

Decentralization in Indonesia:
A Search for One Nation

Prijono Tjiptoherijanto
Professor
University of Indonesia
Indonesia

Decentralization in Indonesia: A Search for One Nation

Abstract

The local government system in Indonesia has changed from a highly centralized form to a decentralized pattern since the fall of late President Suharto in 1998. The decentralization period that started with Law No. 22 in 1999 has devolved resources and responsibilities from the Central Government to Local Governments in all administrative sectors, except for security and defense, foreign policy, monetary and fiscal matters, justice and religious affairs. The practice of decentralization contributed to benefit the local regions that are granted autonomy. These regions are allowed freedom in law and economy that was previously available only to the central government. As Indonesia struggled with the implementation of decentralization in the years that followed, the central and regional governments have attempted to improve their coordination, while they have also tried to close the gap between public needs and government capacity. Though their efforts have met mixed results, decentralization has helped expand the capacity for the public to hold local leaders accountable, thereby opening the door for future local reforms.

Keywords: Decentralization, Corrupt Practices, Local Initiatives

Introduction

The practice of decentralization in Indonesia is a particularly interesting case not only because of the size of the country and its political and economic importance but also the country has made remarkable progress in creating a decentralized system of government. The local government system in Indonesia has changed from a highly centralized form to a decentralized pattern. This decentralization devolved resources and responsibilities from the central government to local governments in all governments' administrative sectors, except for security and defense, foreign policy, monetary and fiscal matters, justice, and religious affairs. Significant public expenditures have also been devolved to all districts amounting to about 30% of total national expenditure. Decentralization also prompted a major reorganization of political accountability chains in this country.

First, it eliminates the hierarchical relationship between the central, provincial, and local governments. Citizens have freedom to elect their local leaders and parliaments through direct election. The major and district government officials are elected by and responsible to the locally elected assembly (*Dewan perwakilan Rakyat Daerah*). Second, for locally assigned responsibilities, the branches of ministries in the districts are placed under the jurisdiction of local governments. Indonesia's decentralization, therefore, neatly reflects the concept of political decentrali-

zation.

Decentralization has likewise provided great benefit to the local regions that are granted autonomy. These regions are allowed freedom in law and economy that was previously available only to the central government. Regional autonomy allows laws and regulations to be tailored to individual regions. The country is very diverse geographically and ethnically. The application of central laws in a "one size fits all" approach may have hampered regional growth and activities in the past. Autonomy should allow regions to create and implement legal and economic policies that are more efficient and applicable to their circumstances. However, this carries the danger that local governments may choose to ignore centrally promulgated laws and regulations that are disagreeable at the local level. This situation happened in the last 17 years after decentralization process in Indonesia had been implemented.

I. The History of Decentralization in Indonesia

Indonesia today is comprised of 34 autonomous provinces that contain districts and municipalities. District, located in rural areas, and municipalities, outside of rural areas, are the same level of government. The provinces have a governor who serves as the central government's representative and a representative parliament. The provinces and local governments are sub-national governments.

Dutch colonial rule introduced sub-national governments in 1905 and provinces in the 1920s. Decentralization or regional autonomy was granted in 1945 after Indonesia won its independence from the Netherlands. The Soekarno's administration removed regional autonomy in 1957 after political agitation in several regions. The Suharto administration, the military regime after the Soekarno's, was very reluctant to give many significant authority to local governments. Many public sector activities, has less funding available to assist sub-national governments.

There is the danger that the central government, with the support of the military, may not pursue decentralization as strongly as they could because it would reduce their authority and provide limited benefit to their interests (central control over regions and resources). The central government may like to retain as much power as possible to influence local events and stifle secessionist impulses. The behavior of the military in Aceh province offers some evidence for this argument.

Many reformers in the government at the national and sub-national level support regional autonomy. However, there could be strong negative consequences if there is a perceived reduction in commitment to regional autonomy. It is entirely possible that a retrenchment of decentralization could stir political unrest in disaffected areas. Support for the rebels in Aceh province could continue and it could foster unrest in other provinces that feel the central government is unresponsive to local needs.

The policy of decentralization will likely have a mixed impact in the short run for several reasons. The reasons for the mixed impact are contained in the culture and geography of Indonesia where they have played, and are likely to continue to play, a significant role in the decentralization process.

The population of Indonesia is diverse and geographically scattered among many islands with their own traditions and languages. Indonesia has more than 13,000 islands, over 300 languages and over 20 cultural groups. If the President continues to promote the "One Indonesia" policy of his predecessor, the policy is likely to have little more effect than past attempts because of Indonesia's large geography, multiple languages, and cultures. The various populations may view regional autonomy with indifference or suspicion.

Besides, corruption is a problem that has plagued Indonesia for decades. Corruption is rampant and touches almost every facet of Indonesia's society. Unfortunately and already, there is anecdotal evidence of corruption occurring more frequently at the local level. Transparency International (an international non-governmental organization devoted to combating corruption) ranks Indonesia a 2 out of 10 on the Corruption Perception Index (CPI). A rating of one represents a perception of high corruption and a rating of 10 represent a highly clean business environment on the CPI. Granting regional autonomy puts more power in the hands of local officials and increases the ability of local officials to request and receive bribes and illegal gifts.

There is some anecdotal evidence of uneven development among the various regions. Some of this may be attributable to the resource-rich regions receiving greater revenues than the resource-poor regions via the intergovernmental aid formula. Significant care must be taken to ensure that funds for the different regions are distributed appropriately. If the allocation process is not consistently reviewed periodically to ensure fairness, this could be a cause of political contention.

If local regions press for greater autonomy or certain groups openly rebel against the central government, then, the Indonesian government may feel justified in curtailing aid to the region. The provinces of Aceh and Papua are the most likely provinces to pursue armed rebellion against the central government. These actions would exacerbate many of the negative social conditions such as poverty and unemployment that currently exist in many of the regions.

From 1967 until 1998, Suharto had sought to exercise power through a centralized government bureaucracy dominated by the military and the Golkar party. This centralization strategy followed the abortive coup and subsequent anti-communist purge that brought Suharto to power. During his tenure, Suharto eliminated much of the autonomy that Indonesia's regional governments had enjoyed under Dutch colonial rule.

Although the constitution called for democratically elected local governments and a 1974 law on regional autonomy provided for devolution of power to local levels, the legal structure bore little resemblance to the actual responsibilities of the provinces and districts under Suharto's rule. The army-backed Golkar party controlled the local and provincial legislative assemblies and all candidates for the position of chief executive in the regions required clearance from the central authorities in Jakarta to ensure allegiance to Suharto and his government. Presidential decrees often set policy and ignored the variation in regional needs and resources. Districts controlled primary education and agricultural issues but, even in these areas, the central government maintained some influence.

Central government actions accentuated disparities between regions. Local leaders faced a difficult combination of central interference in some areas and deliberate neglect in others. Beginning in the late 1980s, decentralization had crept onto the policy agenda but its advocates never made much progress. In 1988, Suharto's government launched a limited pilot decentralization program but, worried about empowering regional strongmen, did not take the steps necessary to implement any significant changes. In the 1990's, a group of academics and central government officials proposed expanded devolution of decision-making to the provinces and districts to improve service delivery outside the capital.

The moment of opportunity came with the Asian financial crisis of 1997-98. Indonesia's currency dropped to approximately 20% of its previous value. Debt soared and standards of living fell. With Indonesia reeling from the crisis, its economy in tatters, and the Golkar party straining to maintain its relevance and legitimacy in the new political climate, the moment was ripe for reform. As Suharto succumbed to political pressure to step down, calls for greater regional autonomy forced his successor, Habibie, to acknowledge that political survival in the upcoming elections would depend on his responsiveness to the public demands. The Ministry of Home Affairs issued a decree to form a team to prepare laws that dealt with reform of political parties, elections, and regional autonomy. The team began with elections, and then turned to decentralization.

The program the team put in motion was notable for its size, speed and scope, and the "big bang" model it projected. Reformers pushed sweeping legislation through the Parliament in a remarkably short period. Beyond the initial political hurdles, the central government also had to figure out how to implement the proposals. The resulting decentralization would transfer authority for approximately 4.2 million civil servants and more than 30% of government expenditures from the center to local authorities. After the initial transfer of civil servants and finances, the central government continuously revised and adjusted the program by imposing new regulations. These measures shaped the successes and shortcomings of Indonesia's new decentralized system of government.

II. Decentralization and Governance

As the concept of decentralization evolved over the past half century, it has taken on increasingly more diverse and varied meanings, objectives, and forms.¹ After more than two decades — that is, the 1940s and the 1950s — of increasing centralization of government powers and authorities in both more developed and less developed countries, governments around the world began to decentralize their hierarchical structures during the 1960s and 1970s. This is to make public service delivery more efficient and to extend service coverage by giving local administrative units more responsibility. During the 1970s and 1980s, globalization forced some government to recognize the limitations and constraints of central economic planning and management. During the same period and in development theories and strategies, international aid shifts away from central economic planning and trickle-

down theories of economic growth. Instead, it gravitates toward meeting basic human needs, growth-with-equity objectives, and participatory development, thus, led to increasing calls for decentralization.² International assistance organizations promoted decentralization as an essential part of a “process approach” to development that depended primarily on self-help by local communities and local governments.³ National governments decentralized in order to accelerate development, break bureaucratic bottlenecks arising from centralized government planning and management, and participate more effectively in a globalizing economy.

In the 1990s, decentralization was seen as a way of opening governance to wider public participation through organization of civil society. Also in this decade, there was a shift of paradigm in public administration into “New Public Management”.

The “New Public Management” movement shaped the way international development organizations and many reform-oriented public officials in developing countries began to think about what governments should do and how they should perform. In their book *Reinventing Government* that reflected innovative reforms in the United States and influenced thinking in other countries during the 1990s, David Osborne and Ted Gaebler argue that national, state, and local government should be innovative, market oriented, decentralized, and focused on offering their “customers” the highest quality services.⁴ They and the advocates of new public management contended that governments should “steer rather than row” and oversee service provision rather than deliver it directly. Further, governments should encourage local groups to solve their own problems by deregulating and privatizing those activities that could be carried out more efficiently or effectively by the private sector or by civil society organizations than by public agencies.

New Public Management focused on making government mission driven rather than rule bound, results oriented, enterprising, anticipatory, and customer driven. Government agencies should meet the needs of citizens rather than those of the bureaucracy. At the heart of this approach of governance was the notion that it had to be decentralized in order to achieve all of the other goals; that is, it would be most effective working through participation and teamwork among government agencies at different levels and with groups outside of government.

In order to strengthen team work among government agencies at the different levels, the International Monetary Fund, the World Bank and other international development organizations prescribed decentralization as part of the structural adjustments needed to restore markets, create or strengthen democracy, and promote good governance. Since then, the notions of “good governance” or partnership in governance become a very important aspect in governance.

III. Partnership in Governance

The concept of governance expanded to include not only government but also other societal institutions, including the private sector and civil associations. Decentralization could allow all three government institutions, namely; government, the private sector, and civil society organizations, to become more creative and inno-

vative in responding to public needs. It could help governments balance regional development, empower communities, and mobilize private resources for investment in infrastructure and facilities.⁵

The popular term for the role of these three actors in governance is called “public private partnership”. However, from the study in four ASEAN countries⁶, society as well as international donor agencies, which represented the private sectors, may have different views about government than that of from the government side. The summary of the various perceptions underlying the targeted objectives of good governance based on the research study done in four ASEAN Countries, namely; Indonesia, Malaysia, Thailand and the Philippines, during the period of 2001–2008, is shown in the following table.

Table 1 The importance of “good governance” practices as seen from different views

Government/Formal Institution Perceptions	Community/Civil Society Hopes	International Organization/Financial Institution Demands
1. Combating Corruption	1. Better quality of live	1. Downsizing bureaucracy
2. Transparency	2. Equitable distribution of wealth, income and natural resources	2. Privatization of the state-owned companies (SOE)
3. Accountability	3. Full employment	3. Deregulations
4. Participation in decision making process	4. Better access to housing, health and education	4. Decentralization and encouraging local self-governance
5. Rule of Law	5. Restraining privileges of elite in politics as well as in wealth	5. Respecting human and property rights

Source: Author’s own perception based on the research’s findings

The explanation within the table does not suggest differences among the three actors in the implementation of “Good Governance” agenda. It shows the degree of importance of the many goals and objectivess underlying the practice of good governance, which is sometimes considered as the “Second Generations Reforms” to facilitate the development of market economy.⁷ The reform can facilitate or hinder the creation of new space for government, civil society, and donor agencies in implementing the good governance agenda.

The table above also shows the priorities taken by the actors in “good governance” practices. The government and private sectors put more emphasis on the bureaucratic matters. The corruption practices mostly done in the public sector or civil service due to the low salaries for the public servants, therefore, governments in these four ASEAN countries had put “combating corruption” as the highest priority to build a “good governance” in their government practice. While the private sectors, represented by International Organizaton/Financial Institutions, are more

concern on downsizing bureaucracy since, in their mind, the bottleneck to have a “good governance” in a country depends on the quality of civil servants. The community or ordinary citizens, as well the civil society, have more realistic hopes for a “good government” practices. They are more concerned about their daily life and put more importance on their right as a citizens of a country. Therefore they put “better quality of life” as the first priority in relation to the practice of a “good governance” in a country or in government practices.

IV. Decentralization and Corruption Practices

Good governance agenda also places special emphasis on anti-corruption measures besides the partnership among “actors”. In Malaysia, for example, some of the corruption practices involved civil servants. In 1998, 186 cases or 64% among the 300 cases reported by the Anti-Corruption Agency (ACA) involved civil servants.⁸ The exclusive focus on corruption in public offices and institutions may fail to chronicle the large scale corruption practices carried out by private individuals and corporations. The involvement of western banks and transnational corporations in many poor and developing world is well documented. The extent of corrupt practices involving transnational corporation is quite vast that during 1994–2001, the US government received report of 400 international contracts worth. \$200 billion USD that involved bribery.⁹

While the relationship between corruption and governance is obvious, there are clear differences among the two. The governance could be regarded as the “bright side” or “sunny side” in the management of public power, whereas, corruption, then, becomes the “shadow side” or “dark side”. Another metaphor could be to be “two side of the same coin”. However, regardless the interpretations are, two examples below showed the intention of the Government of Indonesia in fighting corrupt practices in the regions.

At the municipal level, the City of Surabaya developed an e-procurement system under the newly-elected Walikota (Mayor) in response to Presidential Decree number 80/2003 on government procurement procedures. To set up the system, the city government conducted its own research and tried to incorporate best practices in procurement from Hong Kong and Singapore. It also received assistance in setting up the computer system from students at the local school of engineering. Initially the government faced resistance from big vendors who relied on payments and collusion to win their contracts. Since the implementation of the e-procurement system, the savings from procurements has been substantial and the savings has been allocated to other city projects. In addition, the application of e-procurement increases the opportunity for small and medium vendors to participate in the bidding process. As a result, a big portion of the city’s projects now are won by small and medium sized vendor.¹⁰

The fight against corruption has gained credibility at the district level too as shown by the case of Kabupaten Solok. In this District, Gamawan Fauzi, Head of the Regency or “Bupati” and later the Governor of West Sumatra and became a Minister

for Home Affairs under the “Susilo Bambang Yudhoyono (SBY)’s Administration” in 2009–2014, took the initiative to implement a new policy following his participation in a 2003 Transparency International workshop. He required all civil servants and suppliers to sign an “Integrity Pact”. The pact obliges them to refrain from corruption, not to receive or provide bribes, provide transparency to the procurement of goods and services in Kabupaten, simplifying documentation, reimbursement of funds, and correspondence in the procurement process. In early 2004, Solok eliminated civil servants honoraria, the salary supplements received by government staff for working on specific projects. The objective was to reduce corruption, as well as to improve employee welfare overall. Since then, the honoraria collected had been distributed equally among public officials.¹¹

Eventhough there are many good examples of decentralization with respect to corrupt practices in the region, there is no apparent decrease in corruption because of decentralization. If anything, corruption has maintained its grip in Indonesia and may have even grown stronger. Local officials have greater decision-making authority that can help citizens and businesses. On the same breath, these officials can now request bribes that were previously only available to more powerful central government officials. Moreover, there is little external formal review of local government expenditures and activities. The politics inside local governments, which determined the quality of Leadership in Decentralization Era in Indonesia, is an important factor to evaluate the success of the implementation of autonomy.

V. Local Initiative in Governance

Partnership among government, the private sector, and civil society organizations is becoming an increasingly popular form of decentralization. Partnership and other forms of cooperation among government agencies, civil society, and the private sector are being used to develop and expand energy and utility networks and services, extend transportation systems, construct and operate water and waste treatment facilities, and provide such basic services as primary health care, education, and shelter. Governments and the private sector are cooperating through a variety of mechanisms, including contracts and concessions; build-operate-transfer arrangement; and public-private joint ventures. Interest in public-private cooperation emerged for many reason, namely, insufficient national and local government capacity to extend services; public dissatisfaction with the quality and coverage of government-provided services; the ability of the private sector to provide some services such as transportation and housing more efficiently than government; and pressures from international assistance organizations to mobilize private investments.

In Indonesia, the cooperation between local government and the community as well as the private sectors has been developed as shown in two case studies presented below.

A. Case 1 — Cooperation between an Islamic Boarding School, the Local Government and the Community to Develop Segenter Village: A Success Story¹²

Nurul Hakim Boarding School (Pesantren) is one of 200 pesantren in West Nusa Tenggara. This school has around 2,400 students originally from the provinces of West and East Nusa Tenggara, Bali, South Sulawesi, South and West Sumatra and Riau. The school has been cooperating actively with the local government in supporting the Sasak people of Segenter village to develop their community. Villagers maintain their traditional Sasak houses and keep their village clean. Several years ago, the students of Nurul Hakim Boarding School worked with Segenter villagers to build a 7 km long clean water pipeline. The local then built a 10 km road to connect Segenter village to the main road.

Subsequently, many tourists have come to Segenter to see the traditional houses. In 1997, a Dutch tourist visited Segenter and gave Rp 25 million to the villagers to build a school, now named De Koning. In 1998, a rich arabian contributed funds to build a mosque.

The Nurul Hakim Boarding School designs programs to send a group of its students to several poor villages in West Nusa Tenggara in order to live and work with the villagers. The concept behind the program is that the presence of the students will allow villagers to increase their awareness of the benefits of action.

B. Case 2 — Community's Support for Mayor of the City of Surakarta in Central Jawa¹³

In 2005, Joko Widodo, a furniture maker and antiques dealer whom at present is a President of the Republic of Indonesia, won the first direct mayoral election in the City of Surakarta, carrying 36% of the vote. Surakarta, known as Solo, had been the scene of intense rioting in 1998 and in subsequent years had languished. Widodo, popularly known as Jokowi, set out on a path of municipal reform that responded to public calls for improved services. In the past, a variety of agencies ran numerous small development projects without any coordination. Jokowi consulted with local business leaders and ordinary citizens about changes, considered the most pressing, and then consolidated the funding to support fewer projects on much larger scale.

In consultation with working groups of ordinary citizens, Jokowi upgraded the slums, moving squatters from flood-prone locations to drier, areas with planned community housing and plumbing. He reduced the processing times for identity cards from more than a month to less than an hour, and business permits that could have taken four to eight months to process that took a maximum of six days after his reforms. In addition, he used taxes collected from local business to free up capital for loans to families and small businesses. He formalized the status of street vendors,

renovated the traditional markets, and encouraged legally sanctioned business that was at once far more lucrative to these vendors and also taxable to the city. With the increase in revenue, he created parks and river walks and improved sanitation across large swaths of the city. Solo's successes point to potential benefits that decentralization in Indonesia can have, with effective local leadership addressing the people's needs as they arise, then partnering with them to formulate solutions. Jokowi was reelected in May 2010 with 91% of the vote. In 20 October 2014 Joko Widodo was sworn as the 7th President of the Republic of Indonesia.

Those two examples are only a little sample of several successful cooperation among "actors" in governance as well as local initiatives and leadership which can foster the development process to have a good decentralization practices in Indonesia.

Conclusion

Indonesian decentralization is mainly political and administrative decentralization. The political and administrative decentralization effort has had mixed results. Sub-national governments have used their newfound authority to implement conflicting rules and regulations and are in effect attempting to establish precedents that could be difficult to reverse in the future.

The central government continues to control a vast share of the revenues required for local governance under real decentralization. Local governments, on average, receive more than 80 percent of their revenues from the central government. This creates an asymmetry between revenues received at the local level and expenditure decisions that are made locally.

Local governments are responsible for paying salaries that were previously paid for by the central government and paying for basic required services such as health and education. Consequently, local governments have increased spending responsibility without the additional locally controlled revenue base necessary to support extra spending.

Despite the public calls for democracy, the central government largely imposed the process of decentralization from above, without extensive consultation with the districts. As Indonesia struggled with implementation in the years that followed, the central and regional governments attempted to improve their coordination and close the gap between public needs and government capacity. Although their efforts met mixed results, decentralization expanded the capacity for the public to hold local leaders accountable, thereby opening the door for future local reformers.

Notes

- 1 Dennis A. Rondinelli, John R Nellis and G. Shabbir Cheema, "Decentralization in Developing Countries: A Review of Recent Experiences". Working Paper 581, World Bank Staff, 1983.

- 2 D. Korten and F. Alfonso (eds) *Bureaucracy and the Poor: Closing the Gap* (Singapore: McGrawHill, 1981).
- 3 Dennis A Rondonelli, *Development Projects as Policy Experiment: An Adaptive Approach in Development Administration*, 2nd Ed (London: Routledge, 1993).
- 4 David Osborne and Ted Gaebler, *Reinventing Government* (Boston: Addison-Wesley, 1992).
- 5 M. Serageldin, S. Kim and S. Wahba, "Decentralization and Urban Infrastructure Management Capacity," background paper, UNCHS/Habitat, Harvard University Graduate School of Design, 2000.
- 6 Prijono Tjiptoherijanto and Astrid Meilasari-Sugiana, *Bureaucratic Reforms in Four ASEAN Countries* (Jakarta: Kosa kata kita and Universitas Bakrie, Jakarta, 2011).
- 7 The "Second Generations Reforms" refers to designing the state and institutions, while the "First Generations Reforms" mostly concern with the economic reform to cope with globalization process. All of these reforms are in accordance with the "Washington Consensus".
- 8 New Strait Times, 4 June 1999, daily newspaper in Malaysia.
- 9 Kavaljit Singh, *Questioning Globalization* (Pulau Pinang, Malaysia: Citizen International, 2005).
- 10 Personal Statement of the Vice Mayor of Surabaya City, 6 January 2009.
- 11 Emmy Hafild and Hanu Yulianto, "Hasil Assesement Penerapan Pakta Integritas Kabupaten Solok (Assesment Report on the Implementation of Integration Pact in the ReGENCY of Solok)", paper presented by TI-Indonesia in the Worksop, "Mewujudkan Sistem Pengadaan Barang dan Jasa yang Effisien dan Bersih KKN (Building An Efficient Procurement System which is Free from Corruption Practices)", Jakarta, 25 August 2005.
- 12 Source: SMERU, July 2000.
- 13 Source: Newspaper's report during 2011.