

THE EFFECTIVENESS OF DECENTRALIZATION IN INDONESIA. A CASE-STUDY OF THE DEVELOPMENT OF A MARGINAL AREA BY LOCAL AUTHORITIES

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Abstract. The decentralization system is mandated by the Indonesian Government to enable regional development in the reformation era, specifically after 2004–2005. There were at least two crucial momentums that enforced the decentralization effort by the government; the Regional Government Law (*UU Pemerintahan Daerah*) which was then revised in 2014, and President Joko Widodo's (2015–2019) policy of 'marginal' development, or development focussing on rural regions and citizens in the lower economic classes. In the last decade, the development process in Indonesia has greatly accelerated, especially in the infrastructure of Indonesia's many regions. Unfortunately, there is still a significant disparity between the western and the eastern part of Indonesia, and between the urban and the rural areas. Indonesia's inequality problem is evident in its Gini ratio, which scores at around 0.4, even though in the last five years that number has shown some decrease. Using Bromley's policy-institution analysis and a 'time and space' approach, the disparities of Indonesia's development, caused by its policies and the arrangements of its respective institutions, can be dissected. The basic pattern of the disparities is apparent, but its gap is evidently growing smaller. Meanwhile, with a time-space approach, that pattern can be clarified further by putting it in the context of regional planning periods. It is apparent that focusing on citizens in the lower economic classes and rural regions can shorten the developmental gap between regions. Moreover, the choice of a more controlled decentralization system is a determining factor in achieving a more equal regional development in Indonesia.

1. BACKGROUND

Indonesia is a geographically diverse country, both in terms of its physical and *social* landscape. Indonesia is an archipelago with around 16 thousand islands spread across the tropical zone on the Eequator. The land mass of Indonesia is 1.95 million km² wide and its sea spans 3.26 million km², which adds to the country's area, 5.21 million km² in total (Patmasari, 2009). Indonesia is larger than the whole of Western Europe. Amongst the thousands of islands in the country, five are the biggest and most populous: Sumatera, Kalimantan (Borneo), Jawa (Java), Sulawesi (Celebes), and Papua (Fig. 1). Java, located in the southern area of the country, boasts the highest population, mean Human Development Index, and intensity of infrastructure development. In 2017, the country's population numbered around 260 million, 44% of them living in Java. Jakarta, the country's capital, is located in Java, making the island the center for economic activities, especially in the provinces of Greater Jakarta and West Java (Susatyo, 2018 and Biro Pusat Statistik, 2017 and 2018).

The eastern part of Indonesia has a drier climate compared to the humid western regions. Indonesia is also known as the location of the 'ring of fire' which makes it quite vulnerable due to numerous earthquake points. Only Borneo is free of any earthquake points. There are 625 ethnic groups spread across the country (Patmasari, 2009).

To manage and cultivate Indonesia's resources, national institutions created development programmes which were carried out by the regional governments. These regional governments consist of provincial governments and municipalities/districts. As of 2018, Indonesia has 34 provincial

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governments, which are also known as level 1 regional governments, next coming 525 level 2 regional governments with 426 districts and 99 municipalities. The lowest levels of regional governments include 7,000 sub-sub districts, and 82,253 villages (Setiawan, 2018).

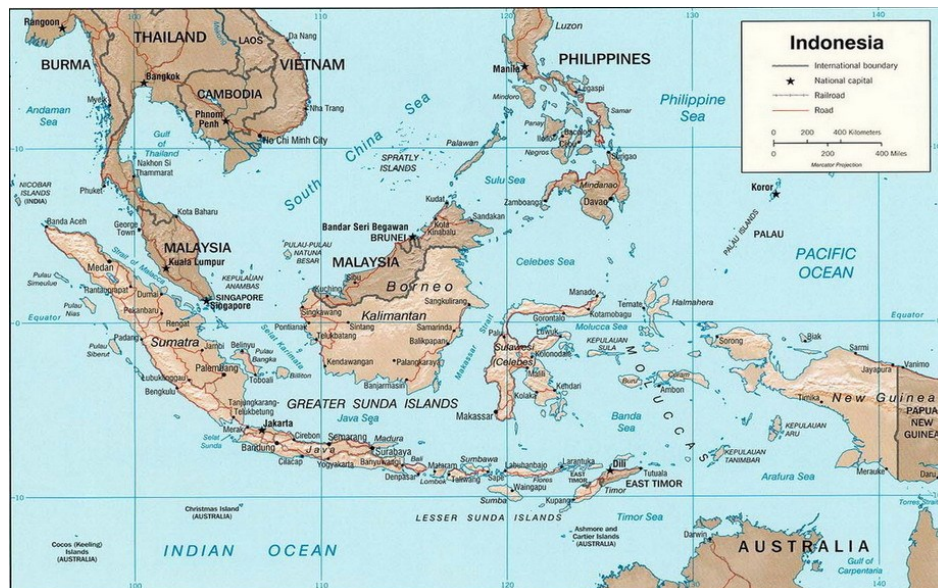


Fig. 1 – Indonesia.

Source: Perry Castaneda Laboratory, 2002. Indonesia. US CIA.

The wide geographical diversity of the country creates a multitude of problems that consequently require multiple approaches to achieve effective decentralization. Decentralization is implemented to assist the central government in quickly providing services in areas far from it. Promoting development with diverse capacities and capabilities to the various regions of Indonesia is a much different experience compared to countries with more interconnected and homogeneous regions, like mainland European countries (Djohan, 2014 and Prasjo, 2009). As such, this analysis is an investigation into the effectiveness of the implementation of decentralization.

2. A SHORT HISTORY OF DECENTRALIZATION IN INDONESIA

Decentralization is the transfer of government authority from the central to the regional government based on the principle of autonomy, legally based on Law no. 23 of 2014 (UU Republik Indonesia no. 23 tahun 2014). This definition adapts several global definitions such as:

- The definition proposed by the United Nations Development Programs: “A decentralization refers to transfer of authority away from the national capital whether by de-concentration (i.e. delegation) to field offices or by devolution to local authorities or local bodies”
- The definition proposed by Turber and Hulme (1997): “A decentralization is a transfer of authority to perform some services to the public from an individual or an agency in central government to some other individual or agency which is “closer” to the public to be served”
- The definition proposed by Litvack and Seldom (1999): “The transfer of authority and responsibility for public function from central to subordinate or quasi-independent government organization or private sector.”

Rondinelli and Nellis (1986) stated: “define decentralization from an administrative perspective as the transfer of responsibility for planning, management, and the raising and allocation of

resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations' “.

Following the end of the New Order Era in 1998/1999 and the dawn of the reformation era, decentralization becomes a widely pursued principle in Indonesia's governance (Ramses, 2009). The main reason for this is to transfer public services in order to reach out as effectively as possible to the population in all parts of Indonesia. Decentralization cannot be separated from the public's will to achieve democracy after the highly centralized government of the New Order Era. After the fall of the New Order regime in 1998, the government divided several provinces that were deemed too large, and where the populations are difficult to reach, into smaller provincial administrations. For example, in 2000, the province of West Java was split into two provinces, the Banten Province and West Java. These smaller provinces were more effective in delivering services to the public. This is a practical solution to achieve the intended quality of service. However, the human resources capacity and strong political interests hamper the effectiveness of regional governments. Thus, in the mid 2000s, the plan to split up more regional governments was suspended.

The history of the actual implementation of decentralization in Indonesia is marked by the publication in 1999 of the Regional Governments Law considered to be the start of the Regional Autonomy era. The law was later revised in 2004 by Law No. 32. Until the new regional autonomy law of 2004, the political authorities functioned in districts/municipalities (Setiawan, 2018). However, the evaluation conducted by the Office of the Presidential Unit for Development Monitoring and Control on decentralization efforts by means of regional autonomy, revealed that the results of regional development were not satisfactory. These lacklustre results were also caused by the transformation phase that took much time and money, and were especially taxing to regional government, as well as to the development funds of the central government through the deconcentration programme. Consequently, a committee was formed to revise the Regional Government Law No. 23 2014. This revision shifts the focus of regional development from the level of districts and municipalities to provinces (Djohan, 2014 and Prasjo, 2009).

3. HOW TO MEASURE THE EFFECTIVENESS OF DECENTRALIZATION

There are two types of research on policy effectiveness: policy research and research for policy. This study uses the policy research approach and focusses especially on outcome or summative evaluation, but also on other processes such as formulative evaluation. The study focusses on evaluating policy-making and its implementation. We use the Bromley approach (1989) that evaluates the harmonization of policy systems, including the policy planning process, and how institutions translate those systems into and implement them into an operational system. In evaluating the outcome of that policy, the main object of study is policy achievements compared to policy contents. Ideally, the policy impact as perceived by the public is measured. However, what is practically measured are the outcomes included in plans of the development projects. The implementation of development policies is affected by the capacities and capabilities of the institutions charged with carrying them out (Iqbal and Anwar, 2008).

Capabilities and capacities may also refer to the decision distance of a policy (Scott, 2010). It is in this context that policies have a geographical context in terms of their implementation from the central to the regional governing bodies. Distance denotes not only metric values in-between policy-makers and the respective policy targets, but also their accessibility. Indonesia's diversity and its width also create differences between regions in the capacity and capability of public services. For example, regions in Papua are by far less accessible, since policies implemented there have a greater distance of realization compared to, for example, Java. This issue indicates a bigger challenge for the development of regions the further away they are from the central government, which incidentally is

also the center of economic activity and growth, especially with the country's highly limited infrastructure, capital, human resources, and organizational capital.

Several important indicators of the effectiveness of decentralization with great impact are: economic growth, the trends of economic growth, poverty levels, the Gini ratio, improvements in public service outreach, development funding, and the effectiveness of the government's performance. Some of those indicators are later interpreted in a spatial perspective (Aoyama, 2011).

4. CHANGES AFTER DECENTRALIZATION

Changes in the outcomes of development could be depicted by a single set of indicators. In the previous section, the indicators used have been mentioned. These indicators could reflect some of the actual components of the outcomes of development. At the very least, these indicators could serve as a point of reference to what the government sets to achieve through its development policies. Different outcomes are stressed differently in a development policy between one administration period and the next. However, we could consider the country as a whole, and evaluate the national development achievements of Indonesia. Besides being affected by the human resources, in regional governments specifically, and the public services systems that are implemented, development outcomes are also tied to the availability of natural and artificial resources, such as electricity in the region where development takes place.

Several reports on the Improvement of Public Service Delivery between 2013–2014 indicates that, as a whole, services cannot be considered as adequate, though there is a positive trend. A study conducted by Bratakusumah (2013) on the government's capability as indicated by bureaucratic parameters shows that among other Southeast Asian countries (where Singapore is already highly ranked compared to the rest of the world), Indonesia ranks in the middle.

| EoDB 2014 | | CPI 2013 | | CoC 2012 | | GOV. EFF. 2012 | | GCR (TOTAL) 2013-2014 | | GCR (INST.) 2013-2014 | |
|--------------|------------|-------------|-----------|-------------|--------------|-------------------|--------------|--------------------------|-----------|--------------------------|-----------|
| CTRY | RANK | CTRY | SCORE | CTRY | SCORE | CTRY | SCORE | CTRY | RANK | CTRY | RANK |
| SGP | 1 | SGP | 87 | SGP | 2,15 | SGP | 2,15 | SGP | 2 | SGP | 3 |
| MYS | 6 | BRN | 55 | BRN | 0,64 | MYS | 1,01 | MYS | 24 | BRN | 25 |
| THA | 18 | MYS | 49 | MYS | 0,30 | BRN | 0,83 | BRN | 26 | MYS | 29 |
| BRN | 59 | BRA | 43 | BRA | -0,07 | THA | 0,21 | CHN | 29 | CHN | 47 |
| RUS | 92 | CHN | 39 | THA | -0,34 | PHL | 0,08 | THA | 37 | LAO | 63 |
| CHN | 96 | THA | 37 | CHN | -0,48 | CHN | 0,01 | IDN | 38 | IDN | 67 |
| VNM | 99 | IND | 36 | IND | -0,57 | BRA | -0,12 | BRA | 56 | IND | 72 |
| PHL | 108 | PHL | 34 | VNM | -0,56 | IND | -0,18 | PHL | 59 | THA | 78 |
| BRA | 116 | IDN | 32 | IDN | -0,66 | IDN | -0,29 | IND | 60 | PHL | 79 |
| IDN | 120 | VNM | 31 | PHL | -0,58 | VNM | -0,29 | RUS | 64 | BRA | 80 |
| IND | 134 | RUS | 28 | RUS | -1,01 | RUS | -0,43 | VNM | 70 | KHM | 91 |
| KHM | 137 | KHM | 22 | LAO | -1,04 | KHM | -0,83 | LAO | 81 | VNM | 98 |
| LAO | 159 | MMR | 15 | KHM | -1,04 | LAO | -0,88 | KHM | 86 | RUS | 121 |
| MMR | 182 | LAO | 13 | MMR | -1,12 | MMR | -1,53 | MMR | 139 | MMR | 141 |

| | | | |
|---|------------------------|------------------------|----------------------|
| EoDB : Ease of Doing Business (IFC, WB) (2014) | SGP : Singapore | RUS : Russia | LAO : Laos |
| CPI : Corruption Perception Index (TI) | MYS : Malaysia | IDN : Indonesia | MMR : Myanmar |
| CoC : Control of Corruption (WB) | THA : Thailand | BRA : Brazil | |
| Gov. Eff. : Government Effectiveness Index (WB) | BRN : Brunei | IND : India | |
| GCR : Global Competitiveness Report (WEF) | CHN : China | KHM : Cambodia | |
| GCR (Inst.) : Global Competitiveness Report (Variabel Institution) - WEF | VNM : Vietnam | PHL : Philipina | |

Fig. 2 – Bureaucracy Indicators.

Source: Bratakusumah, 2013.

In terms of Bureaucracy indicators (Fig. 2), Indonesia is relatively far from being the best in the region. The Government Effectiveness Index also shows the same position. However, Indonesia's competitiveness is growing. This means that the trust between bureaucratic and economic growth is getting stronger. Amongst the issues Indonesia is facing, bureaucracy and corruption are the two main challenges (Bratakusumah, 2013). Compared to other ASEAN (Association of South-East Asia Nations) countries, between 2004 and 2007 Indonesia ranked 6th in Government Effectiveness (Daniel Kaufma *et al.*, 2008).

The development programmes assessed by their economic, social, and environmental outcome show that Indonesia is gradually improving, especially after President Joko Widodo took office in 2014. It is estimated that this economic growth will increase substantially up to the year 2050 (see Fig. 3), while other countries face a relative decrease. Indonesia is the number one economic size in Southeast Asia. This is also corroborated by several study groups and consultancies, such as McKinsey Consulting's report: "The Archipelago Economy; Unleashing Indonesia's Potential" (2012).

During the last decade of Indonesia's development, welfare and infrastructure have been the two main focal sectors. This is evident in the doubling of funds directed to the development of education and healthcare, a development in line with the main policy principles of President Joko Widodo, with focus on marginal people. Infrastructure development funds, especially for roads to improve inter-region connectivity, registered an over three-time increase. It should also be noted that infrastructural development, especially of roads, require the regional government to provide the land needed for this development. Meanwhile, government subsidies to the energy sectors are declining down to a quarter compared to the last administration in 2014/2015 (Nasution, 2016 and OECD, 2016).

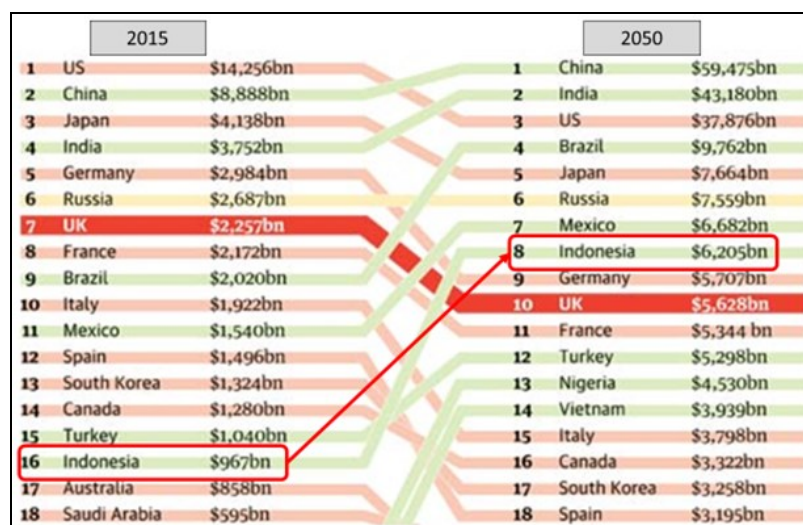


Fig. 3 – The Rise and Fall of Economic Growth.

Source: The Guardian, 2016.

The impact of this policy is to decrease the national disparity rate. In Indonesia, the Gini ratio has fallen to under 0.4, even though it is still globally much higher than in other developed countries. The decrease is also only from 0.41 to 0.39. The Gini ratio tends to be higher in the eastern regions of the country. This change in the Gini ratio is supported by the fall in poverty rates from 32.52% in 2009 to 27.76% in 2016 (Biro Pusat Statistik, 2017). Like the distribution of the Gini ratios, the poverty rate also tends to be higher in provinces located in the eastern regions of the country, especially in Papua. This fact describes the difficulty of development to reach those regions, where population characteristics and distribution contribute to this difficulty.

The national distribution in 2016 is shown in Figure 4, where it is evident that western Indonesia, especially Java, receives 58.49% of the national distribution, or areas well-connected to Java.

Distribution is, of course, highly correlated with the quality of transportation systems. Sumatera achieves 22.03%, which means that Sumatera and Java both create a total of 80.52% of the whole national distribution. The volume of distribution derives from industry and trade in those regions (Biro Pusat Statistik 2017 and 2018). The higher the distribution volume, the more trade and industry is supported. The multiplying effect makes economic activities of people living in that region more open, hence the faster growth. It can be said that distribution and accessibility to the Eastern regions of Indonesia is relatively missing. The concentration of distribution is far too narrow, the focus being specifically on Java and Sumatera. Those two islands cover only 30% of the nation's land-mass. This may mean that the part closest to the central government may have better services than the remoter areas. However, the Government of Indonesia has pushed higher economic growth to remoter areas. In general, the benefit of development remains dominant in areas closest to the central government. This is quite similar to the findings of a study made by Rand Consultant on economic development zones in Indonesia (Rothenberg, 2017).

Inequality in economic activities and its social impact affects development in a distinctive way. Indonesia's Human Development Index scores grew between 2010 and 2017. However, it is curious why this growth is much more significant in the eastern part of Indonesia than in its western regions. One may interpret this pattern as an indication of greater that development equality over the years was greater.

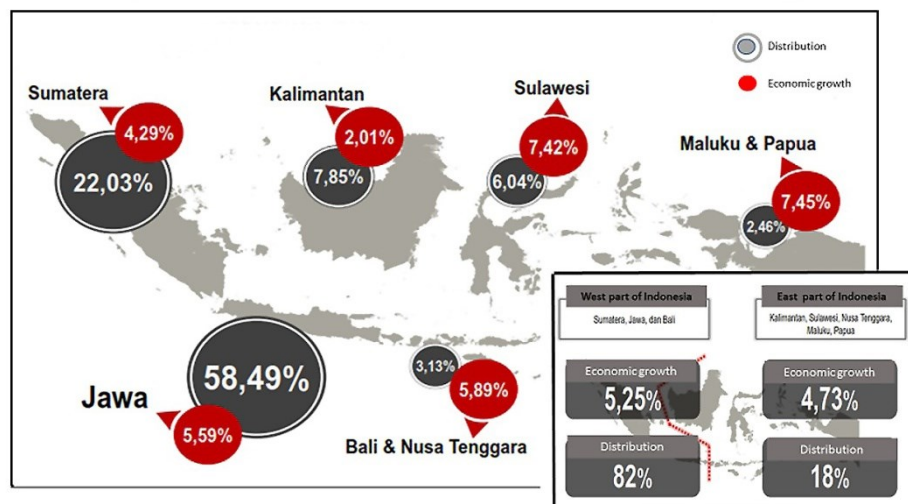


Fig. 4 – A Comparison of Economic Growth between Western and Eastern Islands in Indonesia.

Source: Biro Pusat Statistik, 2017.

Indonesia Human Development Index 2010–2017.

| Part of Indonesia | 2010 | 2017 | Gap |
|-------------------|-------|-------|------|
| Western | 72.2 | 76.5 | 4.30 |
| Eastern | 63.61 | 71.99 | 8.38 |

Source: Analyzed from Data Provided by the Biro Pusat Statistik.

There are also consequences for the environmental condition of the affected regions. Compared to other large Islands in Indonesia, Jawa has the lowest Environmental Quality score (see Table 1). This number is predicted to go even lower, as it decreased from 54.41% in 2009 to 48.7%. Meanwhile, the average index of national environmental quality is generally rising, from 59.79% in 2009 to 63.42%. In other islands this index is relatively stable, or on the rise (Borneo). This is the consequence of growth, concentration of economic activities and development in Indonesia.

The economic, social, and environmental aspect of the above national development process is related to the services policies implemented since the early era of reformation and democratization in 2004/5, and further strengthened during the 2014–2019 administration, with focus on the needs of marginal populations in areas considered remote from the economic and social activity centers. Several legal instruments were then published. First, is the Public Services Standard in Law No. 25 of 2009. Then, a law on Minimum Services Standards was published as Government Regulation No. 65 of 2005. Next, there is an effort to publish a law on Public Services for Innovation, which basically means an effort to create “one institution, one innovation” (ADB, 2013, Nasution, 2016, and Setiawan, 2018).

Table 1

Indonesia's Environment Quality Index 2009–2014

| No | Group of Islands | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|----------------------|-------|-------|-------|-------|-------|-------|
| 1 | Sumatera | 63.76 | 73.63 | 65.13 | 61.76 | 62.08 | 63.19 |
| 2 | Jawa | 54.41 | 59.82 | 51.54 | 41.97 | 49.30 | 48.70 |
| 3 | Kalimantan | 60.31 | 64.02 | 71.01 | 67.66 | 66.56 | 67.54 |
| 4 | Sulawesi | 75.40 | 77.21 | 73.63 | 71.08 | 69.77 | 71.01 |
| 5 | Bali – Nusa Tenggara | 68.53 | 74.19 | 63.46 | 64.52 | 63.15 | 64.06 |
| 6 | Papua & Maluku | 79.56 | 74.26 | 79.86 | 79.93 | 79.42 | 79.24 |
| | National – Indonesia | 59.79 | 61.07 | 65.76 | 63.96 | 63.20 | 63.42 |

Source: Kementerian Lingkungan Hidup dan Kehutanan (2015).

In general, the Indonesian Government has made progresses in terms of policy changes, operational regulations, and operational systems. This progress has also made at least some improvements with regard to the human, social, organizational, and leadership capital. Moreover, this effort seems to have made a marked improvement on several main aspects of development, namely, economic, social, and environmental (Bank Indonesia, 2017). This development has been marked in the United Nations Development Programme (UNDP) Report.

In the 2015 Report on Development Policy and Programs in Indonesia, the UNDP concludes:

- “*The Nawa Cita starts from the President’s vision of the nation’s sovereignty in political, economic, and cultural arenas, derived from an assessment that the nation suffers from three types of situations: (1) incapability to ensure the safety of all citizens, (2) poverty, inequality, environmental degradation, and natural resource over-exploitation, as well as (3) intolerance and crisis of national character*”.
- “*Meanwhile, the SDGs see poverty, inequality, and environmental degradation and natural resource over-exploitation as global issues that need be tackled by all nations in the coming 15 years*”.
- “*Furthermore, the Nawa Cita as reflected in the RPJMN (Mid-Term Development Plan) includes both sectoral and regional (spatial) targets, while the SDGs focusses mainly on sectoral issues*”.
- “*Differences also surface in the categorization of issues between the global and the national agendas. As an example, good governance in the Nawa Cita and RPJMN is seen both as a special target to achieve and an overarching theme to mainstream, while in the SDGs it is one goal, number 16, with specific targets to reach*”.
- “*At the substantive dimension, no significant contradiction is found in the development agenda. Chapter 3.4 of the RPJMN is even prepared to bring the national development agenda to the global context, where the SDGs are mentioned as a reference*”.

- “Minor discrepancies, however, may occur at the technical dimension – e.g., the targeted size of poverty rate to reduce, the planned years of schooling to achieve, etc. Those possible discrepancies will need to be identified as part of the preparation for the monitoring of progress against indicators”.
- “Despite those differences, an analysis of the Nawa Cita, RPJMN, and SDGs shows a high degree of convergence. The Nawa Cita is mainly accommodated in Chapter 6 of the RPJMN, thus a one-to-one comparison among the three can be done here”.

The Report shows the overall results of policies, planning, and execution of Indonesia’s national development. The UNDP’s Report also is an indication of how much the decentralization approach has managed to achieve in terms of central and regional development.

5. CONCLUSIONS

In general, the Indonesian Government has returned to centralization (Law No. 23 of 2014), but regional authorities are still in the focus. This means that decentralization is still taking place as a form of democratization, in line with the development goals of President Joko Widodo’s administration, which stresses on the development of marginal regions and population.

There is still development disparity, evident in the relatively high Gini ratio, especially in the eastern regions of Indonesia. However, there is a relative decrease in the ratio, by 0.4, which is unprecedented since the end of the New Order Era in 1998.

Trends in the outcomes of national development show positive results: there are not evident economic improvements, but social and environmental improvements are. If we use the prediction of Indonesia’s economic development capacity growth as a reference point, then growth is likely to continue, but that would require increasing the capacity and capability of infrastructures and human resources. These two factors are also becoming more effective, but they still need be improved, especially at regional government level. In other words, effective decentralization is essential for Indonesia’s national development.

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