



The Asia Foundation

Decentralization in Indonesia: Looking Towards the Future

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Two decades of (fiscal) decentralization in Indonesia: Lessons for decentralization champions in Asia

May 10, 2023

Presentation outline

- **Context and results of decentralization in Indonesia**
- **Issues on the implementation of decentralization**
- **Recommendations for the future**

Current decentralization context: 1998 Reformasi

- End of 32 year of Suharto's New Order era – characterized as centralized, authoritarian, and bad governance practices
- 1998 Asian economic crisis
- Balkanization of Eastern Europe and independence of Timor Leste

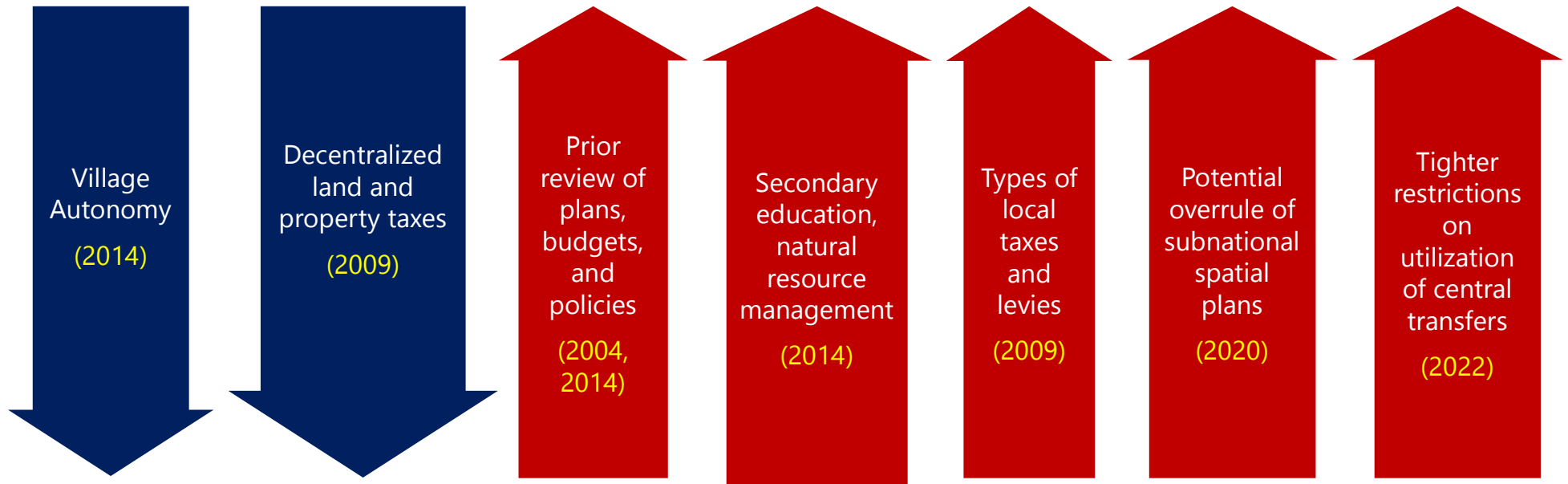


Photo: Kemal Jufri/AFP
(source: Liputan6.com)

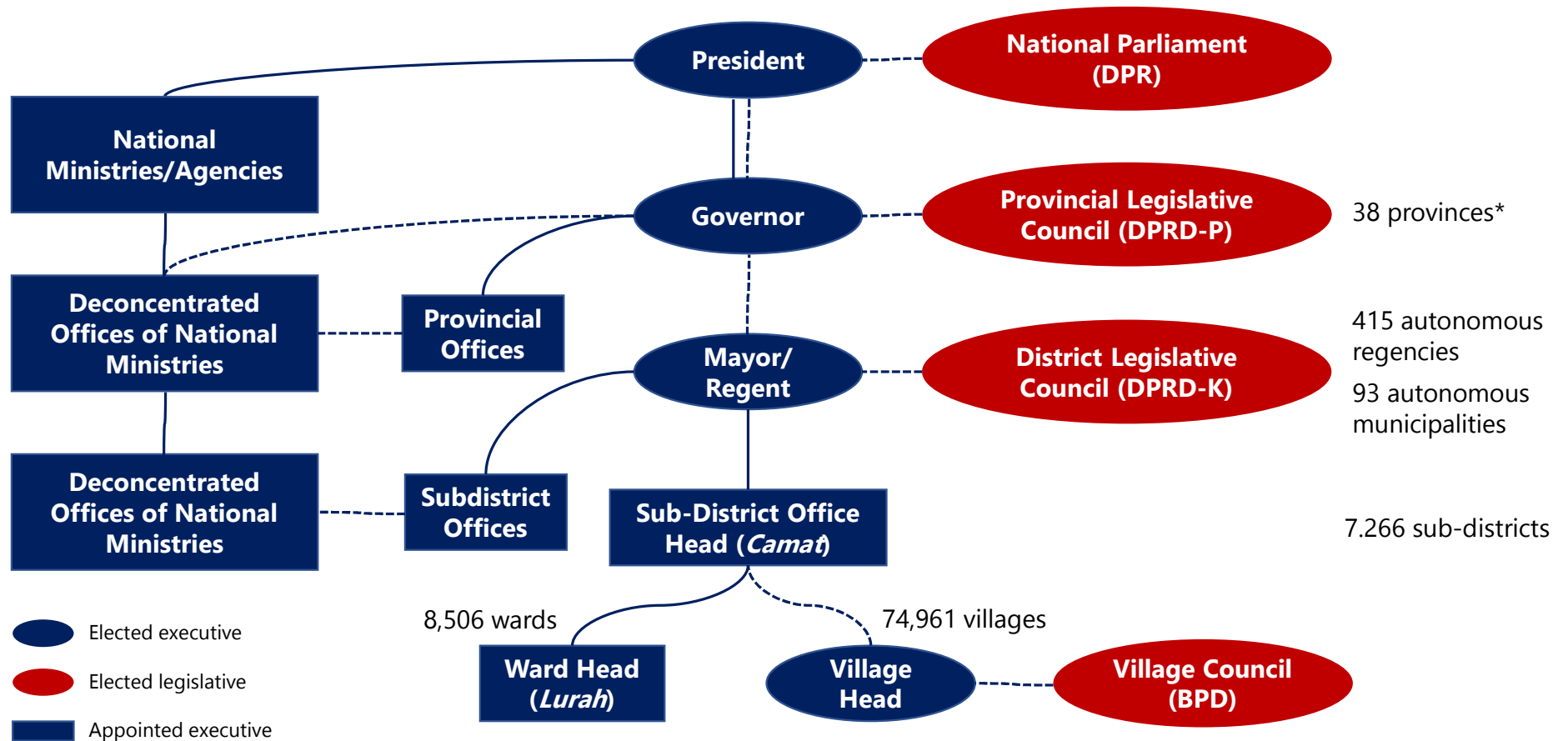
DECENTRALIZATION (AND DEMOCRATIZATION)

- “Decentralization Laws” enacted in 1999, effective in 2001
- Mainly decentralized government functions to the district governments, with limited roles of the provincial governments
- Enhanced power of the local legislative councils
- Introduction of direct elections of the mayors, regents, and governors through revision of the Decentralization Laws in 2004

Decentralization progresses, albeit recentralization trend



Simplified government structure resulted from decentralization



* **Asymmetric decentralization:** Jakarta Special Capital Region, Yogyakarta Special Region, and Special Autonomy Status in Aceh, Papua, West Papua, plus new provinces of South Papua, Central Papua, Mountains Papua, and Southwest Papua. The new Nusantara capital region has an authority that reports directly to the President.

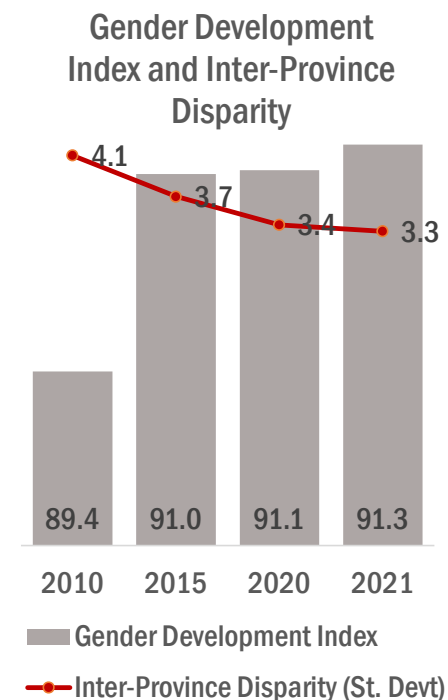
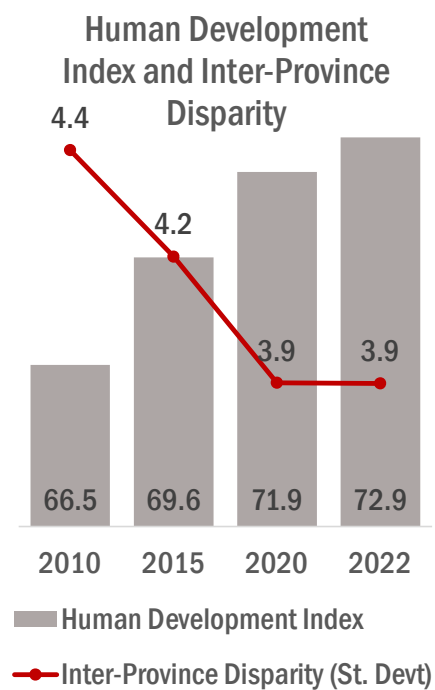
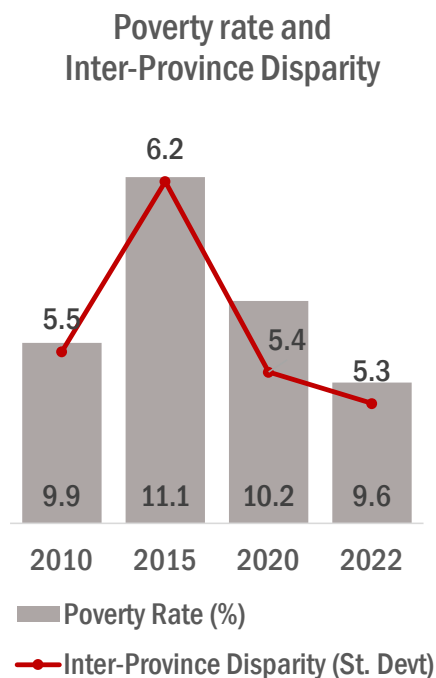
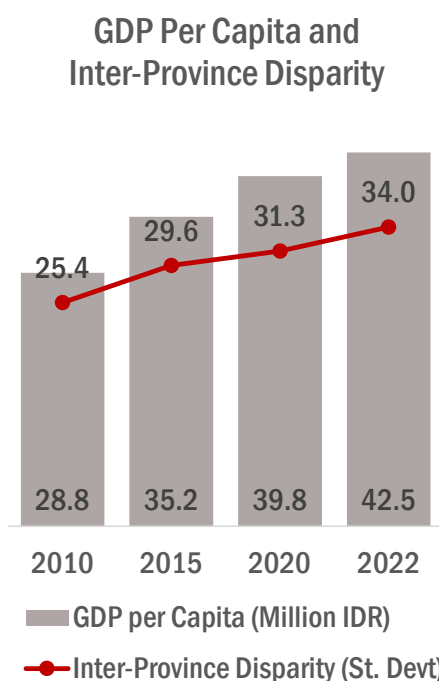
Other than 6 absolute functions, authorities are divided among central, provincial and local governments



Central Government

Divided among central, provincial and local governments, except 3 sectors (*): only central and provincial governments

Most development outcomes converge among provinces (poor performers “catching up”)



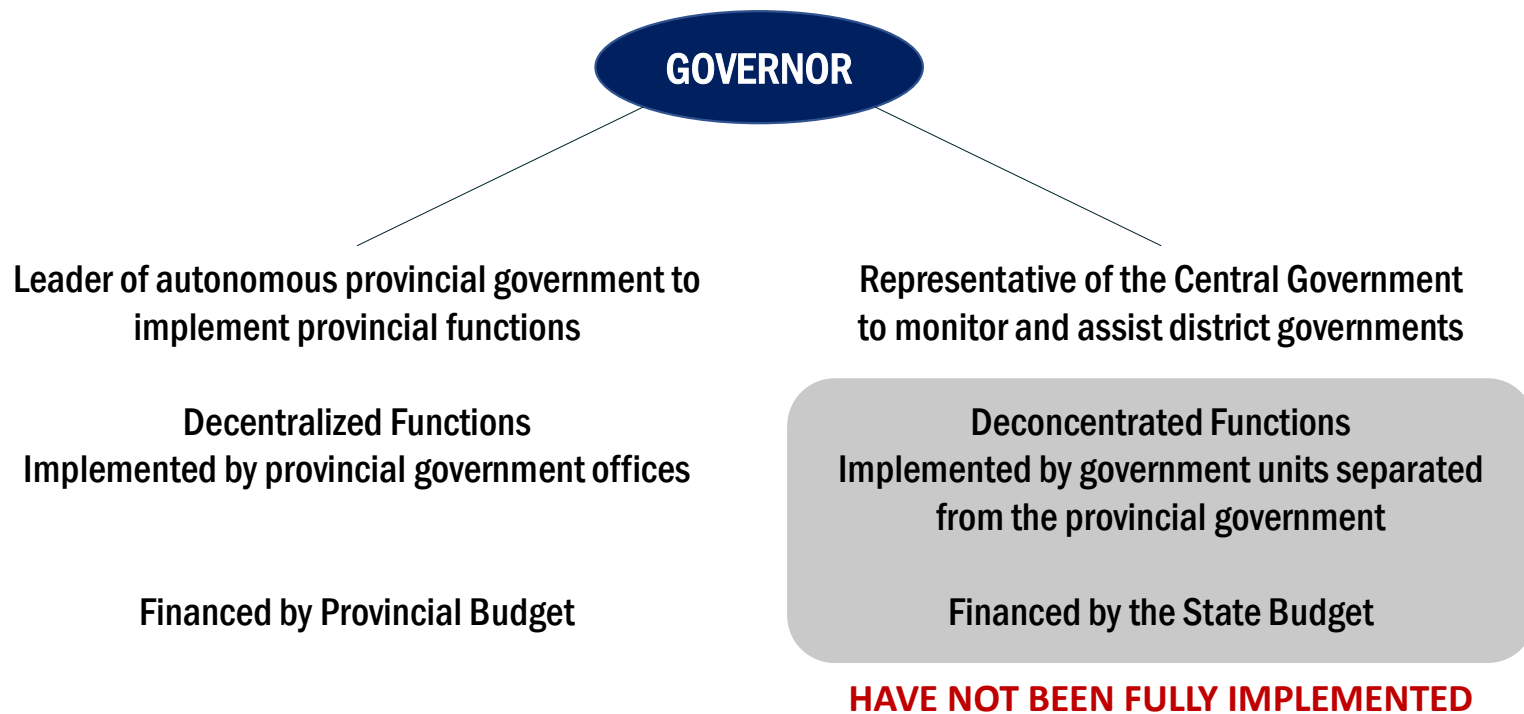
Note: Stdev (standard deviation) indicates a range of 68% of normally distributed data around the mean. Hence, smaller standard deviation indicates less dispersed of an indicator (convergence)

Source: USAID ERAT Local Governance and Public Service Delivery Assessment Report (2022)

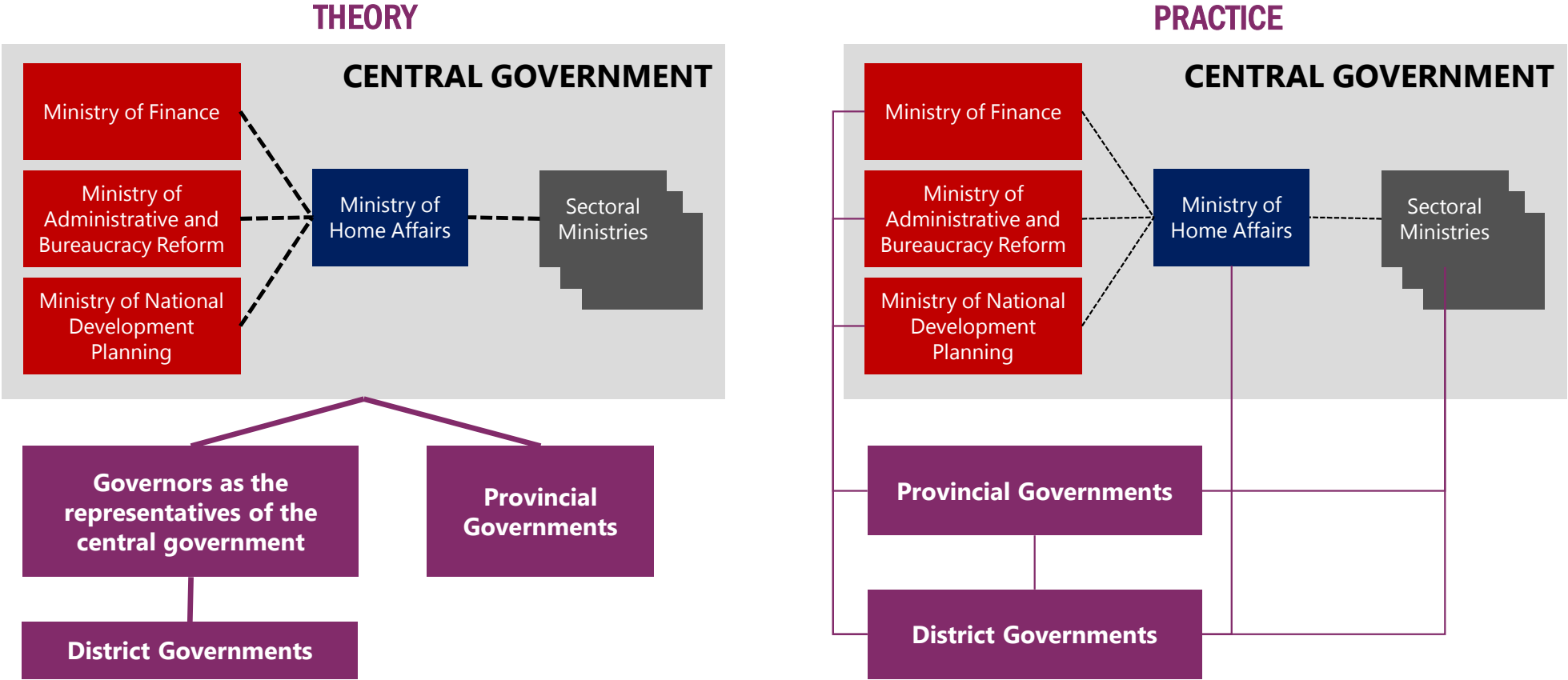
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The missing middle: roles of the governor to monitor and support the districts

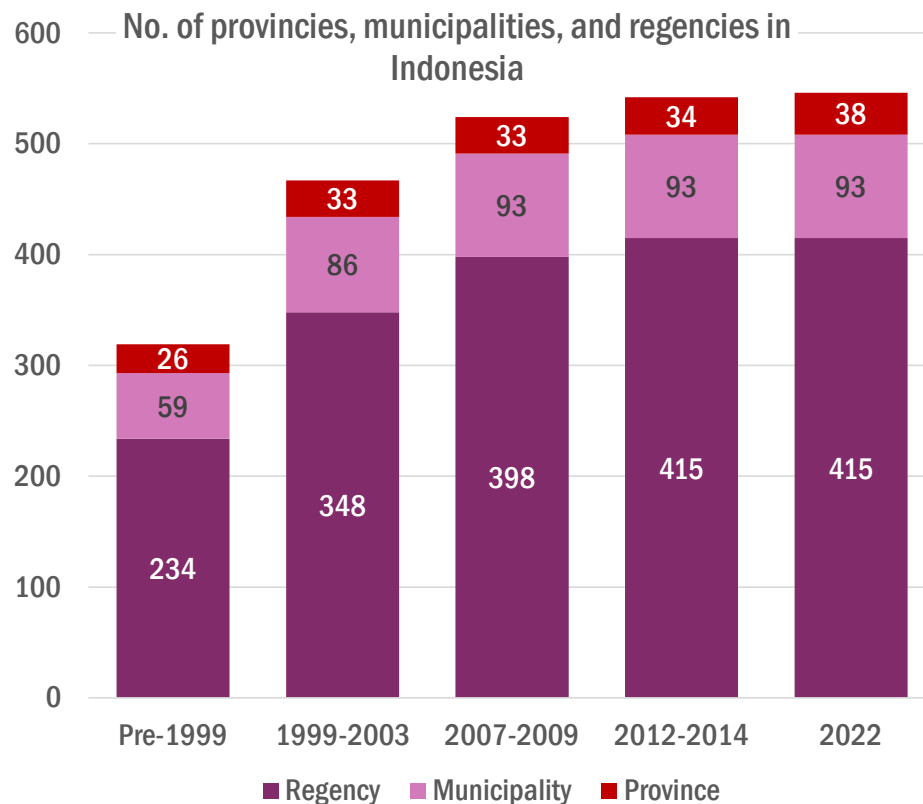


Lack of quality central government's monitoring & evaluation and supports to subnational governments



Source: USAID ERAT Local Governance and Public Service Delivery Assessment Report (2022)

Strong incentives for proliferation of regencies, municipalities, and provinces



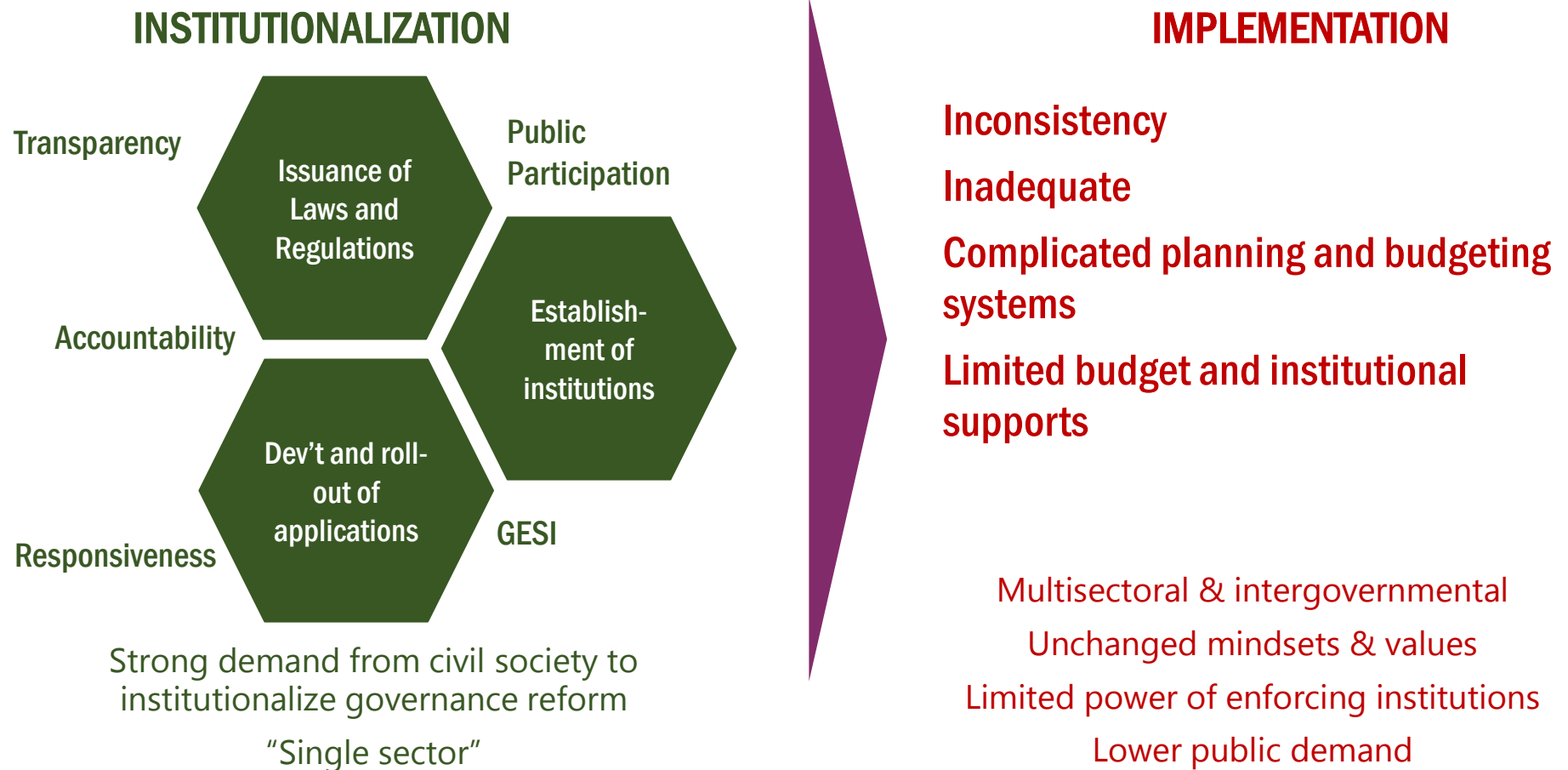
Motivations for proliferation:

- Bringing services closer for the people
- Higher transfers from central government, in aggregate
- Political incentive – new political and civil servant positions

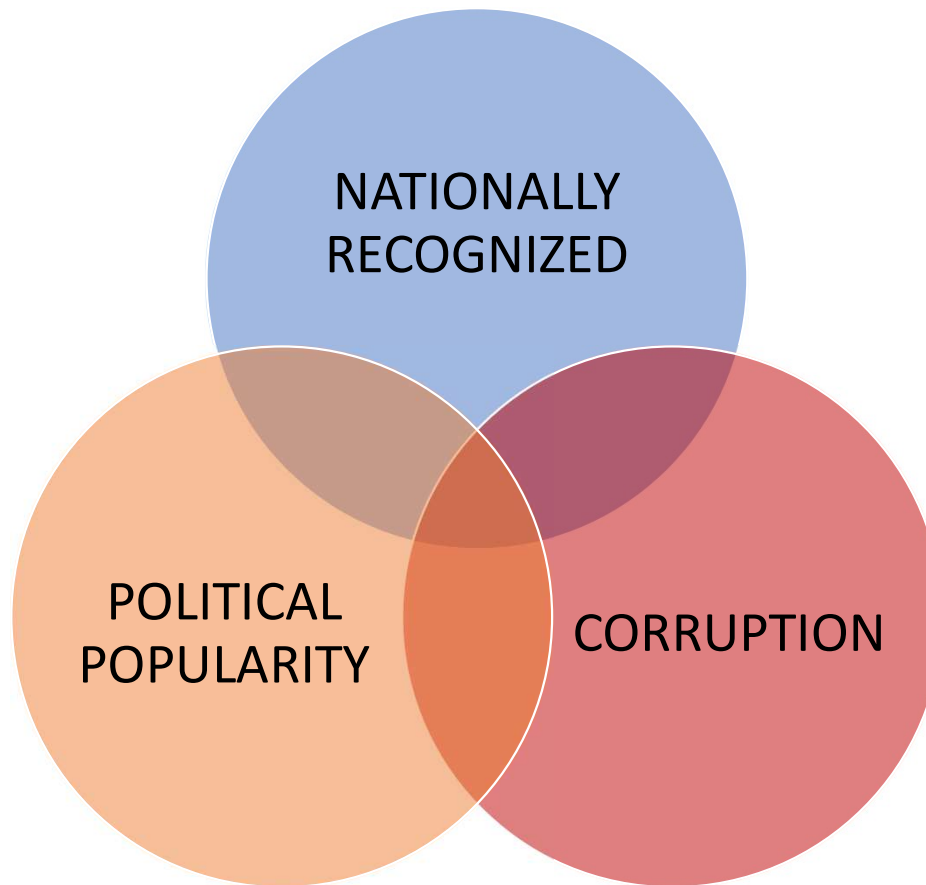
No clear positive or negative results

Moratorium of proliferation since 2006, although not fully enforced

Institutionalized governance reform, but issues on implementation



Incentives for subnational leaders and officials



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Political economy of the future of decentralization

PROS

- **Subnational leadership as a path to Presidency**
 - ✓ President Joko Widodo is the first subnational leader elected president in 2014
 - ✓ Most of 2024 presidential candidates has/had subnational leadership experience
- **Decentralization has positive outcomes:**
 - ✓ Avoided balkanization
 - ✓ Reduced inter-regional disparity
 - ✓ Improved access to public services
- **Relatively stronger, albeit fragmented, political power of subnational leaders**

CONS

- **Lack of momentum and political incentives for Jakarta elites to promote decentralization:**
 - ✓ People start forgetting how centralistic administration was
 - ✓ Competing political populism interests between central and subnational leaders
 - ✓ Decentralization is perceived to slow down decision-making and, hence, development progress
 - ✓ Regression of democracy
- **Most central government ministries have not internalized and fully supported decentralization**
- **Bad decentralization news is good news**
 - ✓ High corruption at the subnational level – what about at the central level?

How decentralization fits with the new vision of Indonesia?

Indonesia's 2045 Vision:

**A SOVEREIGN, DEVELOPED, AND
SUSTAINABLE MARITIME STATE**

DECENTRALIZATION TO FOCUS ON REDUCING INTER-REGIONAL DISPARITY AND INEQUITY

- Asymmetric decentralization
- Focus on rural, coastal, less developed, isolated
- Affirmative actions to promote inclusions of the poor, women, marginalized groups

Our recommendations to the government

CENTRAL-LEVEL

- Harmonize laws and regulations – particularly “non-decentralization laws”
- Remove central-level positions and budgets under the authority of subnational governments
- Strengthen anti-corruption interventions

INTERGOVERNMENTAL

- Simplify M&E systems and reorient from inputs to results
- Utilize M&E results to incentivize and to provide TA to subnational governments
- Clarify and enhance the intermediary roles of the governor/provincial government
- Promote peer-to-peer learning to scale-up innovations and good practices
- Enhance the use of Specific Allocation Grants (DAK) to reduce disparity, and implement public service-oriented General Allocation Grant (DAU) and performance-based incentive funds

LOCAL GOVERNANCE

- Strengthen the implementation of access to information, public participation, and GESI mainstreaming
- Improve the quality of local policies, programs and budgets to improve access to and quality of public services
- Promote collaborations with civil society and the private sector to improve public service delivery, local governance, and inclusion



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