

INDONESIA'S DECENTRALIZATION POLICY AFTER SEVENTEEN YEARS : TWO CONTENDING APPROACHES

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Abstract

Decentralization policy introduced in Indonesia in late 1990s served two purposes. First, decentralization policy served as an instrument to ensure the unity and integrity of the Indonesian state. Secondly, by devolving power to the region, regional government could deliver better public services for the benefits of its own community maximizing the potentialities of its own resources. Seventeen years after the implementation, to large extent, decentralization policy has been able to achieve its first purposes by providing local elite political avenue to engage in the political competition at the local level. However, decentralization policy has not yet been successful to achieve its second goal. Local government still heavily depend on central government's special allocation fund to manage its responsibility in managing public service delivery to the community.

Keywords: *Decentralization, Special Allocation Fund, Public Service Delivery*

INTRODUCTION

The collapse of the centralized New Order regime in 1998 brought about dramatic change in Indonesia's center-local government relations. The Weakening of the State provided the opportunity for regions like Aceh, Papua and Riau to demand separation or at least less control from central government.

Aceh, Papua and Riau contributed immensely to the national budget, but they felt they got very little in return from the exploration of their natural resources. Western observers began talking about Indonesia to be the next Yugoslavia in the late 1990s. Finding itself being pushed between two conflicting demands, maintaining national unity of the country on the one hand and giving more power to the region on the other, the Habibie Administration put forward a new legal framework in managing center-local government relation in Indonesia.

Ministry of Home Affairs (led by military general) preoccupied with the issue of maintaining national unity and integrity of Indonesia as nation state was responsible for introducing decentralization policy in 1999. The government declared that the purpose of introducing local autonomy was to give more, wider and proportional power to local government in the form of regulating, distributing and managing national resources as well as sharing revenues and expenditures between central and local government.⁵³

Undeclared Agenda

The Habibie Administration issued Law No. 22/1999 on Local Government and Law No. 25/1999 on Fiscal Balance Between Center and Local Government. Law No. 22/1999 devolved large number of functions in managing government affairs to local government so that local government had to

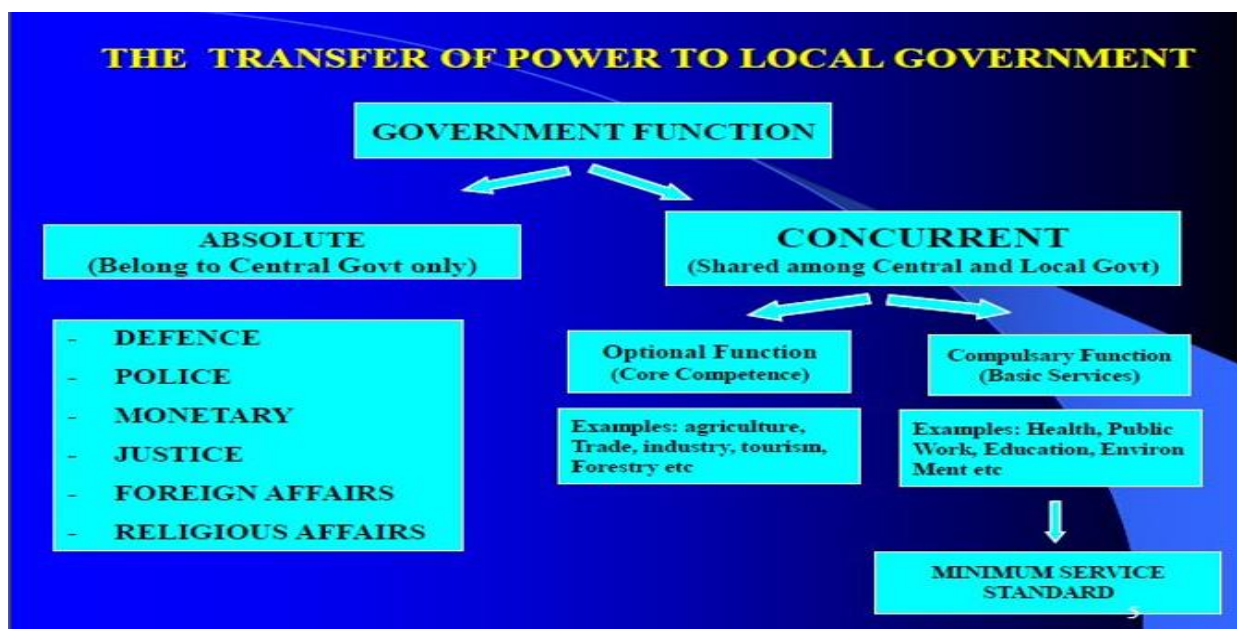
⁵³ Harold Crouch, **Political Reform in Indonesia After Soeharto** (Singapore: ISEAS, 2010), p. 90. See also, Mahfud Sidik, **A New Perspective of Intergovernmental Fiscal Relations: Lesson from Indonesia's Experience** (Jakarta: Ripege, 2007), p.73.

manage their own affairs. Law No. 25/1999 regulated as to how central government could provide fiscal resources to the local government.

Law No. 22/1999 which later revised two times (Law No. 32/2004 and Law No. 23/2014) had some characteristics which became the hallmark of Indonesia's decentralization policy until today. The local of autonomy is in district and municipal level, not in the province. The Habibie Administration argued that that district and municipal government could ensure better public service delivery to the people. However, political reason was that the government determined to prevent concentration of power at the provincial level, taking into consideration history of regional separatism in Indonesia in 1950s.

Except six absolute functions which continues to be under the responsibility of central government, most of the functions in managing local government in connection with public service delivery, are under the responsibility of district and municipal government. Governor of the province has to play a dual role, first as head of the autonomous province and second as representative of central government in his or her province acting on behalf of the President in conducting monitoring and evaluating performance of the district and municipal governments in the province.

Table 1



Local Direct Election

The revision of Law NO 22/1999 on Local Government Law to become Law No. 32/2004 changed the process of electing provincial governor, head of the regency and mayor of municipality. All those political positions were now directly elected by the people in their respective areas. Prior to introduction of Law No. 32/2004 all the political position was chosen by local councils, but rampant corruption taking place during the election process. Disappointment with the choice of the local councils and lack of people's participation in the election process were the two factors which compelled the government to change the way the election of head of provincial, district and municipal governments. The Megawati Administration decided to give the people the power to choose their own governor, regent and mayor directly by themselves in local election.⁵⁴

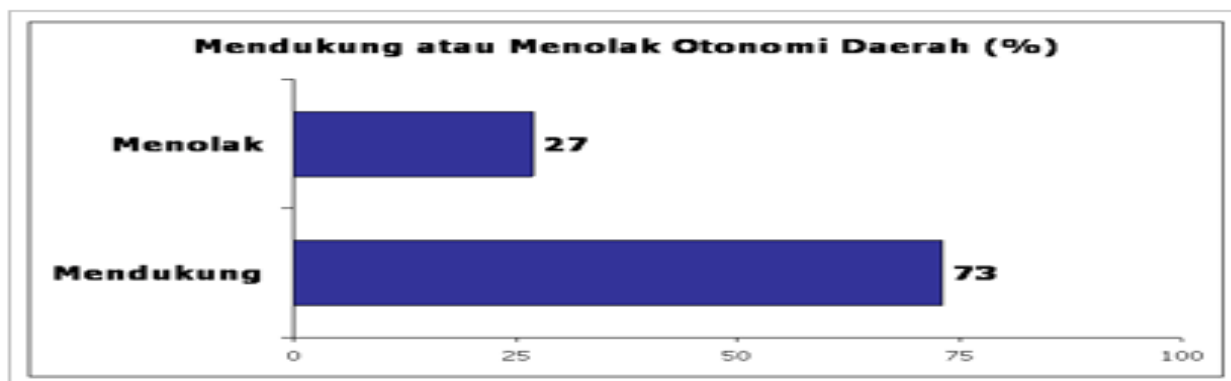
Local direct election rule demands that candidates have to be supported by political party or political parties who has or have 20 percent out of the total number of seats in the local council or 25 percent of the total votes received during the last general election. The demand forces most of the

⁵⁴ Maribeth Erb, Priyambudi Sulistiyanto, Eds, **Deepening Democracy in Indonesia: Direct Local Election for Local Leaders** (Singapore : ISEAS : 2009), especially p.1-38

candidate to look for coalition partner in order to meet the demand of the Local Direct Election Law. In many cases candidate for the post of governor/regent/mayor go even further by choosing his or her deputy from minority background in order to win enough votes during the election.

Six years after the implementation of Local Autonomy Law No 32/2004, respected Indonesian Institute of Survey conducted a survey to 1300 respondents in various part of Indonesia. The survey came with a conclusion that 73 percent of Indonesian supported the implementation of local autonomy. Only 27 percent rejected the implementation of local autonomy.

Table 2



Source : Lembaga Survey Indonesia, 2007.

Fiscal Transfer and Local Fiscal Capacity

The Habibie Administration introduced Law No. 25/1999 on Fiscal Balance Between Central and Local Government. The imposition of a new law aimed at promoting decentralization by providing local government with sharing revenue resources to implement local autonomy. The implementation of Law No. 25/1990 like Law No. 22/1999 on Local Government became the hallmark of fiscal relations between center and local government and continues to be followed to a large extent by the laws that introduced later.

Table 3

| | |
|-------------------------------------|--|
| Law No. 22/1999 on Local Autonomy | Law No.25/1999 on Fiscal Balance |
| Law No. 23/2004 on Local Governance | Law No. 33/2004 on Fiscal Balance |
| Law No. 23/2014 on Local Governance | Law No. 2000 on Local Taxes and Retribution |
| Law No. 7/2017 on Election | Law No. 28/2009 on Local Taxes and Retribution |

Law No. 25/1999 on Fiscal Balance Between Center and Local Government (later revised as Law No. 33/2004) became the basis for the government to implement center-local financial relations based on three principles of deconcentration, decentralization and co-administration. Meanwhile, with regard to the issue of budget allocation, management of center-local financial relation is based on four principles, namely (1) for function based on the responsibility of the central government in the region within the framework of deconcentration is funded through State Budget; (2) for functions which are the responsibility of local government within the framework of decentralization is funded by local government budget (APBD); (3) for functions which are the responsibility of the central government or government higher level within the framework of co-administration is funded by central government budget (APBN) or local government budget (APBD) of government of higher level; (4) so long as there is insufficiency of financial resources of local government, central government will provide financial support.

To enable local government in the region to implement decentralization policy, central government provides financial allocation to the region (fiscal transfer). Fiscal transfer to the region

can be classified into two categories, namely Fiscal Balance (Dana Perimbangan) and Special Autonomy Fund (Dana Otonomi Khusus).

Fiscal balance consists of three parts, (1) sharing revenues; (2) general allocation fund, and (3) special allocation fund. Transfer of fund to the region has some purposes. It helps to minimize the gap between the center and the region; and between region and region. It also helps to facilitate national development priority which becomes the responsibility of local government. It also helps to improve quality of public service delivery, to increase local government source of income and to expand development coverage.

Law No. 25/1999 and later Law No. 33/2004 defines Fiscal Balance Fund as source of fund from State Budget which is allocated to the local government to finance their needs within the framework of decentralization. The Law also categorized that Fiscal Balance consists of three components, namely (1) Share Revenue Fund; (2) General Allocation Fund and (3) Special Allocation Fund.

Sharing Revenue Fund has two components, first, tax based income sources which consists of land and property taxes (PBB) and retribution on the ownership of land and property (BPHTB) and income tax. Second, nontax based income sources consists of forestry sector, general mining sector, fishery, oil mining and natural gas mining. Law No. 32/2004 defines percentage of sharing revenues from Sharing Revenue Fund is that regency may get 64.8 percent, province 16.2 percent and central government may get 10 percent, while 10 percent is allocated for the cost of collecting process.

General Allocation Fund (DAU) and Specific Allocation Fund (DAK) are two components regulated by Law No. 25/1999 and Law No. 33/2004 as an integral part of transfer fund from central government to district and municipal government. General Allocation Fund is a block grant allocated to the district and municipality with the purpose of filling the gap between their capacities and financial needs and it is distributed with a formula based on certain principles which indicating that poorer and underdeveloped regions need to get bigger shares than rich and developed regions. The main purpose of General Allocation Fund is to achieve certain degree of equality in providing public service delivery by the district and municipal governments.

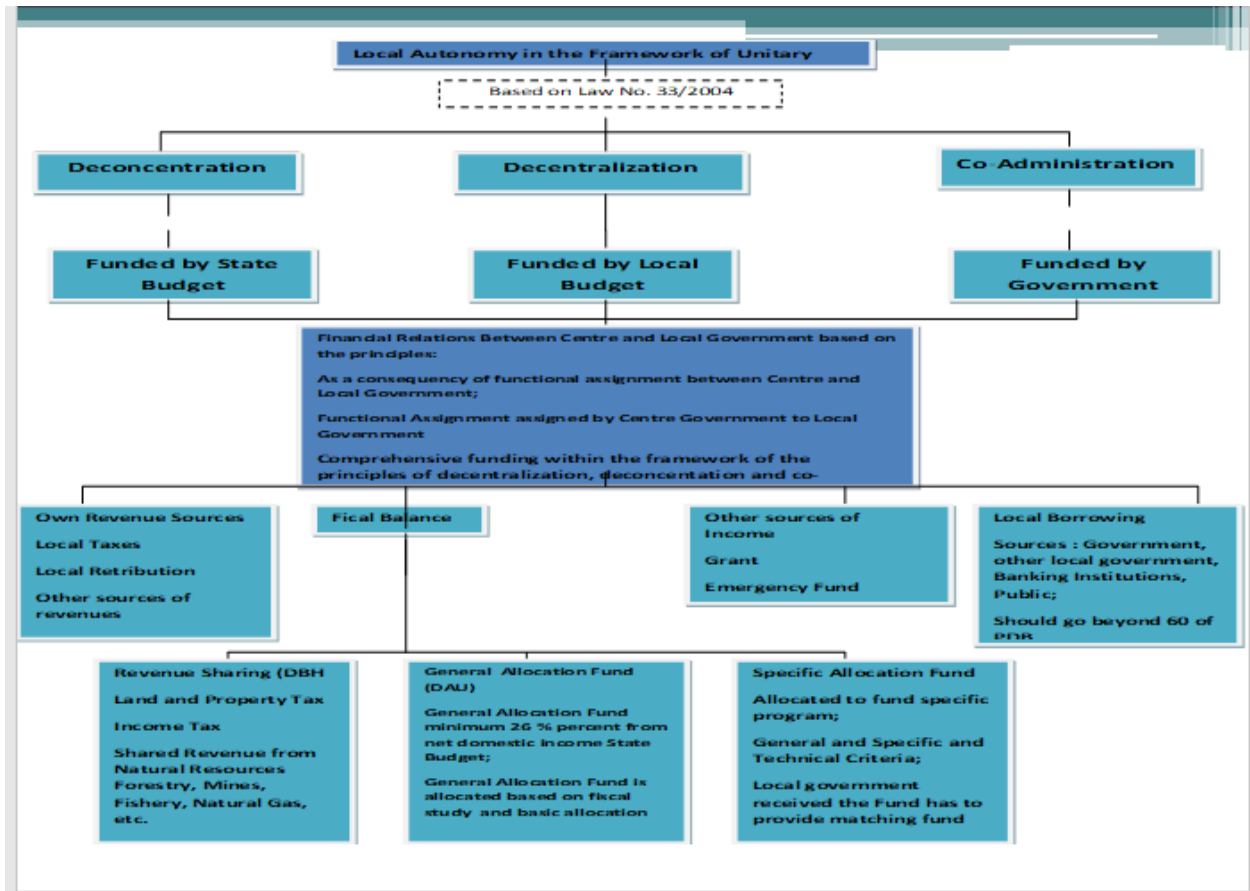
Special Allocation Fund (DAK) is directed to certain region with special purpose. The source of budget allocation is the responsibility of central government to be distributed to certain region for specific national purpose. Specific national purpose consists of need of physical infrastructure in remote region, need of physical structure and infrastructure for transmigration region, need for physical structure and infrastructure in coastal region or remote island and need for physical structure and infrastructure in the region damaged by environmental disaster.

Own Source of Revenue (PDRB).

According to Law No. 33/2004 on Fiscal Balance Between Center and Regional Government, local government has two major sources of revenues to finance their expenditures. First, own source of revenues are revenues raised by local government from its own local resources, consist of taxes, levies and other sources of revenues. Second, intergovernmental transfer consists of revenue sharing, general allocation fund and special allocation fund.

The government tries its best to push the local government to increase its revenues from Local Taxes and Local Retribution (PDRD), the government introduced and reintroduced regulatory framework to be able to adapt to the new developments (Law No. 34/2000 and Law No. 28/2008).

Table 4



To fully support the implementation of decentralization policy, the policy of local taxes and local retribution are aimed at strengthening the taxing power to the region was introduced. By giving taxing power to the region, the government expected local government would have the capacity to generate enough revenues to be source of fund for local services.

Table 5 below shows total revenue for the aggregate local budget in 2010 nationally was Rp. 401,9 trillion out of which Rp. 102,3 trillion or 25 percent was provincial revenue and Rp. 299,6 or 74,5 percent was combined revenues district and municipality.

Judging from the composition of sources of revenues, it is clear that local revenues (province and district and municipality) nationally is dominated by Fiscal Balance Fund which came from central government, that is Rp. 291,3 trillion or 72 percent consisting of Rp. 192,4 trillion from General Allocation Fund (DAU), Rp. 21,2 trillion from Specific Allocation Fund (DAK) and Rp. 77,6 trillion from Sharing Revenue Taxes/non taxes.

Revenue coming from Local Own Sources (PAD) Rp. 71,8 trillion or 18 percent and other sources of income Rp. 38,8 trillion or 10 percent.

.Table 5

| COMPOSITION OF LOCAL REVENUES IN LOCAL BUDGET 2010 | | | |
|--|---------------------------------------|----------------|--------------------------|
| Source of revenues | Total Budget (in Million Rupiah) | | |
| | Total Provinces and District and City | 33 Provinces | 499 Districts and Cities |
| Own Sources of Revenues | | | |
| Local Sources of Revenues | 71.799 | 47.331 | 24.468 |
| • Local Taxes | 47.674 | 39.575 | 8.099 |
| • Local Retribution | 8.010 | 1.429 | 6.580 |
| • Local Separated Properties | 3.636 | 1.748 | 1.887 |
| • Other Own Sources Revenues | 12.479 | 4.577 | 7.901 |
| • Fiscal Balance Fund | 291.277 | 45.024 | 246.253 |
| • General Allocation Fund | 192.408 | 19.299 | 173.110 |
| • Special Allocation Fund | 21.261 | 774 | 20 |
| • Sharing Revenues | 77.606 | 24.950 | 52.656 |
| Others Legal Sources Revenues | 38.817 | 9.964 | 28.853 |
| • Grant | 4.247 | 469 | 28.853 |
| • Emergency Fund | 371 | 0 | 371 |
| • Provincial Taxes | 11.947 | 103 | 11.844 |
| • Adjustment Fund and Special Autonomy | 15.437 | 8.413 | 7.023 |
| • Financial Assistant from Provinces | 4.942 | 110 | 4.831 |
| • Other Legal Revenues Sources | 1.870 | 866 | 1.003 |
| Total Revenues | 401.893 | 102.318 | 299.575 |

If the total revenues from province and district is separated, one will find from the total provincial budget Rp. 102,3 trillion, own revenue sources (PAD) contributes Rp. 47,3 trillion or 46 percent, fiscal balance fund contributes Rp. 45 trillion or 44 percent, other source of revenues Rp. 9,96 trillion or 10 percent. Judging from revenue side, the role of own source of revenues and fiscal balance fund at the provincial level are relatively balanced which make the province less dependent with the central government.

On the contrary, the situation at the district/municipality level is different. The total amount of aggregate local budget Rp. 299,6 trillion, the biggest contribution comes from Fiscal Balance Fund Rp. 246,3 trillion or 82 percent, while own source of revenue is very small Rp. 24,5 trillion or 8 percent. Even far smaller than Fiscal Balance Fund other source of revenues amounted to Rp. 28,9 trillion or 10 percent.

Limited capacity of district/municipality government to maximize its taxing power granted by the policy of decentralization has been responsible for dismal performance of district and municipal governments to deliver public services delivery. As a result, while people support the implementation of decentralization policy in Indonesia, people express their dissatisfaction with the dismal performance of district and municipal government in implementing their public service delivery. The issue of quality of public service delivery in the context of Indonesia's decentralization policy has been the subject of debate. The general agreement among various scholars and researcher is that decentralization policy has so far failed to bring about better public service delivery at the district and municipality level.

Table 6

| Ratio Own Sources of Revenue (PAD) In Total Local Government Budget District/City 2011-2012 (BAPPENAS, 2012) | | | | |
|---|-----------------------------------|--|-----------------------------------|--|
| Ratio PAD In Total PAD Spending | Total Province (%) in 1999 | Total District/City (%) in 1999 | Total Province (%) in 2012 | Total District/City (%) in 2012 |
| - 10 % | 3 (11,1%) | 156 (51,1 %) | 4 (12.1%) | 381 % (80%) |
| 10-20% | 4 (14.8%) | 86 (29.2 %) | 3 (12.1 %) | 65 % (13,7%) |
| 20-30 % | 11 (40,7 %) | 0 | 3 (9.1 %) | 22 % (4.6 %) |
| 30-40 % | 1 (3,7 %) | 8 (2.6 %) | 5 (15.2 %) | 1 (0.2 %) |
| + 50 % | 2 (7.4 %) | 2 (0.7 %) | 8 (24.2%) | 1 (0.2%) |
| Total | 27 (100%) | 305 (100%) | 33 (100%) | 476 (100%) |

CONCLUSION

Politically, Indonesia's decentralization has succeeded in achieving its undeclared agenda, maintaining Indonesia's unity and integrity. After seventeen years of implementation of decentralization policy, Indonesia's sense of nationhood has become much stronger than before. Indonesia has not been so successful to achieve its second goal of decentralization policy, that to establish local economic base at district/municipal level to enable them to be less dependent on fiscal transfer from the central government. Fiscal transfer continues to be the dominant factor in financing local government.

The weak local economic base in district/municipality in Eastern Indonesia has been the legacy of Java oriented development model adopted by the New Order government for three decades. This contributes greatly to over dependent on fiscal transfer of district/municipality from the central government. The central government has been reluctant to impose stronger measures to reduce dependency on fiscal transfer to the district/municipality in Eastern Indonesia due to political sensitivity of the issue.

Heavy dependent on fiscal transfer from the central government is a factor responsible for lack of accountability of the head of district/municipality to their own people despite the implementation of local democracy through local direct election. Eventually, it is also responsible for dismal performance of district/municipal government in providing better public service delivery.

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