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DECENTRALIZATION AND  
DEMOCRATIC TRANSITION IN INDONESIA

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What a difference a decade makes. Ten years ago Indonesia was ruled by one of the least democratic and most centralized regimes in the world. It was also in the throes of its worst economic crisis in more than thirty years. The financial crisis that struck several Asian countries in 1997–98 affected Indonesia more severely than any other and touched off a process of political change that has made Indonesia the largest democracy in the Muslim world.

Indonesia’s political transition was far from smooth. In addition to a national movement pressing for democratization, the country experienced separatist movements and communal conflicts on such a scale that observers inside and outside the country

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feared it would collapse. Despite these challenges, the interim government that ruled Indonesia between May 1998 and October 1999 managed to lay the foundation for a more democratic and decentralized political system, and the country emerged from that transitional period to join the ranks of the world's democracies, not its failed states. Today it is the only country in Southeast Asia that Freedom House considers entirely "free."

The twin processes of democratization and decentralization reflect a backlash against the authoritarian and centralized character of the previous regime. And their origins and impact are so deeply interwoven that they are, in many respects, inseparable. Indeed, that is one of the chief arguments of this paper: it is, for the most part, impossible to draw a line between them in a way that allows us to ascribe various outcomes to one process rather than the other. Analyses that draw this line are common, especially in the donor community, but they succeed only by defining decentralization narrowly in terms of the laws and regulations designed specifically to shift power to the regions while neglecting others that contribute equally to shaping center-region relations.

Such an approach is no longer tenable. As recent studies have shown, the impact of decentralization depends heavily on the political context in which it is designed and implemented. And since these contexts vary so widely, Bardhan and Mookherjee find that "there cannot be any general presumption" about the impact of decentralization on either service delivery or the representation of local interests. Likewise, Treisman shows that across cases "one cannot generalize usefully about the consequences of decentralization."<sup>1</sup>

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<sup>1</sup> Pranab Bardhan and Dilip Mookherjee, "The Rise of Local Governments: An Overview," in their, eds., *Decentralization and Local Governance in Developing Countries* (Cambridge, Mass.: MIT Press, 2006), p. 10; and Daniel Treisman, *The Architecture of Government: Rethinking Decentralization* (New York: Cambridge University Press, 2007), p. 293.

Quite obviously, these findings complicate the task of providing useful guidance to policy makers. Above all, they imply that we must devote as much attention to understanding the origins of decentralization as its effects. In particular, we need to consider more carefully the conditions under which political leaders are inclined to pursue decentralization, the reasons they offer for doing so, and the various ways they seek to distribute power across levels of government. Despite more than a decade of sustained research by political scientists, most literature on decentralization continues to reflect the longer and deeper research traditions rooted in public administration and economics, as well as the urgency that policy makers and advisers understandably place on gauging the impact of decentralization. Yet today even economists such as Bardhan and Mookherjee have concluded that understanding the origins of decentralization requires “rich historical description,” and Treisman concludes that it is “important to understand the processes of politics in particular decentralized orders.”<sup>2</sup>

In this spirit, I trace the origins of Indonesia’s decentralization during the country’s transition to democracy in 1998-99. My goal is to identify the key processes that reshaped the balance of power between national and subnational governments, and in that way to illustrate how broadening our notions decentralization and its causes can reshape our view of its impact and of appropriate policy to address its less happy effects. Given this limited purpose, it is not necessary to trace the process of decentralization up to the present.

In the first section, I describe Indonesia’s political transition and identify features of new democratic institutions that reshaped the balance of power between national and subnational governments *before* policies to promote decentralization were even drafted. In the second section, I describe how the legal basis of decentralization policy was created, and what its framers sought to achieve. In the third section, I return to the issues raised in this introduction. In particular, I show that “decentralization” preceded the

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<sup>2</sup> Bardhan and Mookherjee, p. 14; Treisman, p. 293.

adoption of policies intended to produce it, and that subnational political forces reshaped national decentralization policy even as that policy was being created. Consequently, it is difficult if not impossible to attribute subnational outcomes to “decentralization” rather than “democratization.” And to the extent that problems commonly attributed to decentralization, such as corruption, actually result from shortcomings in democratization, efforts to ameliorate them are better addressed through democratic reforms rather than refinements of decentralization.

### **The Origins of Democratization in Indonesia**

Indonesia’s transition to democracy and decentralization occurred under conditions that impelled leaders of authoritarian regime to enact reforms, but limited their opponents to indirect participation in the process of designing them. On the one hand, the regime had generally succeeded in disorganizing and intimidating its main opponents during the mid-1990s, so groups and individuals of national stature were unprepared to use the crisis as an opportunity to mobilize public opposition to the regime. On the other hand, president Soeharto resigned his position just two months after orchestrating his “reelection” to a seventh five-year term and only one month after a nascent student movement moved from university campuses onto public streets. In a short space of time, massive protests were mounted in cities and towns across the country, but these had not produced either a significant opposition organization or group of opposition leaders with whom the regime could negotiate the terms of a transition. Thus, the weakness of the opposition and Soeharto’s sudden decision to resign created the conditions for an incumbent-led transition.<sup>3</sup>

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<sup>3</sup> I develop this argument further in my “Inchoate Opposition, Divided Incumbents: Muddling toward Democracy in Indonesia, 1998-99,” in Karen Guttieri and Jessica Piombo, eds., *Interim Governments: Institutional Bridges to Peace and Democracy?* (Washington: U.S. Institute of Peace, 2007).r

Although the protest movement attracted support in nearly every region of the country, its demands were simple, straightforward, and essentially national rather than regional. Everywhere, students marched under the banner of opposition to corruption, collusion, and nepotism, and demanded Soeharto's resignation. Once he had left office, his successor, B. J. Habibie, was left to translate these demands into specific reforms. Seeking to head off further protests, he quickly committed his government to a three-stage timetable for reform: liberalization of laws on parties, elections, and legislatures within about six months, legislative elections at national provincial, and district levels within a year, and an indirect presidential elections with about 18 months. He made no commitment to decentralization, and faced no significant criticism for failing to do so.

To draft the legal framework for democracy, Habibie's government turned to a small team of bureaucrat-scholars, mainly political scientists. In late 1998 the bills they drafted were presented to the House of Representatives, whose members had been elected in 1997 under conditions so illiberal that Freedom House assigned Indonesia its worst possible score for political rights. Fifteen percent of the members were military and police appointees, and the rest were either members of the regime's party or members of two other parties whose candidates the government had screened prior to the election. But like the executive branch drafters of the legislation, House members appreciated the need to present a "reformist" image to voters by supporting the proposed legislation. Despite the authoritarian conditions under which they had been chosen, they intensely debated several key provisions, particularly whether to permit civil servants to join political parties (yes, but with conditions), and how much to reduce appointed seats for the armed forces in the House (by half). And they rejected the drafters' recommendation to replace the traditional proportional representation system with single-member districts.

Even though the legal framework for democracy did not contain any reference to decentralization, it contained several provisions of tremendous importance to center-region relations. In the first place, it combined liberal rules on the formation of political

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parties with restrictions that effectively prevented regional parties from participating in elections, whether at the national or regional level. To take part in an election, a party needed to have a headquarters in Jakarta, and branches in half the provinces and half the districts in each of those provinces. Second, the closed-list proportional representation system strengthened national party leaders' influence over regional branches by allowing them to determine which members were nominated and where they were ranked on the party list. Third, the new framework called for legislative elections to be held simultaneously at the national, provincial, and district levels, which most election experts expect will further privilege national over regional concerns. Fourth, it distributed seats in the new legislature in a way that overrepresented sparsely populated regions outside Java, the demographic, political, and cultural center of the country. This was in keeping with the practice of the previous regime, and it meant that even though people on Java constituted nearly 60 percent of the country's population, they would receive only about 50 percent of the seats. And fifth, the new laws did *not* call for the early election of regional executives, so unlike either Soeharto, who was forced from office, or Habibie, who would face election in 1999, many regional heads would remain in office long after democratic elections had occurred.

### **The Origins of Decentralization in Indonesia**

Laws explicitly aimed at decentralization were drafted and approved under much different circumstances. The same small team of drafters, on its own initiative, turned its attention to decentralization in late 1998 after completing work on the bills needed to prepare for elections in 1999. Its leader secured presidential approval for two parallel efforts under which his team would draft a new law on regional government and another team, based in the ministry of finance, would draft a law on intergovernmental fiscal relations. Both proceeded in highly technocratic fashion, with little public input, scrutiny, or even attention despite the team's high profile.

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The members of the team that drafted the law governing political and administrative decentralization were almost entirely from regions outside Java and they took for granted that the country was overly centralized. Moreover, they tended to believe that decentralization was needed to forestall a swelling cacophony of demands for autonomy. Most believed that decentralization was essential to maintain national unity. Their counterparts in the finance ministry had long debated the need for fiscal decentralization, and took largely for granted the common theoretical claims that some functions can more efficiently be performed by local governments, and that resources should follow function. The president, who had studied and worked in Germany for more than 20 years, seems to have been familiar with federalism and easily persuaded that decentralization would not be as dangerous as his predecessor had thought. And he may have viewed his support for decentralization as likely to enhance his own reform credentials ahead of the 1999 election.

The bills they drafted were radical, whether measured against previous Indonesian practice or the decentralization policies of other countries. They promised to democratize regional government, guarantee regional governments a large share of national government revenues, and turn over to regional governments millions of national government employees. Yet they generated few questions and no controversy when presented to the legislature for approval in early 1999. Indeed, in retrospect this is one of the most striking features of the process that produced one of the world's most ambitious decentralization policies. It merits little attention in either of the most comprehensive efforts to recount the transition, and only a few pages in the president's own account of that period.<sup>4</sup>

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<sup>4</sup> Kevin O'Rourke, *Reformasi: The Struggle for Power in Post-Soeharto Indonesia* (Crows Nest, N.S.W.: Allen & Unwin, 2002); Kees van Dijk, *A Country in Despair: Indonesia between 1997 and 2000* (Leiden: KITLV, 2001); Bacharuddin Jusuf Habibie, *Detik-Detik yang Menentukan: Jalan Panjang Indonesia Menuju Demokrasi* (Jakarta: THC Mandiri, 2006).

Unlike the bills that would underpin democratic elections, these laws promised no immediate impact on legislators' own career prospects. While elections were just a few months away, the new decentralization laws were not scheduled to take effect for nearly two years. And in the face of those elections and an electorate strongly inclined to oppose incumbents, they perceived their own support for decentralization as likely to enhance their image as proponents of reform. In other words, legislators had short time horizons, were very uncertain about their own prospects, and consequently heavily discounted the future costs of decentralization.

The 1999 regional government law granted the broadest range of rights to district-level, or second-tier governments (i.e., cities and *kabupaten*), rather than provinces. This was in line with Soeharto-era plans for decentralization, but drafters also readily acknowledge that they chose to grant less autonomy to provinces since they saw them as more likely than districts to demand independence. Only authority over defense, foreign affairs, justice, religion, and monetary policy remained solely with the central government. Most importantly, the law eliminated the district's status as an administrative unit of the national government. This had two practical implications. One was that regional chief executives (mayors and *bupati*) would no longer serve simultaneously as heads of regional government and chief representatives of the national bureaucracy in their regions, but only as heads of regional government. Accordingly, the national government surrendered to district legislatures the right to elect these officials. This marked a radical break with previous practice since these officials had, with the exception of a brief period in the late 1950s, always been appointed by the national government. As a result of this change, local governments were no longer accountable upward to national bureaucrats but, at least in law, downward to local legislatures and, indirectly, local electorates.

Secondly, the law provided that all district-level offices of national government ministries would be transferred to district governments or eliminated. As a result, the central government's administrative reach was limited to the provincial level, where the

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law preserved much of its authority. This marked a dramatic shift, since the New Order's dominance over regional affairs rested heavily on the central government's control of an administrative structure that paralleled regional government bureaucracies and through which it could monitor regional developments and funnel resources for development and patronage. Thus, these changes effectively severed the hierarchical administrative ties that had enabled national governments to subordinate local politics to central administration.

The second law revamped the fiscal relationship between the central and regional governments to give the latter greater autonomy in managing their own finances. It made two key changes. For the first time ever, the central government made legally binding commitments to share its income with subnational governments, a critical step considering Jakarta's tight control over major sources of tax revenue. The new law introduced a requirement that the central government distribute to the regions in the form of block grants at least 25 percent of its domestic revenues (i.e., all revenue excluding receipts from foreign aid and loans). Secondly, it committed itself to share revenues derived from natural resource production with the regions in which the resources are produced. Thus, regional governments became entitled to 15 percent of after-tax revenues from oil, 30 percent from natural gas, and 80 percent from forestry, fisheries, and general mining.

A few examples convey a sense of the massive changes the laws effected. During the first year, regional governments' share of government spending rose to 30 percent from just 15 percent prior to decentralization. Moreover, the bulk of fiscal transfers from the center to the regions was made as block grants, and no longer was tied to spending on specific programs, such as markets and schools. The elimination of central government offices at the district level also resulted in a massive shift of buildings and civil servants from national to regional control. According to a World Bank study, "Over 2 million civil servants, or almost two thirds of the central government workforce, were transferred to the regions....239 provincial-level offices of the central government, 3,933

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[district]-level offices, and more than 16,000 service facilities—schools, hospitals, health centers—were transferred lock, stock, and barrel to the regional governments throughout Indonesia.”<sup>5</sup>

### **What Did *Decentralization* Do?**

Since their passage in April 1999, it has become conventional among analysts of Indonesian decentralization to treat the laws on regional government and intergovernmental fiscal relations as though they alone define Indonesian decentralization policy. This seems especially common in donor-funded studies, perhaps exemplified best by a recent report in which major donors attempted to take stock of the progress made in implementing decentralization. Its opening sentence reads: “Indonesia has made significant strides in democratic decentralization over the last five years [i.e., since 2001], when reforms were first felt on the ground.”<sup>6</sup> While it is true that Indonesia has made such progress, it is simply untrue that such reforms only began to be felt in 2001. This is the case even if we restrict our focus to the two official decentralization laws, but especially if we consider legal changes that fall outside those laws yet concern the transfer of authority from center to region.

The impact of reforms that strengthened local governments relative to the national government was felt as early as 1998. After Soeharto resigned, President Habibie released nearly all political prisoners and effectively removed all restrictions on freedom of expression and association. In this climate many regional protest movements turned their attention away from national debates and toward local issues. Chief among these were district heads and governors whom they frequently attempted to drive from

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<sup>5</sup> World Bank, *Decentralizing Indonesia: A Regional Public Expenditure Review Overview Report*, June 2003, p. 1.

<sup>6</sup> USAID Democratic Reform Support Program for the Donor Working Group on Decentralization, “Decentralization 2006: Stock Taking on Indonesia's Recent Decentralization Reforms, Summary of Findings,” August 2006, p. 1.

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office in the same way national protests had forced Soeharto to resign. In the province of Riau, which happens to produce half of Indonesia's oil, protesters compelled the resignation of their governor and brought about the election of a replacement who was a native of the province, unlike nearly all of his predecessors. By the end of the year, before legislation on decentralization had been submitted to the legislature, similar protest movements led to the removal of at least ten district heads. In other regions, the national government yielded to public pressure and agreed to replace district heads whose terms expired with people acceptable to the public rather than the home affairs ministry, as had been the practice since independence<sup>7</sup> and which, by law, remained its right.

Once the new law on regional government had been passed, but long before it legally took effect, regional legislatures put key provisions into effect with little opposition from the national government. In particular, legislatures in districts where local executives' terms were expiring asserted their "right" to elect a successor. And since the national government had not yet issued regulations on how the new law should be implemented, many of those legislatures devised their own rules on how candidates should be nominated and elected. By coincidence, the terms of nearly two-thirds of all district heads and mayors (second-tier governments) were set to expire in 1998 and 1999, thus creating a powerful incentive for legislatures—elected under the authoritarian rules that governed the 1997 elections—to assert their right to choose the next executive.

Similar movements emerged in late 1998 and early 1999 to demand two other changes. Leaders of wealthier regions traveled to Jakarta to demand that the national government return more resources to them, whether extracted from lucrative mining operations or manufacturing so, as one governor recently reappointed by Soeharto put it, "that we don't just collect the pollution." In many other places, groups emerged to

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<sup>7</sup> Except for a brief period in the late 1950s.

demand that their region be split off to form a new province or district. And in 1999, before democratic elections were held and while the legislature was considering the decentralization bills, the government introduced a separate series of bills to create about three dozen new districts throughout the country. After the 1999 elections, local pressure groups enjoyed enormous success in persuading the national legislature to pass laws creating new provinces and, especially, districts. From fewer than 300 at the time Soeharto resigned, the number of second-tier regions has risen to about 450 today, and more than 100 new requests are said to be pending legislative consideration.

There are two important aspects to these developments. In the first place, they occurred prior to the implementation of official decentralization policies, and in some cases prior to the adoption of the laws intended to govern decentralization. This creates a serious challenge to any effort to account for the impact of decentralization, whether on democracy or any other variable of interest. How can we know that formal decentralization policies rather than democratization are the actual causes? Indeed, how can we know that decentralization itself is not mainly an effect of democratization?

Second, the process of creating new provinces and districts clearly has played a role in shifting political power from Jakarta to the regions, and in changing the distribution of power among regions. Nevertheless, it is almost always considered a phenomenon separate from decentralization. The USAID report mentioned above is characteristic of most donor-funded work in worrying that the creation of new regions “is leading to inefficient administration” (p. 5). What the report decries as “ulterior motives” that drive groups to seek their own jurisdictions differ little from other types of demands for political recognition, access to state resources, and local control. In a country that experienced widespread communal conflicts, separatist movements, and strident demands for autonomy, it seems realistic to consider whether the economically inefficient use of public resources to fund the construction of government offices in newly created districts might not have been a politically useful way of accommodating subnational demands and stemming centrifugal pressures.

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## **Concluding Observations**

1. The timing and content of decentralization is much broader than the terms of the two laws that embody the government's official decentralization policy. Broadening our definition of decentralization has at least two benefits. First, it shows us that, in effect, political decentralization preceded fiscal and administrative decentralization. And second, it highlights the significance of subnational initiative and agency in bringing decentralization about; this is a useful corrective to the conventional view that a small group of people designed the policies on their own. Both benefits emphasize the role of democratization as a motivating force for decentralization, not a hindrance to administrative and fiscal efficiency.
2. Decentralization cannot be separated from the impact of democratization on parties, elections, and legislative behavior. Though more by accident than design, the crafters of Indonesia's democratizing and decentralizing policies seem to have struck an important balance between centrifugal and centripetal pressures by combining party and electoral institutions that privileged central authority with others that enhanced the authority of subnational governments.
3. Assessments of decentralization's impact must take into account the principal aims of the architects of decentralization, including politicians and the bureaucrat-scholars who drafted so much legislation. Their overwhelming concern was to maintain national unity, and on that point the record is in their favor. If they had not decentralized, in the ad hoc manner that has yielded the shortcomings chronicled in so many donor-funded reports, would such sweeping decentralization have been possible at any point since then? And if not, would Indonesia be better off with centralized political parties, a centralized

fiscal system, and a centralized administrative system? My guess, on both counts, is not.

4. Policies intended to “fix” decentralization’s shortcomings must consider the broader set of policies that have redistributed power and authority to subnational governments. Local government problems such as the prevalence of corruption and an absence of transparency likely reflect shortcomings of democratization as much or more than decentralization. And some political institutions that seem to cause problems at the local level, such as centralized political party structures that undermine the accountability of local representatives to their constituents, may play an important role nationally by offsetting the centrifugal impact of decentralizing reforms in a way that promotes national unity.