



Reforming Intergovernmental Relations and the Rebuilding of Indonesia Through 'Big Bang' Decentralization : Issues, Challenges and The Way Forward

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Why are countries decentralizing? (Shah and Thompson, 2014, p.303)

No.	Reasons / Motivations	Countries / Regions
1	Political and economic transformation	Central and eastern Europe, Russia
2	Political crisis due to ethnic conflict	Bosnia & Herzegovina, Ethiopia, Yugoslavia, Nigeria, Srilanka, South Africa, Phillipines
3	Political crisis due to regional conflict	Madagascar, Mali, Senegal, Uganda, Mexico, Phillipines
4	Enhancing participation	Argentina, Brazil, Bolivia, Colombia, India, Pakistan, Phillipines
5	Interest in EU accession	Czech Republic, Slovakia, Hungary, Poland
6	Political Maneuvering	Peru, Pakistan
7	Fiscal crisis	Russia, Pakistan
8	Improving service delivery	Chile, Uganda, Cote d'Ivoire
9	To centralize	China, Turkey, European Union
10	Shifting deficits downward	Eastern and Central Europe, Russia
11	Shifting responsibility for unpopular adjustment programs	Africa
12	Prevent return to autocracy	Latin America
13	Preservation of communist rule	China
14	Globalization and information revolution	Most countries

History of Decentralization in Indonesia (1)

Economics' crisis in 1997



The Failure of Soeharto's government to create inequality across all regions and corrupt government

Selected Asian Exchange Rates Against US\$



Social and Cultural Crisis

INDONESIA CORRUPTION INDEX



Legend

Percentage of Poor People

- < 8,00
- 8,01 - 16,00
- 16,01 - 24,00
- 24,01 - 32,00
- 32,01 - 40,00

Data Source : SUSENAS, BPS

History of Decentralization in Indonesia (2)

The Falling Down
of Soeharto
Regime



Conflicts among
Regions



Several regions
demanded for
separation, such as:
Timor Timur, Aceh
and Papua



To prevent from
disintegration,
Indonesia started the
era of
Decentralization



The falling down of
Habibie due to
Issues of
Disintegration

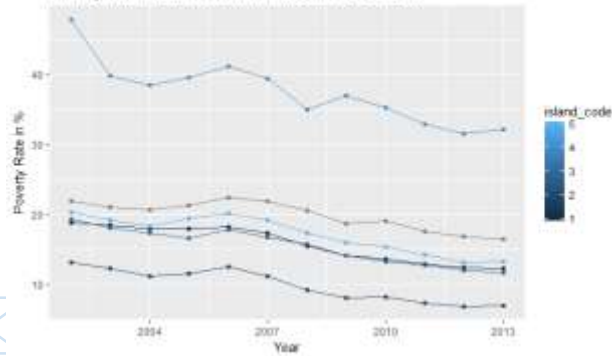


Timor Leste was
separated from
Indonesia through
Memorandum

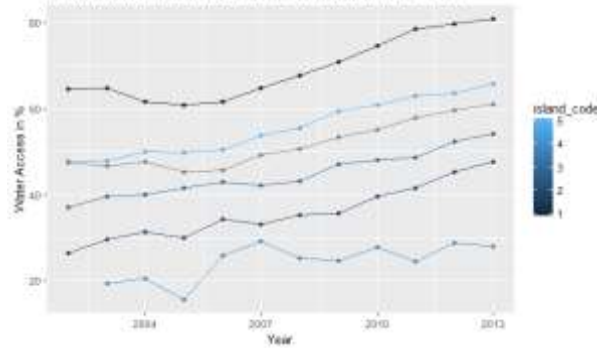
The Data about Inequality in Indonesia in Welfare and Basic Infrastructure

Source: World Bank (2016) processed by the writer by using R software

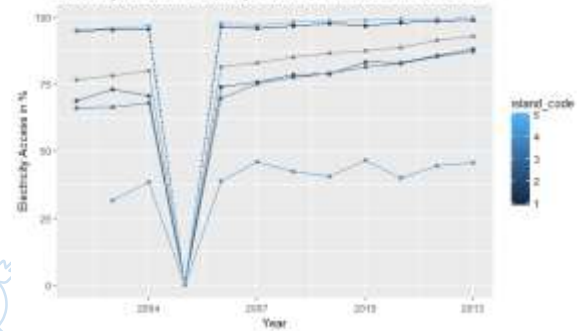
Poverty Rate in Each Island in Indonesia in 2002-2013



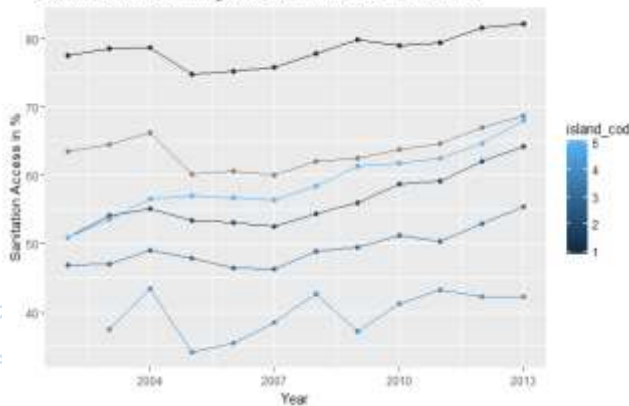
Water Access in Each Major Islands in Indonesia in 2002-2013



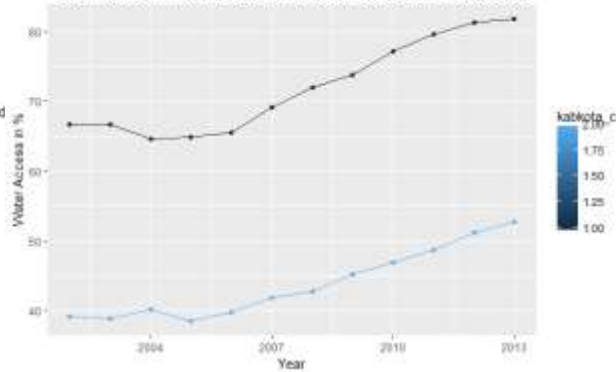
Electricity Access in Each Major Islands in Indonesia in 2002-2013



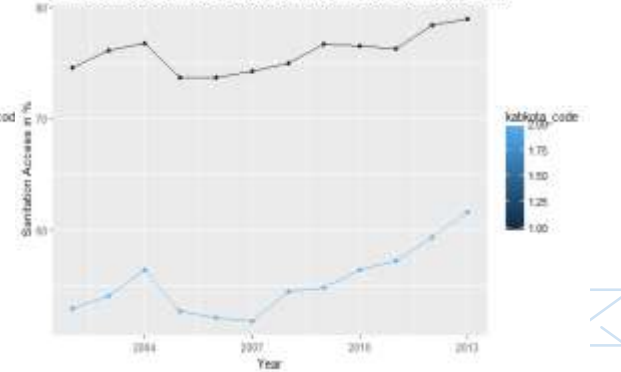
Sanitation Access in Major Islands in Indonesia in 2002-2013



Water Access in Rural and Urban Areas in Indonesia in 2002-2013

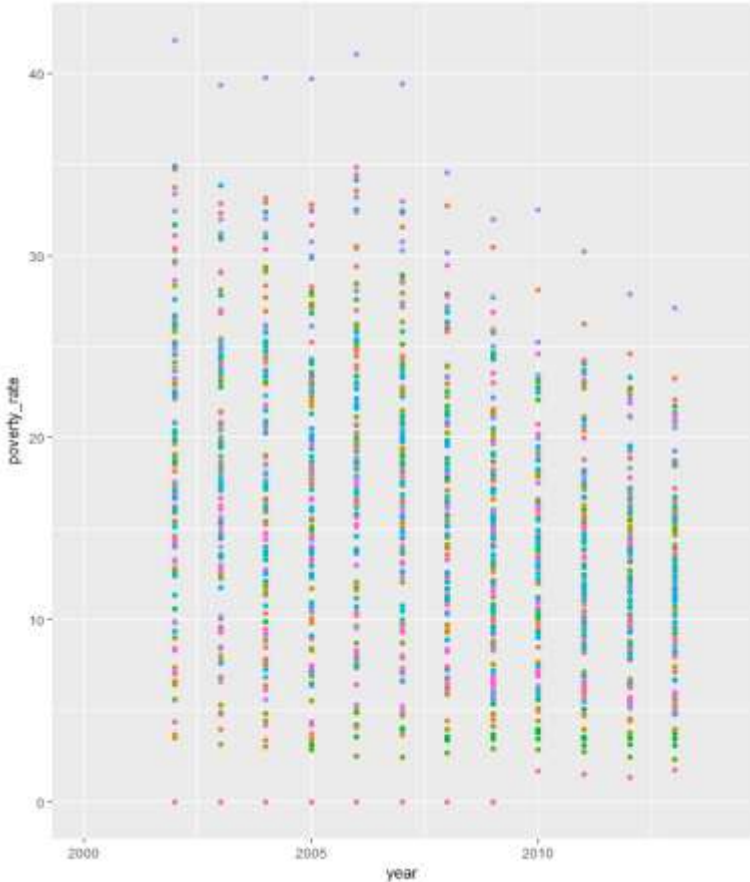


Sanitation Access in Rural and Urban Areas in Indonesia in 2002-2013



Geographical Separation is still problem for equality

Source: World Bank (2016) processed by the writer by using R software



city

- | | | | | | |
|-----------------------------|-----------------------|---------------------|------------------|-------------------|-------------------------|
| Adm. Kepulauan Beribu, Kab. | Bondowoso, Kab. | Jakarta Timur, Kota | Magelang, Kab. | Probolingge, Kab. | Sumedang, Kab. |
| Bandung Barat, Kab. | Boyolali, Kab. | Jakarta Utara, Kota | Magelang, Kota | Probolingge, Kota | Sumenep, Kab. |
| Bandung, Kab. | Brebes, Kab. | Jember, Kab. | Magetan, Kab. | Purbalingga, Kab. | Surabaya, Kota |
| Bandung, Kota | Ciamis, Kab. | Jepara, Kab. | Majalengka, Kab. | Purwakarta, Kab. | Surakarta, Kota |
| Bangkalan, Kab. | Cianjur, Kab. | Jombang, Kab. | Malang, Kab. | Purworejo, Kab. | Tangerang Selatan, Kota |
| Banjar, Kota | Cilacap, Kab. | Karanganyar, Kab. | Malang, Kota | Rembang, Kab. | Tangerang, Kab. |
| Banjarnegara, Kab. | Cilegon, Kota | Karawang, Kab. | Mojokerto, Kab. | Salatiga, Kab. | Tangerang, Kota |
| Barit, Kab. | Cimahi, Kota | Kebumen, Kab. | Mojokerto, Kota | Sampang, Kab. | Tasikmalaya, Kab. |
| Banyumas, Kab. | Cirebon, Kab. | Kediri, Kab. | Nganjuk, Kab. | Semarang, Kab. | Tasikmalaya, Kota |
| Banyuwangi, Kab. | Cirebon, Kota | Kediri, Kota | Ngawi, Kab. | Semarang, Kota | Tegal, Kab. |
| Batang, Kab. | Diamak, Kab. | Kendal, Kab. | Paotan, Kab. | Serang, Kab. | Tegal, Kota |
| Batu, Kota | Depok, Kota | Klaten, Kab. | Pamekasan, Kab. | Serang, Kota | Temanggung, Kab. |
| Bekasi, Kab. | Ganuk, Kab. | Kudus, Kab. | Pandeglang, Kab. | Sidoarjo, Kab. | Trenggalek, Kab. |
| Bekasi, Kota | Gresik, Kab. | Kulon Progo, Kab. | Pasuruan, Kab. | Silubendo, Kab. | Tuban, Kab. |
| Bilitar, Kab. | Grobogan, Kab. | Kuningan, Kab. | Pasuruan, Kota | Sleman, Kab. | Tulungagung, Kab. |
| Bilitar, Kota | Gunung Kidul, Kab. | Lamongan, Kab. | Pati, Kab. | Sragen, Kab. | Wongorei, Kab. |
| Bloca, Kab. | Indramayu, Kab. | Lebak, Kab. | Pekalongan, Kab. | Subang, Kab. | Wonosobo, Kab. |
| Bogor, Kab. | Jakarta Barat, Kota | Lumajang, Kab. | Pekalongan, Kota | Sukatani, Kab. | Yogyakarta, Kota |
| Bogor, Kota | Jakarta Pusat, Kota | Madiun, Kab. | Pemalang, Kab. | Sukabumi, Kota | |
| Bojonegoro, Kab. | Jakarta Selatan, Kota | Madiun, Kota | Ponorogo, Kab. | Sukoharjo, Kab. | |

The Portrait of Inequality in Several Aspects of Development Across All Major Islands (Average in 2002-2013)

No.	Variables	Jawa	Sumatera	Kalimantan	Sulawesi	Papua
1	Household Access to Electricity (%)	88.2	66.5	68.1	65.8	30
2	Household Access to Safe Water (%)	59.1	43.1	38.16454	43.7	21
3	Household Access to Safe Sanitation (%)	62.2	51.4	55.4	47.1	29.8
4	Infrastructure Expenditure (Rp.)	71,884,258,878	61,559,687,995	13,6771,704,549	39,045,525,308	51,385,150,823
5	Agricultural Productivity (Ton/Ha)	54.1	38.3	34.4	30.6	16.1
6	GDP Agriculture (Rp.)	1,058,394	584,179.4	482,265.4	399,163.9	128,423.4
7	Number of people in employment (People)	308,771	123,202	65,986	58,136	24,153
8	Number of people employed in agriculture (People)	91,903	46,533	31,935	28,249	24,152.84
9	Household Expenditure (Rp.)	34,3931	308,512	377,715	273,042	272,094
10	Poverty Rate (%)	14.9	14.7	8.9	14.1	26.5
11	Irrigation (Ha)	20,797	10,177	3,736	9,073	1,283

Source: World Bank (2016) calculated by the writer by using R software

“Big Bang” Decentralization

The most ambitious decentralization in the modern history (Bunnell, et. al, 2013, p. 4)

Indonesia transferred most of the authorities to cities and regencies and leave few authorities in the hands of central government

Indonesia has 13.487 islands that are geographically and geologically scattered and separated

Indonesia has 511 cities and regencies with different levels of institutional capacity

The decentralization process took little times in the preparation without any capacity building mechanism before the decentralization

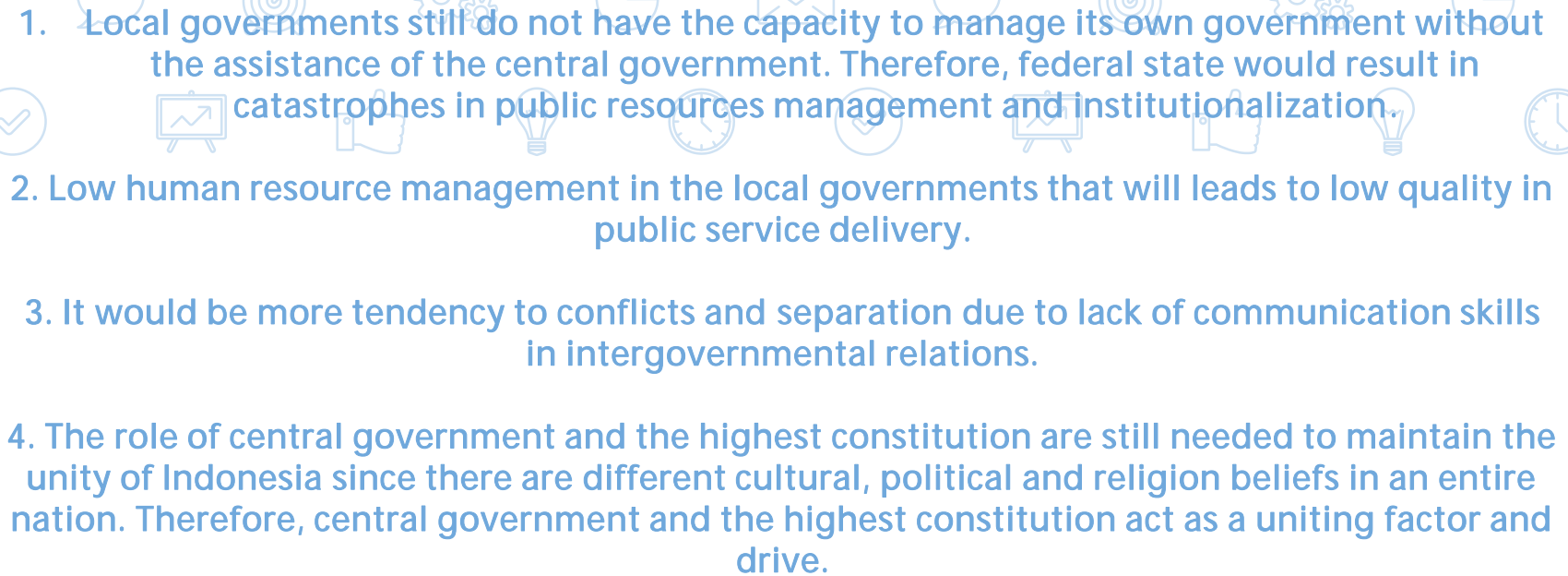
Decentralization or Federal State?

Law of Republic of Indonesia 1945 Article 1 Line 1:

“Indonesia is a unitary state in the forms of Republic”

Many countries in the world developing the unitary state as their respective form of the government such as: Japan, China, France and Spain have geographical dimension that facilitate the mobility and the unity across the nation. Would that be possible for Indonesia that consists of 13.487 islands adopts the concept of a unitary state to maintain the sustainability of development equally across all the regions? (Asshidique, 2014)

- *) After almost 2 (two) decades of decentralization, the GINI Ratio is still high.
- *) Federal state can accelerate the development in the remote regions faster.
- *) In the implementation, several key authorities are in Central Government that hampers the development in the villages and remote areas

- 
1. Local governments still do not have the capacity to manage its own government without the assistance of the central government. Therefore, federal state would result in catastrophes in public resources management and institutionalization.
 2. Low human resource management in the local governments that will leads to low quality in public service delivery.
 3. It would be more tendency to conflicts and separation due to lack of communication skills in intergovernmental relations.
 4. The role of central government and the highest constitution are still needed to maintain the unity of Indonesia since there are different cultural, political and religion beliefs in an entire nation. Therefore, central government and the highest constitution act as a uniting factor and drive.

The Reason why Unitary State with Decentralization is more suitable for Indonesia

The Authorities Transferred to City / Regency Governments (Law 32/2004 about Regional Government)

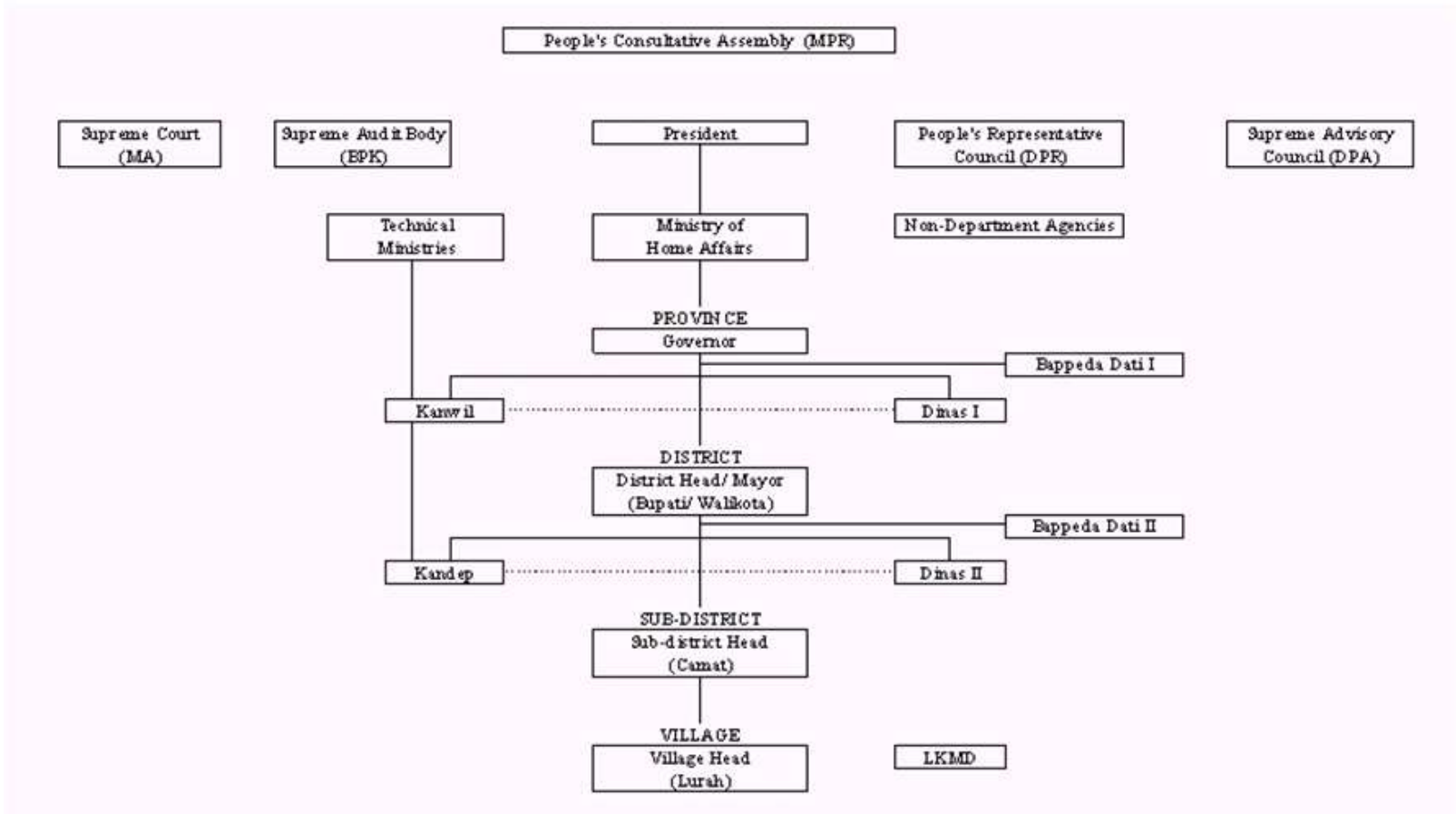
- ▶ *Development Planning and Control*
- ▶ *Planning, utilization and supervision of zoning*
- ▶ *Administering public order and peace*
- ▶ *Providing public means and facilities*
- ▶ *Handling of health sectors*
- ▶ *Administering education and allocation of potential human resources*
- ▶ *Handling of social issues of inter district/cities*
- ▶ *Serving manpower sector of inter district/cities*
- ▶ *Facilitating the development of cooperatives, small and medium businesses including inter districts/cities*
- ▶ *Environmental control*
- ▶ *Agrarian services including inter districts/cities*
- ▶ *Demography and civil registry*
- ▶ *Serving government and administration affairs*
- ▶ *Serving capital investment administration including inter districts/cities*
- ▶ *Running other basic services that have not been carried out by the district/cities*
- ▶ *Other mandatory affairs instructed by the Laws and Regulations.*

**Is too
decentralized
good for
Indonesia??**

**Leave few authorities in the
hands of central governments:**

- 1. Foreign politics**
- 2. Monetary and fiscal**
- 3. Religion**
- 4. State defense**
- 5. Justice**

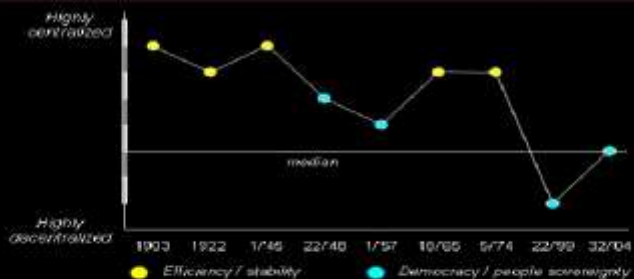
The Structure of Government in Indonesia: From Central to Regional Government



No.	Aspect	Law 22/2009	Law 32/2004
1.	The Division of the Government	Size and content approach. There are small regions and big regions and each of which has the autonomy and there are regions with limited autonomy and regions with broad autonomy	Size and content approach yet emphasizing in the division of balanced affairs as per the basis of externality, accountability and efficiency.
2	The management of regional government	The decentralization is limited to provinces, the vast of the areas of municipalities/regencies, deconcentration is limited only to municipalities/regencies; the balanced auxiliary responsibility to all level of the government	The decentralization is managed among provinces, municipalities and regencies.
3.	The organization model of regional government	Local democratic model	The combination between local democratic model and structural efficiency model
4.	The mechanism of authority transfer	The mechanism is organized through authority acknowledgment, the contents of authorities of the central government and provincial government as an autonomy region is limited while the contents of authorities in the municipalities / regencies are broad	It does not use authority approach but use the affair approach in which there are activities, rights, authorities, obligations and responsibilities.
5	The Dominant Roles	Regional Legislative Body	It uses the check and balances between regional government and regional legislative bodies
6	Government Officer System	Separated system	Mixed System, by combining between integrated system and separated system
7.	Accountability System	To regional legislative bodies	To regional legislative bodies and society

The Aspects of Change from Old to New Decentralization Law

Degree of centralization – decentralization in Indonesia (1903-2004)



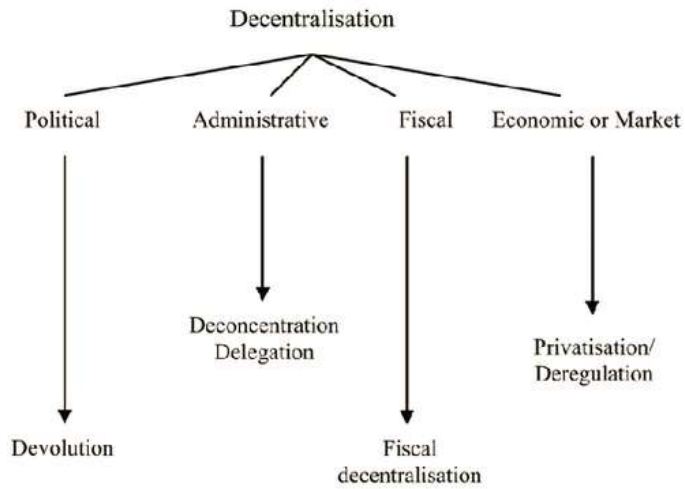
Democracy and decentralization is a permanent reality in Indonesia, despite it's been challenged from time to time

	JURIDICAL FOUNDATION	AUTONOMY PRINCIPLES
1903-1945 <i>Pre-Independence</i>	<ul style="list-style-type: none"> Decentralisatie Wet 1903 Local Radenordonantie No.181 Thn 1905 Osamu Sirel No.27 Thn 2602 (1942) 	Centralized
1945-1959 <i>Old Order</i>	<ul style="list-style-type: none"> UU No.1/1945 UU No.22/1948 UU No.1/1957 	Democratic, Autonomy and Decentralized
1959-1966 <i>Transition</i>	<ul style="list-style-type: none"> Penpres No.18/1959 UU No.18/1965 	Authoritarian, Centralized, De-concentration
1966-1971 <i>New Order</i>	<ul style="list-style-type: none"> TAP MPRS No.23/1966 	Democratic, Autonomy and Decentralized
1971-1998 <i>New Order</i>	<ul style="list-style-type: none"> TAP MPR No.IV/1973 UU No.5/1974 UU No.5/1979 	Authoritarian, Centralized, De-concentration
1998-Now <i>Reformation Era</i>	<ul style="list-style-type: none"> UU No.22/1999 UU No.25/1999 UU No.32/2004 UU No.33/2004 UU No.22/2014 → UU No.1/2015 UU No.23/2014 → UU No.2/2015 	Democratic, Autonomy and Decentralized

How the new leadership will impact Indonesia's democracy & decentralization?

SOURCE: HASNANI (2003), SIFA (2014)

Degree of Centralization - Decentralization in Indonesia



Fiscal Decentralization involves shifting some responsibilities for expenditure and / or revenue

The extent to which local entities are given the authorities to determine the allocation of their expenditure

Fiscal Decentralization Efforts

Country	Decentralization	Expected Decentralization	Decentralization Efforts
Japan	60.6	38.1	1.6
Indonesia	12.2	26.6	0.5
Trinidad and Tobago	4.4	8	0.6
Brazil	39.2	36.9	1.1
United States	46.3	74.5	0.6
United Kingdom	22.8	32.9	0.7

Fiscal Decentralization in Indonesia

- Revenue sharing
- General Purpose Grants
- Grants for Specific Purposes

Source: Government Finance Statistics Yearbook, 2001, IMF

Change in Fiscal Transfer Under Law 25/1999

	Before Law No. 25/1999	Under Law No. 25/1999
1	Fiscal transfer from central government:	Fiscal transfer from central government:
	a. Regional autonomous subsidy	a. General block grant
	b. INPRES Grant (for Village, District and Provincial Governments)	b. Specific grant
	c. Revenue sharing of property tax (on land and buildings)	c. Revenue sharing from natural resources and property taxes
2	Local own-revenues	Local own-revenues
	a. Local taxes and redistributions (Law No. 18/1997)	a. Local taxes and redistributions (Law No. 32/2001)
	b. Revenues from local state-owned companies	b. Revenues from local state-owned companies
3	Local borrowing	Local borrowing

Horizontal Imbalance Across Provinces

Variable	Mean	Maximum	Minimum
GDP 1999 (Rp.)	4,977.53	23,465.08	1,429.58
Revenue share 2001 percapita (%)	42.14	412.51	3.14
DAU 2001 per capita (Rp.)	50.03	151.47	13.02
DAU 2001 (% of expenditure) (Rp.)	62.66	414.19	18.26
Expenditure 2001 per capita (Rp.)	130.5	301.87	4.26

Horizontal Imbalance Across Cities/Regencies

Variable	Mean	Maximum	Minimum
GDP 1999 (Rp.)	4,901.20	147,676.76	856.5
Revenue share 2001 percapita (%)	157.12	4,853.57	6.41
DAU 2001 per capita (Rp.)	445.19	3,376.53	89.68
DAU 2001 (% of expenditure) (Rp.)	96.95	203.67	42.74
Expenditure 2001 per capita (Rp.)	453.97	2,934.81	100.7

Problems 1: There is a huge gap in horizontal imbalance across provinces and across cities / regencies

The Implementation of Fiscal Decentralization in Indonesia

Country Classification	Sub-national Revenue as a percentage of total national revenue	Sub-National Expenditure as a Percentage of Total National Expenditure
Developing countries, 1990s	9.27	13.78
Transition countries, 1990s	16.59	26.12
OECD countries, 1990s	19.13	32.41
Indonesia, 1989/1990	4.69	16.62
Indonesia, 1994/1995	6.11	22.97
Indonesia, 2001	3.39	27.78

Source: World Bank and Government of Indonesia, various years

Problems in Fiscal Decentralization:

2. Indonesian revenue is still quite centralized!

3. There is still huge proportion of vertical imbalance

Data of Vertical Imbalance

Sources	Revenue Share	Expenditure Share	Surplus/Deficit
Own Sources			
National	96.6	73.2	23.4
Sub National	3.4	26.8	-23.4
Provincial	2.1	5.4	-3.3
Cities/Regencies	1.3	21.4	-20.1
Total	100	100	0
After shared revenues			
National	89.9	73.2	16.8
Sub National	10.1	26.8	-16.8
Provincial	4	5.4	-3.3
Cities/Regencies	6.1	21.4	-15.4
Total	100	100	0
After grants			
National	70.2	73.2	-3.0
Sub National	29.8	26.8	3
Provincial	6	5.4	0.6
Cities/Regencies	23.8	21.4	2.4
Total	100	100	0

Source: Lewis (2002)

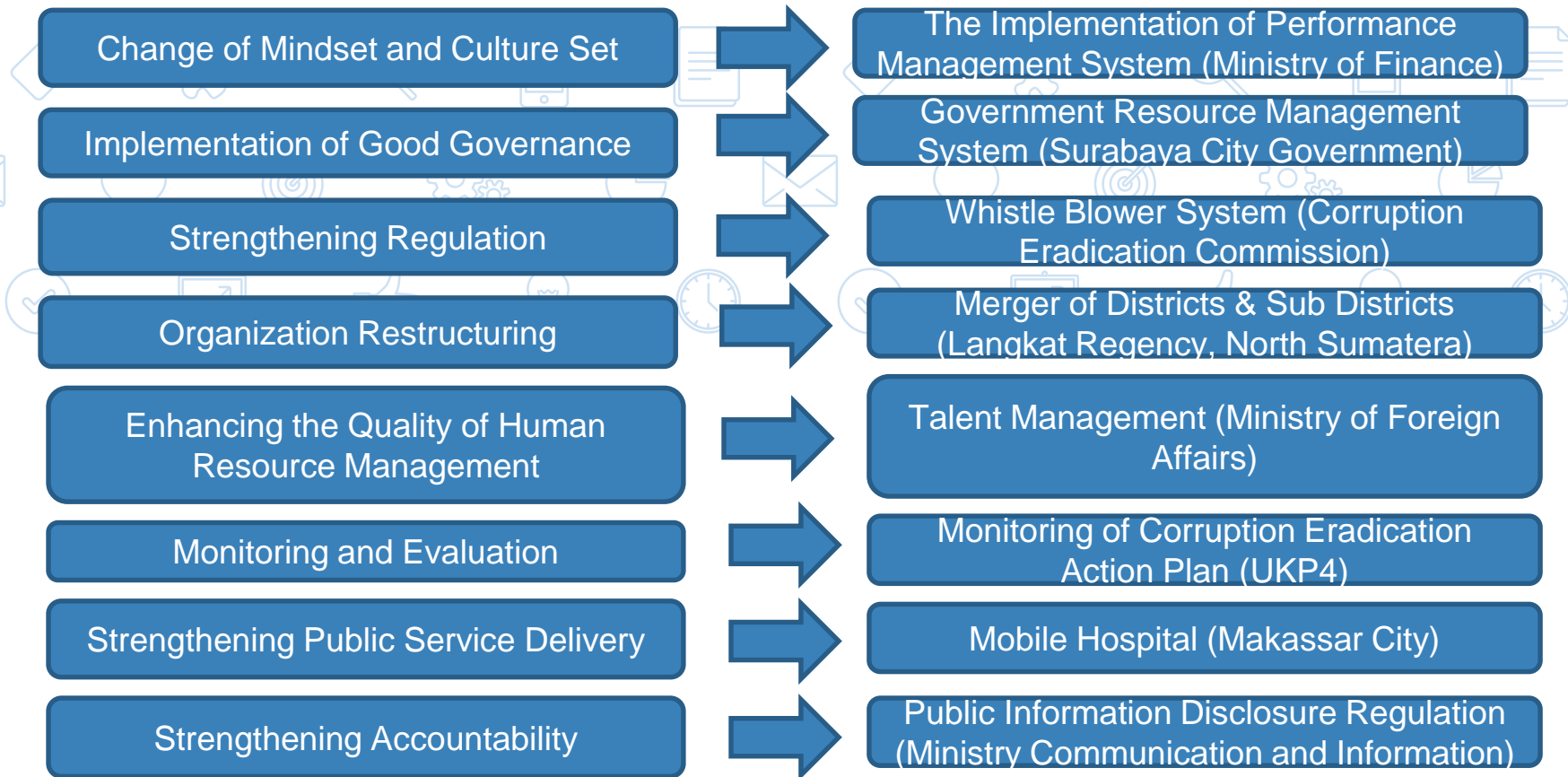
Regional Government Loans

Borrower	Number of Loans	Disbursement	Arrears	Arrears Rate
Province	82	841	10.1	0.029
City	115	513.8	181.6	0.553
Regency	193	228.8	39.4	0.443
Water state enterprise-City	187	2151.3	481.3	0.47
Water state enterprise-Regency	237	865	130.9	0.599
Total	814	4599.9	843.3	0.419

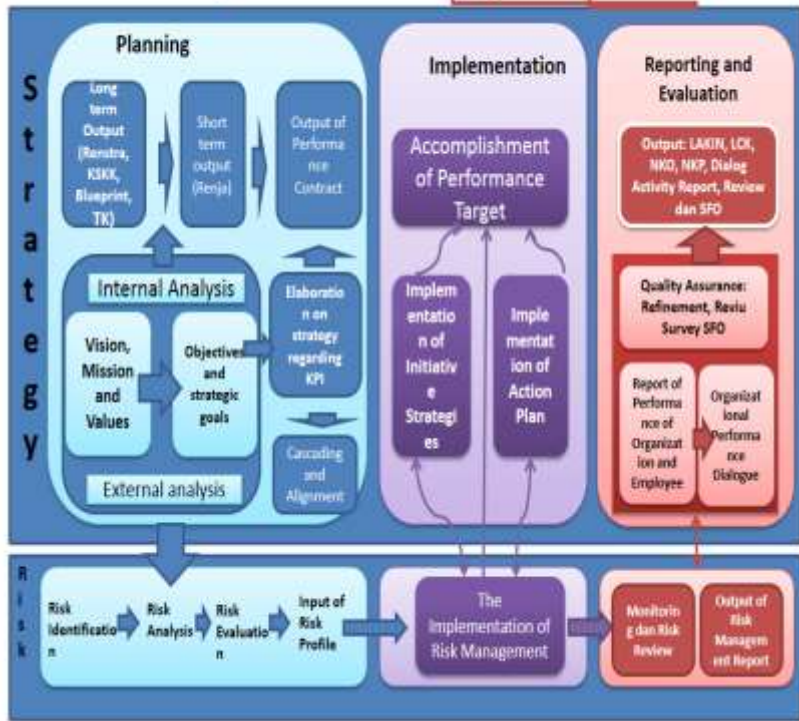
Source: Ministry of Finance (2009)

Problems in Fiscal Decentralization: 4. There are numbers of Regional Government Loans

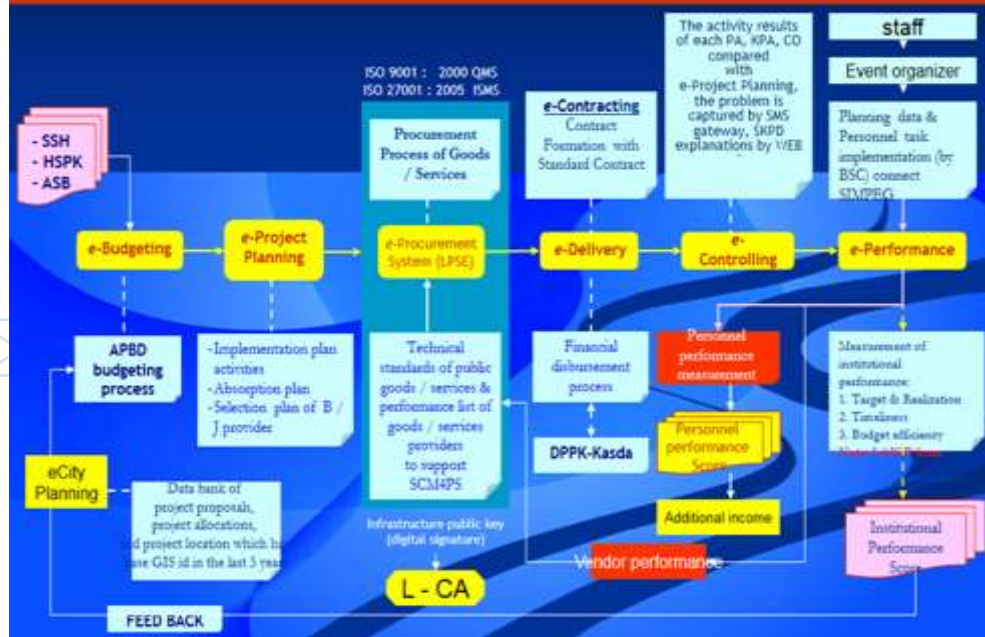
Before Decentralization	After Decentralization
Legal Foundation	
Law No. 5/1974	Law No. 25/1999
	Government Regulation No. 107/2000
Institutional Setting	
Approval	
Ministry of Home Affairs	Ministry of Finance
Imposed a maximum limit and gave approval	Local Parliament
Supervised the RDA and its approval	
Limits on borrowing	
1982: DSR < 15%	Accumulated maximum < 75% general revenue of previous budget
From implementation and Decree MOH No. 96/1994:	DCR > 2.5 for lifetime of project
Minimum DCR = 1	Maximum short term borrowing 1/6 of current spending
Average DCR > 5	
Sources of funding	
Foreign government lending	Domestic Sources
Central government investment funding (RDI)	Central government
Central government equity financing (PMP)	Banks
Central government INPRES for building market	Non-bank financial institution
Down payment IPEDA	Households
Other sources (regional banks and private sources)	Other sources
Central government RDA	Foreign sources
	Bilateral sources
	Multilateral sources



The Innovation on the Integration of Performance Management and Risk Management to Reduce Corruption in Ministry of Finance



FLOW CHART OF PLANNING PROCESS, IMPLEMENTATION, CONTROL AND MONEY ACTIVITY / PROJECT THROUGH GRMS IN SURABAYA CITY GOVERNMENT



Innovation in the level of Central Government and Local Government

Problems and Challenges (1)

There is still a wide horizontal and vertical imbalance in fiscal resources that make the poor regional government could not fund their expenditure functions. The currently available fiscal instrument in particular DAU grant may not be able to satisfy the regional equity objectives.

The success of Indonesian reforms has been tampered with inadequate implementation of the administrative decentralization mechanisms.

The further clarification of the roles of the government levels especially for shared responsibility is needed.

Local accountability system is still in low quality in several local governments leading to mismanagement of the public resources and wide spread of corruption

Problems and Challenges (2)

- ▶ *Participation of the community, particularly of women, in the policy design and formulation was still weak and not institutionalized (Abidin, 2009, pp. 72). Nevertheless, some of the regional governments in Indonesia proposed some formal legal basis to facilitate the community participation are as follows:*
- ▶ *Participatory Monitoring Evaluation (PME) by means of Regent' s Decree No. 384/BUP/2001, and Planning and Development Control Mechanism by means of Regent' s Decree No. 256/BUP.2001 in Solok Regency*
- ▶ *Medical Committee of the Regional General Hospital involving various components as Health Coalition such as: EDI, IBI, LSM and the community by means of the Regent' s Decree No. 68 in Sidoarjo Regency*
- ▶ *However, there are still many local governments do not have mechanism and legal basis to facilitate the citizen participation.*

- ▶ *Local government lacks of the interaction to the society and poor communication skills*
- ▶ *Decentralization causes some regional conflicts in Indonesia. Why?*

- 1. The government needs to manage balanced monetary and fiscal allocation to all the regional government based on the needs of each the government to fund their own expenditures and to maintain the economic growth.**
- 2. The central government should provide framework and regulations for administrative decentralization.**
- 3. The government needs to clarify more clearly the separation of rights and responsibilities between central and local government through laws and regulations.**
- 4. Enhance the competency and accountability in the public decision making and implementation by using e-government system.**
Surabaya City Government has implemented GRMS (Government Resource Management System) to enhance the accountability from the planning until assessment of public policies.
- 5. Invite the community in the decision making process of the government by implementing bottom up approach in the process of development.**
- 6. Capacity building. The only method to improve the organizational performance is by the training for the government officials as the training can induce the better understanding of vision and missions of the organizations as well as promote the harmonization among the employees. (Blunt and Collins, 1994:113).**
- 7. Improve the communication between the central and local government as well as among the local governments for the purpose of reducing the gap of understanding about the developmental programs and activities as well as enhancing the harmonization in intergovernmental relations.**

Policy Recommendations

The decentralization in Indonesia still leave problems and challenges in the intergovernmental relations as well as in public organization management and the government of Indonesia needs to be careful to address these issues to balance the desire of the regions and the objective to maintain the nation as a unitary state.

However, if the government can solve the issues. Decentralization can create 2 (two) things for Indonesia.

Concluding Remarks

The Rise of Local Identities

The Survival of Nation-State



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