

OTONOMI DAERAH: INDONESIA'S DECENTRALISATION EXPERIMENT

*RICHARD SEYMOUR*¹
University of Otago

*SARAH TURNER*²
McGill University

In 1999 the central government of Indonesia designed a set of laws to promote *Otonomi Daerah*, literally 'regional autonomy'. This paper discusses the potential for these *Otonomi Daerah* laws to be effective in promoting decentralisation in the current economic and political climate. To do this, we initially outline why decentralisation is often chosen by governments of developing countries, and then critique the benefits of a move towards decentralisation. Then, we draw on recent and ongoing experiences in Indonesia to examine in detail the processes underway there. After contextualising the Indonesian case, including a brief outline of the structure of the *Otonomi Daerah* laws passed in 1999, a critique of the laws is undertaken from which six key problems emerge. Given the complexity of these problems, the question we then address concerns how likely is it that *Otonomi Daerah* will succeed in promoting decentralisation in Indonesia?

Decentralisation in Developing Countries

Defining decentralisation

Decentralisation can take a number of different forms, of which Rondinelli and Cheema (1983) suggest four major ones. The first, *deconcentration*, involves the transfer of central government responsibilities to regions. It can operate at varying scales and to different degrees of autonomy. For example, deconcentration might not actually increase local input in decision making

¹ Richard Seymour is an MA graduate from the Department of Geography, University of Otago, Dunedin, New Zealand. His thesis focused on regional autonomy and the impacts of political decentralisation on local populations in Indonesia.

² Sarah Turner (turner@geog.mcgill.ca) is Assistant Professor at the Department of Geography, McGill University, Montreal, Canada. Her research focuses on how small scale entrepreneurs, street traders and market traders in Southeast Asia, specifically those in Indonesia and Vietnam, make a livelihood.

because it may only allow for administration to be undertaken at that level. Until recently, Indonesia operated with such a deconcentrated government (Alm, Aten and Bahl, 2001).

The second form of decentralisation, *delegation to semi autonomous organisations*, involves the “delegation of decision making and management authority for specific functions to organisations that are not under the direct control of central government ministries” (Rondinelli and Cheema, 1983: 20). Organisations this authority could be delegated to might include public corporations, multi and singular-purpose authorities such as a transit authority, or project implementation units. The third form involves the *transfer of functions from government to non-government controls*. This namely involves privatisation of government services and to an extent, de-bureaucratisation. Finally, *devolution*, the fourth form of decentralisation, is the most common form of decentralisation in developing countries and has become the chosen option for Indonesia (Crook and Manor, 1994; Rondinelli and Cheema, 1983).

Devolution “seeks to create or strengthen independent levels or units of government through devolution of functions and authority” (Rondinelli and Cheema, 1983: 22). In the process central government relinquishes control of certain functions and, if necessary, creates new layers of government. In its most ideal form, devolution encompasses autonomous local governments which become democratic institutions, existing in a non-hierarchical relationship with other forms of government. However, in reality this will only ever happen to a certain degree. In sum, both regional and central governments share authority over particular non-overlapping functions which in combination constitute the total government (Rondinelli and Cheema, 1983).

Critiquing decentralisation

Rondinelli and Cheema (1983), in a significant early text on decentralisation and development, cite a number of reasons why decentralisation can be a positive route forward for developing countries. To begin with they argue that it allows for the greater representation of different political, religious, ethnic, and tribal groups in development decision-making processes. This representation, they believe, can then lead to greater equity in the allocation of government resources and funding. In addition, Rondinelli and Cheema (1983) state that decentralisation can increase political stability and national unity by allowing different populations to partake more freely in decision making, thus increasing their ‘stake’ in the political system. Limitations of centrally controlled national planning can also be overcome by the delegation of greater authority to local officials *in situ*, leading to more appropriate approaches and the inclusion of local communities in decision making. Decentralisation can also reduce the costs of providing public services by reducing diseconomies of scale considered to be inherent in centrally planned systems (Rondinelli and Cheema, 1983).

In addition, Eaton (2001) has identified three more pragmatic different reasons why the decision to decentralise might be made. Firstly, some national politicians believe a reduction in their short-term powers could bolster their long-term popularity. Secondly, they may be forced to do so, as was the case in Brazil where, in the 1980s, sub-national governors controlled the career

paths of national politicians and, using this leverage, demanded that the government become more decentralised (Eaton, 2001). More often, the decision to decentralise is linked to a number of different forms of pressure (Blair, 2000). This might include pressure from international lenders, such as the World Bank and the International Monetary Fund. Both are highly supportive of efforts to decentralise, believing it to be a central part of the democratisation process and useful in facilitating a Western-style capitalist market economy (as illustrated by *The Rational for Decentralisation* (World Bank, 2001: on-line)). Pressure from within a country might also come from a range of different actors and stakeholders. A regime change, for example, might leave a power vacuum that enables regional politicians and groups to force greater autonomy, or democratisation might increase the relevance of decentralisation for civic society, mobilising grassroots support.

Heated debate continues amongst development theorists concerning the usefulness of decentralisation, and which ideological standpoint it is aligned with, suggestions ranging from the neo-Marxist through to the neo-liberal (see exchanges between Slater, 1989, 1990 and Rondinelli, 1990). Yet, despite different theoretical viewpoints, most recent writers agree that decentralisation, as has been experienced in developing countries to date, has not necessarily facilitated 'development' nor democratic outcomes (Rondinelli, 1990; Samoff, 1990; Slater, 1990; Hutchcroft, 2001). In fact, most literature that evaluates decentralisation shows that tangible success stories are rare, and that decentralisation is seldom an effective poverty-reducing strategy, as Bossuyt and Gould (2000) have illustrated, for example, in Ethiopia and Mozambique (also see Slater, 1990; Azfar, Kahkonen, Lanyi, Meagher, and Rutherford, 1999; and Hutchcroft, 2001).

Indeed, studies have shown that decentralisation has actually reduced the quality of service provision in some cases, widened existing regional disparities in others, and may increase corruption (see Azfar *et al.*, 1999, for a review of this literature). A study conducted by Blair (2000) in six countries (Bolivia, Honduras, India, Mali, the Philippines, and Ukraine) found that although more autonomy in local government did indeed favour increased participation in governance, it failed to help alleviate poverty or address problems of the very poor. This was because "local elites get most of the power [through decentralisation] and steer benefits to themselves" (Blair, 2000:25).

Decentralisation is "neither inevitable nor irreversible", nor does it guarantee an improved governmental structure or a democratic landscape (Eaton, 2001: 101). Yet, decentralisation does have the "potential to transform some of the most significant actors and relationships, including the developmental capacity of states" at the local level (*ibid.*). In addition, as a process, "decentralisation has swept across the developing world in recent years" (Eaton, 2001:101). In 1992, 63 out of 75 'developing nations' with a population over five million claimed to be undertaking some form of decentralisation (World Bank, 1992, in Livingstone and Charlton, 2001). In Latin America alone, 13,000 local government units are now elected, in comparison to 3,000 in 1973 (World Bank, 2001). Such a proliferation of decentralisation, although indisputably not without problems, does justify closer attention designed to assess its impacts. Given these insights, we now

turn to critically assess the decentralisation process recently implemented in Indonesia following the collapse of the Suharto regime in 1998.

Decentralisation in Indonesia

Soon after the economic crisis which began in 1997 (Hill, 1999), the politics of Indonesia rapidly unravelled from that of a relatively stable authoritarian regime under President Suharto, operating within a highly centralised unitary state, to one constantly under attack from many sectors of society (Kirana Jaya and Dick, 2001). These sectors found common ground in a general push for democratic reform (*reformasi*). Contrary to stifled protests that occurred infrequently during Suharto's political regime (the 'New Order', established in 1965), the protests associated with *reformasi* were widespread and often violent, peaking in intensity shortly after the fatal shooting of four students from Jakarta's prestigious Trisakti University, on 12 May 1998 (Siegel, 1998). Then, amidst continuing political protests, Suharto announced on 21 May 1998 that he was relinquishing the Presidency (see Forrester, 1999).

Short-term jubilation in the streets of Jakarta amongst the general public and students was quickly replaced with anger and distrust as it was announced that Habibie, the Minister for Technology and Science and a Suharto protégé, was to take over the Presidency (Forrester, 1999). Although Habibie was undeniably a product of the New Order regime, to his credit real reform did occur under his presidency, albeit in an attempt to gain political support in a suddenly diverse and complex political environment. During his short period in power, from May 1998 to July 2001, Habibie passed some 60 new laws and orchestrated free, democratic elections in 1999 (Sadli, 2000). Yet, while important, these attempts to appease the still brewing *reformasi* movement did not address a number of escalating problems, as Bouchier (2000:16) notes:

Continuing large-scale corruption and economic mismanagement scared off would-be investors, sabotaging Indonesia's recovery from its deep economic crisis. [In addition] communal violence tore apart communities in Ambon and West Kalimantan, generating tens of thousands of internal refugees and leaving deep scars in the national psyche.

Amongst the many demands for reform made to the Habibie administration were increasing calls from peripheral regions for more autonomy, and in some cases straightforward independence (Brodjonegoro and Asunama, 2000; Cohen, 2000; Social Monitoring and Early Response Unit (SMERU), 2000). In the midst of the growing East Timor crisis, Habibie had to make rapid concessions to some of these regions due to the fear that more provinces might attempt to break away completely from Indonesia. Consequently, in an effort to gain the trust of the people and to be seen as distancing himself from the Suharto regime, among the new laws were two concerning decentralisation, ratified on 21 April 1999. Law No. 22/1999, granting significant regional autonomy (*Otonomi Daerah*), was the Indonesian Government's answer to a long period of growing distrust and antagonism from disgruntled people in Indonesia's peripheral provinces. Law No.

25/1999, concerning fiscal arrangements between the centre and regional governments, complemented the autonomy granted by Law No. 22/1999 (Sadli, 2000).

It was initially an unfavourable political climate that led to the creation of *Otonomi Daerah*. The weakened Habibie Government was forced to quickly draft and ratify Laws 22 and 25, with too little time spent designing effective working laws (Islam, 1999). Indeed, there was little or no co-ordination between the Ministry of Home Affairs, which designed Law 22 on regional autonomy, and the Ministry of Finance, which drafted Law 25 on fiscal sharing relationships between centre and regional governments (SMERU, 2000). In addition, Islam (1999:11), a key analyst of *Otonomi Daerah*, writes that the central government was “vulnerable to the allegation that it [was] really not keen to engage in ‘genuine decentralisation’ along a federalist model where substantial autonomy is granted to the provinces”. Sadli (2000) agrees, adding that when the Habibie government passed the laws many of Suharto’s cabinet ministers retained too much influence. Thus, given that many actors within the central government viewed federalism suspiciously, and that the central government had, as a primary goal, the maintenance of national unity, it is likely that the regional autonomy laws were drafted to appease separatist tendencies rather than to allow the most effective and democratic decentralisation in Indonesia.³

Islam (1999) goes on to question the genuineness of democratic intent behind the laws, specifically criticising the *Pancasila* – Indonesia’s guiding state philosophy which includes a belief in nationalism – framework under which the laws were designed. He asks “how does one obtain a ‘just, prosperous and equal public’ within the parameters of the *Pancasila* and the 1945 Constitution?” (Islam, 1999:4). He suggests that the laws need radical changes and that they do not show a genuine willingness to better the conditions of “deprived regional communities”, aiming instead to fulfil a political role geared at keeping power relations firmly in the centre (*ibid.*). The main tenets of *Otonomi Daerah*, consisting of two primary laws (Laws No. 22/1999 and No. 25/1999), are briefly outlined in the following section, before six key areas of concern they have raised are examined.⁴

Regional governance: Law No. 22/1999

In the past, Law No. 5/1974 had orchestrated centre-regional power relations in Indonesia, but in 1999 this was repealed and replaced by Law No. 22/1999. The latter was an ambitious attempt to radically alter many aspects of regional

³ In 1947, in a Dutch effort to regain control over parts of Indonesia, Indonesia adopted a Federal system of government and until 1950 was known as Republic of the United States of Indonesia (RUSI). According to Sadli (2000), Dutch involvement in that federal attempt is one reason why many nationalists within the central government do not support significant autonomy for the regions.

⁴ The new laws apply to all Indonesian provinces except Aceh and Papua (former Irian Jaya). These two provinces have been granted ‘special autonomy’ because of the strong independence movements in both. Although the details of what special autonomy will consist of remain hazy, it is likely that a strong military presence will be a condition of any autonomy they do receive.

governance. From the outset, Chapter I, Article One, Section (i) states that regions (provinces, districts and municipalities) will have full autonomy to “govern and administer the interests of the local people”, providing this takes place within the parameters of “the Unitary State of the Republic of Indonesia” and *Pancasila* (*Undang Undang 22/1999:7*). Additionally, Article One, Section (o) declares that the village unit will now have the authority to govern and administer people based on local *adat* (tradition), replacing the unitary requirements of the *desa* (village based on Javanese ideals) system, which had been imposed by the central government.

Chapter II of Law 22 details the administrative divisions of Indonesia, declaring that the provinces shall become the main administrative units. Nevertheless, it is the *kabupaten* (district or regency) and *kota* (municipality) jurisdictions that gain the real autonomy to govern. They no longer have an hierarchical relationship with provincial governments, but are “authorised to govern and administer the interests of the local people according to their own initiatives based on the people’s aspirations” (*Undang Undang 22/1999: 9*). The district leaders are responsible to the *Dewan Perwakilan Rakyat Daerah* (DPRD, locally elected assembly), which also serves as a vehicle for implementing *Pancasila* based democracy. The DPRD is obliged to improve the welfare of people based on economic and democratic principles and to listen to, consider fairly, and action people’s complaints (Article 22). Significantly, the governor of a province remains directly part of the central government, rather than becoming a truly local representative.

Chapter IV sets out the new areas of responsibility that the provinces, districts and municipalities gain under the law. The central government remains accountable for international politics, defence and security, the judicature, monetary and fiscal matters, religion, and ‘other fields’. ‘Other fields’ remains a problematic classification, however, covering as it does areas such as national planning policy, national standards, human resource development, conservation and high technology development. In addition, Brodjonegoro and Asanuma (2000) interpret the legislation to mean that *kabupaten* and *kota* governments are responsible for the provision of education and agricultural development, cultural affairs, environmental matters, health, land, and human resources management, public works and matters relating to co-operatives. However, the division of authority remains unclear in a number of respects, which we will return to shortly.

Fiscal arrangements: Law No. 25/1999

In line with the move to autonomy designated by Law 22, Law 25 offers regions (provinces, districts and municipalities) a more proportional share, compared with central government, of the revenue they generate, as well as allowing them more scope to generate their own revenue. Despite this, the share agreements are far from satisfactory and remain highly centralised. In contrast to the past system, in which regional revenues gained from central government consisted of *Inpres* (*Instruksi Presiden*, general development transfers) and *SDO* (*Subsidi Daerah Otonom*, generally used to pay local civil servant salaries), Article Three (8) of Law 25 sets out the conditions for new sources of regional revenue after the implementation of decentralisation (Alm,

Aten and Bahl, 2001). They now consist of original local revenues, balance funds, regional loans, and other legal revenues.

Original local revenues consist of local taxes, regional retributions, profits from locally owned enterprises and/or other local wealth, and other legal revenues. This is largely unchanged from the previous system. *Balance funds* refer to the level of transfer between the central and provincial as well as district governments. They consist of a provincial and district share of the revenues from land and property tax, as well as the tax on acquisition of land, building rights and natural resources (forestry, public mining, fisheries, oil mining and gas), the General Allocation Fund (*Dana Alokasi Umum*, DAU), and the Special Allocation Fund.

Table 1 reveals that, under the new regulations, provinces endowed with natural resources will retain significant proportions of the revenues generated in their provinces. Note, however, that currently it has been decided that 80 per cent of all income tax and 100 per cent of company tax will remain under central government control (Alm, Aten and Bahl, 2001).

Table 1 Balance Fund: Level of transfer of funds between central and regional (provincial and district) governments under Law No. 25/1999

Revenue from:	Central Government proportion (%)	Local Governments' proportion within Province (%)
Land and property tax	10	90
Acquisition of land and building rights	20	80
Natural Resources: Forestry, public mining and fishery sectors	20	80
Oil mining	85	15
Gas	70	30
Income tax	80	20

(Adapted from Brodjonegoro and Asanuma, 2000: 5; see also Alm, Aten and Bahl, 2001).

The General Allocation Fund can best be thought of as a replacement for the previous SDO transfers and part of the former *Inpres* funds (Alm, Aten and Bahl, 2001). The new funding varies amongst provinces more than in the past, depending on, firstly local needs and, secondly the economic potential of the province. Of the total General Allocation Funds distributed, only ten per cent is to be used by the provincial government with the rest intended for use by *kabupaten* and *kota* level governments (*Undang Undang*, 25/1999).

While other revenue sources are available, the ability of local governments to generate substantial income from these is small. The 'Special Allocation Fund' for example, is designed - budget willing - to help 'needy' areas. It includes a reforestation fund and can be used as well for unpredicted or national priority needs. *Regional loans* bestow new autonomy on regions to take out loans from any domestic source, or from foreign agencies through central government mitigation. Loans may be short or long-term, but must

benefit the community, and can have limits placed on them by central government (*Undang Undang*, 25/1999).

Whilst Laws No 22/1999 and 25/1999 provide the *kabupaten* and *kota* levels of governments in Indonesia with significant autonomy to govern and administer their populations in a manner they see fit, they can only do so within the 'bounds' of *Pancasila*. In addition, there are emerging a number of specific concerns regarding the structure, financial organisation, and implementation of the laws, to which we now turn.

Otonomi Daerah: Challenge to Development

Otonomi Daerah presents Indonesian development with at least six related challenges. Discussed in turn below, these have emerged in recent academic writings, non-governmental organisation (NGO) reports, and from discussions between the authors and a number of academics and NGO workers. They include an inappropriate level of autonomy, a lack of improvement in real fiscal autonomy, and a lack of finance. Furthermore, resource rich regions are favoured, there are a number of 'grey areas' to be resolved and the laws themselves have been implemented within an inappropriate time scale. All of these raise questions about human resource capabilities and all are situated within an uncertain political environment.

Inappropriate autonomy level

There is a strong degree of scepticism as to why autonomy has been given at the *kabupaten* and *kota* levels, rather than at the provincial level where there is more likely to be the intellectual capacity to deal with its mandate. If consideration is given to the historical context in which these laws were drafted, the reasons for this delegation become clear. Not only did Jakarta face tremendous pressure from provinces pushing for independence, but politicians were also worried that those provinces that stood to become significantly wealthier from the autonomy process, might form powerful coalitions and dominate the country's politics to their advantage (ANU Academic, confidential pers. comm., 1/2/2001). Autonomy to the *kabupaten* or *kota* level fragmented these possibilities and prevented the fiscal capacity to legitimise them.

The official reasoning behind the move to *kabupaten* and *kota* level autonomy was that it brought government closer to the people. However, as Sadli argues "the whispered explanation [is] that, if autonomy was given to the provinces, they are large enough to secede. Hence give it to 350 small entities and the republic will be safe" (Sadli, 2000:4). Islam (1999) too, is highly critical of the move to by-pass the provincial governments claiming that it is far easier for the central government to exercise authority over a large number of small administrative units than the larger and fewer provincial-size governments. Brodjonegoro and Asanuma (2000) offer a similar analysis. They argue that despite the new authority that local level government will acquire under Law 22, regional autonomy 'misses the point'. Ultimately the central government retains too much power and control over decision making

and can over-rule decisions made at the local level if they are not in keeping with the development of the unitary state and the objectives of *Pancasila* (see also Kirana Jaya and Dick, 2001).

Islam (1999) suggests that the end result of this level of autonomy will be a significant increase in disparities, both amongst provinces and within them. For example, effective leadership within one *kabupaten* may lead to it controlling a large share of provincial funds, leaving other *kabupaten* to compete for reduced quantities of DAU. In addition, the new laws may encourage inefficient development, such as two neighbouring *kabupaten* which both use their share of the DAU to develop port facilities or other infrastructure as a means of attracting investment. Not only would this result in over-supply and inefficiency, but the general population of both *kabupaten* could suffer the loss of adequate services in other domains (Islam, 1999).

Brodjonegoro and Asanuma (2000) argue that the legislation also encourages areas to break away and form new *kabupaten*. Indeed, in the first nine months of 2001, 12 new *kabupaten* were established, with applications for 44 new *kota* and *kabupaten*, and 11 new provinces under consideration (*Buletin Infoprada*, 24/9/01: online). The incentive, Brodjonegoro and Asanuma argue, is “entirely wrong” (2000:12) given that small jurisdictions should be considering mergers “for the sake of economy of scale and efficiency” (*ibid.*). In addition, despite the fact that responsibilities must be passed to the provincial level if *kabupaten* cannot effectively manage the new legislation, such a transfer is not likely to occur since individual *kabupaten* would strongly resist losing their new found autonomy.

No improvement in real fiscal autonomy

Another fundamental flaw with the *Otonomi Daerah* package is that it fails to deliver fiscal autonomy that matches the concessions given under Law 22. Indeed, as Suharyo (2000: 29) illustrates, “there is considerable disappointment over the revenue sharing arrangement. Neither resource rich provinces nor resource poor provinces are satisfied”. The central government continues to “dominate Indonesia’s public finance” through the share of income tax (80 per cent), revenue from oil (85 per cent) and gas (70 per cent), and Value Added Tax (100 per cent) it collects (Brodjonegoro and Asanuma, 2000:5; Alm, Aten and Bahl, 2001). Local taxes remain limited to those defined under Law No. 18/1999. “Districts may levy taxes on hotels, restaurants, entertainment, public advertisements, street lighting, quarrying and parking and must pass on 10 per cent of the revenues to villages (*desa*)” (Kirana Jaya and Dick, 2001: 227). However, as Sadli (2000) suggests, the ability to generate tax revenues from such sources varies widely and is biased towards those regions with larger urban and tourist areas. Brodjonegoro and Asanuma (2000:5) also point out the contradiction:

It is somewhat curious that Law 22/1999 did not attempt to provide for greater freedom and leeway for the local government’s own taxation power. As a result, the local government’s own tax revenue will continue to remain small, and, without substantial fiscal transfers from the central government,

the local government will not be able to provide public services as required under Law 22/1999.

The Indonesian Forum Foundation (2000:5) reaches a similar conclusion that regions “should be given authority to determine the type of taxes that need to be developed (with large potential) without causing new distortions or high cost economies and with due consideration to fairness and equity”.

Whilst Brodjonegoro and Asanuma (2000) maintain that the previous potential tax base was not fully utilised in Indonesia, they also point out that the new tax regime under Law 25 encourages *kabupaten* and *kota* level government to generate as much tax revenue as possible in order to ensure their service providing capabilities are sufficient. This, Sadli (2000) suggests, could lead to a rise in ‘regional egoism’ whereby taxes are applied to services in demand by people from other areas. For example, goods and services may be over-taxed as they move through separate *kabupaten* jurisdictions, or water could be taxed as it moves across such boundaries. Although this may sound far fetched, there is already mounting evidence of this occurring. Caragata (2001) reports that since the new laws came into effect, numerous toll-gates have been hastily installed on the Trans Sumatran Highway in Lampung province to tax goods and services passing through the area. Similarly, in Central Java a new port tax was introduced, which many of the fishermen could not meet, and the government in Banjarmasin, South Kalimantan introduced a tax for all cargo ships travelling along one of the main rivers (Kearney, 2002). The consequences of this scenario occurring on a much wider scale would be disastrous for inter-regional trade throughout Indonesia, simply because over-taxation would hinder growth in an already ailing economy (Suryahadi, Sumarto, Suharso and Pritchett, 2000).⁵

Lack of finance

The responsibilities that regional governments will have under Law 22 are unlikely to be covered by the funding allocations provided for under Law 25 (Alm, Aten and Bahl, 2001). Given this, there is justified concern from many stakeholders who feel that the central government is unlikely to adequately make up the shortfall. This is primarily because Indonesia’s debt burden is impinging strongly on the nation’s ability to invest in any significant development ventures (Sadli, 2000; SMERU, 2000).

Funding distribution is another concern, especially the way in which the DAU is allocated. Law 25 does lay down some basic principles concerning the relative allocation of the DAU, stating that funding distribution will be based around a concept of relative revenue generating capability and needs (*Undang Undang*, 25/1999). However, as it stands, “the law does not provide clear and operationally meaningful criteria for the allocation of the DAU, except for the notion that rich regions should receive relatively less than poor regions” (Brodjonegoro and Asanuma, 2000:8). However, moves towards such a practice are slowly occurring, albeit amongst outcry from a number of

⁵ Declines in investments from overseas companies have already been noted due to the proliferation of such regional laws. In response, the Ministry of Finance is now planning to revoke at least 80 of them (Kearney, 2002).

provinces. By September 2001, the central government had announced it was planning to increase DAU payments to 22 provinces for 2002, whilst grants to the seven strongest provinces would drop significantly. In addition, “payments to most cities and regencies will also be raised – with the exception of those within Aceh, Riau and East Kalimantan provinces” (*Buletin Infoprada*, 19/9/01: online).

Resource rich provinces favoured

Despite the DAU payments, the laws still favour areas advantaged by their strong endowments of natural resources (as was shown in Table 1). In contrast, provinces lacking such resources will almost certainly become relatively poorer because of an inability to generate revenue (Islam, 1999; Brodjonegoro and Asanuma, 2000; Indonesian Forum Foundation, 2000; Sadli, 2000). In effect, this will increase the horizontal imbalance within Indonesia. Rich provinces will become richer, poor provinces becoming poorer. Nevertheless, this is a ‘catch 22’ situation. A degree of central assistance is required for resource poor provinces to overcome these imbalances, but not so much that local creativity is stifled and fears raised that local autonomy is being overshadowed by central control. Great care will need to be taken in managing the implementation of autonomy in these areas.

‘Grey areas’

A deeply concerning aspect of *Otonomi Daerah* is what we have termed the ‘grey areas’ of the laws, which are causing confusion regarding key areas of government control. For instance, under Law 22 local governments are responsible for education but the central government oversees the planning, development and management of ‘human resources’. A district that formulates an education agenda considered outside of ‘appropriate’ human resource development by the central government could, therefore, find its programme curtailed (Brodjonegoro and Asanuma, 2000).

That the right to control and develop natural resources is also unclear is a major concern for those regions already resentful of central control over such resources (Brodjonegoro and Asanuma, 2000). Law 22 assigns this role to the central Government, yet also allows local government to make decisions on investments for exploration and exploitation of natural resources. This ambiguity has confused stakeholders who do not know who to turn to when dealing with resource exploitation. At the very least, one might hope that central government’s control of national standards would ensure that environmental regulations remain uniform throughout Indonesia, but this has yet to be demonstrated.

This confusion over the control of resources has much broader implications. It is the main concern of many international investors, not only because of the potential for increased taxes (Baswir, 2000), but also because companies are afraid they will have to deal with inexperienced local governments eager to obtain a share of the profits (see, amongst others, Sadli, 2000; *Jakarta Post*, 30/10/00, 1/11/00, 8/11/00; Petromindo, 2000; Schwarz,

2000). Such concerns with decentralisation are without doubt strongest in the mining sector. This is demonstrated by a landmark decision in North Sulawesi. In this, the local *Bupati* (Mayor) of *Kabupaten* Minahasa forced the Newmont gold mine to agree to an out-of-court settlement, whereby the company paid compensation for overburden it had removed (Sadli, 2000). While the case was declared a 'win win' outcome by the local *Bupati*, the move sent 'shockwaves' through investment circles because a foreign company had never before dealt specifically with a local government when conducting business in Indonesia. While the Habibie central government made it clear that past contracts would be recognised and protected, "there is no certainty as yet about new entries" (Sadli, 2000:13). At a time when Indonesia's economic outlook is still far bleaker than many of its Southeast Asian neighbours, some kind of national consensus, informing potential investors of which authorities they must deal with and under what conditions, needs to be developed.

Sadli (2000) raises an important related point. Some regional authorities insist that local people be employed not only for unskilled positions, but also for middle and upper management positions in companies that conduct business in the regions. As a result, investment may be deterred, particularly in those provinces where the levels of human resource development are currently low, such as in Irian Jaya or Nusa Tenggara. Indeed, Sadli (2000:13) goes as far to say that even in "Sumatra, Sulawesi and Kalimantan, it will not be easy to find qualified 'sons [sic] of the regions'" to fill upper management positions.

Human resource capabilities and inappropriate time scale

Perhaps, then, the biggest risk facing the successful implementation of *Otonomi Daerah* is human resource capability for government positions at the local levels, as well as in private business as already mentioned. This is a point raised by almost every author on Indonesian decentralisation, yet because of the tight time scale on which autonomy was implemented, there remain no immediate answers. For example, Prasetyo (pers. comm., 31/3/00) claims that local governments are simply not yet prepared to deal with the new responsibilities. He argues that "the capability of human resources, both the executive institution and the legislative institution [at the *kabupaten* and *kota* level] are not yet ready. The problem is the level of education and the capability to manage". In addition, local assemblies (DPRDs) are at present also 'weak' and do not function as accountable and transparent bodies (SMERU, 2000). Both Brodjonegoro and Asanuma (2000) and the Indonesian Forum Foundation (2000) question the ability of DPRDs to perform the numerous tasks required of them under Law 22. Until now they have not been accountable for any of their policy actions, but have instead tended to act solely as decorative tokens of a 'farce' democracy.

Antlov (1999) argues that to mitigate potential transition problems in the realisation of *Otonomi Daerah* there is a need for a strong central government role in the implementation process of the new laws. This is because funds need to be devolved to the local level in a transparent and accountable manner, and, above all, managed by adequately trained officials.

Without sound supervision, there is a risk that local autocrats may take over, so raising the potential for increased corruption, collusion and nepotism (*KKN: korupsi, kolusi, and nepotisme*), the very same issues that played such an important role in Suharto's downfall.

In order to combat administrative inexperience in regional governments an ambitious transfer of up to 2.6 million public servants from central government offices to regional governments has been approved (*Jakarta Post*, 24/12/00). This transfer is 'officially complete', although in some *kabupaten* the actual shifts may still not be finalised. Most officials were merely transferred from central government offices, *Kandep* and *Kanwil*, already located in the regions (Strain, pers. comm., 19/10/00). However, as Strain (*ibid.*) points out, there are a number of issues that need to be resolved before the personnel transfer can be considered a success. One is the wide spread perception that *putri daerah* (local people) will be favoured over other ethnic groups throughout the country for career advancement in *kabupaten* and *kota* governments, in stark contrast to the previous favouritism shown to Javanese in government employment (Kahin, 1994; Vatikiotis, 1993). Consequently, many central government staff do not want to work in regions where ethnicities different to their own will dominate local government (Strain, pers. comm., 19/10/00). In addition, while "regional communities realise that their human resource quality is inadequate, they are very reluctant to accept the transfer of personnel from the central government" (Suharyo, 2000:34).

Media reports indicate that some staff training has been undertaken to improve the readiness of regional governments for autonomy. For example, the *Indonesian Observer* (4/10/00) reported that regional governments in three provinces – Probolinggo (East Java), Sawahlunto (West Sumatra) and Gorontalo (North Sulawesi) – had sent teams of local officials to Southeast Sulawesi to undertake a course on streamlined administration. Designed to "teach regions to have one-stop administration services" (*ibid.*) that minimise bureaucratic hindrances and *KKN*, this type of programme is, however, not yet being undertaken extensively.

Other training occurring throughout Indonesia involves liaison between Universities and local government administrations. In Bandung, for example, Parahyangan Catholic University (UNPAR) is creating networks with municipal governments throughout the West Java Province. These types of initiative are designed to ensure that local level governments will be prepared when full responsibilities are devolved to the *kabupaten* and *kota* levels (Prasetyo, pers. comm., 31/3/00).

There is cause for concern, however, because more isolated provinces without easy access to a university, nor the funding to send teams elsewhere for training, may simply miss out. Again this suggests the possibility that *Otonomi Daerah* will lead to greater inequalities throughout Indonesia. Prasetyo (pers. comm., 31/3/00) argues that this is why the central government still needs to play an important role. His point is that "there must be good management between local areas and the central government". Whilst the Suharto regime essentially suppressed the rights of regional governments to govern (Indonesian Forum Foundation, 2000), the current regime must not hand over the reins too quickly. The central government still needs to play an influential role in the regions during this transformation period (Antlov, 1999).

Current political environment

In her first public address as President, Megawati Sukarnoputri declared that:

both the central government and the public were determined to make regional autonomy work and she hoped to see regional authorities play a convincing role in pioneering and facilitating regional development and assisting Indonesians to become self-supportive (*Buliten Infoprada*, 28/7/01: online).

Later the same year, President Megawati Sukarnoputri stated that *Otonomi Daerah* was a threat to national integration and that she was planning to review the laws (Soekanto, 2001), yet in May 2002 this decision was reversed (*Jakarta Post*, 30/5/02). In addition to such wavering central government support, continuing ethnic and political tensions complicate any successful implementation. *Otonomi Daerah* has the potential to increase ethnic disputes within regions as it is likely that majority groups will gain control of local politics to the disadvantage of minorities in the same communities.⁶ Implemented in an Indonesia struggling to control separatist ideals, combined with multiple ethnic tensions, *Otonomi Daerah* may be the tool some ethnic groups decide to use to address past grievances. Indeed, political scientist Andi Mallarangeng warns of a possible increase in human rights abuses (*Jakarta Post*, 16/3/01). These calls echo earlier warnings of the then Vice President Sukarnoputri that regional autonomy could see the rise of “regional egotism” (*Jakarta Post*, 26/2/01), a term first adopted by Sadli (2000) in his critique of the new laws.

Another underlying issue is Indonesia’s capacity to implement such a major governmental shift. Political turmoil aside, infrastructure is limited, the economy is still not showing clear signs of recovery, and the massive bureaucracy remains highly inefficient. As Podger (2001: no page number) remarks, the problem is that regions have “inherited inefficiency, inappropriate appointments, overlapping functions, and many officers known to be corrupt or unsympathetic who, in the New Order thrived in their higher status than the local administrators”. In addition, these people have been trained in a ‘top down’ environment that has encouraged and rewarded corruption, collusion and nepotism.

Clearly, extensive concerns have been raised about the structure and implementation of the new laws. The list is a long one: the level of autonomy is inappropriate; there is no improvement to fiscal autonomy; there is a lack of overall finance; resource rich provinces are favoured; there are number of ‘grey areas’; and the implementation is being attempted on an inappropriate time scale, concerns being raised regarding human resource capabilities. There are, then, very real obstacles to matching the expectations of *Otonomi Daerah* with reality, at least in the short-term. Local governments and communities, because of their ill-development during the Suharto period, need to accept that in the transition period they will probably require the help of those with more experience. This will provide a lead time in order to ensure that local skills,

⁶ Such concerns have been voiced by Mandarese, a major ethnic group in the western part of South Sulawesi, who have not gained one of the 24 seats on the local council, and are now calling for a province of their own (Anggraeni, 2001).

experience and education levels are sufficient to deal with the new responsibilities. In turn, central government should address these issues with carefully planned support. Given these concerns, and the current political environment in the country, we turn finally to discuss whether, in such circumstances, *Otonomi Daerah* can provide a positive path towards decentralisation.

Will *Otonomi Daerah* Result in Effective Decentralisation?

From the evidence presented in this paper it is clear that the immediate potential for *Otonomi Daerah* to facilitate positive decentralisation is limited, given the number of obstacles that must be overcome if this objective is to be achieved. There is a strong conviction amongst commentators that autonomy has been devolved to an inappropriate level, and that administrators at the *kabupaten* and *kota* level do not have the capacity to provide the governance that Law 22 requires (Sadli, 2000; Brodjonegoro and Asanuma, 2000). This has the potential to deter local participation because of the very real possibility that communities will be shut out of the development process because of corruption and mismanagement, as well as limited understanding of the new laws amongst their populations.

Local administrators throughout Indonesia now have considerable power to approve resource consents and permit companies to carry out various types of activities. It is of pressing concern that decisions made early in this new environment, by perhaps inexperienced regional administrators, are not at the expense and exclusion of local people, so hindering prospects for long-term community development. Indeed, in central Sulawesi, there is already evidence that regional autonomy has not allowed local people to influence policy. There, Parliament, the Minister for Mines and Energy, the provincial government and the local *kabupaten* government have approved controversial plans for the gold mining company *PT Citra Palu Mineral* to mine in a national park. In addition to agreeing with the proposal, the local *kabupaten* is encouraging the people of Poboya to make available 500 hectares of their forest for the mining project. The Poboya community is strongly opposed to the plans and has voiced concern over the lack of public participation in the process (*Down to Earth*, 2001).

Whilst there is anxiety that local governments throughout Indonesia do not fully understand the implications of regional autonomy (German Technical Cooperation, 2000; SMERU, 2000), there should also be concern that much less information has been disseminated to local communities. Consequently, the opportunities for wider governance are likely to be few until education about regional autonomy improves at this level. At the very least, such education must clearly outline to communities what regional autonomy encompasses, clarifying the main problem areas with the laws, outlining the progression of implementation and, thus, confirming what communities might realistically expect from *Otonomi Daerah*.

Despite these deficiencies, there are attributes of both the legal framework of *Otonomi Daerah*, and the context within which it lies, that do present favourable opportunities. The very concept of decentralisation,

particularly if it involves devolution, as Indonesia's system does, works towards greater participation of local communities. Indeed, despite the top-down design of Laws 22 and 25, there is currently greater scope for participation in the political realm than at any time during the New Order era. That local administrators are now required to be democratically elected at the *kabupaten* level presents opportunities for Indonesian communities to become involved in politics and development, and suggests that local legislators will have to be more attentive to local needs. In addition to the requirements of local election, the fact that *kabupaten* and *kota* level governments no longer have hierarchical relationships with *propinsi* (provincial) governments, may help to prevent the penetration of non-democratic influences from outside the local level jurisdiction.

Given this background, the answer to whether *Otonomi Daerah* will result in successful decentralisation is a complex one. Whilst *Otonomi Daerah* is unlikely to result in many short-term benefits, especially in the poorer areas, it does mark the introduction of an era that could facilitate greater local level participation in governance and development in the long run. Yet, clearly, it is the political objectives of many stakeholders that typically dictate the nature and implementation of decentralisation, rather than participatory and democratic ideals. An important lesson, highlighted by the Indonesian case, is that only rarely is there a bridge built between the conceptual advantages of decentralisation through devolution, and what transcribes in practice. Commentators should thus be cautious in their support for a process that often fails to deliver the practical benefits claimed of it. Nevertheless, despite these shortcomings, in a country without a strong tradition of citizen participation, *Otonomi Daerah* provides the tentative first steps towards the Indonesian public being able to have their opinions and preferences heard and recorded for future development.

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