2	774.2
	190.7	282.2	749.1	843.4	969.9	207.6	293.5	776.2	879.1	1,010.9
II	131.7	212.9	691.4	815	937.3	135.3	221.5	716.4	849.5	976.9
	314.7	442.7	1,001.4	1,137.60	1,308.30	336.3	460.4	1,037.5	1,185.80	1,363.60
III	157.8	261.6	816.7	983.6	1,310.10	161.8	272	816.2	1,025.2	1,179.00
	407.4	571	1,212.50	1,403.80	1,614.30	424	593.8	1,250.20	1,463.20	1,682.60
IV	184.2	306	941.2	1,160.90	1,335.10	192	318.2	975.2	1,210.10	1,391.60
	949.6	668	1,367.30	1,656.90	1,905.40	515.2	694.7	1,447.70	1,727.00	1,986.00
Rank	E					Note: (a) In 1993; US\$1=Rp. 2,100, in 1997; US\$1=Rp. 4,650, in 2001-2005; US\$1=Rp. 9,200-Rp. 10,000. (b) Indonesia's civil service divided into four ranks, from I (lowest) to IV (highest), each with a basic salary scale. Each rank is divided into four grades (A, B, C, D and E), making a total of 17 grades from Ia to IVe. Educational qualifications and seniority determine a particular officer's rank. A university degree is required to be in rank III and IV.				
	1993	1997	2001	2003	2005					
I	n.a.	n.a.	n.a.	n.a.	n.a.					
	n.a.	n.a.	n.a.	n.a.	n.a.					
II	n.a.	n.a.	n.a.	n.a.	n.a.					
	n.a.	n.a.	n.a.	n.a.	n.a.					
III	n.a.	n.a.	n.a.	n.a.	n.a.					
	n.a.	n.a.	n.a.	n.a.	n.a.					
IV	201.6	331	1,010.4	1,261.20	1,450.40					
	537.6	722.5	1,500.00	1,800.00	2,070.00					

Source: National Civil Service Agency (BKN), various publications, Jakarta.

Moreover, low salaries encourage civil servants, either in central or local government, to indulge in malpractices and illegal activities such as accepting bribes, asking favors, or some form of compensation for services rendered. In developing countries like Indonesia, allowances and benefits play a substantial role in the compensation package of civil servants. Moreover, where moonlighting and corruption prevail, it is likely that senior civil servants would earn even more than the junior since the opportunities is much more open for them. The condition of the Indonesian bureaucracy is alarming. It is considered slow, non-transparent and non-accountable. Therefore, a reform in civil service is urgently required in order to establish systems of good governance in Indonesia.

In many Asian countries, public administration is in the process of considerable change and reform. Citizens in these countries, as well as in Indonesia, have demanded faster, better, and cheaper public service. They have also demanded for more effective and efficient government. In order to meet these demands, the nation has to change its public management into more democratic, efficient, and citizen-oriented governance. Good governance is much more than routine operations of the government. It is a redefinition of governance-citizen relationship in which civil society, business, and other interest groups have a stake.

Hunter & Shah (1998) have developed a good governance quality index based on four sub-indexes, namely:

1. *Citizen participation index*: An aggregated measure using indexes of political freedom and political stability.
2. *Government-orientation index*: An aggregated measure using indexes of judicial efficiency, bureaucratic efficiency, and lack of corruption.
3. *Social development index*: An aggregated measure using indexes of human development and egalitarian income distribution.
4. *Economic management index*: An aggregated measure using indexes of outward orientation, central bank independence, and inverted ratio of debt to gross domestic product.

In Indonesia, despite a clear provision in Law No. 43/1999 which came into effect in 2001, the government is yet to establish a Civil Service Commission. The division of responsibility among ministries and institutions in Indonesia is shown in Table 4. In Indonesia, government employees are sometimes regarded as *panutan* (community leader). This obliges them to do many things for the benefit of the community in which they live. In the role of *panutan*, government employees are custodians of ethics and morality. They are expected to behave ethically, obey rules and regulations while conducting their activities, and avoid irregularities (Magnis, 1996; Natakusumah, 1990).

The assessment of governance quality in Indonesia is clearly *poor*. Good govern-

Table 4 Division of responsibility in Indonesia

No.	Agency	Function
1	Office of the President (State Secretariat and Cabinet Secretariat)	Overall government policy
2	Ministry of Finance ^d	Pay and pensions
3	Ministry of Administrative Reforms	Supervision, coordination, monitoring and evaluation of all civil service matters
4	National Agency for Civil Service	Appointment, promotion, and transfer
5	National Institute of Public Administration	Training and development

Source: World public sector report (United Nations Department of Economic and Social Affairs, 2005).

ance is that most important state guarantee to ensure that political and economic activities benefit the whole society and not just a select group of influential individuals or institution, especially in decentralization transition. In the absence of good governance practices, corruption and discretion flourish.

Many developing states are considered *weak* mainly because of the inability to control bureaucrats and oblige them to enforce the will of the state (Fukuyama, 2004). Bureaucracies in developing countries are riddled with patronage and corruption, and cleaning them through the implementation of modern (in terms of recruitment, training, promotion and discipline) civil service system has been a central goal of institutional reform (Fukuyama, 2004).

A report submitted to the Indonesia government clearly indicated, "the civil service reform strategy should include changes to the incentive system, size of the civil service, recruitment, performance management, remuneration, and probity" (The World Bank, 2001). Institution building and ethical conduct could be considered as important factors in civil service reform in Indonesia at present time.

Conclusion and the Way Forward

Implementation of the decentralization in Indonesia is generally running well, because there has been no excessive political friction so far. However, with still short implementation period (around 8 years), decentralization in Indonesia faces several issues that need to be handled wisely. Several local governments have succeeded in providing better public service compared with that of the centralized system era. But there are still many more local governments that contrarily failed in providing better service for its citizens. This will cause disparity of public service between regions, so that not all people in Indonesia enjoy the benefits of decentralization. Obviously this is not the fault of the decentralization system itself, but more due to poor capacity of apparatus and decision makers in the regions in formulating appropriate development policies.

The investment climate in several regions has contrarily worsened due to local government policy itself. And yet in the globalization era, competition between regions of the world is no longer dominated by competition between countries, but competition between regions. On a national scale, Indonesia is among the countries left behind in terms of competitiveness compared with other countries of similar development level. From global competitiveness index data issued by the World Economic Forum, Indonesia was in 54th place out of 131 countries in 2007/2008. It is true that this was an improvement compared with Indonesia's achievement from the period 2004/2005, in which Indonesia was only at 72nd place. However this achievement is obviously still far behind compared with that achieved by Malaysia and Thailand. When Indonesia ranked 54th position, Malaysia and Thailand had reached 21st and 28th rating. Indonesia's relatively poor competitiveness compared with neighbouring countries will naturally become disincentive for investors to invest in Indonesia.

Besides the matter of investment climate in Indonesia, there is tendency for

corruption practices from central to regional level, since devolvement of most central functions to the regions. To overcome these problems, several matters need to be observed in improving implementation of decentralization. Firstly, overcome high cost economy in the regions by adopting various best practices in several regions such as Sleman, Batam, as well as Balikpapan. Secondly, MSS needs to be immediately implemented by all regions in Indonesia in order to create equal living standards and enhance people's welfare. However, subsidies by the central government toward regions with low fiscal capacity needs to be considered. In any case, the central government has an important role in creating equality in Indonesia. Thirdly, civil service and administrative reforms should be directed at improved quality of public services and reducing corruption practices that can harm the regional economy.

Since the 1980s, many countries around the world, including Asian countries, have devoted major efforts to promote administrative reform, focusing on the openness, transparency, and accountability in government. The need for good governance appears in all countries in the world regardless of their economic condition or development stage. For some Asian countries, it becomes more important following the Asian financial and economic crisis in the middle and late 1997.

After the fall of the so-called New Order Government in 1998, the passing of Law No. 22/1999 on decentralization or regional autonomy and Law No. 43/1999 on civil service administration opened up the possibility of public service reform in Indonesia. However, the reform momentum has yet to take Indonesia past the finishing post. Strong and determined leadership to steer reforms is crucial. Whether it exists in Indonesia is a big question. As yet, nobody can predict when honest, productive, creative, responsible, and professional civil servants would appear in Indonesia.

Obviously, the three improvement efforts above should be implemented gradually so as not to excessively burden the regions. The government needs to establish a time limit of achievement in rational manner, by considering funding capacity, personnel, and infrastructure in all regions. If the time target established in fact later fails to be met by the region, it is necessary to consider merging the region with another region – Meaning, regions that has failed to provide better public services according to the decentralization system objective in Indonesia. Merging of regions is quite possible since there are legislative regulations accommodating this.

Implementation of decentralization in Indonesia must be seen as a correct option, due to the diverse social and economic condition present. Indonesia is a vast country and the central government will not be able to identify each problem that is specifically present in each region. Nationwide programs will naturally not be effective as long as disparity of people's welfare between regions is still high. Efforts that need to be done at present are improvement to various local government policies that can harm economic, social, and political activities. Local government performance should always be evaluated, so that inter-regional competition will have positive impact on development and enhancement of community prosperity. Development will have no meaning if the people within does not obtain benefit of development itself.

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