

The Prospects for Public Management Reform in Indonesia

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Article Info

Abstract

Submitted on July 2017
Approved on October 2017
Published on November 2017

Keywords:

decentralization, public management reform, governance, regional autonomy, public sector.

After the fall of Suharto, the government of Indonesia has started to reform its public sector. The reform began with the introduction of Law 22/1999 on Regional Autonomy and Law 25/1999 on Fiscal Equalization between Center and Regions. The laws have created a huge wave of decentralization in almost all aspects of the management of Indonesia's public sector. Yet, the future of such a reform is debatable. This article discusses the prospects for public management reforms in Indonesia. This author argues that the government needs clear rules for effective implementation of decentralization. The government also needs to reinforce the role of provincial governments as the agents of the central as well as the coordinator of district governments. Furthermore, the government needs to set standard budgeting, auditing, and reporting procedures for all local budgets, and mechanisms in order to monitor sharing of natural resources revenue and transfers. Last but not least, the role of non-government organizations (NGOs) and mass media is highly significant and required for a successful reform of public management.

INTRODUCTION

PUBLIC management reform in Indonesia began in 1999. This reform was highlighted by the enactment of Law 22/1999 on Regional Autonomy and Law 25/1999 on Fiscal Equalization between Center and Regions. These laws led Indonesia to a rapid and radical process of decentralization. The rapidity is indicated by the fact that the country had only less than two years to prepare for the new decentralized system before the system became effective in January 2001. The new system transferred almost all of the national government's authority to local governments except a few governmental affairs such as foreign affairs, defense and security, justice, fiscal and monetary, and religion. Some observers call this process of decentralization as a "big bang" (Meira, 2004; Rabasa and Chalk, 2001).

To some extents, this rapid and radical public reform was successful in producing some benefits such as more efficient decision-making processes and service delivery across the country. However, some unintended effects were unavoidable. The purpose of this paper is to analyze the prospects for public management reform in Indonesia, focusing on decentralization. Firstly, it presents the characteristics of public management reform that has been introduced by the Indonesian government since 1999. This includes the discussion on political and economic contexts, which triggered the reform. Second, the paper discusses the success stories of public management reform as well as the side effects of the reform. Third, the paper analyzes the prospects for public management reform in Indonesia. Conclusion and recommendations are presented at the end.

DECENTRALIZING INDONESIA: AN OVERVIEW

DURING the Suharto era (1966-1998), the central government introduced and maintained a highly centralized system of government. The government controlled resources and made decisions for the lower level governments. Sarundajang (2003, p. 95-96) highlights three impacts of such a centralized system on local governments. First, local governments experienced inefficient decision-making processes. Any decision made by local governments had to get approval from Jakarta before it was implemented. Second, the centralized system discouraged local governments to produce their own policies. They were required to implement policies made by the national government. Unfortunately, these policies were not always suitable for the local contexts. Conflict and tensions sometimes occurred in certain localities because the policies did not match the local needs. Third, as local aspirations were not channeled properly, people's dissatisfaction to the government grew up. An

increasing number of people voiced a need for political reformation. Some regions (e.g., Aceh, Papua, East Timor) even demanded independency and launched separative movements. These internal conditions led to a demand for decentralization and greater regional autonomy in Indonesia in the late 1990s.

External factor also contributed to the growing demand for decentralization. In 1997, financial crisis hit Asian-Pacific regions. Indonesia was among Southeast Asian countries that suffered heavily from the monetary crisis. President Suharto was forced to step down in 1998 and a democratic election was scheduled for June 1999. An interim government under President Habibie was established to manage the transition to democratic government. This new government produced a number of reforming legislations. Among the many laws that sped through the House of Representative in 1999 were Law 22/1999 and Law 25/1999. These laws had capacity to change the system and the structure of government radically. They removed centralism and provided a model to transform Indonesia into a democratic decentralized country (Turner and Podger, 2003, p. 2).

It is important to note that Indonesia's decentralization focuses on district governments. The central government transfers a vast governance authority to district governments, not to provincial governments. Provinces are only allocated a few decentralized responsibilities and serve as a coordinating layer without authority over the districts. Provincial governments are the agents of the central government for "deconcentrated" central functions. Therefore, unlike the heads of district governments, the appointment of provincial governors requires presidential approval (Ahmad and Mansoor, 2002, p. 4-5).

The key characteristics of Law 22/1999 are the devolution of wide range of public service delivery functions to local governments and the strengthening of the elected regional councils that are responsible for monitoring and controlling local governments' administrations. Some important points of this law include the followings. First, regional autonomy is based on five fundamental principles: democracy, justice and equity, people's participation and empowerment, the recognition of regional diversity and potentials, and the need for stronger regional legislatures. Second, all government expenditure functions are assigned to districts except for foreign affairs, justice, defense and security, fiscal and monetary, and religion. Third, the provinces have no hierarchical authority over districts and perform largely coordinating tasks. The provinces serve as the representative of the central government. Fourth, the law spells out the functions that the district must perform including education, health care, and local infrastructure. These functions cannot be handed back to the provinces (Sarundajang, p. 2003, 99-102; Dwidjowijoto, 2000, p. 83-87; Ahmad and Mansoor, 2002, p. 5).

Law 25/1999 focuses on the financial matters of decentralization. It is about fiscal equalization between the center and regional governments. The objective of the law is to empower regional economic capabilities and to

formulate regional financial system based on the principles of justice, accountability, transparency, participatory, and proportionality. Some key features of this law include the following. First, most of specific-purpose transfers from the center to local governments are replaced by a general allocation fund the total amount of which is specified as 25 percent of the central government revenues. Its distribution among local governments is determined by certain formula. Second, the revenues from sales of natural resources will be shared with the local governments in which they are produced. This provision benefits naturally rich districts in provinces such as Aceh, Papua, East Kalimantan, and Central Kalimantan (Mera, 2004, p. 3).

This decentralization project has changed the face of Indonesia significantly. The heads of district governments are no longer appointed by the central government, but are elected directly by the people. Regional parliaments have the right to approve or reject the annual reports of the heads of regional governments (i.e., governors, regents, mayors). Data from the World Bank (2003, p. 1-2) indicates that over 2 million civil servants (2/3 of the central government workforce) were transferred to the regional governments. The data also shows that 239 provincial-level offices of the central government, 3,933 district-level offices, and more than 16,000 service facilities (e.g., schools, hospitals, health centers) were transferred to the governments at the district level. With the increased responsibilities and personnel, the sub-national share in government spending rose from 17% in 2001 to over 30% in 2002.

As far as the type of decentralization is concerned, Indonesia experiences three types of decentralization: devolution, deconcentration, and delegation. Devolution refers to a transfer of authority from central governments to local governments enjoying “corporate status” given by state regulation. This type of decentralization is reflected in the nature of district governments after the reform. Deconcentration refers to “the transfer of authority over specified decision-making, financial, and management functions by administrative means to different levels under the jurisdictional authority of the central government”. This can be seen on the roles of provincial governments that serve as “the agents” of the central government. Delegation occurs when government decision making and administrative authority are transferred to organizations or corporations that are independent or under indirect control of the government. Law 22/1999 enables local governments to make deregulation and to develop public-private partnerships for service delivery (Turner and Podger, 2003, p. 4-5).

Privatization is not a special concern of this Law 22/1999. However, there are several laws following Law 22/1999 that promotes privatization. One of the examples of these laws is Law 7/2004 on Water Resources. This law changed the national water paradigm and management fundamentally. This included the transformation of water management orientation (i.e., from a single purpose to multi-sector purposes), authority (i.e., from centralization to decentralization), the community and the private sector participation (i.e.,

from narrow to broader participation), and the shifting view of water (i.e., from water as social goods to water as economic goods with social and environmental values). The enactment of this Law is actually a response to the World Bank's reform agenda concerning water resource management. In late 1997, the World Bank indicated that they could not continue to assist the development of Indonesian water resources and irrigation unless a broad reform in these sectors was undertaken. The World Bank suggested water sector reforms and offered a loan program called the Water Resources Sector Adjustment Loan (Watsal). The government introduced Law 7/2004 to provide a binding legal framework and amend any regulation that constrains the Watsal reform (Zaman, 2002, p. 3; Nababan, 2004, p. 3). This case implies how globalization has affected the government's structure and how the Indonesian government adapted its structure to address variations in the purpose of government.

DECENTRALIZATION: SUCCESS AND CHALLENGES

SEVERAL studies on the implementation of Indonesia's public management reform indicate the success stories of decentralization in the country. Research by the Asia Foundation (2004) highlights three positive impacts of decentralization. First, decentralization has encouraged local governments to initiate new programs for improving their services. Second, in areas where services are generally not accessible and the quality is poor, local governments have invested in such initiatives as mobile health clinics, mobile water tank services, and branch elementary and high schools in remote areas. Third, some local governments have programs that cater to disadvantaged people such as free medical check-ups for expecting mothers, health cards for the poor, and scholarships for poor students. Another research by Suharyo (2003) indicates that decentralization has induced the birth and growth of various forms of public participation. The study shows widespread enthusiasm towards decentralization among society although the level of preparation taken by local governments varied.

However, this project of public management reform has left unfinished problems, which can be seen in four areas: the assignment of functions over levels of government, local capacity to implement the functions, the intergovernmental fiscal system, and accountability at the local level (The World Bank, 2003; Turner and Podger, 2003, p. 58-62; The Asia Foundation, p. 66-67).

First, the assignment of functions over levels of government is still unclear. A lack of clarity is partly resulted from the weaknesses of the regulations on decentralization. Conflicts among implementing regulations that are out of the line with Law 22/1999 contribute to this problem. Some laws following Law 22/1999 such as the civil service law and the forestry law

ignore the spirit of decentralization. In addition, a presidential decree gave certain agencies temporary exemption from decentralization. This problem results in unclear division of responsibility over levels of government (The World Bank, 2003; Turner and Podger, 2003, p. 61).

Second, regional governments basically have the capacity to deliver the services assigned to them because the central government's apparatus have handed over many central civil servants for the functions that were decentralized. Unfortunately, problems such as a poor management of civil service could undermine the efficiency of service delivery. Some districts experience substantial overstaffing, while the other districts experience shortages. For instance, the average ratio of the number of civil servants in the city of Sabang in 2001-2003 was 1: 23. This means that a civil servant in Sabang serves 23 citizens. Meanwhile, in the same period, the average ratio of the number of civil servants in the city of Dumai was 1: 438, which means that a civil servant in Dumai serves 438 citizens (Lembaga Administrasi Negara, 2005, p. 154-156).

Third, although the new fiscal system has several strong features (e.g., regional discretion over some taxes, equalization grant, regular financial report), the system is still highly unequal. For example, the richest district had fifty times more revenues per capita than the poorest one had in 2001 (Lembaga Administrasi Negara, 2005, p. 33-35). In addition, most regions are still highly dependent on transfers from the center. Less than five percent of all government tax revenues are generated by the regions' own taxes, while local governments rely most of their revenues (over 90%) on transfers (The World Bank, 2003, p. iv). The lack of strong own revenue sources also encourages local governments to raise improper taxes and fees which could negatively affect local investment climate.

Fourth, a rapid decentralization program does not necessarily lead local governments to good and clean governance. In fact, after the legislation on decentralization came into force, a wave of corruption cases committed by local officials swept across the country. For instance, there were 265 corruption cases involving the members of local legislatures in 2006. In the same year, 46 corruption cases involved the heads of municipal and provincial governments (Rinaldi, Purnomo and Damayanti, 2007, p. 5). This problem implies that the accountability and transparency at the local level are still among the unfinished problems of the Indonesia's decentralization program.

ACHIEVING BETTER DECENTRALIZATION

TO ACHIEVE better results of decentralization program, the improvements of four major areas of decentralization need to be done. First, clear rules are required for effective implementation of decentralization. As indicated by Turner and Podger (2003, p. 61), international experience of decentralization

shows “the desirability of explicit, stable, and self-enforcing rules which establish the division of national political powers between national and sub-national governments”. Regional governments and their citizens need to obtain clear and coherent regulations on who is responsible and accountable for different assignments of governmental functions. On the one hand, such regulations can be used by regional governments to prevent the central government’s attempts to regain its control. On the other hand, the regulations can also be used as a mechanism to control and monitor regional governments.

Second, to improve the capacity building of district governments, the central government should reinforce the role of provincial governments as the agents of the central as well as the coordinator of district governments. The government also needs to create financial arrangements that promote regional cooperation at the provincial level. As is indicated by the World Bank’s report (2003, p. iii), decentralization has encouraged the emergence of new local governments. Many of these local governments are lack of human and administrative resources. The reinforcement of the provincial government’s role can help the local governments build their capacities.

Third, to resolve problems on the intergovernmental fiscal system, the government should redesign regional taxing powers. The current regulation on regional own revenue provides strong incentives for local governments to impose improper taxes and fees, while the central government does not have the capacity to monitor improper taxes and fees (the World Bank, 2003). To quote Ahmad and Mansoor (2002, p. 9), the central government should establish standard budgeting, auditing, and reporting procedures for all local budgets, and mechanisms to monitor sharing of natural resources revenue and transfers. Sanctions for districts and provinces that fail to submit timely, accurate, and comprehensive fiscal reports might be established.

Fourth, to improve the accountability and transparency at local governments, the contribution of non-government organizations (NGOs) is significant. A study by Rinaldi, Purnomo, and Damayanti (2007) indicates the significant role of Indonesian NGOs in fighting against corruption cases at the local governments. The study illustrates that a successful effort to fight against corruption depended much on the collaboration among local governments, law enforcers, and local anti-corruption activists (NGOs). Accountability and transparency at the local governments can also be achieved by improving citizens’ awareness of their rights. In this case, the role of local media (e.g., newspapers, radio, television, etc.) is highly significant and required.

CONCLUSION

IN 1999, Indonesia started a rapid and radical process of decentralization. This decentralization transferred almost all of the national government's authority to local governments except a few governmental affairs such as foreign affairs, defense and security, justice, fiscal and monetary, and religion. To some extents, this rapid and radical public reform was successful in producing some benefits such as more efficient decision-making processes and service delivery across the country. However, the decentralization has left unfinished problems, especially in four areas: the assignment of functions over levels of government, local capacity to implement the functions, the intergovernmental fiscal system, and accountability at the local level.

To achieve better decentralization, the government needs clear rules for effective implementation of decentralization. It also needs to reinforce the role of provincial governments as the agents of the central as well as the coordinator of district governments. The government should also establish standard budgeting, auditing, and reporting procedures for all local budgets, and mechanisms to monitor sharing of natural resources revenue and transfers. Finally, the role of non-government organizations (NGOs) and mass media is highly significant and required.

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**LEX NEMINEM CIGIT AD
IMPOSSIBILIA**

The law does not force someone
to do something that is
impossible