Decentralization Process in Indonesia: Its Impact on Democratization and Governance

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SCOPE OF ANALYSIS

- Background of Decentralization Reform 1999
- Some Notes on Decentralization Reform
- Problems of Implementation
- Impact on Democratization and Governance
- Some critical issues to be revised
PART 1

The Background of Decentralization Reform in Indonesia

Background of Decentralization Reform

- In 1997, the restoration recipe from the IMF precisely did not let Indonesia to left the crisis.
- The approach by the IMF by giving the debt was making Indonesia to enter practiced of “digging and closing the hole continuously”
Background of Decentralization Reform

Internal Environment

- The political system change was triggered strongly by the demand of the legal and politics reform comprehensively that began to strengthen since 1997 to the more democratic state
- The people power in 1998 forced the President Soeharto to step down
- The regional separatist movements came up after the fall of Soeharto as reaction of very centralized state

SYSTEM OF NATIONAL GOVERNMENT

The 1945 Constitution formed the structure of the state-order that focused on the highest authority on the People’s Consultative Assembly (MPR) hands that fully carried out the sovereignty of the people

The fourth amendment were hoped to create the structure of the government in Indonesia that was more democratic, based on legal supremacy, empowering the people, respect to the human rights and that giving wider autonomy to the regions.

The change that happened was very significant against the current structure of the state-order available in Indonesia
The Structure of Government before 2000

- People's Consultative Assembly
- Highest States Institutions
- Supreme States Institutions
- Supreme Court
- Supreme Advisory Council
- President
- House of Representative
- Supreme Auditing Body
- Coordinating Ministries
- Ministries that Lead Departments
- State Ministries
- Official was on same level with Ministries
- Non-Departmental Institution

The Structure of Government after 2000

- Supreme States Institutions
- President
- Supreme Court
- Constitutional Court
- Independent Executive
  - National: Army, State Police (POLRI), Central Bank (BI)
- State Commission
- Regional Government
  - Coordinating Ministries
  - Ministry that Lead Departments
  - State Ministries
  - Official was at same level with Ministries
  - Non-Departmental Institutions
Some Notes on Decentralization Reform

Central and Local Government Relationship

Political aspect of The Central-Regional Government In Indonesia

- The rise and the fall of the “relations” influenced life as a nation and a state in Indonesia.

- Various movements of the separatist in the regional governments such as in Ambon, Aceh and Papua were related to the aspect of the vertical distribution of the power.

- The rise and the fall of these “relations” was reflected in various legislation products that arranged about the regional and local government, as stated in the Article 18 of the Indonesian Constitution (UUD 1945), both before and after the amendments.
**The Structure of Central-Regional Relationship**

- Different from the federal state, the regional autonomy in Indonesia is not origin, but the autonomy was given by the central government and was formed through the Law.

- Therefore, the status of autonomy could be removed or pulled out again by the central government.

- The regional governments in Indonesia are the creature of the Central Government.

- Based on that principle, the regional government in Indonesia does not have “the state character”.

- The Regional autonomy in Indonesia is the transferred authority given by the central to regulate and manage theirs own need.

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**The Process of Reform 1999**

- The President established a commission on promoting decentralization, consisting of 14 members from academicians and senior national public officials.

- The task of the commission was to identify the problems, the directional growth, and fundamental changes of central and local government relations.

- The recommendations from the commission were transferring some authority to local government, removing the locus of autonomy from province to municipal, and transferring more financial resources.

- The commission recommended two laws for promoting decentralization: (1) Local Autonomy Law and (2) Law of Financial Balance between Central and Local Government.

- These two laws were enacted in 1999 and have been seen as fundamental reform on decentralization in Indonesia.
Big Bang Reform of Decentralization in 1999

- The goal of reform aimed at strengthening the local democracy and giving the local government more autonomy to deliver public services.
- Some major issues to be addressed in decentralization reform:
  - Transferring authorities and delegated functions into self autonomous functions
  - Abolishing the central agencies in regional and local government
  - Reducing central intervention and control over local government
  - Strengthening the citizens participation
  - Transferring more financial resource to local government
  - Establishing and proliferating the new local government
  - More transparency in election of Governor and Mayor
  - Strengthening the village as basic local government

The substantial reform In Decentralization law 1999

- Focus of Autonomy was removed since 2001 from Province to Municipal Level
- The ultimate goal of decentralization is the strengthening of local democracy
- The de-concentration principle belong only to province level, in which governor has dual role and dual status
- The central agencies in municipal were abolished
- The vertical distribution of authority based on the principle of residual power and the most of authorities have been transferred to local government
- The control and intervention of central government over the local government has been reduced
- Election process of governor and mayor directly by the people
- Local governments have their own authority to define and develop the organizational matter include the village
Some others reform on Decentralization and Local Autonomy

Law of Local Tax and Charge was enacted in 2000 and give some more authorities on financial local resources from tax and charge such as: vehicles tax, underground water tax, restaurant and hotel tax, tax on mining C and others tax

The law about Second Chamber in Indonesia was enacted in 2005, in which the local assembly has no power anymore to elect the governor and mayor. It means the governor and mayor will be directly elected by people

Some Government Regulations (PP) have been enacted in 2000 as guidance of reform implementation: PP on Authority Distribution, PP on Financial Balance, PP on Local Public Organ, PP on Filiation/Establishing New Local Government. Potentially there should be 13 PP prepared and enacted

The Structure of Indonesian Local Government since 2001

[Diagram showing the structure of local government, including Central Government, Province, Municipality, Regional Representative Unit, Village, etc.]
Reform on Distribution of Authority

- Except the authorities explicitly belong to central government based on Local Autonomy Law, principally the municipalities have their own authorities to regulate and manage self-autonomous functions/task.
- The deconcentrated/delegated functions have been replaced by decentralized functions.
- Every local government entity nationally has the same authority of functions regardless of their ability, capability, and resource.
- The control of central government over bylaws and regulation enacted by local government was replaced from prevention to repression.

Reform on Financial Balance

- The principle *money follows function* was introduced in Law of Financial Balance, in which the transferred authority should be followed by the financial transfer.
- The local government should be responsible for their expenditure in delivering public services.
- The financial transfer from central government will be based on fiscal capacity and fiscal need.
- The revenue sharing between central and local government will be enhanced in tax and tax resource based.
Tax Sharing

<table>
<thead>
<tr>
<th></th>
<th>Central Government</th>
<th>Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Law 25/1999</td>
<td>Law 33/2004</td>
</tr>
<tr>
<td>Property Tax</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Property Registration Tax</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

➢ Property Tax (16.2% Province, 64.8% Municipal and 9% collecting cost)
➢ Property Tax Central (65% for all municipality, 35% for related municipality)
➢ Property Registration Tax (16% Province, 64% Municipal)
➢ Property Registration Tax Central (For all municipality)
➢ Income Tax (40% Province, 60% Municipality)

Non Tax Sharing

<table>
<thead>
<tr>
<th></th>
<th>Central Government</th>
<th>Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Law 25/1999</td>
<td>Law 33/2004</td>
</tr>
<tr>
<td>Forestry Income</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Forest Recovery Fund</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>General Mining</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Fisheries</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Oil</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>Gas</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>15,5%</td>
<td>15,5%</td>
</tr>
</tbody>
</table>
Some contradictories of reform

Regulation and Technical Guidance to implement the reform as required in Local Autonomy have not been prepared and enacted until 2003.

Some Regulations even contradict the substance of Local Autonomy Law, which are recentralize again the authority that have been transferred to local government.

The Local Autonomy Law has no requirement and order for amendment of sector law, which is very urgent and important in harmonizing of authorities distributed to local government.

PART 3

Problems of Implementation
Some Implementation Problems

- Weakness of development coordination among sector ministries and between sector and local agencies
- Over and fragmented Local Institutions in the local governments
- Overlapping and contradicting of local regulations with the national laws and regulations
- Lack capacity and amount of Local Personnel (problem of overstaffed and understaffed)
- Gap between transferred authority and financial ability
- Resistance of central government ministries

Lack Coordination

- Every ministries tried to take back the authorities have been transferred to local government through the regulations and notice and through the new establishment of central agencies in local government
- The ministry of home affairs and national planning agency could not coordinate national strategy and program effectively.
- Fragmentation and uncoordinated development become national problem in planning and implementing governmental functions
Big Size of Local Agency

- The autonomy of local authorities to determine their own organization lead to oversize local agencies
- The establishment of local agencies was not based on the need of public service delivery, rather than based on political negotiation to accommodate interest
- 75% on national average of local budget has been spent as personnel expenses

Over Local Regulation

- Since 2001 there are more than 11,500 regulations enacted by local government both province and municipalities
- 1850 local regulations have been abolished by central government on account of contradiction with national laws and regulations
- Most of these local regulations were related to establishment of local charges and fees
Some local government outside Java are facing the problem of understaffed where the capacity and capability of local personnel carrying out the transferred authority are very scarce.

By contrast because of the abolishing the central agency in local government some local government in Java are facing the overstuffed

Too much functions, less money

69% of government expenditure in 2009 (716 Trillion) was spent by central government and 31% spent by local government (320 Trillion), although most of functions (70%) has been transferred to local government.

General Financial Transfer from central to local government (*Dana Alokasi Umum or DAU*) 75% has been spent on salary of local personnel

Specific Financial Transfer (*Dana Alokasi Khusus or DAK*) is allocated to specific objective and Area, but in practice can be negotiated based on political interest
## Financial Transfer to Local Government in Indonesia (Billion Rupiah and Percentage)
### From 2001-2009

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Balance Fund</td>
<td>81,054.4</td>
<td>94,656.6</td>
<td>111,070.4</td>
<td>122,867.6</td>
<td>143,321.3</td>
<td>222,130.6</td>
<td>244,007.8</td>
<td>278,436.0</td>
<td>296,952.4</td>
</tr>
<tr>
<td>a. Revenue Sharing Fund</td>
<td>28,007.7</td>
<td>34,484.1</td>
<td>31,309.5</td>
<td>36,709.3</td>
<td>49,692.3</td>
<td>64,960.3</td>
<td>62,726.3</td>
<td>77,726.8</td>
<td>85,718.7</td>
</tr>
<tr>
<td>b. General Allocation Fund (DAU)</td>
<td>60,345.8</td>
<td>60,159.4</td>
<td>75,977.9</td>
<td>82,150.9</td>
<td>88,760.4</td>
<td>145,464.2</td>
<td>164,787.4</td>
<td>179,597.1</td>
<td>186,414.1</td>
</tr>
<tr>
<td>c. Specific Allocation Fund (DAK)</td>
<td>700.9</td>
<td>613.1</td>
<td>2,723.6</td>
<td>4,856.4</td>
<td>4,763.6</td>
<td>11,566.1</td>
<td>17,094.1</td>
<td>21,202.1</td>
<td>24,819.6</td>
</tr>
<tr>
<td>II. Special Autonomy Fund and Adjustment Fund (Aceh and Papua):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Special Autonomy Fund</td>
<td>-</td>
<td>3,547.5</td>
<td>9,243.9</td>
<td>6,855.3</td>
<td>7,242.6</td>
<td>4,049.6</td>
<td>9,993.2</td>
<td>13,986.7</td>
<td>23,738.6</td>
</tr>
<tr>
<td>b. Adjustment Fund</td>
<td>-</td>
<td>1,175.0</td>
<td>1,539.6</td>
<td>1,642.6</td>
<td>1,775.3</td>
<td>3,488.3</td>
<td>4,045.7</td>
<td>7,510.3</td>
<td>8,856.6</td>
</tr>
<tr>
<td>Total Transfer to Local Government</td>
<td>81,054.4</td>
<td>98,204.1</td>
<td>120,314.3</td>
<td>129,722.9</td>
<td>159,463.9</td>
<td>226,180.0</td>
<td>254,201.0</td>
<td>292,422.7</td>
<td>326,691.0</td>
</tr>
<tr>
<td>Percentage of National Budget</td>
<td>33.73%</td>
<td>30.48%</td>
<td>31.96%</td>
<td>30.37%</td>
<td>29.52%</td>
<td>33.90%</td>
<td>33.76%</td>
<td>33.95%</td>
<td>30.92%</td>
</tr>
</tbody>
</table>

## PART 4

Impact of Decentralization Reform
Some critical Notes and Negative Impacts on local Bureaucracy and Public Services

- Recruitment and promotion based on ethnicity and local affiliation (the phenomenon of “local man”)
- Gap between rich and poor local government has caused some differences level of local public services
- Many of local assembly member, governor and mayor have been suspected and accused because of abuse of power
- The governor and mayor have very big power running bureaucracy, but uncontrolled by local assembly
- Bad governance on utilization of natural resources and environmental damage
- Corruption in procurement process and bureaucracy permit increased

Issues on Direct Local Election since 2004

- Positively, direct local election of governor and mayor promoted citizens participation and seen as media of political education
- Negatively, the political-economic transaction cost during the process of election could be seen as a factor contributing bad local governance, in which the accountability and transparency of making policy fall down
- Many of local government were and are not the financial situation to finance the direct election because of limited resource, the case that we are facing in 2010
- Political Cooptation upon the local public employee has increased and influenced performance of services
Issues on Proliferation of Local Government

- Since 2001 the amount of local government in Indonesia has been increasing radically.
- Factors motivating the local elite to establish new local government are:
  - Benefiting the financial transfer from central government
  - Expanding the job and position for politician and bureaucrat
  - 95% of new establishment local government proposal have been accepted and approved by government and parliament
- In some area the process of proliferation of local government has caused social conflict.
- Most of the proliferation approved by government and parliament are based on political transaction.

Number of Province and Municipality in Indonesia
Some positive Impacts

- In some local governments, the best practices of public service delivery have been introduced and gave impact on economic indicators such as income per capita and PDRB.
- Key success factor of these best practices is political commitment of mayor and governor in bureaucratic reform and support of councilor (member local assembly).
- In some local governments, there are NGOs in controlling and participating the local government functions.
- Citizen charter and complaint mechanism have been adopted in some local government to protect the right of citizen in public service.

Improving Quality of Local Public Service

<table>
<thead>
<tr>
<th>Type of Reform in Public Service</th>
<th>Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Stop Service</td>
<td>Applied in all Local Government</td>
</tr>
<tr>
<td>Reform on Financial Management</td>
<td>Province Gorontalo, District Sragen</td>
</tr>
<tr>
<td>Improving Procurement Process</td>
<td>City Sampang, District Jembrana</td>
</tr>
<tr>
<td>Performance Agreement</td>
<td>In some Local Governments</td>
</tr>
<tr>
<td>Integrity Pact</td>
<td>In some Local Governments</td>
</tr>
<tr>
<td>Education and Health improvement</td>
<td>Most of Local Governments</td>
</tr>
<tr>
<td>Improving public services process</td>
<td>In some Local Governments</td>
</tr>
</tbody>
</table>
Current debate on decentralization reform in Indonesia

Some Planned Revision of Local Autonomy Law

- Strengthening the role and function of Governor as representative of central government to supervise and coordinate the development in Municipality
- Improving the requirement of establishing new local government through the preparation time in 5 years
- Strengthening the community participation through the special articles in law that oblige the local government giving the right and access to society
- New Policy to reconstruct the role of traditional village in delivering services
- New Policy on distribution of authority in special law