BRIEF REFLECTION ON INDONESIAN DECENTRALIZATION: FLIP-FLOP PATTERN?

ABSTRAKSI


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INTRODUCTION

Many governments around the world including Indonesia are decentralizing political, administrative, fiscal and economic responsibilities to lower-levels of. According to one World Bank Report (2000: 107):

Successful decentralization improves the efficiency and responsiveness of the public sector while accommodating potentially explosive political forces. Meanwhile, unsuccessful decentralization threatens economic and political stability and disrupts the delivery of public services.

Despite the World Bank's positive assumptions about decentralization, researchers have paid little attention to institutional theory as it applies to the process of decentralization, especially in the case of developing countries such as Indonesia. The small number of studies of this issue suggests that decentralization and corruption go together. For example, the elite might capture control of local government with the result that government as a whole becomes more corrupt whilst simultaneously creating greater problems of administrative coordination. In such a situation the incentives for officials to take advantage of special local opportunities might expand. Prud'homme (1995: 211) makes this precise point. He insists that the more local governments have discretionary power the more local governments will be increasingly corrupt.

The Indonesian case is worthy of study because it represents an institutional shift from a highly centralized, authoritarian regime to a more decentralized, democratic one despite persistent corruption. The complexities of this transition, therefore, allow us to study two interrelated trends: the discontinuity represented by the new institutional changes introduced by the decentralization laws and the continuity represented by ongoing corruption.

The term of decentralization does not possess a single meaning. Many scholars have defined a concept of decentralization. Decentralization theory recognizes four types of decentralization i.e. political decentralization, administrative decentralization, fiscal decentralization and market decentralization (Rondinelli and Cheema; 1983; Davey, 1996; Shah, 1998; Rondinelli, 1999; Litvack and Seddon, 1995; Shah et al, 2004).

According to Hidayat (1999), decentralization serves both political and economic objectives. The political goals are to strengthen local accountability, political skills and national integration. Economic decentralization is needed to enhance the ability of local government to provide public goods and services (Rondinelli, 1999). The administrative goal of decentralization is to transfer planning, decision-making of administrative authority from the central government to field organizations and local administrative units.

From a political viewpoint, political decentralization has been used to express transfer of power from central government to local governments or give local citizens and their elected representatives more power in public decision making. Litvack and Seddon (1999: 2) confirm that political decentralization often associated with: delegation of power; greater local participation; support democratization for local people; strengthening of local council (DPRD); development of pluralistic political parties. These kinds of mechanisms are common called political decentralization. The definition of political decentralization means transfer of power from Indonesia central government to district government level.

From an administrative viewpoint, administrative decentralization has been used to express delegation of administrative power from central government to local governments (Bird and Smart 2001; Bird and Vaillancourt 1998; Litvack and Seddon 1999). Litvack and Seddon (1999: 2) argue that administrative decentralization seeks to redistribute authority, responsibility, and financial resources for providing public services among different levels of government. They also argue that there are three major forms of administrative decentralization: deconcentration, delegation and devolution. In Indonesia, terminologies of deconcentration, co-administration and decentralization are used to denote more less the same types of decentralization (Davey, 1996, Devas, 1989 and Brodjonengoro and Asanuma, 2000). The definition of administrative decentralization means transfer of administrative power from Indonesia central government to district government.
confirm that in developing countries responsibilities has been delegated to public corporations, regional development agencies and special authorities.

From the political point of view, devolution is the most important decentralization. Litvack et al (1998: 3) point out that devolution is the transfer for decision making, finance, and management from central government to lower level government. They also state that transfer of powers include elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. Rondinelli (1999) also argue that local government have clear legal recognition of geographic boundaries under which they exercise authority and within which they perform public function. However, Samarantunge, (2000: 51) clarifies that there is a gap between theoretical and practical devolution in developed and developing countries. She argues that many countries have not intended to use devolution for institutional reasons: ethnic problems, interest political leaders and elite group, and the degree of development and historical perspective of a country.

Fiscal decentralization is the crucial factors of decentralization (Rondinelli and Cheema, 1983). From a fiscal view point, fiscal decentralization is defined as the transfer of financial responsibility to local government includes self-financing, expansion of local revenue and authorisation of municipal borrowing and expenditure (see Table 1). Scholars Litvack and Seddon (1999) argue that financial responsibility is a core component of decentralization. In Litvack and Seddon's view fiscal decentralization can take many forms, including:

- Self financing or cost recovery through user charges
- Cofinancing or coproduction, in which users participate in providing services and infrastructure through monetary or labour contribution
- Expansion of local revenues through property or sales taxes or indirect charges
- Intergovernmental transfers of general revenues from taxes collected by the central government to local governments for general or specific uses
- Authorization of municipal borrowing and mobilization of national or local government resources through loan guarantees.

From a market view point, Litvack and Seddon (1999: 4) also argue that the most complete forms of decentralization from government's perspective are market decentralization, including privatization and deregulation. They also formulate the definition of market decentralization as the shift responsibility for functions from the public to the private sector. Litvack and Seddon also confirm that privatization and deregulation are usually accompanied by economic liberalization and market development policies. Samarantunge (2000: 54) clearly point out that many governments in developed and developing countries have transferred many goods and services produced by central government sector have been shifted to the private sector.

In the light of the above, some scholars have defined the concept of decentralization in different ways. The literature also indicates that developed, developing and transitional countries have adopted decentralization clearly have adopted decentralisation clearly in different form (Rondinelli, 1999, Litvack and Seddon, 1999 and Ebel and Yilmaz, 2002).

Table 1: Criteria of Decentralisation

<table>
<thead>
<tr>
<th>Political</th>
<th>Administrative</th>
<th>Fiscal</th>
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</thead>
<tbody>
<tr>
<td>Delegation of power</td>
<td>Redistribution of authority and responsibility</td>
<td>Self-financing or cost recovery</td>
</tr>
<tr>
<td>Greater local participation</td>
<td>Shift responsibilities</td>
<td>Co-financing or co-production</td>
</tr>
<tr>
<td>Democratisation</td>
<td>Strengthen local administrative capability</td>
<td>Expansion of local revenue</td>
</tr>
<tr>
<td>Strengthening of local legislature</td>
<td>Deconcentration, delegation and devolution</td>
<td>Inter-governmental transfers for block grants</td>
</tr>
<tr>
<td>Development of pluralistic political parties</td>
<td>Create public enterprises</td>
<td>Authorisation of municipal borrowing</td>
</tr>
<tr>
<td>Effective public control</td>
<td>More discretionary power</td>
<td>Autonomous expenditure</td>
</tr>
</tbody>
</table>

Source: Summarised from Litvack & Seddon (1999: 2-4)

Pros and Cons of Decentralization

Despite Decentralization has become an important theme of governance in many developing countries in recent years, at least in theory, there are serious debate pros and cons about Decentralization.

The most common theoretical argument for Decentralization is to improve the efficiency allocation of resources (Tiebout, 1956, Musgrave, 1959 and Oates, 1972 and Ebel and Yilmaz, 2002). According to Ebel and Yilmaz (2002: 12) argue that efficiency allocation of resources means that district government have better information about residents' needs than central government. They also argue that district government is closer and more responsive to a district constituency than the central government in district public expenditure decision making process. In addition, Tiebout (1956) also states that Decentralization promotes competition among district governments. According to Tiebout, if public goods are financed by local taxes that reflect costs, district people will shop around the community that best fits their preferences (see also Ebel and Yilmaz, 2002: 12). Musgrave (1959) argue that local governments have better information than central government about the preferences of local populations. Similarly, Oates (1972) argues that local governments
are the best suited to provide local public services because they are closer and better information over central government. Therefore, the conceptual framework of Decentralization has long been well established.

Similarly, some scholars argue that Decentralization promoted good governance. Ostrom et al (1993) argues that Decentralization is to improve accountability, reducing corruption, and increasing cost-effectiveness in the local government. Similar, Hunter and Shah (1996) prove evidence that there is a link between Decentralization and improve governance. In 1999 Treisman (2001: 1) stated that Decentralization should improve the quality of local government (corruption or rent seeking) by bringing government closer to the people.

Litvack and Seddon (1999) argue that the more transparent system is the more obvious the bite of system corruption becomes to local governments and communities. They also argue that the more willingness to strengthen the incentive of local governments and local people to monitor revenue collection, planning, expenditure, and service delivery, the more willingness to pay taxes and fees. Some scholars also supported that Decentralization will lead to less corruption (Bretton, 1996, Weingast, 1995, Shleifer and Vishny, 1993).

Meanwhile, some scholars argue that the Decentralization has not promoted: stability, relationship with public sector size, economic growth, democratic participation and transparency (Prud'homme, 1995; Oates, 1985; Davoodi and Zou, 1998; Bardhan and Mookherjee, 1998, 1999, 2000 and 2002). Bardhan and Mookherjee (1998, 1999, 2000 and 2002) argue that Decentralization lead to the possibility of elite capture of local government, government more corrupt and create coordination problems, exacerbate the incentive for officials to predate and maintain the status quo, Prud'homme (1995: 211) also points out that Decentralization will lead corruption may be greater at the local level. He also illustrates that the more local government have discretionary power to make local government more corruption.

Decentralization creates inherently macroeconomic destabilising. Prud'homme, (1995: 201) argues that Decentralization seems likely to result in increased cost, lessened efficiency in service delivery, and probably greater inequity and macroeconomic instability. He also illustrates that Decentralization may increase income disparity due to central government policy. However, Ebel and Yilmaz (2002: 7) confirm that empirical research on Decentralization and macroeconomic governance gives little support to macroeconomic concern. Ebel and Yilmaz also summarize pros and cons Decentralization as we can see in Table 2.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Stability</td>
<td>Potentially improves macro economic governance (Shah, 1997)</td>
<td>Inherently destabilising (Prud'homme, 1995; Tanzi, 1999)</td>
</tr>
<tr>
<td>Public sector size</td>
<td>Limits the size of the public sector (Marlow, 1988; Grosman, 1988; Ehdaie, 1994)</td>
<td>No significant relationship between fiscal decentralization and public sector size (Oates, 1985; Nelson, 1986)</td>
</tr>
<tr>
<td>Economic growth</td>
<td>Associated with slower growth (Davoodi and Zou, 1998; Xie, Zou and Davoodi, 1999; Zhang and Zou, 1998)</td>
<td></td>
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<tr>
<td>Democratic participation and transparency</td>
<td>Local government under constituent pressure are managing resources and delivering services effectively (Putnam, 1993)</td>
<td>Local governments are more corrupt and greater state capture (Bardhan and Mookherjee, 2000, 2002)</td>
</tr>
</tbody>
</table>

Overall, we can argue that there four issues of the decentralization, such, stability, public sector size, economic growth and democratic participation and transparency. Given these insights, we now turn to critically assess the impact of decentralization implemented in Indonesia.

Flip-Flop Pattern of decentralization in Indonesia

Given the criteria of these insights, we now turn to introduce Indonesia decentralization from 1965 (New Order) to 2004 (New Reform). It is noteworthy that since the 1960s, Indonesia has been a highly centralized but multi-tier unitary state, with provinces and then local governments as the tiers under the central government (Shah et al 1994). Rohdewohld, (1995:31-32) points out that there is a single line of command running from the President, as chief executive of the state, through the head of province (governors), to head of regency (mayor) on local governments, and down to the lower levels of administration including head of sub district (Camat) and head of village (Lurah).

Table 3 shows that in New Order (1965-1998), there was strong tendency for centralization of power and resources in the central government during in the past three decades (Brojonegoro and Asanuma, 2000). The local government at all levels was subordinate to the central government in political, administrative and resource powers can be explained as follows. For example: First, the
president appointed the head of province (governor) and the Minister of Home Affairs appointed the head of regency (regent and mayor). Second, Central government controlled over provincial and local servants in various other ways. Control of civil service appointments was in the hands of the minister of Utilizations of State Apparatus and the Civil Service Administration Agency. Third, Central government dominated most regional and local government revenue, in particularly, income tax, value added tax, oil and gas and other natural resources. Therefore, we argue that the central government still maintain centralization power to manage central-local relation.

<table>
<thead>
<tr>
<th>Period &amp; Law</th>
<th>Level</th>
<th>Political Decentralisation</th>
<th>Administrative Decentralisation</th>
<th>Fiscal Decentralisation</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Law 9/1974</td>
<td>Centralisation of political power</td>
<td>Administrative centralisation</td>
<td>Fiscal centralisation</td>
<td></td>
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<td></td>
<td>Law 25/1999</td>
<td></td>
<td>Expenditure devolution, Revenue centralisation</td>
<td>Partial Decentralisation and recentralisation</td>
<td></td>
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<tr>
<td></td>
<td>Law 33/2004</td>
<td></td>
<td>Expenditure devolution, Revenue centralisation</td>
<td>Partial Decentralisation</td>
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</tbody>
</table>

Source: Jaya and Dick (2001)

In 1999 Indonesia had introduced a radical and rapid decentralization program legislated in Law No. 22 and Law No. 25 of 1999 and effective at the beginning of 2001. Law No 22 of 1999 is an attempt to democratize the local government political processes, and to devolve certain powers of government to the local governments. Law No 22/1999 is in line with political and administrative decentralization theory. Meanwhile, Law No. 25 of 1999 is designed to support that movement at the regional government's level by making more fiscal available to the local governments. Thus, it can also be argued that Law No 25/1999 is in line with fiscal decentralization theory.

Theoretically, the principle behind the Indonesia new regional autonomy reforms 1999 is a good one. Bringing government closer to the local people through political, administrative and fiscal decentralization ought to make government more responsive and accountable. However, in practice, the new decentralization program under Laws No 22 and 25 of 1999 suggest that central government in the reform era is no more serious about delegating power - especially fiscal power (Jaya and Dick, 2001: 227).

The most recent laws introduced by the Indonesian government in 2004, namely decentralization Laws No. 32 and 34 of 2004. These Laws seek to replace Laws 22/1999 and 25/1999). An early analysis of the meaning of this new law has suggested that the laws are an attempt by the central government to recentralise some of the authority and functions that had been devolved to district governments in the earlier legislation (Soesastro and Atje, 2005: 30). Amongst other things, it seems that the new policies insist that district governments must now send their local budget to the provincial authorities the clarification and ratification. The increased role of the provincial governments is only illusory as the provincial governments must send their budget to Minister of Home Affair for Jakarta's clarification and ratification. It is too soon to make strong statements about what these laws mean or what effect they will have on the ground, but it is a reasonable assumption that instead of increasing the efficiency of local governments the new legislation seeks to recapture the relatively small degree of fiscal devolution that did occur between 2001 and 2004.

**Conclusion**

After fifty years centralization, the new decentralization law 1999 had devolved political, administrative and expenditure power. The reason behind the reforms is under good governance principles: accountable, transparency, democratic and participation. However, the reform is far from the theoretical expectation. The good governance that was expected to flow from the decentralization reform has not been realized yet. The evidence indicates that the new decentralization Law has not only opened up an array of channels of accountability but also opened new channels of abuse of power such as corruption, elite capture, "money politic" and the like (see also in Hofman et al 2002:70, Jaya, 2005). Consequently, the Indonesia
government should revise Law 22 and 25, 1999.

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In summary, the paper offers a study of institutional reform in context of centre-local relations, since New Order 1965 to SBY Order 2004. The results show that Indonesia has followed a flip-flop pattern between centralization and decentralization since the New Order Law, 1965. The sudden reversal of five years decentralization has witnessed a diminution in powers for regional assembly (DPRD) and a restoration of certain political, administrative and fiscal powers in provincial government.

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