

# **Decentralization in Indonesia: A Measure of Innovation and Change**

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*This article explains why the unitary system of Indonesia is crucial for the success of decentralization. Furthermore, it expounds why it is misleading to consider federalism as an option for Indonesia in the future. We must bear in mind that any system of government (be it decentralized or federal) is only as good as the quality of governments that are elected to govern. In a strong unitary system like Indonesia, it is decentralization and not federalism which gives the system of government its stability. The study strongly suggests that through decentralization, regional community participation will flourish. Indonesia is large, with diverse peoples and equally diverse and complex sets of governing institutions. It has emerged out of four centuries of colonial rule and survived its transition to a republic. Decentralization is the ultimate framework for developing democracy. This will provide all the regions with the opportunity to shape good governance in Indonesia.*

## **Introduction**

Indonesia is in the process of becoming the world's third most populous democratic country. Indonesia has a population of more than 210 million across a chain of 17,000 islands covering 1.9 million square kilometers in the region of South East Asia.

In 1999, the country achieved a peaceful transition to democracy through free and fair elections in which 21 of the unprecedented 48 political parties contesting parliamentary representation won seats. That same year, legislation was passed by parliament to introduce new regional autonomy and fiscal balance laws to decentralize power to regional governments. Only 18 months ago, Indonesia commenced one of the most ambitious decentralization reform programs in recent history.

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Regional governments in Indonesia have been given financial and administrative powers beyond what is generally considered as adequate by governments in other newly decentralized systems. The transition to decentralization is the subject of this study: first, the transition to a democratic system where regional governments, civil society, and local communities are encouraged to participate; and second, an outline of the historical reasons for Indonesia's transition to decentralization. In the third section, the study provides an assessment of how decentralization is progressing since it was first introduced, including an outline of the major problems facing Indonesia and an illustration of how these problems are being overcome by developments in the reform process, and by increasing community access to government.

History has played a major part in the current shape of decentralization in the Indonesian reforms. Recognizing the importance of history as a regional influence is part of consensus building and this has contributed to Indonesia's peaceful transition to democracy.

The legal architecture for Indonesian decentralization was designed and implemented in response to serious economic and political events during the economic collapse beginning mid 1997. Indonesia has not fully recovered but the economic, social, and political reforms are on track.

First, however, the study will explain briefly why the unitary system of Indonesia is so fundamentally important for the success of decentralization, and why, in practice, it is misleading to consider federalism as an option for Indonesia in the future.

### *History and Decentralization*

Indonesia's unitary constitution dates back to 1945. As a result of that constitution, undivided sovereignty lies with the national government. It is precisely this undivided sovereignty that gives Indonesia the democratic power to decentralize authority to the regions. There are now 30 provincial, 287 district and 88 municipal governments in Indonesia, all with a form of self-determination exercised through representation in their own elected parliaments.

Under recent reforms, local parliamentary representation provides the people with greater democratic access to the system than ever before. All of the regional governments have discretionary powers within the limits of their newly acquired regional autonomy. These discretionary powers are boosted by the central government's allocation of untied grants, known as General Allocation Grants, to the regional governments. The untied grants, together

with powers over revenue and expenditure, are the essence of Indonesia's unique approach to decentralization. The reason that this sort of decentralization could be introduced in such a short time frame and with such a uniform approach, is because Indonesia has a unitary, rather than a federal, constitution.

Decentralization is most commonly found in unitary systems, not federal systems. A federal system complicates authority by dividing sovereignty. Divided sovereignty means that power is shared at a constitutional level between national and state or provincial governments. It follows that divided sovereignty places constitutional limits on the extent to which a national government can exercise its authority over the constitutional jurisdictions of the other levels of government. In Indonesia, the national government has undivided sovereignty. The opportunity to 'go federal' is not a consideration.

Of course there are limits to the central authority's use of power but these limits are the result of constitutional law, democracy, ethics, obligations to international treaties, and the people that govern. All this does not diminish the fact that federalism is an important source of innovation. For Indonesia, it should not be trapped into thinking that decentralization will lead the nation away from a unitary system and closer towards federalism. Indonesia is already highly regionalized—it is a country of many cultures, languages, traditions, and peoples. Systems evolve—they cannot be forced over the top of the history.

On the positive side, federal systems are creative, particularly when constructing organizations for resource distribution between different levels of governments.

However, financial resources can be also distributed between different regions in a unitary system in much the same way as they are shared in a federation. This is true in South Africa and also in Italy—both are unitary systems but with very distinct regional communities and strong ethnic cultures. There may be more limits on the exercise of power by national governments in a federal system but the basic process and institutional framework for developing a fair system for the distribution of expenditure are supported by a similar set of principles—responsive government, consensus, and regional participation in the national decisionmaking process.

The same case exists in Indonesia: decentralization involves the allocation of powers and responsibilities to regional governments without changing the constitutional recognition of central government power.

### **Decentralization Under the Indonesian Unitary System of Government**

Indonesian decentralization can be described as highly diversified, stable, and as the driving force behind every function of democratic reform. The Indonesian nation state remains intact and still within the constitutional framework of strong unitary national sovereignty.

Theories of decentralization are popular as an explanation of relations between market resource allocation and welfare and, for purposes of this study, as a method for the redistribution of power from a central authority to regional communities. One of the most integrated methods for exploring the increasing level of participation by regional governments is through the development of intergovernmental relations.

Several interrelated, and often broad, themes have emerged in the literature on decentralization. Some themes are used to explain international developments between governments. In developing countries, however, there is a large amount of literature that analyzes key themes in decentralization. These tend to be organized, broadly, into two groups:

- 1) intergovernmental processes of decentralization of governance; and
- 2) decentralization from governments to market, quasi-market and nongovernmental organizations (NGOs).

Bennet is a strong proponent of the market and welfare oriented approach. Others, such as Wright, Watts, and Bahl, take an interactive, or shared policymaking, approach to decentralization through pointing to the need for structures to support the coordinating activities of different levels of government.

The intergovernmental approach is also consistent with that of the Organization for Economic Cooperation and Development (OECD). According to the OECD, decentralization is simply the transfer of responsibility to democratically independent lower levels of government.<sup>1</sup>

In principle, Indonesian decentralization is aimed at:

- Keeping the nation together while ensuring that government policies are aligned to regional aspirations;
- Restoring confidence in the system by strengthening democratic governance at the grassroots;

- Building tolerance and transparency through electoral reforms, and through encouraging accountability and community participation;
- Encouraging cooperation and stability between the different levels of local, provincial, districts, municipalities, and also the thousands of village governments across Indonesia; and
- Empowering communities to access the system and to improve social welfare.

### *A Cumulative Decentralization Process*

Policies on decentralization have varied since independence, including a number of attempts to exercise control by the colonial government. Throughout history, many laws have been introduced in attempts to govern the Indonesian archipelago. These efforts are enshrined in the following: Law Nr 1 of 1945, Law Nr 22 of 1948, Law Nr 1 of 1957, Law Nr 18 of 1965 and Law Nr 5 of 1974, and finally, the current, most democratic piece of legislation, Law Nr 22 of 1999.

Although modern democratic constitutionalism is relatively recent in Indonesia, the concept of a unitary framework dates beyond modern times with philosophical origins as far back as the 15th century. During the monarchical period of the 15th century, in the Majapahit kingdom, a philosophy known as the Oath, emerged to support the notion of unity and sovereignty which today forms part of the modern Indonesian belief system about the need for unity. That philosophy emerged again in the early part of the 20th century when the declaration of the unity of Indonesia became a critical factor in the evolution of the centralized state.

The current framework for decentralization arose from:

- Social and political dissatisfaction amid threats to economic growth, the emergence of corporate elites, collusion, corruption and nepotism;
- The need for social support and for political and economic policies to meet unemployment resulting from the economic crisis; and
- Dissatisfaction with dictatorial management from the central level, a factor that was amplified by local governments.

It is important to restate that the transition to decentralization in Indonesia was made possible by the peaceful demand by the Indonesian people exercising their political will.

### **Current Progress of Decentralization: Still in a Transition**

In the 18 months since decentralization commenced, Indonesia has transformed itself from a system dominated by centralized government to a system that is highly decentralized, competitive, and where democracy has taken root. Indonesia has a new legal framework for Regional Autonomy that provides the foundations for most of the reforms. In essence, Regional Autonomy can be described as the mechanics of Indonesian decentralization.

The regional autonomy laws are still young and clearly there is a lot of room for improvement. The Indonesian government recognizes this and has commenced a process that will lead towards the development of intergovernmental structure that brings issues together. This, in turn, links government to the most important feature of Regional Autonomy—the empowerment of the Indonesian people.

The empowerment of the people and the allocation of powers to regional governments do not diminish the authority of the central government. Empowerment provides a democratic balance to the system. In other words, power and authority have been reorganized—the regional governments now have responsibilities that they did not have before the regional autonomy laws were introduced.

Power-sharing arrangements are the fundamental basis on which consensus is built, and through which the voices of the local and provincial communities are heard. In Indonesia, it is a must to be sure that national government's authority is organized to allow the regions to maintain the self-determination that the laws prescribe.

It is up to Indonesian central, provincial, and local governments to work together to develop more effective management frameworks capable of giving the people access to the services they need. Making the system more responsive leads to better budgeting, and more stable intergovernmental mechanism for monitoring and evaluating policy outcomes.

An example of the structural effects of decentralization so far is the enormous reorganization of the civil service. In 2001, over 2.1 million civil servants, out of a total of more than 3 million, were redeployed from the jurisdiction of the central government to the governments of the regions. In addition, thousands of implementing regulations had to be written, approved, evaluated, and put into effect to support and determine the pace and shape of every authority that became the responsibility of the regional governments. The central government has the daunting task of establishing monitoring and evaluating methods and processes for dealing with the regulations passed by

regional governments. In 2001, the number of local regulations that required approval by the central government totaled 3,863. By the end of June 2002, the number processed by the central government stood at 1,548.

Perhaps the most significant shift in the reorganization of authority under the new framework of decentralization has been the allocation of revenue and expenditure power to the regional governments in the form of untied grants. Under special legislation supporting the decentralization of power, a general purpose fund was established. Known as the General Allocation Fund (GAF), untied grants comprise a large proportion of regional government budget for essential services and civil service pay. In the fiscal year 2001, untied grants amounted to about 60.52 trillion rupiahs (60 million USD) and in 2002, that amount was increased to approximately 69.114 trillion rupiahs (69 million USD).

The most common problems confronting decisionmakers in Indonesia in the implementing period are:

- Local governments' understanding of the regulations and their own obligations;
- Inadequate standards, lack of manuals or technical guidance;
- Lack of central government supervisory processes over the local level and the need for better instruments and budgets;
- Relevant taxing powers required in the regions;
- Fractured regional communities caused by growing competition between communities for recognition of regional identities;
- Lack of experience in restructuring of institutions, organizations and personnel management;
- High spirits of local communities wanting to create new governments and districts;
- Political and economic excesses arising from the election of local leaders (governor, head of districts or city mayor and local parliament members);
- Physical boundary problems; and
- Lack of understanding about the principles of decentralization and a low level of local community participation.

These problems on average are recognized in the majority of the regions. Both central and local governments put a great effort into how to manage such problems. Meanwhile there are other barriers that decentralization must overcome:

- Highly centralized bureaucracy that over time becomes a significant political factor; decentralization threatened vested interests and certain positions within the political and administrative/managerial system (an example can be found in the forestry and investment sector);
- Economic crisis, the foreign debt, tight central control over local finances;
- Lack of experience and knowledge on the meaning of self government and the benefits for local communities;
- Local politicians—their perception and responsibilities; and
- Excessive exploitation through the passage of local regulations, which becomes counterproductive.

### **Participation and Consensus Building**

The transition to decentralization has its problems but, mostly, the news is good. First, the Indonesian people and the institutions that represent them have endorsed the new laws and arrangements and set about turning the country around. Most importantly, the transition to democracy is taking place peacefully and with a respectable degree of consensus.

Three independent university and NGO surveys support these claims: Gajah Mada University, the Asia Foundation and the Social Monitoring and Evaluation Research Unit (SMERU). All of these organizations have conducted community surveys in selected regions of Indonesia and all of the results suggest that there is increasing awareness in the general community, and among government leaders, that there is a need for consensus (SMERU Report 2002 and Asia Foundation Report 2002).

Participation in Indonesia is the most important indicator of democracy in practice. In Indonesia, consensus has spread through participation in the implementation of decentralization. There are many forms of participation: electoral activity and voting; information sharing; consultations; negotiating policies with local decisionmakers; and so on (Cressey 1987).



Participation reflects the ability of communities and individuals to mobilize themselves and influence outcomes. It is the responsibility of governments to assist communities and societies by working to create stable political, economic and social environments that will encourage participation. Likewise, regional governments ought to be encouraged to participate in national strategic policy development.

Regional governments have to coordinate their needs with those of the national government. They should also establish good working relations with governments from the provincial level. Indonesia has around 400 regional governments so it is critically important in Indonesia for governments to work together to coordinate their policy development particularly in local budget management; setting standards in areas such as education and health; infrastructure development; and so on. At some point in the process of designing policy outputs, governments from one level have to listen to the voice of governments from other levels.

One of the most common areas where governments come together to manage strategic policy developments is in the area of fiscal decentralization. Fiscal transfer arrangements—particularly questions of how best to allocate the General Allocation Grant—is a hot topic in Indonesia. The General Allocation Grant, or the untied grant, is one of the prime sources from which the regional governments derive their regional autonomy because, in principle, they are free to decide their own expenditure needs.

Granting fiscal discretion to 400 regional governments was a brave move on the part of the Indonesian central government. At the regional level there are many questions about the performance and the capacity of local legislatures and local governments to develop viable and realistic budgets. The system needs strengthening so that government budgets can respond to the:

- influences of socioeconomic conditions and the demographic composition of regional populations;
- differences in the economies of scale in the provision of services;
- extent to which revenue capacities and costs of services differ between authorities; and
- need to encourage the regions to generate their taxing power.

Indonesia has constructed a new set of institutions that function specifically to support the implementation of administrative and fiscal decentralization. These structures form the framework for intergovernmental

activities and range from national interministerial bodies, such as the Coordinating Team for Decentralization Implementation as well as the relatively powerful Regional Autonomy Advisory Council (RAAC) and include a raft of regular meetings through special intergovernmental forums for participation by all the provincial and local governments.

The RAAC is an example of the institutions that are designed to identify and respond to regional differences. The RAAC is the organization that decides on the formula for distributing GAF to each of the 400 regional governments as well as the other components of balance budget such as revenue sharing from gas and oil. The RAAC has the power to decide the future of local governments that are not performing as they should and to judge applications for creating new provinces or new local government districts.

The principles that support the RAAC are based on a system that recognizes regional diversity. The same principles are attached to institutions in countries that are both federal, or unitary: for example, Australia, Canada, Germany, India, South Africa, and Italy—to name just a few. The RAAC has features in common with fiscal commissions in the countries referred to. Like fiscal commissions, the RAAC is a 'decentralizing' structure based on making central governments more responsive and on taking a more 'local' approach to policy development, planning, and service delivery.

More importantly, the degree to which a fiscal organization like the RAAC can build regional needs into its formula can also have a stabilizing influence on regions. That was the reasoning behind the introduction of the fiscal commission in South Africa—to give regional governments a fairer share of that Nation's financial resources.

### **Concluding Remarks**

Any system, whether it is decentralized or federal, is only as good as the quality of the governments that are elected to govern. In a strong unitary system like Indonesia, it is decentralization, not federalism, which gives the system of government its stability. Decentralization can be as innovative as we want it to be. It needs to make sure that the institutions that we are currently building have the capacity to hear what the different communities and governments want to say. The way to guarantee that this happens is to make sure that the people and the governments that represent them, have a say in the building of these institutions.

It is believed that through decentralization, regional community participation will flourish. Indonesia is large, with diverse peoples and

equally diverse and complex sets of governing institutions. It has emerged out of four centuries of colonial rule and survived its transition to a republic.

For Indonesia, decentralization is the ultimate framework for developing democracy. This will provide all the regions with the opportunity to take part in shaping good governance in Indonesia.

### Endnote

<sup>1</sup>See the OECD website under PUMA.

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