

DECENTRALIZATION 2006

Stock Taking on Indonesia's Recent Decentralization Reforms

- Summary of Findings -

Prepared by

USAID Democratic Reform Support Program (DRSP)
for the
Donor Working Group on Decentralization

Funding provided by

Decentralization Support Facility (DSF)
USAID
AusAID

August 2006



Australia Indonesia Partnership
Kemitraan Australia Indonesia



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ACKNOWLEDGEMENTS

The U.S. Agency for International Development (USAID)-Democratic Reform Support Program (DRSP), on behalf of the Working Group on Decentralization, the Decentralization Support Facility, and Australian AID, thanks the researchers listed in this study for their contribution to the study report. Their efforts, to elicit, and address the information and views from a wide range of stakeholders is greatly appreciated.

The time, views, and guidance provided by the relevant officials in the various central government agencies were instrumental in making the study germane to the needs of the government of Indonesia.

The review of drafts of the original researcher reports and this synthesis report by technical advisors involved with government reform were indispensable in enriching the analysis and validating the conclusions and the way forward. USAID-DRSP also extends its appreciation to all the regional government officials, civil society organizations, and citizens, who generously gave their time and valuable inputs during the many meetings, discussions, and focus groups conducted during the conduct and review of this study.

The responsibility of opinions expressed completely lies with the authors of this study. The USAID-DRSP technical team was composed of Elke Rapp, Gabriele Ferrazzi, Sebastian Eckhardt, Jups Kluyskens and Frank Feulner. The researcher team included Ahmad Alamsyah Siregar, Andry Asmoro, Robert Semanjuntak, Muhammad Firdaus, Amir Imbaruddin, Entin Muslim Sriani, Suhirman S.H., Marselina Djayasinga, Arif Roesman, Pietra Wiwiadi, Joana Ebbinghaus, Firsty Husbani, Meuthiah Ganie Rohman and Adi Abidin.

Special thanks for their contribution and support go to Gordon West and Owen Podger (USAID), Bernhard May (GTZ), and Blane Lewis (World Bank).

We further thank Hetifah Sjaifudian (Akatiga), Hefrizal Handra (Andalas University), Guy Jansen (AUSAID), Greg Rooney (AUSAID), Deddy Koespramoedyo (Bappenas), Max Pohan (Bappenas), Jeffrey Ong (CIDA), Joel Friedman (CIDA), Abdul Malik (CIDA), Farhan Royani (CIDA), Rudi Hauter (CIM/GTZ), Paul McCarthy (DSF), Robert Dahl (IFES), Anthea Mulaka (DSF/World Bank), Shalini Bahuguna (DSF/World Bank), Aruna Bagchee (DSF/DFID), Peter Rimmele (GTZ), Guenter Felber (GTZ), Manfred Poppe (GTZ), Kadjatmiko (MoF), Made Suwandi (MoHA), Saut Situmorang (MoHA), Daeng Mochamad Nazier (MoHA), Nuraida Mokhsen (Partnership), Ilham Cendikia (Pattiro), Diah Raharjo (TIFA), Lisbeth Steer (TAF), Hans Antlov (LGSP/USAID), Adam Nugroho (LGSP/USAID), M.P. Widiastuti (LGSP/USAID), Widjono Ngoedijo (LGSP/USAID), Robert Vander Hoff (LGSP/USAID), Andrew Urban (LGSP/USAID) and Ed Anderson (DRSP/USAID), Djohermansyah Djohan (VP Office), Jessica Ludwig (World Bank), Soren Davidsen (World Bank) and Abdi Suryaningati (Yappika).

ABBREVIATIONS

| | |
|----------|---|
| ABK | Anggaran Berbasis Kinerja (Performance Based Budget) |
| ADB | Asian Development Bank |
| ADD | Alokasi Dana Desa (Block Grant from District to Villages) |
| APBD | Anggaran Pendapatan dan Belanja Daerah (Regional Government Budget) |
| APBN | Anggaran Pendapatan dan Belanja Negara (State Budget) |
| APEKSI | Asosiasi Pemerintah Kota Seluruh Indonesia (Association of Heads of Municipalities) |
| APKASI | Asosiasi Pemerintah Kabupaten Seluruh (Indonesia Association of Heads of Districts changed to BKKSI) |
| APPSI | Asosiasi Pemerintah Propinsi Seluruh Indonesia (Association of Heads of Provinces) |
| BAPPEDA | Badan Perencanaan Pembangunan Daerah (Regional Development Planning Board) |
| BAPPENAS | Badan Perencanaan Pembangunan Nasional (National Development Planning Board) |
| BAU | Belanja Administrasi Umum (General Administrative Expenditure) |
| BAWASDA | Badan Pengawasan Daerah (Regional Controlling Board) |
| BIPPRAM | Biro Penataan dan Pemantauan Program (Adjusting and Controlling Board) |
| BKN | Badan Kepegawaian Negara (Civil Service Agency) |
| BKKSI | Badan Kerja Sama Kabupten Seluruh Indonesia (Indonesia Association of Heads of Districts former APKASI) |
| BOP | Belanja Operasional Pemeliharaan (Operational Maintenance Expenditure) |
| BOS | Biaya Operasional Sekolah (School Operational Cost) |
| BPD | Badan Perwakilan Desa (Village Representative Council) |
| BPK | Badan Pemeriksa Keuangan (Finance Auditing Board) |
| BPKD | Badan Pengawasan Keuangan dan Pembangunan Daerah (Regional Financial and Development Board) |
| BPKP | Badan Pemeriksa Keuangan dan Pembangunan (Financial and Development Audit Board) |
| BUMD | Badan Usaha Milik Daerah (Municipal Corporation) |
| Bupati | Kepala Daerah Kabupaten (District Head) |
| CB-SDAS | Capacity Building to Support Decentralized Administrative Systems |
| CCER | Cost Collection Efficiency Ratio |
| CG | Central Government |
| CIDA | Canadian International Development Agency |
| CSO | Civil Society Organization |

| | |
|----------------|--|
| CSR | Civil Service Reform |
| CSR | Corporate Social Responsibility |
| DAK | Dana Alokasi Khusus (Special Allocation Fund) |
| DAU | Dana Alokasi Umum (General Allocation Fund) |
| DEKON | Dana Dekonsentrasi (Deconcentration Fund) |
| DG | Directorate General |
| DIP | Daftar Isian Proyek (Central Government Development Expenditure) |
| DIY | Daerah Istimewa Yogyakarta (Special Region of Yogyakarta) |
| DKA | Dokumen Kerja dan Anggaran (Document Plan and Budget) |
| DPOD | Regional Autonomy Advisory Board |
| DPR | Dewan Perwakilan Rakyat (House of Representatives or Parliament) |
| DPRD | Dewan Perwakilan Rakyat Daerah (Regional House of Representatives or Local Parliament) |
| DP3 | Daftar Penilaian Pelaksanaan Pekerjaan (Individual Performance Appraisal) |
| DSF | Decentralization Support Facility |
| FGD | Focus Group Discussion |
| FPPM | Forum Pengembangan Partisipasi Masyarakat (Forum for Popular Participation) |
| FY | Fiscal Year |
| GR | Government Regulation |
| GTZ | Gesellschaft Fuer Technische Zusammenarbeit |
| HR | Human Resources |
| INPRES | Presidential Instructions (Earmarked Capital Grant before decentralization) |
| IPGI | Indonesian Partnership for Governance Initiatives |
| IRDA | Indonesian Rapid Decentralization Assessment |
| JARING ASMARAS | Penjaringan Aspirasi Masyarakat (Collection of Community Aspirations) |
| JUKLAK | Petunjuk Pelaksanaan (Operational Guidance) |
| JUKNIS | Petunjuk Teknis (Technical Guidance) |
| JWGD | Joint Working Group on Decentralization |
| KABUPATEN | District |
| KANWIL | Kantor Wilayah (De-concentrated regional branch offices of national ministries) |
| KEPMEN | Keputusan Menteri (Ministerial Decree) |
| KEPMENDAGRI | Keputusan Menteri Dalam Negeri (Decree of Ministry of Home Affairs) |
| KEPPRES | Keputusan Presiden (Presidential Decree) |
| KKN | Kolusi, Korupsi, Nepotisme (Collusion, Corruption, and Nepotism) |

| | |
|---------------|---|
| KKP | Koalisi Kebijakan Publik (Coalition for Public Policy) |
| KOAK | Komite Organisasi Anti Korupsi (Committee Organization Anti Corruption) |
| KPU | Komisi Pemilihan Umum (General Election Commission) |
| KPMM | Konsorsium Pengembangan Masyarakat Madani (Consortium for Civil Society Development) |
| KPUD | Komisi Pemilihan Umum Daerah (Regional General Election Commission) |
| KUA | Kebijakan Umum Anggaran (General Budget Policy) |
| KUKAIP | Koalisi Untuk Kebebasan dan Akses Informasi Public (Coalition for Freedom of Information Law) |
| LAN | Lembaga Administrasi Negara (Institute for State Administration) |
| LAN | Local Area Network |
| LG | Local Government (International term for subnational government) |
| LGSP | Local Governance Support Project |
| LKMD | Lembaga Ketahanan Masyarakat Desa (Village Social Activities Group) |
| LPJ | Laporan Pertanggung Jawaban (Accountability Report) |
| LSM | Lembaga Swadaya Masyarakat (Self-help Organization) |
| MenPAN | Kementerian Pendayagunaan Aparatur Negara (State Ministry for State Apparatus Reform) |
| MoF | Ministry of Finance |
| MoHA | Ministry of Home Affairs |
| MPR | Majelis Permusyawaratan Rakyat (People's Consultative Assembly) |
| MTDP | Medium Term Development Plan |
| MTEF | Medium Term Expenditure Framework (Kerangka Pengeluaran Jangka Menengah) |
| MUSRENBANG | Musyawah Perencanaan Pembangunan (Development Planning Deliberation) |
| MUSRENBANGDES | Musyawah Perencanaan Pembangunan Desa (Development Planning Deliberation at Village Level) |
| MUSRENBANGDUS | Musyawah Perencanaan Pembangunan Dusun (Development Planning Deliberation at Hamlet Level) |
| NGO | Non-Governmental Organization (Lembaga Swadaya Masyarakat or LSM) |
| NKRI | Negara Kesatuan Republik Indonesia (The Unitary State of the Republic of Indonesia) |
| NTB | Nusa Tenggara Barat (West Nusa Tenggara) |
| NTT | Nusa Tenggara Timur (East Nusa Tenggara) |
| ORMAS | Organisasi Massa (Mass Organization) |
| PAD | Pendapatan Asli Daerah (Regional Income Revenue) |
| PAN | Partai Amanat Nasional |

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| PAPSDA | Agrarian and Natural Resources Management Pengelolaan Agraria dan Pengelolaan Sumber Daya Alam |
| PARPOL | Partai Politik (Political Parties) |
| PEMDA | Pemerintah Daerah (Regional Government) |
| PERDA | Peraturan Daerah (Regional Regulation) |
| PERDES | Peraturan Desa (Village Regulation) |
| PDRB | Produk Domestic Regional Bruto (Gross Regional Domestic Product) |
| PKS | Partai Keadilan Sejahtera (Welfare Equity Party) |
| PKB | Partai Kebangkitan Bangsa (Nation Development Party) |
| PLOD | Politik Lokal dan Otonomi Daerah (Local Politics and Regional Autonomy – Master degree program at University of Gadjah Mada, Yogyakarta) |
| PMD | Pemberdayaan Masyarakat dan Desa (Community and Village Development) |
| PP | Peraturan Pemerintah (Government Regulation) |
| PROLEGDA | Program Legislasi Daerah (Regional Legislation Program) |
| PROLEGNAS | Program Legislasi Nasional (National Legislation Program) |
| PUSSBIK | Pusat Studi dan Strategi Kebijakan Publik (The Center of Study and Public Policy) |
| RASKIN | Beras Miskin (Rice for Poor) |
| RENJA-SKPD | Rencana Kerja Satuan Kerja Perangkat Daerah (Regional Government Work Unit Workplan) |
| RENSTRA-SKPD | Rencana Strategis Satuan Kerja Perangkat Daerah (Regional Work Unit Strategic Plan) |
| RENSTRADA | Rencana Strategik Daerah (Regional Strategic Plan) |
| RR | Regional Regulations |
| RKA | Rencana Kerja dan Anggaran (Workplan and Budget) |
| RKPD | Rencana Kerja Pemerintah Daerah (Annual Local Government Workplan) |
| RPJM | Rencana Pembangunan Jangka Menengah (Medium Term Development Plan) |
| RPJMD | Rencana Pembangunan Jangka Menengah (Regional Mid Term Development Plan) |
| RPJPD | Rencana Pembangunan Jangka Panjang Daerah (Regional Long Term Development Plan) |
| RUU | Rancangan Undang-undang (Draft Law) |
| SAB | Standard Analisa Belanja (Standard Spending Assessment) |
| SATKER/DINAS | Satuan Kerja (Work Unit/Institution) |
| SDA | Sumber Daya Alam (Natural Resources) |
| SDO | Subsidi Daerah Otonom (Subsidy for Autonomous Region – before Decentralization) |
| SEB | Surat Edaran Bersama (Joint Circular Letter) |

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| SFDM | Support for Decentralization Measures |
| SIAKAD | Sistem Informasi Akutansi Keuangan Daerah (Information System for Regional Financial Accounting) |
| SIKD | Sistem Informasi Keuangan Daerah (Regional Financial Information System) |
| SKPD | Satuan Kerja Perangkat Daerah (Regional Work Unit) |
| SOP | Standard Operating Procedure |
| STARSDP | State Audit Reform Sector Development Program |
| TCP3 | Tata Cara Pembuatan Perundang-undangan (Legislation Making Processes) |
| TPR | Tempat Pemungutan Retribusi (Location of Retribution Payment) |
| UDKP | Unit Daerah Kerja Perencanaan (Development Planning Deliberation at Kecamatan Level) |
| USAID | United States Agency for International Development |
| UU | Undang-undang (Act/Law) |
| UUD | Undang-undang Dasar (Constitution) |
| VAT | Value Added Tax |
| WALIKOTA | Kepala Daerah Kota (Municipal Head/Mayor) |
| WB | World Bank |

INTRODUCTION

Study Context

Indonesia has made significant strides in democratic decentralization over the last five years, when reforms were first felt on the ground. It is widely acknowledged that Indonesia made a bold break from its centralized past through political reforms in regional elections, capped lately by direct elections of regional heads; devolution of key public services to the district/municipality level; the reassignment of 2.5 million staff; and a substantial transfer of funds to regional government. These changes have empowered the regional government, providing the discretion and means to pursue service delivery and development that is more attuned to local needs and preferences. This stock taking study on recent decentralization reforms acknowledges the progress made to date and takes stock of actions and reforms still required to meet the decentralization agenda that Indonesia has set for itself.

The Study

The Stock Taking Study was led by the U.S. Agency for International Development (USAID) Democratic Reform Support Program (DRSP), with DSF, USAID and AUSAID funding. It was implemented largely by local Indonesian researchers (NGOs members, academics, and consultants). Working within a common methodological framework, the researchers reviewed previous analysis of key reforms, obtained a fresh regional and civil society perspective on issues of decentralization/local governance, reviewed prior assessments of performance of regional government, tracked ongoing efforts to shape new or revised policies/legal instruments in the regions and on central level, and examined the role of third party support (donors and others). Researchers made a determined effort to tap the Government of Indonesia (GoI) agencies concerned with guidance and reform efforts, as well as the donor technical assistance advisors already working to support the reforms. Focus groups were used where possible to elicit information and views and to obtain feedback on the analysis, conclusions, and recommendations offered by the researchers. Readers from various organizations provided comments on initial drafts.

The original reports of the researchers became the main source for this study report. The study report was prepared by a USAID-DRSP team. Highlights from the draft report were presented to the donor community on June 1, 2006. A series of feedback sessions followed, and a revised draft was prepared. The report provides information, analysis, and practical recommendations.

Connection of the Study to the Government's Decentralization Strategy

The Ministry of Home Affairs-led Decentralization Grand Design and the Bappenas-led National Action Plan for Fiscal Decentralization (NAPFD) were prepared in 2005 to guide the government in charting the course of decentralization reform. Key government reform objectives found in the strategy papers were used as the policy reference for this study's analysis. Where the Grand Design or NAPFD were silent on the topics addressed in the report, government/state reform objectives were drawn from relevant laws, regulations, or Ministerial instruments. It is important to note that the stock taking study is considerably

broader than the existing government strategy documents. The NAPFD in particular was intended to be a relatively thin slice of decentralization, covering mainly fiscal issues.

Some of the assumptions made in the Grand Design and NAPFD should be open for review, and, in this respect, the stock taking study questions some approaches. For instance, the prominent role of the Regional Autonomy Advisory Board (DPOD) found in the NAPFD is questioned in places; the study suggests important roles for other existing organizations, and even suggests that the DPOD may not be sufficiently accepted by its members to operate effectively.

The study should therefore be read in conjunction with the Grand Strategy and NAPFD. Together, the three documents can become the basis for concrete choices on how to move forward on remaining critical areas of reform. Moreover, it would be optimal if a unified GoI strategy document is created during the process.

Findings

The findings of this stock taking study echo and amplify many stakeholders' voices, who note that decentralization reforms have been progressive in principle, but incomplete and not sufficiently realized on the ground. These general sentiments are not surprising; reform progress is not always linear, rapid, or sustained. However, the mixed feelings about decentralization need to be seen against the widespread expectations that the 2004 revisions would truly "consolidate" decentralization, curbing excesses and addressing impediments, and position central and regional actors to make further progress over the next few years. These hopes have not been fulfilled in the main. Advances seen in the revised framework (still under development) are offset by regressive steps or poorly conceived fixes. As a result, the reform progress that might have been anticipated over the next few years may not have the sound foundation that it needs.

The condensed findings of this study are provided in summary form in a separate chapter. The complete analysis and findings are contained in the main report. Given the length of the main report, the Summary of Findings is bound separately for ease of use. The findings are grouped by topical subsets of the overall study sections (the legal framework; intergovernmental relations; civil service reform; regional governance reform; and third party support). Each section below starts with the stock taking findings followed by options for moving forward, with particular emphasis on recommendations for donors. The emphasis on donor actions is a reflection of the primary target audience of this study while recognizing the importance of Indonesian ownership and leadership to any program's success. Indeed, donors must increasingly integrate their coordination and implementation efforts within Indonesian structures if national objectives are to be met.

I. LEGAL FRAMEWORK IMPROVEMENT

Legal provisions for the preparation of legal instruments do not yet cover all possible legal instruments. Where they exist, for laws and regulations (national to village), they require that legal drafting be rigorous and open. Additionally, a partial hierarchy of legal products has been established in general, and this should aid in building a coherent and workable legal framework for decentralization/local governance. Despite this normative framework, there are serious shortcomings in process and outcomes of legal instrument preparation.

Glaring weaknesses in the legal framework and process are the lack of coordination among relevant agencies, and insufficient consultation with stakeholders and experts. Poor processes are seen in both government and DPRD initiatives. The products produced therefore carry a significant risk in terms of their feasibility and acceptance by stakeholders. A damaging result of this approach is a lack of harmonization in legal instruments between streams of legislation relating to decentralized governance, particularly between the cornerstone decentralization laws and sectoral laws. The elaboration of Law 32/2004 (in terms of functional assignment for instance) continues to reveal this architectural deficiency.

Further compounding the weak legal framework is an incomplete and unclear hierarchy of legal products in terms of Law 10/2004 on legal drafting and Law 32/2004 on regional government. Insufficient rigor is evident in framing the role of Village Regulations and Regional Head and Village Head regulations and decrees, and ministerial/agency decrees, circulars and letters. The numerous inconsistencies in the legal framework can pit actors against each other and slow the development of workable approaches.

Improving the quality and quantity of legal drafting skills and output is very important to successful reform and implementation in decentralization, both from government's side and with respect to gaining the public's respect for policy making and the rule of law. Donors need to find common ground on a capacity development support strategy for policy development and legal drafting. Although donors have encouraged the GoI to adopt a more open and systematic approach to policy making and legal drafting, there has not been sufficient strategic thinking and purposeful efforts by donors directed to working intensively with the GoI on this issue.

Improvement in the legal framework for decentralization and local governance requires a different stance by the executive and national legislature toward policy making and legal drafting in general. Greater stress needs to be placed on establishing a more rational hierarchy of legal products, including reworking provisions in the constitution. Laws and regulations need to be made more complete, to avoid ministerial instruments that lack a unifying framework. Their preparation needs to be more rigorous, with appropriate concept papers as aids, and the inclusion of appropriate expertise and stakeholders. Anticipating the impacts of legislation/regulation through a systematic assessment should be a routine procedure.

Many of the above improvements could be realized in the upcoming revision of Law 32/2004, an effort that will be tackled in the not too distant future. Incremental but significant improvements in the consultation process will yield more sustainable and respected rules of the game for decentralization and local governance. Current and future opportunities to make gains in this direction are seized by several donors currently supporting policy development. Some past successes in policy support can serve as models.

An immediate opportunity for donors lies in assisting the MoHA “clearinghouse” for Law 32/2004. All donors working on the follow-up products should recognize the strategic role of this unit in the directorate for Regional Autonomy, and seek to work with it.

In the mid-term, a broader discussion on how to conduct good policy/legal drafting can be nurtured. It could begin with donors harmonizing their principles and capacity development approaches. Cooperation with MoHA, the Ministry of Justice and Human Rights, and the State Secretariat can be developed to address policy/legal drafting processes that have a broad scope.

In the long-term, sectoral harmonization and a constitutional amendment (not necessarily in this order) should be pursued. The nature of regional autonomy needs to be defined and guided under the Constitution. The entire process is too important to Indonesia’s future to continue along multiple legislative and administrative tracks without achieving broad national consensus on the basic structure and principles.

II. INTERGOVERNMENTAL RELATIONS

Territorial Reform

The GoI expects that the creation, division, amalgamation and dissolution of regions will result in the increased welfare of citizens, through better service, enhanced democratic life, faster economic growth, increased security and order and harmonious relations between regions. The guiding instrument for the assessment of proposals for new regions, Government Regulation 129/2000, is being revised to enhance the technical review of proposals in line with the broad provisions of Law 32/2004. The basic administrative process followed in the revised regulation appears to be similar to that used previously, retaining both sensible elements (approval processes) but also technical weaknesses in the analysis of proposals. Despite some paring, the current draft still has many and questionable indicators, and the way they are used in a scoring system is fundamentally flawed. With 136 new districts/municipalities and 6 new provinces over the period 1999-2005, and about 100 more new proposals in the wings, getting the review process right is crucial to the success of decentralization.

The process of territorial reform (*pemekaran*) needs to be seen against a vision of decentralized governance where a uniform assignment of functions across districts/municipalities has been made, with the expectation that this level will be a general purpose local government, i.e. the prime provider of most basic services. The district/municipality is also expected to be increasingly responsive and efficient, implying that citizens are able to pay through taxes and charges for a significant part of what they demand from their local government. With the fragmentation of districts it is unlikely that the new regions will be able to adequately fulfil their service functions as expected. It is also not clear if other objectives underlying decentralization are furthered or imperilled by the inexorable momentum of *pemekaran*.

Pemekaran may be driven by a desire to bring government closer to the people and spur modernization of the region, but ulterior motives are also evident; a preference for homogeneity and favoring ‘sons of the soil’; a rational response to perverse fiscal incentives inherent in financial transfers; bureaucratic rent seeking; and a desire of some elites to strengthen their political turf. It is not clear if any service improvement has come about, but it is clear that *pemekaran* is leading to inefficient administration as per capita costs of government increase sharply. It is also likely to be creating capacity gaps in discharging the functions assigned uniformly to all districts/municipalities, and may be fanning dangerous inter-group tensions.

Putting the brakes on *pemekaran* requires both a government commitment and a DPR commitment, in view of the latter’s right of initiative (one that has been freely used of late in *pemekaran*). There is a need for consensus among these two actors on a uniform proposal review process, with a modified technical component that is feasible and meaningful. Time is needed to create the new technical review process, and one way to give the government time would be to place a moratorium (at least one year) on new region creation. During this time, the government could address not only *pemekaran*, but the broader issue of territorial reform. The desire of the DPR/GoI to determine the “ideal number of regions” could then be properly cast in terms of the deeper questions regarding the desired nature of regional autonomy. There is a great need to step back and determine what the purpose of territorial reform should

be, and what tools are required to accomplish this reform. Only through this process will it become clear how to deal with proposals for new regions or with regions that are struggling with their mandate; the number of regions will fall out of these purposeful adjustments. This process calls for an enlarged discussion, and one that is best supported by donors given that Indonesia is unfamiliar with the full set of territorial reform tools.

Prior to finalizing the new regulation, the GoI would do well to support a dialogue that would make clear to stakeholders the past performance and challenges of new regions, and make stakeholders more receptive to other tools for territorial reform (including amalgamations/mergers). Complementary efforts will also be needed in the mid-term. In particular, the distorting incentives in the decentralization framework that favor *pemekaran* will need to be addressed as well (the central payment of local level staff for instance).

Capacity building in MoHA and allied organizations to conclude the regulatory framework and conduct ongoing research and policy development will be needed, with a long term perspective. Government will need to be better connected with able independent centers of research that can contribute conceptually and with regional research.

Functional Assignment

The re-structuring of regional government functions is one of the most critical and challenging elements to be tackled in the recent reforms (through Law 32/2004 and subsequent regulations). Functional assignment was not clearly defined for the district/municipality level in the 1999 decentralization reforms. Even where there was clarity, some ministries/agencies resisted the assignment of important or income generating functions, leading to tensions between levels of government.

In contrast to Law 22/1999, Law 32/2004 removed the omnibus assignment of residual functions to regional governments. It instead enumerates a “positive list” of obligatory functions for provinces and districts/municipalities, with further details to come in government regulation. The law differentiates between *obligatory functions* and *discretionary functions*. It assigns a confusing mix of broad sectoral and specific responsibilities as the obligatory functions of district/city government; the provincial list is practically identical but for minor additions relating to cross-district roles. Moreover, the determination of what is an obligatory function and what is a discretionary function appears to be sectorally oriented, rather than based on the nature of the function itself.

The draft regulation (to supersede GR 25/2000) is currently in the final stage of preparation, a process lead by MoHA that involved intensive consultation with sectoral ministries and agencies (though not much consultation with other stakeholders, such as regional government associations).

The law does not adequately address functions to be delegated to lower levels as “assistance tasks” (*tugas pembantuan*). This mechanism is poorly developed, beginning with misperceptions embedded in the amended Constitution: “regions regulate and execute government affairs according to principles of autonomy and tugas pembantuan”. This provision (followed through in Law 32/2004) is inconsistent with the basic principle that regions should not be able to significantly regulate central government affairs. They should certainly be able to implement these, within set parameters, when tasked to do so. It is also

not clear in Law 32/2004 whether obligatory functions of regions can be delegated as *tugas pembantuan* to lower levels.

The overall legal architecture of functional assignment continues to be problematic. A major and persistent flaw is the lack of harmonization with sectoral laws and regulations. This does not bode well for reducing the inter-governmental tensions seen in the past few years.

Some improvements may be attained in the matching of functional assignment with financial resources. In recent years, some departments have been able to spend significant funds through deconcentrated development funds (DIPs) in the regions to finance functions that are ostensibly in the hands of regional governments. This channel of funding undermines local planning and budgeting. With the agreed shift of these funds over time to the special allocation fund, the regions should gain more control of these resources to finance their core functions.

The functions and finance match will also be made easier through a related effort to maintain common levels in access and quality of basic services across regions through minimum service standards (MSS). The initial efforts of the sectoral ministries/agencies in 2000-2005 have generated lists of MSS that vary widely in form and intent. Their feasibility and affordability have been untested. Regional government has not been able to use this guidance to any significant extent. Recognizing the magnitude of the challenge, the government undertook model-building exercises and piloting in the 2003-2005 period, with support from a number of donors, and has incorporated lessons learned in GR 65/2005 on MSS, giving greater clarity to how MSS should be prepared and introduced. This regulation is reasonably robust, but the challenge is in making this more operational, and these detailed provisions will follow in ministerial regulations.

MoHA is now developing the regulatory instruments mentioned in GR 65/2006 to ensure the smooth introduction of MSS in sectoral ministerial regulations. Aside from MSS support, donor support for the assignment of functions has been spotty and generally low; in part due to donor project capacities but largely due to the closed approach favored by MoHA in the 2004-mid 2005 period.

In moving forward, a better functioning institutional mechanism/forum to promote cross agency coordination in the development of the decentralized governance framework is needed. Cross agency coordination will be particularly crucial to the introduction of minimum service standards in the sectors; to be sure they are affordable in particular. The establishment of an effective donor coordination mechanism (the current Permanent Secretariat of the Joint Working Group on Decentralization) is also expected to help in gaining coherency between related reforms, and add to the quality of the reforms. Good coordination should also mean consulting with stakeholders and sources of expertise, to attain quality and legitimacy.

MSS should be introduced in a careful, feasible and affordable way. Stakeholders should have a common view of MSS and how they will be applied. An enormous effort will be needed to keep the effort on track, to obtain the benefits it promises and avoid the dangers it could also bring if not properly executed. Rather than executing badly, it may be best to drop the entire plan to make these fundable and enforceable, using them simply as initial benchmarks.

The architecture of functional assignment will need a more permanent fix; provisionally it can be done through a government regulation to replace GR 25/2000. This could be accompanied by a presidential regulation directing the ministers/head of agencies to prepare laws and regulation (or changes in these) within a set time with the purpose of alignment of sectoral legal instruments accordingly. A full fix will need changes in the constitution, and should be designed in lockstep with a more fundamental review and strengthening of the legal framework for decentralization. It will be important to make clear the distinctions between obligatory and discretionary functions.

Role of the Governor and Province

The possibility of enhancing the Governor's role has been provided, in principle, in Law 32/2004 on regional government, with the justification that making use of Governors would "shorten the span of control" particularly in the "guidance and supervision" (*Pembinaan dan pengawasan*) of district/municipality governments. Notably, the role of the province, as an autonomous regional government, remains ambiguous.

Soon after the implementation of Law 22/1999 was fully underway, the central government concluded that district governments were proving difficult to control. In particular, many regions disregarded the provincial government and Governor, emboldened by the misunderstanding that the law had abolished any hierarchy between the provincial government/Governor and the district/municipality government. The central government took some tentative steps toward "restoring" the role of Governors, but a proper fix was anticipated in Law 32/2004 and its regulations. In this law the notion of limited autonomy (*otonomi terbatas*) of provinces found in Law 22/1999 was dropped. As well, the explicit mention of the non existence of hierarchy between the provincial and district/municipality governments was also dropped. However, beyond these signals, the relationship of the provincial government must be assessed from the specific list of functions it will be given in the upcoming government regulation on the assignment of functions.

Wrapped in the role of the Governor is the decentralization modality referred to as "deconcentration" (the dispersal of central level ministry/agency offices in the national territory). With the removal of most of the vertical (deconcentrated) offices of ministries/agencies, and the restriction of Bupati/Mayors to regional head status, the central government has had to make greater use of the Governor (and by implication the provincial administration) to discharge some of its functions in an effective manner. This use of deconcentration was not entirely anticipated in the 1999 reforms. They were more fully appreciated in the 2004 reforms, where the intent was to restore/enhance the role of the Governor (if not the provincial government) through deconcentrated tasks.

The bolstering of the deconcentrated tasks of the Governor has not proceeded in a clear fashion. The tasks seen in Law 32/2004 still lack clarity and the details of these tasks await a government regulation that is still work in process. Assuming the tasks will be substantial, the architecture nonetheless lacks proper guidance on the organizational means at the disposal of the Governor to discharge the tasks. The framework is unclear/inconsistent in terms of the use of the "autonomous" provincial units to execute deconcentrated tasks. To the extent that provincial units are used, this is sure to confuse district/municipality governments, who may find it hard to discern which cap the provincial officials are wearing on a given day or task. It

also complicates the financial accounting and accountability reporting of the provincial government.

Further complicating the picture is the overlap between the deconcentrated tasks of the Governor and the role of the Governor in his capacity as regional head. Coordination and monitoring tasks toward districts/municipalities are two tasks given in both the deconcentration (Governor) and devolution (province) streams.

The development of Law 32/2004 on the role of the governor, province, and related supervision provisions did not benefit from a wide airing, or from deep discussions of international practice. Unfortunately, the academic institutions in Indonesia have not been very active in these issues, and are seemingly not connected with international practices that might provide some inspiration. In recent times, little donor support has been provided to MoHA on deconcentration and the role of the Governor.

The concept of hierarchy between sub-national levels of government is complex; some measure of hierarchy is more common than some Indonesian policy makers may expect, and likely inevitable, even between “autonomous levels.” In moving forward, a great deal of clarification work will be needed regarding the role of provinces in Indonesia’s multi-level government and the nature of central level tasks that cannot be entrusted to an “autonomous” subnational government, and the alternative means (organizations, financial mechanisms) of discharging these tasks.

More intensive support is needed from donors on the challenging regulations that remain to be drafted, particularly those relating to the role of the Governor and organizational structures. In the longer term, international comparisons on the division of roles within a multi-level unitary government would be a useful input, in reconstructing the framework to make it reflect current conditions and make it clearer and more operational.

Intergovernmental Fiscal Relations: Own Regional Revenue

Regional own revenues are anticipated to be the main source of regional revenues in the future, to be derived from regional taxes, regional levies, net profits from regional assets and other legitimate sources. Raising own revenues substantially is expected to lead to greater accountability of regional government. However, the current level of own revenues is less than 10 percent of total regional government revenues, and the transition is slow.

Currently there are four provincial taxes and seven district/municipality taxes. The tax bases are determined by the national government and there are rate caps for each of these taxes, within which regional governments can set their rates. In addition, regional governments have the right to impose new taxes as long as these taxes comply with general “good tax” principles; these are in line with international good practices.

Law 33/2004 on regional finances prohibits regional governments from establishing own-revenue sources that impose high costs on the economy or restrict the mobility of people and goods and services across (internal) borders or constrain (international) imports and exports. This provision was introduced in reaction to imposition of taxes on inter-jurisdictional trade by some regional governments. Despite these provisions, new taxes and user charges have mushroomed. In the absence of significant taxing power, regional governments resort to

inefficient taxes and charges with small revenue potential, and high administrative costs in order to raise additional revenues. These taxes tend to contribute to economic distortions. This problem is further aggravated by the weak supervision by the central government (MoHA and MoF). Some regional regulations have been cancelled, but the action was late in coming, and there is little faith that supervision will be conducted in a rigorous and timely manner in the future.

To address these difficulties, the government is currently preparing a revision of Law 34/2000, which apparently includes a positive list of regional taxes and user charges, in order to reduce the administrative burden of the review process and prevent inefficient taxation practices. This approach is not favored by technical assistance donors, given that a positive list for user charges would be too complicated, rigid, and likely unworkable. There is no support from donors being provided to pursue this effort.

If the GoI wished to increase own revenues, it could pursue two promising reforms; assign land and property tax to regional government, and give regional government the option of levying a supplementary rate on personal income. Most property tax revenue already accrues to regional governments under current sharing arrangements. Moreover, taxes on land and property are particularly well suited as regional taxes because they are by their nature immobile and represent important sources of finance for regional governments in many tax systems around the world. Levying a supplementary rate (e.g., up to five percentage points) of the national tax base for personal incomes would provide regional government with a buoyant and significant tax.

Neither of these promising options is likely to be put into practice in the short to medium term as the anticipated revisions to Law 34/2000 do not devolve significant tax authorities to the regional level. It is also unlikely that a new law will be prepared soon. Donor support for these efforts is not warranted until the GoI indicates greater interest to realize its reform objective. Donor support might be offered in terms of preparatory analytical work that can broaden the understanding of the importance of reform in this area and be the basis for any eventual policy development initiative.

Intergovernmental Fiscal Relations: General Allocation Grant

The General Allocation Fund (DAU) is the primary source of regional government revenues, used for both vertical and horizontal equalization. The GoI recognizes that design of transfers is of critical importance for the success of decentralization. It subscribes to the principle of “money follows functions” and it wishes to strengthen the way the DAU is determined.

The DAU is an unearmarked formula based grant; starting in FY 2008 it will be at least 26% of the total net domestic income (total income minus shared revenues), with the distribution between provinces and district/municipality government to be set by government regulation. It is composed of a basic allocation and a fiscal gap allocation. The basic allocation covers the personnel expenditures of regional governments. The fiscal gap component is estimated as the difference between fiscal needs and fiscal capacity. The proxy variables used for the calculation of fiscal needs are proportional population size, area, construction price index, GRDP per capita, and inverse of Human Development Index (the latter can be seen as reflecting the poverty index, a measure that was included in the previous formula). The variables of fiscal capacity are actual own source revenue and shared taxes and natural

resources revenues. As of FY 2008 (with the removal of the “hold harmless provision”), regions with a fiscal gap equaling zero will only receive the basic allocation; regions with a fiscal gap less than zero will only receive the basic allocation less the fiscal gap; regions with a negative fiscal gap that is more than or equal to the basic allocation will receive no DAU.

The DAU is the primary source of regional government budgets, accounted on average for roughly 80% of total revenue at district/municipality level and 30% at provincial level. The dependence on transfers has increased post-decentralization, even as the share of the DAU in total national revenues decreased from 22 percent in FY 2001 to 17 percent in FY 2005. This does not imply that aggregate regional revenues have fallen but suggests a shift away from DAU to other revenue sources, mainly to shared revenues and taxes and to a lesser extent to the Special Allocation Grant (DAK). Nevertheless the DAU grant is still one of the largest items in the national budget. It should be noted that in 2006 the DAU actually increased by 60%, as a result of more realistic budgeting.

Transfers should be neutral to expenditure and revenue decisions of regional governments. The DAU formula has some features that might cause distortions in revenue and expenditure decisions. On the revenue side, in FY 2006, actual own revenues was used in determining fiscal capacity. Should this practice continue it might cause regional government to lower their revenue collection efforts, since higher own revenues will lead to lower DAU allocations. The wage component of the DAU allocation creates adverse incentives for regional government to increase (or at least not decrease) public employment and shift costs to higher levels of government. This feature in the grant allocation will discourage necessary efforts to right-size the regional civil service and will reduce capital expenditure to suboptimal levels.

The recent policy to phase out the hold harmless provision in the DAU by FY 2008 is a good step forward. Remaining challenges to improve the DAU is to make it more aligned with actual fiscal need, consider all revenue sources in estimating fiscal capacity, and reducing adverse incentives. The DAU can be better aligned with fiscal need by including MSS expenditure norms in its calculation. While adequately estimating costs for MSS for the whole range of service provided requires technical sophistication, this approach is the most direct application of the principle “finance follows function” and promises to better match revenues and expenditures. To further improve the fiscal capacity calculation for the DAU, shared revenues and taxes from the province to the district/municipality level should be included. To attenuate adverse incentives, the GoI could revise the DAU formula to only partly compensate wage outlays. A regressive rate based on per capita wage costs could be considered, so that regional governments face increasing marginal wage costs. This would create an incentive to right-size civil service at the regional level.

It must be recognized that the wage compensation reform (a reversal of a recent “reform”) would require a change in current decentralization laws, and will therefore only be possible in the mid to long term. The inclusion of shared revenues and taxes is more achievable in the short to mid-term. The MSS costing incorporation in the DAU is desired and could be achieved in the short to mid term given that Law 33/2004 is in principle supportive and regulations state that the exact DAU formula is established annually in the budget process.

Intergovernmental Fiscal Relations: Special Allocation Grant

The Special Allocation Grant (DAK) is an earmarked matching grant for funding activities related to national priorities or specific needs that cannot be included in the calculation of DAU, e.g. emergency relief. It is prioritized for regional governments with lower than average fiscal capacity, and Law 33/2004 makes a specific reference that special needs also includes “basic public services.” The mechanism for the DAK differs between Law 32/2004 on regional governance and that in Law 33/2004 on fiscal balance. In the former, the DAK responds to regions’ proposals, while in the latter it is largely distributed nationally through a set of criteria. More specific policies regarding the transition or permanent role of the DAK, its relationship to the DAU and the size it should be now or in the future have yet to be made clear. The GoI has however stated its intent to improve the criteria for distribution of the DAK and the distribution mechanism.

Law 32/2004 calls for a bottom up approach and allocations based on regional government proposals. The central government has not been able to cope with this mechanism. It did not explore how it could cope (e.g. by using the provincial level more intensively). Rather, it opted for a more expedient route, the top down mechanism proposed in Law 33/2004. In this mechanism, the allocation of the DAK grants is based on general, special and technical criteria. The first two are set uniformly for all sectors by MoF. In practice, the existing DAK grants are initiated and designed by the respective sector agencies, and are primarily earmarked to finance capital expenditures, limiting administrative costs, project allowances, research, training and other costs that are typically associated with service delivery. Moreover, regional governments need to match at least 10 percent of the total cost through own resources.

The general criteria for the DAK are based on a formula that takes into account a proxy for capital funds available in a given district. The special criteria directly refer to Papua and Aceh. In addition, coastal areas, conflict areas, less developed regions and regions that experience floods and other natural disasters receive DAK grants. The regulation remains unclear about how and to what extent these criteria are included in the allocation process. The technical criteria are set by the respective sectoral departments in consultation with MoF and MoHA, and vary across sectors.¹

The development of DAK grants has lagged behind other fiscal instruments during the first two years of decentralization. This is changing as the sectoral list expanded since the FY 2001 focus on reforestation to nine main sectors in FY 2006, with an allocation of IDR 9.7 trillion (USD 1.2 Bill.) in real terms. Even so, the DAK is still less than 10% of the DAU. The DAK could play a vital role in financing investments in infrastructure in poorer regions, but for this to happen, the targeting of the DAK would have to be improved. Presently, the allocation process of the DAK funds remains vulnerable to political interference, by regional governments, sectoral departments and the budgeting commission of parliament. This perception is supported by analysis of cross-sectional distributions that shows weak correlation between DAK allocation and measures of expenditure needs.

¹ In the education sector for example the number of class rooms in need of repair and the construction price index are used. In the health sector, the technical criteria include the Human Development Index, the number of health service facilities and the construction price index.

Increasing DAK funds that are regionally and functionally targeted and sensitive to expenditure needs could be helpful in introducing common minimum service standards (at least until the DAU properly reflects expenditure norms) and to address disparities in capital expenditure needs across Indonesia. In this regard, the upward trend in DAK is a positive development and should be continued; the DIP migration to the DAK is a policy that needs forceful implementation.

Better targeting may also be attained if the DAK is delegated to the provincial level in accordance with technically and fiscally sound criteria, and from there to districts/municipalities that have the greatest need and meet certain governance thresholds. The allocative decisions could be made in the context of the Governor's mandated review of district/municipality budgets, resulting in "performance based" grants; this mechanism could be a way to fruitfully marry the top down approach of Law 33/2004 with the bottom-up approach of Law 32/2004. As a modeling step toward the adaptation of the DAK to reflect regional government performance, the Personal Income Tax (PPH) portion directed to districts/municipalities by the province could be developed into a performance based grant, with donors providing funds to participating provinces to add to the fund, and providing technical assistance to develop the mechanism.

Keeping the DAK focused on the sectors most connected to the MDGs/MSS will be necessary to maximize priority development results; the fragmentation of the DAK, already in evidence, may undermine efforts to achieve important service delivery goals.

At some point in the growth of the DAK it will be important to sort out its relationship to the DAU, particularly with respect to basic service provision. It may well be that the DAK becomes a useful tool to rectify the shortcomings of the DAU in terms of equalization, but as the DAU data/formulae increasingly integrates actual expenditure norms associated with basic services, the role of the DAK in funding basic service delivery would need to be adjusted.

A second caution to rising expectations that the DAK can play this (transition) role in basic service funding is the current perceived or real limitations on the range of budget items it can be used for – it is not entirely clear that the DAK could be used, as it stands, for the entire range of service delivery investment and operational needs. Some adjustment or clarification in the DAK rules would need to be made. This adjustment/clarification could also include how the DAK could be pledged on a multiyear basis in order to make revenue flows more predictable for regional governments. Reporting on progress, meeting expected results and governance thresholds could be made conditionalities for continuation of funding.

Intergovernmental Fiscal Relations: Shared Taxes and Revenues

There are no fundamental policy statements of the GoI to guide the further development of shared taxes and revenues, except that revised framework laws foresee that shared taxes and revenues will continue, but that the DAU hold harmless provision will be dropped by 2008 to mitigate regional disparities that have been exacerbated by the few regions that benefit enormously from shared taxes and revenues.

Decentralization increased the relative share of district/municipality governments of shared taxes and revenues. Tax sharing is primarily based upon derivation principle, while fishery

royalty and property related taxes also use equal shares as an added criterion. The 9% national share in the property tax is an “administrative fee” to compensate the national tax administration for collecting and administering the tax.

Law 33/2004 introduced shared revenue from geothermal mining and slightly increased the regional share of oil and natural gas revenues. Starting in 2009, regional governments will receive an extra 0.5% of both oil and gas revenues² which are earmarked to increase regional expenditures on primary education. Most of the revenues from these two resources are returned to the originating regional jurisdictions. In addition to the sharing arrangements for national revenues, district/municipality governments receive shares of the four provincial taxes³. However, the contributions of these taxes to overall regional revenues are relatively small.

While shared revenues from natural resources account on average for a mere 9% of regional revenues, they are extremely important for a small number of regions. Shared revenues and taxes are the major drivers of fiscal disparities in Indonesia. In FY 2003, the industrial town of Bekasi located on the fringe of Jakarta, received more than 100 times the income tax than the rural district of East Lombok. About 80% of all revenues from shared taxes and natural resources are concentrated in the top twenty percent receiving district/ municipality governments. On a per capita basis, the bottom 80% of districts receives only 30% of the total revenues.

Current revenue sharing arrangements for taxes and in particular for natural resource revenues attempt to strike a delicate balance among the genuine grievances of resource rich provinces and national equity objectives. Politically, the existing revenue and tax sharing arrangements help to sooth perceived injustices in the distribution of natural resource revenues. However, fiscally they greatly increase revenue disparities among regional governments.

Substantial changes in the current sharing arrangements are unlikely in the short to medium term. Resource rich regions have strong incentives to oppose changes in the current system as they would stand to lose resources. This necessitates the use of other fiscal instruments, namely the DAU, to promote horizontal equalization.

Intergovernmental Fiscal Relations: Regional Borrowing

Raising revenues on capital markets through loans or municipal bonds is often a more efficient way to finance capital expenditures than financing them through taxes or transfers. The regional government framework allows for borrowing in recognition of this fact. However, there is concern that regional borrowing, not become a burden on the national budget or destabilize macro-economic policy.

Concerns about macro-economic instability have led the government to carefully regulate access of regional governments to capital markets. Law 33/2004 allow regional government to borrow from both domestic and international sources, issue IDR denominated municipal

² 84.5% of oil revenues will accrue to the central budget and 15.5% to regional governments. For gas revenues, 69.5% will go to the center and 30.5% to the regions.

³ Namely the motor vehicle tax (30%), vehicle transfer tax (30%), fuel excise tax (70%) and ground water extraction and use tax (70%).

bonds on domestic capital markets, and guarantee third party debt. However, the total debt is limited to 75% of revenues minus necessary expenditures and debt service to 40% of revenues minus obligatory expenditures (fixed costs). In effect these requirements constrain borrowing in fiscally weak regions while they enable fiscally robust regions to access external sources of finance. They thus potentially increase fiscal disparity across regional governments. Law 33/2004 does explicitly state that there is no sovereign guarantee for regional government bonds, but the law remains unclear on defaulted regional government loans.

In addition, there are differentiated requirements depending on the maturity of debt. Short term borrowing (less than one year maturity) is limited to 1/6 of current spending and can only be used for cash flow management. Medium-long term borrowing (more than one year maturity) can only be used for capital expenditures in projects with cost recovery potential. Any long and medium term borrowing of regional governments requires approval by both the regional parliament and by the Ministry of Finance. Regional debt and repayment are closely monitored by the national government and the latter has the right to intercept the transfer of DAU grants in the event regional governments fail to serve their debt service obligations.

Regional governments have access to capital from international sources through central government approved on-lending and on-granting. Before taking on new debt, regional governments must provide supporting funds and repay existing arrears.

Regional government borrowing has been low in Indonesia. The cumulative regional debt to GDP ratio for the years 1978-2004 is 0.33% of GDP, significantly lower than other large developing countries. Borrowing has yet to recover from a sharp drop during the financial crisis in 1998. In FY 2001-2003 it accounted for a mere 0.2% of total regional revenues. The market for regional government bonds remains similarly underdeveloped. The uncertain legal environment undermines both demand and supply for municipal credit and bonds.

Most of the regional government debt is indirect debt of regional public enterprises, mainly water suppliers (PDAM), accounting for more than three quarters of the outstanding debt. Repayment performance is poor with only about half of payments due being settled. Lewis (2003) has shown that repayment problems are largely a function of regional unwillingness, rather than inability to repay debts. This state of affairs also points to a lack of application of existing regulations and a lack of consequences for individuals and organizations (at both regional and central level) concerned with delivery or its supervision. In addition to the outlined legal complications, the limited creditworthiness hampers the expansion of credit access of regional governments. In effect, the low level of regional borrowing potentially constrains infrastructure development, efficient public service delivery and economic growth.

The strong controlling role of central government in regional debt should be accompanied by capacity building to meaningfully assess the creditworthiness of regions and choose carefully the regions that gain access to external funds. In addition, the central government can increase overall transparency in municipal credit markets. In the long run, allocation of capital should become increasingly market driven. Developing a state supported municipal credit rating system that is reflected in risk premiums could spur the growth of the market for municipal credit.

In order to move to functioning municipal capital markets it is critical to establish rules for municipal default. In the absence of such regulation the sovereign guarantee for loan defaults

by the national government can induce moral hazard among regional borrowers in anticipation of national bailouts. In order to encourage responsible debt management by regional governments a regulatory framework for municipal debt defaults needs to be introduced.

While it is important to foster municipal credit markets, the unequally distributed access to capital across regions means less borrowing, and higher interest rates, in some. This is likely to result in differences in the quality and quantity of public services. It is thus important to implement alternative mechanism to finance capital expenditures in those regions.

Oversight and Supervision

The Council for the Deliberation of Regional Autonomy (DPOD), an inter-ministerial body with minister level membership, is given the primary role in the central government for regional government oversight. It receives information through the Minister of Home Affairs on the progress of the regions in implementing regional autonomy, and provides considerations and suggestions to the President regarding its assessment of this progress. This assessment is important since it could determine whether regions continue to exist in their current administrative boundaries; dissolution and mergers are possible for non-performing regions. The DPOD has been reconfigured somewhat in Law 32/2004, dropping regional associations. Experts and selected regional government representatives are still members. The intent is to make it a more effective government forum for inter-ministerial policy coordination.

One of the driving reasons for the revision of the decentralization framework was the perception that regions were not sufficiently well-guided and supervised on an ongoing basis. The government intends to tighten the supervision system in particular, and aims to do so in part through the enhanced role of the Governor. It also wishes to see better coordination between the organizations involved in supervision.

With Presidential Regulation 28/2005, the DPOD has been given the writ to give considerations and recommendations to the President on policies of territorial reform, regional finances, and the capability of regions to discharge their functions. The DPOD has a secretariat, and is to establish a technical team. Its connection to the supervisory work of the government remains unclear, and awaits further details in MoHA instruments. It is to be expected however, that the DPOD will make use of the ongoing supervision machinery in MoHA and other central government agencies. This machinery has broken down over the last few years, and is in need of an overhaul.

Government regulation 79/2005 was to provide an operational framework for supervision of regional government. GR 79/2005 makes MoHA responsible for legal oversight, while ministries/agencies are responsible for the implementation of technical supervision corresponding to their respective functions. The regulation allows government to carry out both preventive and repressive supervision. Depending on the regional regulation in question, MoHA (or the Governor) have the right to recommend to the President that they be revoked (via a Presidential Regulation) if they are found to contradict higher level legislation (repressive supervision). Conflicts between regional and national legislation can be resolved by appealing to the constitutional court.

In addition, MoHA is leading the effort to prepare additional government regulations dealing with regional reporting, performance monitoring/evaluation, and organizational structures of regional government. There may also be a related government regulation being prepared under the leadership of Bappenas, relating to the performance of the “implementation of regional government planning”, as a follow-up to Law 25/2004. Already, MoF has lead the effort to address reporting for regional finances, based on Law 1 on the State Treasury, resulting in GR 8/2006 regarding Financial Reporting and the Performance of Government Units. The GRs already issued are problematic in terms of coherence and incisiveness of their content, and in terms of their scope and fit with each other.

The role of the Governor (and by implication the provincial administration) was significantly expanded in principle by Law 32/2004. This expanded role is not entirely clear in GR 79/2005. As part of preventive supervision, district/municipality draft regulations concerned with taxation, user charges, budgets and land zoning need approval by the Governor (and approval by the national level for provincial draft legislation). Other regulations are to be reported after they are issued, and are inexplicably only reviewed by MoHA. It is not clear why the Governor is not given a role in these other regulations. Also, there are existing legal instruments relating to the sectors that have mechanisms to “delegate” supervision to the regional government, not to the Governor only as the representative of the centre. It is unclear if these provisions are now valid or in need of realignment.

To date, donors have had a fragmented approach to support in the areas of reporting, monitoring/evaluation, and supervision. Current efforts are under resourced, and they are not well inserted into the policy process. The policy process on the GoI side is itself fragmented, making it difficult for donors to anchor to it properly.

The oversight framework relating to DPOD has never been made operational in the way it had been intended. It is difficult to say if there is any different approach afoot to make the “revitalized” DPOD function better in providing oversight – specifically on the issue of performance of regional government. The DPOD will only be as good as the information and analysis that it is supplied.

Oversight/supervision systems are being developed but in uncoordinated fashion, creating inconsistencies, complexity, and burdensome requirements on regional government. Supervising bodies lack the preparation to handle the technical reviews on the preventive side of supervision. The budget review by the Governor/province on district/municipality budgets for instance still is unclear in scope and aims. The aggressive intrusive actions of regional governments on economic domains, demanding taxation rights or shares of corporations for instance, are handled in a purely politically expedient manner, with little reference to the legal framework.

Stakeholders are finding it alarming that neither the Governor nor MoHA appear ready or able to respond to recent problematic regional regulations prohibiting or regulating certain behaviors, cultural and religious practices (e.g. reciting the Koran, attending mosque, wearing the jilbab, soliciting). These have been passed with much controversy and media attention. Yet there has been no response from MoHA regarding the legal validity of these regulations, and their likely standing in relation to constitutional rights or the “public good.”

To place oversight/supervision on a sounder footing, it will be necessary to strengthen the regulatory framework. A proper completion of the existing draft regulations, and revision of

those recently issued that have serious shortcomings is required, with attention to streamlining/integrating these and attain a better definition of guidance, control and supervision roles.

Additionally, the capacity of oversight and supervisory institutions needs to be increased, in particular at the provincial level, bolstering the role of the Governor (and by implication the provincial government). At national level, if the DPOD is to function as intended, it is crucial to have clear means for providing useful data and analysis to it from central government ministries/agencies. The latter must have the financial and organizational capacity to meaningfully assess regional government operations.

Capacity development may have its limitations when it comes to the coordination role of DPOD; it has yet to function adequately since its inception in 1999. It may never function properly if it continues to be seen as MoHA dominated. Consideration may need to be given to elevating the coordination role to a higher body; the office of the president for instance.

To make any supervision system workable, it is essential to reconstruct reporting systems of regional government. Incentives to report, or consequences of not reporting, must be developed. Reporting requirements should be designed to minimize the burden for regional governments.

III. CIVIL SERVICE REFORM IN THE CONTEXT OF DECENTRALIZATION

Civil service reform (CSR) provides a supporting strategy for the implementation of decentralization, with changes in personnel and organizations encompass status, forms, roles, relationships, and ways of performing tasks. In the end, these changes should lead to better service delivery.

CSR is facilitated by clarity in the management of the civil service, but gaining that clarity may also be one of the initial tasks; to determine which level of government and which regulatory agencies should have the power to set organizational requirements and human resource policies and procedures (pay scales, terms and conditions of employment, and civil service structures). The division of labor in civil service management has long been blurred in Indonesia, with many central agencies having overlapping mandates. This made it difficult for these organizations to undertake reform in lockstep with decentralization reforms that began in 1999. Changes in the regulatory framework at that time seemed to establish a fairly autonomous regional civil service, but another legislative stream specific to the civil service (Law 43/1999) countered important aspects of this decentralization, and left the fragmented policy making intact. Law 43/1999 also mandated a new Civil Service Commission, but this provision was not put into effect.

The second decentralization Law 32/2004 also altered the rules of the game between central and regional government. The Governor was given more responsibility over the provincial and district/municipality civil service, acting in his role as representative of the central government (CG). MoHA has also acquired new responsibilities for overall guidance and management of the regional civil service. This has not greatly clarified the murky assignment of responsibility for the management of regional civil servants. The changes have instead created disquiet among regional governments and donors.

One of the immediate impacts of decentralization was the restructuring of RGs' organizations. Law 22/1999 gave RGs wide discretion in setting their administrative structures. However, soon afterwards, the CG has tried to reassert central control by imposing rigid restrictions on the number and the type of administrative structures that the regions were allowed to have, despite evidence that most regions were struggling to absorb transferred staff, and that some were making efforts to limit organizational growth. These restrictions are not being significantly reworked in the context of Law 32/2004. However, this law has introduced the incentive to bloat the regional establishment by incorporating the wage bill in the general allocation fund (DAU). Sectoral Ministries also undermine RG's attempts to be lean by encouraging RGs to create stand alone units treating their sector, with the promise (threat) of access to deconcentrated funds.

Law 32/2004 has recentralized annual recruitment, the single entry point into the Indonesian career system. As of 2006 it was coordinated by the province (on behalf of the CG). The intent was to reduce opportunities for corruption but RGs claim they were doing no worse on this count, and that advantages of local management are now foregone. With this step, the CG opens itself up to creating policies that are ill fitting to RGs, such as the promise to integrate all contractuels into the civil service proper.

Many of the problems of the regional civil service are those of the system as a whole. Job descriptions in the civil service are few, and existing ones (mostly for structural positions) are poorly done, making it difficult to hold the employee responsible for their duties and tasks. The absence of job descriptions also impedes the introduction of a performance management system. An instrument for performance appraisal does exist (DP3) but indicators are uniform, very subjective and applied to all ranks/levels. Superiors preparing the appraisal see it as a routine and meaningless activity. Advancement therefore remains largely automatic, based on seniority and divorced from performance. Disciplinary action that affects position and remuneration is rarely taken.

The remuneration system is complex, lacks transparency and provides no incentive for performance. Moreover, the absence of monetization of all awards and the rent seeking behaviour of civil servants distorts the real picture. Training is supply rather than demand driven. Training and curricula are not being developed to fulfill the demand of new RG functions and obligations. Pensions are linked to low basic salary, leading civil servants to find ways to extend their service past retirement age (the most lucrative option) or transfer to a functional position for which the retirement is set at a later age. Low pensions also encourage making the most of illicit opportunities during the working life.

In short, regional governments have few incentives and discretion to right size and make their civil service efficient. They have too many staff in general, but are missing key skills. The reduction of staff is generally achieved through attrition. In the absence of new policies in the areas of early retirement, retrenchment etc. local governments can only stop recruitment for a limited period or send staff home (who keep their remuneration). Lateral entry is not allowed in the current system and RGs can only consider bringing in skilled manpower by transferring academics from the university into the service since academics are civil servants and therefore eligible for such moves.

The changes in the degree of decentralization, in either direction, have not added up to meaningful reform. The civil service is deprived of modern policies, procedures, tools and instruments that are part of modern human resource management. The regulatory and management framework is characterized by a traditional rules based culture, with a focus, on paper at least, on control and authority over staff. There is lack of vision in charting any reform course. Feeble attempts at reform, therefore, merely add to the tangle of inconsistent, and often ignored, regulations.

Where innovation has been seen these have been locally driven, though in cases they have benefited from donor assistance. The central government has not been vigorous in taking these up and supporting the dissemination of institutionalization nationally. At times it has suppressed the initiatives.

Serious reform would mean allowing the RG to set their own personnel and organizational structures, within a flexible framework, and removing perverse incentives that bloat regional civil service (wage bill in the DAU, or dangling deconcentrated funds to regions that mirror central level organizations). Even if substantially decentralized, the regional civil service framework would nonetheless need to encourage efficiency, performance and a merit orientation. Such reforms are difficult to design and will only be deep and sustained if there is a sense of urgency among stakeholders that will lead to political leadership. As well, a workable platform will need to be found to intensify the dialogue, and design and monitor the reform effort. At the time of writing this report various sources, including donors and GoI,

indicated that several initiatives aimed at preparing for civil service reforms are under way. Once streamlined, they may be the basis for the fundamental and long term reform required. The initiatives mooted are:

1. The implementation of a Civil Service Commission as stipulated in Law 43/1999.
2. An evaluation of the remuneration of state officials in the context of Law 12/1980.
3. A Presidential Task Force on civil service reform, whose Secretariat is to be hosted by the Partnership for Governance Reform.
4. Plans by the KPK to encourage pilots of reforms in various Ministries.

Partial measures are possible, and can be meaningful, but they will delay the attainment of desired service delivery goals. These partial measures include giving space for regional government innovation where it falls within the existing framework (liberally interpreted), and ensuring that these innovations can be disseminated through empowered Indonesian intermediaries. Examples of these innovations (or good practices) are better HR planning; introducing supplementary performance appraisal tools which may be used in addition to DP3 and linked to performance and local incentives; local remuneration policies and procedures (redistribution of local allowances) to increase transparency and accountability; improved disciplinary tools that monitor and enforce rules for civil servants (e.g. attendance); introducing training needs analysis to train indeed those civil servants that are “trainable” and developing a policy to promote the right person for the right job.

IV. REGIONAL GOVERNANCE REFORM

Regional Government Service Provision

Decentralization in Indonesia is pursued in part for its promise of better public services; basic education, primary health care, water provision, sanitation, and other essential public services such as the provision of identity cards. The constitution sets out a number of important rights relating to basic services. Law 32/2004 on regional government and sectoral legislation provides greater detail on the expected outcomes of basic service delivery. Regional government is enjoined to improve services and make innovative breakthroughs in quality, efficiency and accountability. The private sector is also encouraged to invest in basic services and to link with regional government.

The improvement of services is further supported in the legal framework by laws and regulations pertaining to the civil service, regulations that relate to the supervision and support functions of central government toward regional government, and the various provisions found in laws and lesser instruments relating to the participation of the public in policy making, planning, monitoring and management of service delivery. Additional laws relating to public services and administrative procedures also have their primary aim to improve public service delivery (broadly defined, not only basic services).

The service delivery scene in Indonesia post-decentralization is clouded, due largely to the patchy information gathered to date. On a positive note, public services (and in particular basic services) have not collapsed post-decentralization as some feared they might, and spending for services is generally increasing. Some regions are making efforts to track their performance in terms of MSS, as in the case of Gresik for educational standards. In general, baseline data on MSS across sectors and districts is still lacking, potentially undermining any drive to apply MSS. It is nonetheless apparent that there are significant differences in service achievement across localities and sectors. While few improvements in the quality and reach of services can be seen in general, a few regions have been innovative. On the negative side, in cases some slippage has been experienced in reach and quality (e.g. immunization, early child nutrition). There is also evidence that infrastructure stock for health, schools, roads, and water works are suffering from underinvestment in selected regions.

Even if relatively few, innovations could prove to be an inspiration to other regions, generating a knock-on effect. Some of these innovations have come from central government encouragement, regulation, or support (e.g. education bodies established throughout Indonesia or service complaint charters experiments). Other innovations have been crafted entirely by regional government, with or without donor involvement (e.g. health insurance in Jembrana). Key determinants have been strong leadership of the regional head, good political connections to the Jakarta power centre (party, bureaucracy), and donor support. These characteristics of regional innovations raise some flags regarding the depth and sustainability of regional government lead reforms.

Many organizations profess to be active in the dissemination of service innovations, including central and regional government, local government associations, universities, research centres, development NGOs, and donor funded projects. Regional heads from innovative regions have been generous with their time, enriching the workshop circuit throughout the country with their accounts. Local government associations try to disseminate

best practices, but these efforts are relatively modest in term of practices/innovations covered and support given to introduce them to their members. While diversity may be desirable, it appears that there are too many overlapping and partial efforts that never establish momentum, are wasteful of scarce resources, and do not result in significant dissemination.

Innovations confirm that decentralization will lead to variation and that some exemplary practices will emerge when freedom and encouragement to experiment is provided. However, some innovations must be treated with caution. While they do represent genuine efforts to explore approaches and make a difference for citizens (sometimes even with a focus on the poor) they are not always straightforward successes. More effort may be needed in supporting their design, and undertaking due diligence in scrutinizing claims of success.

The low level of innovation on the other hand also suggests that decentralization and governance measures have yet to bite, are perhaps poorly designed, or are incomplete. It is of course still early days in decentralization, and it is possible that not all improvements and innovations have been uncovered or reported, but it is likely that the modest success has much to do with attitudes of the public and civil servants and political leaders, perverse incentives and poor accountability in government, and other structural impediments. Service delivery reach and quality is the visible result of a great number of less visible governance practices and institutional dynamics. As in other countries, Indonesia has embarked on a journey to improve governance, and service delivery is essentially a barometer of a wide range of reform efforts. In particular, the ability (and incentives) to hire, fire, and prepare public servants adequately for their service and service support tasks (attitudinally and skill-wise) figures prominently. In this respect, not too much has changed in Indonesia post-decentralization.

Quality of service delivery also reflects the overall policies on regional autonomy (how many units, with what mandate, scale, resources and potential). As the number of regional governments increases (now reaching 440 districts/municipalities, with another 101 on the waiting list) so does the likelihood of creating under-resourced and inefficient governments, as indicated in a World Bank study of relative wage bills in Indonesian regional governments.

Another strong determinant is the role of civil society. Despite the flowering of CSOs, the “voice” option for many communities is not yet significant, for lack of supporting organizations and the existence of cultural practices that inhibit the claiming of individual or collective rights.

The state of service delivery may improve if several ongoing efforts bear fruit. One bright spot is the opportunity to make MSS operational, with all of the safeguards that are called for in the regulation to avert unhealthy budget competition, unfunded mandates, and increased tension between all actors. If properly implemented, service accountability should follow by (i) enabling citizens to monitor the extent to which regional government fulfills its responsibility in providing adequate service; and (ii) promoting transparency in regional government planning and budgeting. The introduction of MSS should embolden the public to make some claims on regional government, and give guidance and adequate resources to regional government as it pursues basic service improvements.

A stronger regulatory framework will also be helpful. To achieve this however, the government will have to rethink the draft law on “public services,” and reconcile this initiative with the more rigorous and broadly supported effort to introduce a law on administrative

procedures. The latter is intended to make it easier for citizens to claim their rights with respect to service provision. It deals with the expected response to complaints on government service delivery or other actions of government. It aims to bolster codes of conduct, reduce discriminatory or capricious acts of government, increase access to information and increase accountability. Additionally, special service agencies regulation has been introduced, and with further guidance instruments, may offer more efficient ways of organizing regional service delivery.

Largely untouched to date is the centralistic civil service framework that determines who can hire, fire, set remuneration, move, evaluate and reward regional personnel. This systemic impediment will need special attention.

Notwithstanding the systemic impediments, there is much that can be done to incrementally improve service delivery. More can be done to support civil society to engage with regional government, becoming its partner in service delivery and taking it to task when necessary. Other tested initiatives include regional government cooperation for cross-district spillovers; private public partnerships; increasing client/community participation; regional government codes of conduct, and integrity pacts. More sophisticated mechanisms of peer to peer engagements can also be forged in some cases to expedite dissemination. Incentives can be fashioned to stimulate improvements; recognition and rewards programs or performance based grants.

A concerted effort is required to identify and understand the full potential of regional innovations (as well as the blockages that entail more systemic changes in the civil service), increase due diligence in good practice/innovation dissemination efforts (with donor efforts trailing off), develop guiding instruments to facilitate application/adaptation, provide opportunities for technical support in the application stage, and provide freedom and incentives to explore, manage, and stimulate best practices/innovations.

Regional Government Planning and Budgeting/Financial Management

With a number of new laws and government regulations promulgated between 1999 and 2006, the government has set in motion a fundamental reshaping of regional government practices in planning, budgeting, and other aspects of financial management. The desired reforms include unifying the budget, simplifying the treasury function, increasing planning and financial management transparency, linking planning to budgeting and making these performance-based, and preparing budgets within a medium term expenditure framework.

The planning process in particular is expected to coordinate the actors involved in development and make the most of scarce resources. Assets, cash, and debt management will be tightened. Accounting standards are being introduced, including accrual accounting. Stronger accountability requirements are also being sought, mainly through enhanced auditing, monitoring and evaluation function.

The greatest complexity is seen in the planning and budgeting processes, which derive their mandates from at least four legislative streams. Other aspects of financial management are less fragmented. The development of the new framework(s), in the form of lesser legal instruments (regulations, decrees etc.) has been dogged by inconsistencies in the source laws.

Some efforts are being made to unify and streamline the frameworks, but the overall construction remains an odd amalgam of traditional policies and new approaches. The net effect is the creation of a complex, inconsistent, and burdensome set of requirements on regional government. Many challenges to proper implementation have been noted in the field, stemming from the inadequate design and introduction of reforms, and the inadequate capacity development efforts that ought to precede or accompany the reforms.

To make the introduction feasible, the GoI has established a schedule for phasing in some of the changes, particularly on budgets and accounting systems, stretching to 2008. However, the innovations are not well connected and are not logically sequenced; many difficult efforts are to be undertaken simultaneously. In practice, the emphasis to date has been on providing the basic mechanisms of the budget process and the associated accounting rules. GR 58/2005 does acknowledge key planning and budgeting system innovations (e.g. MTEF, budget unification, performance budgeting) but provides few details on their implications and application. The newly issued Ministerial Regulation 13/2006, is also viewed as a basis for the development of additional operational tools, rather than complete guidance as required by regional government practitioners. The implementation promises then to be a longer and more difficult affair than that acknowledged in government timetables.

One of the challenges to elaborating the framework is the opportunistic action of national actors. Organizations with overlapping mandates vie to fill gaps and elaborate laws. This is evident in the planning field, where partial attempts have been the rule, and the fusing of the different parts has yet to be achieved. Considerable contradictions or poorly incorporated elements (e.g. MTEF) now exist in the framework as a result. On performance reporting, GR 58/2005 regulates both central and regional government agencies, covering not only financial performance but also the “results” expected, in accordance with specified indicators. In this respect, the regulation, co-championed by the Ministry of Home Affairs and the Ministry of Finance, seems to have carved out ground that is currently being worked in preparing the draft regulation on reporting and monitoring and evaluation, an effort lead solely by MoHA.

Even where some convergence of institutional interests are being achieved, as in the auditing field, where the Supreme Audit Agency (BPK) and the regional government audit agencies (BAWASDA) are sorting out their respective roles, the expectations placed on these organizations seems very unrealistic; Law 17/2003 on state finances stipulates that by 2007 the financial accountability statements of the 440 district/municipalities and 32 provinces will be audited within 6 months of the end of the financial year.

A more rational, and less controversial, approach can be seen in the case of accounting standards, where GR 24/2005 introduces changes from the work of the Committee for Government Accounting Standards (KSAP). Under the new framework, the government will transit to accrual accounting, with financial reporting based on a modified accrual basis to 2007, and thereafter based on accrual accounting, under which financial transactions are counted when the transaction occurs.

Support for planning, budgeting and financial management in regional government is being provided by several donors. Some effort has been made to coordinate this assistance, largely between donors themselves, and usually through informal means.

In moving forward with these reforms, it will be important for donors to stress a more formal and coordinated approach to framework reforms and capacity development efforts. There is

the need to rectify the worst conflicting provisions in the framework, but also to close gaps and lighten the planning load and transition to new planning approaches on the regions. MoHA, MoF, and Bappenas in particular will need to better coordinate their policy and legal drafting efforts.

It will be important to simplify and more realistically sequence the new progressive elements being introduced in regional planning and budgeting, particularly Performance Based Budgeting and MTEF. Sufficient capacity development must accompany these new elements, including central level technical staff in key ministries/agencies that will provide credible guidance to regional actors.

The definition of planning and how stakeholders can influence the planning process will need to be revisited, with consideration for a shift from large annual events to approaches that are more issue based and sectoral, with their own set of effective organizations and channels for communication.

Training and technical support need to be bolstered. The quality and quantity of offerings need to be greatly increased in the field of planning, budgeting, procurement procedures, accounting standards and computerized systems. Concrete guidance is urgently needed (e.g. manuals/training on MTEF, gender analysis, pro-poor budgeting) for regional planners and financial administration staff, within a capacity development strategy that incorporates donor support and local intermediaries that can ensure national coverage and sustainability of the capacity development effort.

Opportunities for Civic Engagement

Civil society has intensified monitoring and supervisory efforts toward government at all levels, and is increasingly acting as a counterweight to the actions of the state. The state and civil society are in agreement on the need for greater state accountability and that this should be brought about in large part through greater participation of citizens in the decision making process. Accordingly, input from research institutions, from CSOs and the public has been given greater value in shaping new governance policies and relate legal instruments. This is evident in the constitution, Law 10/2004 on Law Making, and Law 32/2004 on Regional Government, and many other laws, for a broad range of governance processes. Civic participation can take the form of well structured and permanent bodies, such as commissions or councils. Mechanisms for civic participation are also specified, as in the state-driven bottom-up development planning process or state supported poverty reduction forums.

Civil society has organized itself using several legal forms; as foundations, mass organizations, and associations. Prior to the reform era, larger CSOs were mainly based in the capital Jakarta and other large urban centers, and local organizations consisted primarily of government directed groups. In recent years, an increasing number of CSOs are being established at the local level. These organizations engage in various initiatives ranging from community development to advocacy work and oversight. Development-oriented organizations are involved in various activities; technical innovation, public service delivery, and a wide range of development projects. A much larger number of faith-based organizations tend to be involved in charity, relief and welfare activities.

Successful participation in governance and engagement with local governments requires special skills and experience. The very diverse CSOs struggle to fulfill their mandates; often, transparency, accountability and internal democracy within CSOs are still underdeveloped. They suffer from limited human resources and financial support. Moreover, their financial management is underdeveloped and their office infrastructure is often limited.

CSOs have formed some networks to facilitate mentoring relationships between well established CSOs and the newer and smaller CSOs, with some success. The most visible successes of CSOs networking have been noted at the national level. The coalition on the Freedom of Information Law, the Coalition for the Foundation Law, and the Coalition for the Law on Participatory Law Making are notable examples.

In recent years, CSOs have made a determined effort to enshrine principles and mechanisms for civic participation in all forms of legal instruments, but their efforts have been only partially successful, with the best result being the passing of the aforementioned Law 10/2004 on Law Making. This law provides a beachhead for further gains in the future. For instance, the Coalition for Participatory Regulation (KKP) is now seeking to influence the national and regional parliamentary legislative procedure, and ensuring that a proper schedule of legislative priorities is developed.

While CSOs have been slowly increasing their advocacy on behalf of marginalized groups, their participation in the more technical regional government planning and budgeting meetings is still infrequent. Participating organizations are often close to the local elite, and do not strongly represent the concerns of local citizens. Regional government perceptions of CSOs have not evolved much. CSOs are generally perceived as adversarial, unfocussed and lacking essential knowledge of complicated government processes. CSOs engaging in discussions with officials and local politicians, on the other hand, often feel they are not taken seriously. Even so, cases of fruitful engagement in key co-governance arrangements (e.g. in the forestry sector, service delivery, or assisting with the drafting of regional regulations) are slowly making the point that CSOs –regional government cooperation can be fruitful.

For CSOs to be recognized as reliable partners in supporting local governance they must show expertise and leadership within their own “sector.” A way to build trust is to develop internal good governance mechanisms, like annual accountability reports and independent financial audits. These improvements in financial management are crucial if CSOs are to understand and make transparent the impact of their work. Several initiatives have been launched to assist these improvements, some initiated prior to decentralization reforms. These address codes of ethics, strengthened accountability and advocating successfully for marginalized groups.

Donors have assisted the development of CSOs, directly or via resource channeling to CSOs. Donor financial support tends to be in the form of small grants and is highly project-focused. Because the focus of decentralization has been on the centre/province and district relationship, district based CSOs have generally not been supported in establishing closer relationships with local constituents. When local level work is successful, the achievements lack spread effects and mechanisms for initiating similar efforts in other districts or at the provincial level. Moreover, intermediary institutions that could link various local initiatives or scale-up are still very limited.

CSOs are appreciative of donor support, but seek block grants to organizations instead of project funding. Their aim is to build strong institutions that navigate in accordance with established mandates and objectives. Stability of funding, covering core costs would enable CSOs to build expertise and develop strategic plans that allow for activities that have better prospects of reaching their objectives.

CSOs agree that more effort is needed in connecting the more capable and influential national level CSOs and the CSOs located in the districts or working in the more remote regions. Successes of national level initiatives can serve to inspire local level efforts, if appropriate vertical linkages exist. In turn, local level CSOs can inform policy and training efforts at national level. However, it is not clear if more intensive networking will simply increase transaction costs, with little increased effectiveness to show for it. International experience should be examined in this regard, to note where networking is fruitful and when it is simply a drain on resources.

Capacity development efforts for CSOs in the future, particularly if supported by donors, will require more diagnostic work, strategic discussions, and careful execution of new approaches. Guiding questions should be, among others, which donor supported efforts worked, and what can make them sustainable, and which important policy areas have yet to be adequately covered by capable CSOs? Regarding the latter, it appears that attractive advocacy fields are the environment, judiciary, human rights, education, media, anti corruption, and service delivery. Issues less covered are decentralization, legislative processes, religious freedom, policing, and defense. It is likely that local or cultural/religious issues will dominate policy processes in the future. Therefore, support to democratic decentralization has to give these issues more attention.

Political Accountability: Regional Government Head

Disappointed with the relationship between the Regional House of Representatives (DPRD) and the Regional Head following the initial 1999 reforms, the state has set out to rebalance the relationship by reworking the Regional Head's accountability to the DPRD and by giving the Regional Head a more independent political base through direct election. Now both bodies are expected to "articulate and aggregate" the people's interests.

In Law 32/2004, political accountability at the regional level includes the accountability of the Regional Government Head (Gubernur/Bupati/Walikota) to both the constituents, via direct elections (starting June 2005) and to the DPRD. Vertical accountability in the form of reports from the district/municipality government heads to the Governor and to the Ministry of Home Affairs, covering technical and administrative aspects of governance, has also been reworked through this law.

This arrangement represents a significant change from the approach seen in Law 22/1999, where the DPRD was dominant in representing the people and selecting the regional head. The change was seen as necessary in view of the wide-spread allegation that DPRD members, and political parties, abused their powers by "selling" the regional head office to the highest bidder. Under the new rules, a combined regional head and vice-regional head ticket can be put forward to the Regional Election Commission (KPUD) by a political party, or an amalgam of parties that has reached a certain threshold. The new rules also encourage

parties to open the candidacy to persons either within the party ranks or from the larger community, and for the party to conduct the selection in a democratic way.

The Regional Government Head (RGH) accounts for his/her duties to the DPRD, the central government, and to the people through a mechanism of regular reporting. The DPRD may also ask the RGH to account through the exercise of its oversight function, mostly concerning implementation of programs and projects funded by the annual regional budget, and the implementation of regional regulations. This relationship stands in contrast to the predecessor Law 22/1999, where the accountability of the RGH to the DPRD was accentuated, as it was the DPRD that elected a Governor, Bupati or a Walikota, and he/she had to account annually to the DPRD. The latter could impeach the RGH if it felt unsatisfied with his/her performance.

The RGH now has a somewhat stronger position versus the DPRD, reducing the likelihood of impeachment (at least based on the annual performance reporting to the DPRD), but his enhanced power is in principle kept in check through direct accountability to the electorate. His annual accountability report to the DPRD could also be a meaningful check, provided the format and review process are well set out; these details are still to come.

Since June 2005, a significant number of incumbents (in 86 of 210 elections) were defeated in the electoral contest. Even so, these results suggest that incumbency is still an important advantage in RGH elections. The results may indicate that voters were generally satisfied with the performance of the incumbent, but do not rule out the possibility that incumbents were able to exert undue influence over the bureaucracy and other elites to gain campaign advantages.

The party's decisive role in determining candidates has raised concerns and allegations of "money politics" which continue to cast a shadow over the integrity of this process. A new expression has emerged among those political hopefuls, that is "beli tiket kapal"—literally translated as "buying the boat ticket"—to signal what is entailed in gaining support from a party (at provincial and even at the national level).

Another significant feature of the pilkada is the role of a regional electoral commission (KPUD). The KPUD's mandate and resources are vulnerable to interventions from DPRD, regional government, and even the central government. In an attempt to make pilkada a local affair, DPRD assumes the role in overseeing the process by having the KPUD accountable to the council, in forming the electoral supervisory committee, and in endorsing the final result. The regional government and DPRD finance the pilkada through provisions in the regional budget—though the regional government has little experience in devising the elections and has limited funds to spare.

The central government has nonetheless found ways to influence the process through layers of regulation and its bureaucratic machinery. Such tampering puts in question the integrity and legitimacy of the process. The Constitutional Court, while upholding the government's stance that pilkada is part of the regional government regime, suggests that the election organization could be done through a more independent institutional framework that places the process in the larger election (rather than regional government) framework legislation. The RGH can adhere to the central government procedures and yet fail to meet the spirit of participation and other good governance principles. In many regions, this pro-forma

adherence may elicit little reaction, but where civil society is gaining strength, this approach can spark wide-spread discontent and opposition from the public.

Regardless of RGH commitment, modest progress can be achieved through practices such as devising a score-card of RGH performance and providing it to voters at election time. This may move elected officials to be more informative and communicative with their constituent. Civil society pressure has looked particularly promising in the context of elections. Where extensive monitoring of the process has been conducted, critical issues have been brought to the fore. CSOs have allowed stakeholders to scrutinize the election process, in terms of voter registration, campaigning, polling stations, voting day, and tabulations. The scrutiny seeks to uncover both illegal and unethical behavior by key actors.

Progress in political accountability tends to be made incrementally. Even when significant changes are made in the formal rules of the game, as with the switch from indirect to direct election of RGHs, the actual improvements in accountability are realized over time, over several iterations. Appropriate frameworks are important, but equally important are the further growth and strengthening of civil society organizations, involved citizens, voluntary codes of ethics, strict enforcement of legal rules, and new attitudes among the public and key actors can realize the potential of promising frameworks.

Indonesia can make further improvements in RGH accountability by refining the legal framework itself. These modifications are achievable technically, but do not have sufficient support as yet among policy-makers, and support is likely to only be generated through increased pressure from non-government actors.

Donors can play a catalytic role in supporting a dialogue on the refinements that can still be made in the legal framework for RGH elections. Evaluations of past approaches and international experiences can be prepared and packaged by Indonesian academic institutions and NGOs for effective discussions with policy makers. These would be useful in exploring the development of a more capable and independent electoral administration to ensure integrity of the election process; requirements that political parties apply democratic and participatory means in selecting candidates; regulation of parties to avoid illegal favors from would-be candidates, with strict enforcement; and the possibility of expanding the choices for voters by allowing non-party candidates to contest the RGH election.

Political Accountability: Regional House of Representatives (DPRD)

The Regional House of Representatives (DPRD) members are accountable to their constituents, and they seek to hold the regional government accountable in turn. They do so through their rights of interpellation, petition, speech, questioning, giving suggestions and immunity. With the change in Law 32/2004 to the direct election of RGHs, the annual impeachment threat has been removed, and the DPRD is now struggling to find a new balance in its relationship with the executive head.

Besides the overall role of representation (a poorly defined function), DPRD core functions are the drafting of regulations (with a right of initiative), preparing the local budget, and oversight. Few DPRD have made use of the right of proposal, due to limited resources and low drafting expertise of committees and council secretariats. DPRD are however treading on contentious issues that go to the heart of basic rights and other cherished values. They

therefore need not only technical capacity on regulation drafting, but also substantive support to adequately address issues of protection and promotion of human rights.

DPRD support is also needed in the budget process, now largely under the control of the executive. The DPRD participation in this process is limited and problematic. At its conclusion, the budget is then “evaluated” by the central government, a step seen by many DPRD members as undercutting their independence. DPRD members also face difficulties in reconciling broad political promises with the political realities of the annual budget process. When DPRD members are able to communicate a grassroots vision it is not clear how this should be reconciled with that of the RGH.

The oversight function is poorly performed by the DPRD. Commonly, it is conducted by inviting the RGH before committees and to DPRD plenary sessions, to question the RGH. According to the new draft government regulation, the RGH has to prepare her accountability report three months after the budget approval. The DPRD has one month to prepare a plenary session and to invite the RGH to deliver the accountability speech, an event much anticipated by members, the media and the public alike. However, more elaborate supervision mechanisms are still absent and often it is unclear how the executive is best questioned/probed.

DPRD members have a poor public image on the whole. They are seen as distant from ordinary constituents, keeping their meetings closed generally and maintaining close ties only with business people and some members of the executive. They are thought to be deeply involved in “money politics” and corruption in infrastructure procurement.

One reason for low performance is the low level of support given by political parties to DPRD members. Party programs on the local level are underdeveloped or simply follow national policies. Rather than being helpful, political parties extract payments from DPRD members to secure a promising position high on the party list.

Another reason for low performance is the reliance on a weak DPRD Secretary. The civil servants in this office fall under the authority of the regional government, placing their independence in question, particularly if the DPRD is dominated by a different party than the party of the RGH. Viewed as less prestigious placement relative to the rest of the bureaucracy, the DPRD Secretary and staff positions generally are filled with less experienced people.

A lack of a proper budget for constituency relations also hampers the DPRD members, who must fund many of their constituency activities through their own resources (including pay as DPRD members). The current regulations, as interpreted by MoHA, even require DPRD members to pay the membership dues to ADKASI and ADEKSI from their own pocket. Increasing DPRD remuneration has in part been driven by the latter’s attempt to obtain more resources to properly undertake their function, whereas central government (and public) perceptions have almost entirely seen this as a form of corruption.

In spite of institutional weaknesses, some district and municipality DPRDs contributed positively to governance reform by becoming more transparent and open to public participation during the deliberation of regional regulations. Examples are the DPRD in Bima, Solok, and Sidoarjo, to name just a few. Some DPRDs are moving beyond the barebones legally required regulations to policies and regulations regarding locally shaped

development, services and governance issues. DPRD members, especially newly elected ones, are typically eager to upgrade their capacity.

Making the DPRD more functional and responsive will require time and multiple efforts, including enhancing knowledge and skills in the substantive issues faced by the DPRD; defining and refining DPRD processes and structures; placing greater civil society pressure on the DPRD to be accountable to citizens; and making parties able to support their DPRD members.

The most practical and immediate way to accelerate the improvements in DPRD performance is to work directly with the DPRD members, recognizing that many of the members change every five years. This turnover requires constant means to orient and support DPRD members, particularly on regulation drafting, communication and supervision.

Donors have been helpful in strengthening the DPRD and building the capacity of their members. The role of international foundations has been particularly notable. Programs cover political communication and coalition building, accountability, resource management, budget analysis, party relations, and strengthening of associations of DPRD. This valuable work should be continued, and greater reliance on Indonesian intermediaries (ADEKSI, ADKASI, Universities etc.) should be pursued - this is the intention of donors/foundations. A more purposeful assessment of these intermediaries, and how they can be supported, is needed.

Further changes should be promoted in the working of the factions, committees, special committees, and DPRD secretariat. A major effort in this respect would be to allow the DPRD greater freedom to set their-own structures and procedures, and more resources in the form of an “operational budget.” A more independent DPRD Secretary (from the executive) could also work to bolster the support this office could give to the DPRD.

The third option mentioned (greater civil society pressure on DPRD) has the longest time horizon of all four options mentioned in this section, and is probably most difficult to nurture through external support, by donors and foundations. Yet it is this pressure that ultimately nudges central and regional government to find more suitable solutions.

Political Accountability: Political Parties

After having allowed for the possibility of local parties in Nanggroe Aceh Darussalam by virtue of the Helsinki Accord of August 2005, the Government of Indonesia is considering whether this model might be appropriate throughout Indonesia's regions. It is being encouraged to give a favorable response by proponents of regional autonomy, including members of the Regional Representative Council (DPD). The issues of local parties' affiliation with national parties and the party membership are currently debated in political and academic circles. Law 31/2002 on Political Parties requires political parties to have branches in at least half of the country's provinces and district branches in at least half of the districts/municipalities of these provinces.

Party headquarters have to be located in the national capital. This organization dominates the internal governance of the entire party, although it is reported that local party branches at times reject the directives from the centre regarding the selection of candidates for senior party posts. Party “money politics” is as much an issue at the local level as it is at the national

level. It is an open secret that members have to make payments to the party to be considered for party board positions. The placement and ranking of party candidates on election lists is also very much at the discretion of the various party boards and often dependent on the amount of money paid by the interested members.

The party law does not specify assets and financial reporting standards, nor does it foresee sanctions. Party finances are regulated in party internal guidelines. These are underdeveloped in the main. Party treasurers often have to follow directives from board members. Information to the public is rare; financial reports are closed to the public and even common party members. Financial transparency, accountability, and professional financial management are perceived as threats by the party boards.

Parties on regional level do not seem to have policies on how to support their party members in the DPRD, compounding the weak support gained by the DPRD as an institution. The parties seem to lack cohesion. They are elite-centered, with many DPRD members holding high positions in party branches. As the party leaders are busy with their work in the DPRD, the work in the party branch offices becomes neglected. Empty branch offices and limited outreach activities involving citizens are the consequence.

Most political parties also do not have a reliable system of political communication with their constituents, a situation stemming from a lack of party messages and party policies. As a result, it is difficult to identify the party/DPRD member “constituency,” and build strong grass-root support, especially between elections. Where special affiliations have been developed, these have tended to be among the youth, and youth dominated security groups that have many of the features typical of para-military organizations; these often pose a threat to democratic life.

Citizens are also confused by the various coalitions parties undertake, either within the DPRD or in support of a particular candidate for the post of RGH. Throughout Indonesia, party alignment follows short-term opportunistic calculations rather than policy or ideology. Groups of voters traditionally giving their votes to the same political party during elections are decreasing.

The situation is not entirely bleak. Some parties are realizing the importance of consistent programs and policies. They are extending their outreach, politically and in development terms (e.g. assistance following natural disasters). They are starting to revamp their training and research departments on the national level and are beginning to reach “regional”/district party members with some offerings. Donors/foundations support this effort, focusing on party organizational development (e.g. party financing, recruitment), constituency outreach, and supporting women in the parties/DPRD, and regional budget evaluation. A weakness in this support is the lack of progress in bringing together representatives from the (directly elected) executive and DPRD in capacity development efforts; donor support has largely gone to DPRD and political parties.

Party reform is needed and can be facilitated through a revised party law, but this awaits a critical mass of parties and stakeholders pushing for changes. To generate interest, and pressure for such a revision, it may be necessary to prepare the ground with several years of intensified research and discussion among stakeholders, with a focus on key issues of party financing, local political parties, and lessons from 1999 and 2004 elections and parties’ experiences. University and research groups could be enlisted for more objective

perspectives, but greater capacity for research and reflection within the parties themselves is as well a justifiable objective.

Capacity development for internal party reform is also important, and can speed reforms that are not dependent on a new party law. Ongoing party programs should be continued and expanded, placing a stress on the development of party programs, developing further internal regulations of parties, especially those concerned with financial management, and the development of membership systems.

Political parties need to intensify the dialogue with constituents between elections. This is important for the development of trust and transparency. Direct communication can be conducted between parties and voters, or via the support of the media. Indirect communication with constituents should be built through other organizations, like unions, cooperatives or youth wings; ideally with groups that share similar ideology.

Political Accountability: Regional House of Representatives (DPRD) Elections

New political laws were created for the 2004 legislative elections that improved the electoral system and legal framework, and resulted in elections that were viewed as free, fair and competitive, a widely recognized achievement given their scope and complexity. DPR leaders have announced their intention to begin in 2007 to review and revise political laws to govern the 2009 DPR/DPRD (and presidential) elections.

Elections for members of regional houses of representatives (DPRD) have been conducted simultaneously with elections for members of the national DPR. DPRD elections in Indonesia were clearly lacking legitimacy during the New Order, when political parties and candidates, campaigning, and the election administration machinery were tightly controlled by the national government.

Reforms, initiated, through constitutional amendments adopted in 2001, introduced salient changes: a Constitutional Court, whose authority includes resolving disputes regarding election results for DPD/DPR/DPRD; a proportional representation electoral system for DPR/DPRD elections based on new electoral districts electing fewer members per district; and a partial ‘open-list voting.’

The general consensus among election advisors and observers is that the legal framework for the 2004 general elections in Indonesia was a major improvement over the laws governing the 1999 elections. However, these new ‘political laws’ are not well integrated, continue to be vague in many crucial areas, and lack effective sanctions or enforcement.

The new electoral district system is intended to introduce a reasonable element of proportionality in awarding seats to successful political parties, but to create more ‘localized’ districts—more numerous, smaller geographically and electing fewer representatives per district—that would aid voters in knowing the candidates on the parties’ lists. The new system worked well for the 2004 elections, and carries a value beyond conducting elections. The more ‘localized’ districts offer the potential for drawing closer connections between elected representatives and their constituents between elections.

The 2004 elections followed an ‘open-list’ proportional system for candidates on political party lists. Each political party presented a candidate list on the ballots for the electoral districts for the national DPR, provincial DPRD, and district/municipality DPRD. In addition to voting for a particular party, voters were able to vote for one candidate put forward by the party. However, the specific candidate votes, to have any result, have to equal to or exceed the quota of votes needed by a party to win a seat in that electoral district under the system of proportional representation. This requires winning a very large number of votes, making this route unlikely.

With regard to the representation of women, none of the political parties contesting the 2004 elections fulfilled the suggested (*‘dengan memperhatikan’*) quota of 30% found in law. In most cases, female candidates were placed in lower positions on the party lists, thereby further reducing their chance of winning any seats.

Laws governing political parties and the general elections address issues of party financing (bookkeeping, list of donators, contribution limits, audited financial statement, campaign account, and reporting), but these laws are not always consistent, as in the case of reporting schedule. Most political parties and electoral participants have failed to meet key reporting requirements, reflecting a lack of serious sanctions and enforcement. To make progress on the latter, the reporting schedule themselves would need to be harmonized and made more feasible.

A positive aspect of the 2004 elections was the significant number of new candidates put forward and elected, including entrepreneurs, NGO activists, and professionals. The new faces, and initial steps toward offering novel programs, allowed particularly new parties to gain votes. The renamed Partai Keadilan Sejahtera (PKS) and the new Partai Demokrat (PD) both entered national politics by winning around 7% of the votes on the national level. Their success has spurred established parties to think about internal reforms that could improve their standing in the future.

Since mid 2005, the government has been discussing reform to the election administration in form of a draft law on election administration (*RUU Penyelenggaraan Pemilu*). This effort is being supported by CSOs and donors. The draft prepared by the special committee in the House of Representatives is not yet completed and is still being deliberated in the house working committee.

The rather low showing for women in the DPR/DPRDs in the 2004 elections (in general far below the suggested 30%) has some stakeholders calling for greater legal weight. One suggestion, from the KPU, is to amend the law on political parties to have party leadership (*pengurus partai*) set at 30%, counting on a knock-on effect in the elections. This latter option underscores the need to connect reforms of political parties with those for the election process.

Through the comprehensive approach alluded to above, proponents of reform should prioritize the development of a genuine open-list ballot system, building on the very modest start seen in 2004. Enforcement of procedures/sanction for campaign financing will be the key to ensuring fairness in the elections. Lastly, there may be a strong case to be made for combining DPRD and RGH elections, thus reconciling some of the roles/tensions seen in terms of the development vision and political platform that is translated into regional development plans and budgets. More fundamental reforms may need much wider

discussions and preparations. Increasing the number of women in the DPR/DPRD is widely supported, but the means to attain this goal are strongly debated, and more discussion is needed to gain sufficient consensus.

Incremental improvements are possible in the meantime, particularly in the KPU is assisted in setting rules and procedures for DPRD elections and preparing the public for the elections. Key efforts could include intensify political education by disseminating more widely the information on candidates, increasing KPU funds for voter information activities in general, and establishing better relationships with the mass media and organizations conducting voter information.

Village Governance Reform

The village level does not have a formal status in the Indonesian Constitution, but the state recognizes and respects the cultural identities and customary rights of traditional communities. Law 22/1999 indicated the government's intent to develop democratic village governance within the context of regional governance, with the district playing the guiding role. The successor Law 32/2004 on regional government shifted the focus to improving service delivery as part of efficient village governance at the expense of democratic principles in village governance.

In the two decades prior to the reform era, village politics were contained, and channeled through government approved local organizations. Village administration was made uniform throughout Indonesia, resulting in a great loss of political and organizational diversity. Although village heads were elected by their communities, the election process was not free of intimidation, bribery, patronage and intervention by district level government and the army. Village leadership was thus commonly authoritarian in nature, with no significant accountability mechanism in place. Cases of misappropriation of funds from government programs were rampant.

Making a clear break from the past, Law 22/99 provided villages with strong democratic principles for self-government, particularly through elected Village Representative Councils, reversing decades of restricted democracy at village level. It gave room for diversity, local aspiration and responsiveness. Villages were able to go back to traditional organizational structures and could maintain their "traditional autonomy" (e.g. as in the case of the *nagari* in West Sumatra or the *kampong* in Kalimantan).

More recently, Law 32/2004 and its follow up regulation GR 72/2005 are working to again introduce substantial changes. The dynamics created at village level by introducing democratic institutions and mechanisms were perceived by central government as hampering effective village governance. Therefore, the focus of the revised decentralization legislation shifted to improving service delivery and efficiency - at the expense of accountability and checks and balances in village governance. The revisions have the avowed aim to improve village administration. The village secretary is to be appointed by the district government and recruited among civil servants (or granted civil servant status). The shift to "efficiency" is also seen in the changes made to the village councils (BPD). In order to prevent disputes and contentions that are natural concomitants of a democratic polity, BPDs are returned to consultative bodies of appointed members, determined by consensus among village elders. The BPD has little authority to exert supervision or control toward the village government.

Horizontal mechanisms of accountability towards the citizens through the BPD are replaced by upward accountability towards the district head via the head of the sub-district.

A more positive feature of Law 32/2004 is the more formalized transfer of funds to the village level. The village block grant (*Alokasi Dana Desa, ADD*) could provide much needed resources to villages in order to offer valued services and respond flexibly to pressing needs. However, as the actual functions (competencies) of the village are not clearly defined, it leaves the villages in limbo how to effectively make use of the increased funds; funds which so far have largely failed to materialize.

Under both Law 22/1999, and the new Law 32/2004, the village is a sub-system of the regional government. But the basic concept regarding the level of autonomy of the village (i.e. rights and obligations in conducting their own affairs), remains blurred in the latter law. The actual nature of village governance and its functions is left to the district to be determined. But districts tend to want to maintain their own roles and do not put service delivery and other development considerations first and foremost in decisions to delegate functions, and especially finances, to the village level. Few districts have so far taken the initiative to develop innovations in village-related policies or respond creatively towards local conditions. Their slow progress in delegating functions to villages, and in transferring the requisite funds, reduces the meaningfulness of local democracy. Not only are villages disempowered politically, but they are not gaining the administrative roles promised in the revised framework.

The reduced accountability of the village head and the BPD towards their citizens will most probably further reduce community participation at large, making village development efforts less likely to be successful and less open to scrutiny. Political education and internalization of democratic values generally take place within the scope of daily social interaction. Limited transparency, accountability and access to decision-making at the lowest level means a serious set-back for the growth of democracy as a whole in Indonesia.

With democratic life again refocused on the village head, this position is likely to be vigorously pursued. Vote-buying in terms of distributing cash and presents is a common feature, in effect limiting the candidates to well-off village elites or people who manage to rally strong investors behind them. The only brake now on the village head will be the village secretary, but only through a vertical connection to higher level government rather than a democratic check.

The emergence of village associations (village heads, BPDs or joint associations) that began in 2000 may also grow to be largely a village head effort. Supported by CSOs, they had been growing in power and effectiveness in exchanging information and experiences, advocate village-related policies at district level; and pushing for increased block grants. After the downgrading of the BPDs, it is likely that only the village head/administration associations (a national body was founded in early 2005) will continue, and these do not always represent the interests of the village community. Their focus is on demands for civil service status for village heads and village apparatus, an increase in salary, and the extension of their terms to ten years.

In the absence of a clear set of functions for villages, and matching revenues, the village must continue to rely on the elaborate bottom-up process of development that is supposed to feed directly into the district budgeting process, but in practice has proved to be rather rigid and

not very responsive. On paper, the bottom-up planning approach with its basic principles of participation and transparency is appealing. The round-table discussion of development planning at village level (*Musrenbang Desa*) is given a central place and annual guidelines are issued to support its implementation. But actual implementation of the annual participatory planning process in the regions falls short of the ambitious and rather mechanistic guidelines. In practice participation in the village and sub-district round table discussions is still mostly limited to the village elite, successful village proposals average less than 10% of the district budget, and district agencies still implement their programs without consulting villages.

Some experimentation by districts in supporting villages is occurring. These efforts include delegation of functions, the development of financial distribution formulas and support for management at village level. The pace of experimentation and institutionalization will depend in part on local pressure. Those districts that are more proactive and progressive on the issue of the ADD are mostly characterized by strong commitment and interest from the side of the Bupati, coinciding with significant pressure from civil society organizations. One of the challenges to district initiatives is the fragmentation of village related mandates among district agencies, unremedied through any effective coordination mechanism. The role of the sub-district is also not maximized.

MoHA (specifically the Directorate General for Community Empowerment, PMD) has signaled its intention to revisit the government's policies on village governance as they have been set in Law 32/2004 and its implementing regulations. It has also indicated its interest to collaborate with a broad network of non-government organizations concerned with village governance. However, there is not yet a unified view in government of the changes to be entertained and the legal strategy for the changes.

Several donors have provided support for village governance efforts in the past, especially in areas of planning, budgeting, legal drafting, strengthening community based organizations, micro-credit and improving the regulatory framework. There are many CSOs active in village governance. A network (FPPD) focusing solely on village governance was formed in 2003, combining CSOs, research institutions, academicians and the government.

In moving forward, it is necessary to undertake a more fundamental assessment of what is desired of the village level of government and to carefully shape policies and a legal framework that is more promising and sustainable and at the same time accommodating towards diverse local realities and traditions. Subsequently, a redoubled effort will also be needed to raise village democratic governance capacities in line with the established vision. Donors should support the GoI in the development of its vision through a number of interactive and participatory processes involving stakeholders. After having clarified a broad vision of the village, additional information, e.g. from good practices, international experience, public consultations involving the different stakeholders concerned is needed to formulate a consensus for a new law (or portion of a revised regional government law).

Villages themselves will need to find ways of increasing their own capacities, and projecting their voice at various levels. Village associations are a new and promising phenomenon, but they will need more support and exploration of appropriate composition to ensure that they combine the many legitimate interests of "villages." Existing village associations should be mapped, and support extended to clarify their vision and objectives, mode of operation and

financing. PMD will need further support in drafting the planned guidelines on Village Government Associations (Village Councils and Village Heads).

To spur village economic development, there is a need for a conducive, regulatory framework for competitive microfinance and rural finance institutions and cooperatives, which clarifies the status of the informal MFIs and Cooperatives and provides detailed instructions on village-owned enterprises (BUMDES).

V. THIRD PARTY SUPPORT

Role of CSO and Universities as Intermediaries in Decentralized Governance

CSOs and universities in decentralized governance expand the space for civil society in local governance (individual citizens and their associational forms) and take advantage of this space to further development, of their own accord or in cooperation with government. Universities approach this with a methodology that stresses knowledge generation and application.

CSO involvement with regional and village government precedes decentralization, but was heavily constrained prior to decentralization reform. CSOs generally operated apart from regional government. Their contact with regional government was most visible in donor supported efforts. However, the efforts were limited and transitory, and did not result in a sustainable CSO community involvement in decentralized governance.

In the pre-decentralization era, Indonesian NGOs did make efforts to network, spurred by a desire to learn from each other. But networking was kept very informal and was not considered a priority, and was seen to be risky in some respects; for reasons of control and possible government intrusion. Nonetheless, larger NGOs established ways of partnering and channeling funds to smaller NGOs. The latter worked largely in isolation of regional/local government however, with some groups even priding themselves in this regard. This tendency was strongest for the smaller and newer NGOs formed in the 1980s.

With “era reformasi” came a flowering of CSOs of various legal forms, sizes, and focus. CSOs became specialized, taking up local governance issues such as local corruption, social safety net program monitoring and service delivery. Some began to work more intensively with regional government itself. Donors strengthened particular CSOs and encouraged networking amongst CSOs and with regional government. In some cases, donors built Indonesian capacity internally within their projects, and then spun off an NGO as their project work expired, with the hope of attaining sustainability. Generally donors created “development NGOs,” working directly with local communities on issues of water provision, health, education and other basic needs. However, these NGOs do on occasion interact with regional/local government and advocate to regional/local and national government on issues of importance to marginalized groups.

The mass media also picked up decentralization issues with greater intensity and incisiveness. Media interest picked up as attention turned to the functioning of the regional legislatures. A focus of the media has been corruption and money-politics in regional government/DPRD. There is perhaps less analytical capacity on other aspects of regional government, such as budget analysis and service issues.

NGOs have coalesced in networks for greater impact in advocacy work to influence government regulation, laws or ministerial decrees related to regional autonomy. University involvement in decentralization, prior to the reform era, was heavily constrained; on many occasions researchers were working solely for government bodies or were co-opted conceptually by the dominant ideologies and state interests. Freed of government influence in the reform era, universities were rather slow off the mark to take advantage of new

opportunities to support regional governance in tandem with central or regional government. However, over time, some universities began to establish specialized centers to examine decentralization issues, or to bolster this theme in existing departments and centers.

With the advent of reform, donors backed knowledge institutions in a more intensive way, undertaking, for instance, independent assessments of decentralization issues. They built local capacity through local staff and consultants to implement studies and programs, and initiated greater cooperation with universities and existing research centers. The notion of developing local institutions is part of the aid effectiveness discourse, and is reflected in the Paris Declaration of 2005, albeit in general terms. Currently, several donor supported projects place CSOs/universities (and private sector entities) front and center in their assistance strategies. At the donor-GoI level, the notion of working through intermediaries is less visible, perhaps reflecting the lack of dialogue on the larger question of donor exit strategies.

Only time will tell whether the three actors, government–CSOs/universities-donors, will build relationships that allow for greater impact and for a reduced role for donors in the long run. If improvements are to be seen in CSO/university effectiveness, donors will need to put increased emphasis on capacity building, and carefully examine promising avenues and former unproductive efforts. More intensive discussions, aided by more rigorous evidence from practice, are likely to support changes. These discussions should be based on a sound conceptual base in terms of capacity development, and be oriented toward the longer term goal of making a developmentally rational donor exit.

Both donors and government need to appreciate how long it takes to build local institutions to play the roles now being played by donors. Indicators need to be developed to assess when the state has entered into a new “contract” with civil society, and when current donor roles can give way to more equal and mutually beneficial forms of collaboration between countries. The exit strategies seen in Indonesia prior to the economic crisis were weak in this respect, and did not stand the test of time. Early attempts to refashion these in recent times do not seem to have come to grips with essential institutional/governance considerations.

Role of Regional Government Associations

In the context of the 1999 decentralization reforms, the GoI encouraged and guided the formation of individual regional government associations (RGAs) to separately represent the interests of the regional executive and of regional house of representatives for districts, municipalities, and provinces. Legal acknowledgement of the RGAs came in Law 22/1999 in the form of their membership on the Council for the Deliberation of Regional Autonomy (DPOD), and in MoHA guidelines. If somewhat intrusive, the above approach at least acknowledged the potential contribution of the RGAs to national regional autonomy policy making. This in itself was a marked departure from the pre-decentralization days, when only a very tightly controlled BKS AKSI (municipality government association) was allowed to exist.

This situation changed with the advent of Law 32/2004. The DPOD was placed on shaky ground (it “can” be formed), and the provision for RGA participation on the DPOD was removed. No mention of the RGAs can be found in the law. It appears that MoHA is ambivalent about the role of RGA and wishes to either control them or lessen their collective

strength vis-à-vis government policy making. How the government views RGAs and receive them is a political decision that carries consequences for both the RGAs and government. The donor community is unified in its belief that the RGAs can and should play a vital role as contributors on policies and regulations that shape regional government mandates, procedures, and resources, and as a source of support and capacity development for its members.

The RGAs vary considerably in their capacity and efforts towards members. This variation reflects their relative strengths but also their particular position. The provincial level RGAs do not function as typical RGAs, as the members have strong connection to power holders. District/municipality level RGAs advocacy and service to members also varies. They have all gained some capacity over the last five years, but in fits and starts, and with some significant slips as well. The RGAs suffer from inconstant or uneven leadership at the board and directorship levels and low resources resulting out of unreliable payment of membership fees.

It is obviously difficult in these circumstances to support or improve significant member services. Even so, the RGAs have tried to develop training, seminars, and workshops, produce guidebooks, and even provide some technical assistance. Most efforts are quite limited. The most common services are the provision of information (e.g. on draft or new laws and regulations and good practices) through newsletters or websites. Some sense of belonging and appreciation for the role of the RGAs by the membership can be seen in the response to the tsunami.⁴

The flowering of RGAs was promising, but the fragmentation among the associations (particularly at district/municipality level, and between the DPRD and executive) has dogged the development of the RGAs since their inception. In the main, they have not sufficiently cooperated among themselves, and have therefore not been able to mount effective advocacy or services to their own members. One notable exception has been the “*Forum Asosiasi*”, involving all four district/municipality level associations.⁵

The pattern of support appears to have been uneven, but overall quite plentiful. It may well be asked why the RGAs remain very weak after five years of support from donors. Perhaps the assistance has not been anchored to a comprehensive capacity development analysis and framework to guide it. Donors have all chipped in, recognizing the great need, but have not yet “harmonized” their approaches to get the biggest bang for their effort. The ambivalent stance of MoHA toward the RGAs has something to do with the limited success of the RGAs. It must also be acknowledged that it takes time to build up capacity in such a complex field as centre-region relations and capacity development for regional government.

The RGAs need to consider whether their structures and mandates truly further the interest of the regions (*daerah*). The fragmented nature of the RGAs, and their limited membership coverage makes the RGAs seem like unconnected professional associations. What is often

⁴ The RGAs facilitated the delivery of financial and in-kind assistance from members to the regions of Aceh. For instance, BKKSI facilitated donations of Rp. 4 trillion.

⁵ This forum sought external expertise to gain a deeper understanding of the legal framework, held internal deliberations, forged some common positions on the revision of Law 22/1999, and communicated these to the central government and the national legislature. The work of *Forum Asosiasi* unfortunately flagged following the introduction of Law 32/2004, precisely when views and energy were needed to influence important new government regulations on many issues of interest to the RGAs.

lost in the efforts of the separate RGAs is a sense that their representations reflect the collective interests of the regional government and their constituents, i.e. the concept of “*daerah*”.

To be more effective, the RGAs need to fashion stronger bonds, or indeed bring about mergers of the various associations (at least the four district/municipality level), so that the regional perspective comes through in a stronger and more representative way. Donors need not try to precipitate mergers, but they should consider making their support conditional on joint efforts at the very least. Donors can also increase support for sound organizational development, focused on reducing wasteful overhead, increasing leadership and management skills, and improving staff performance through increased wages for competent staff. Top quality management is essential for all of the RGAs, as is the need for RGA managers to craft effective cooperation strategies.

Donors should respond also to needs as they are shaped by the RGAs themselves. The technical working group idea of ADEKSI and APEKSI has much appeal (drawing on regional government staff and external resources). It may result in stronger analysis, sounder policy positions, and better communication strategies. It is deserving of support from donors, but the effort needs to be shaped to join district/municipality level RGAs, with the topics and positions selected to reflect common challenges and interests.

The recent RGAs response to lack of recognition from MoHA is to switch from a one track advocacy approach, directed to MoHA, to a multi-track approach. This broadening may turn out to be more productive than a relationship strictly focused on MoHA, but this still depends in large part on the RGAs being more united and sustaining their advocacy effort. RGAs must also be mindful that, in the final analysis, it is their relationship with MoHA and other central government agencies that is key to their success. MoHA and other ministries involved with regional governance need to see tangible benefits of cooperation with the RGAs. They will be more easily persuaded to cooperate if the RGAs have worthwhile ideas and concrete suggestions. They will also be more inclined to be receptive to RGAs if the donor community is clear that such a stance is part and parcel of good practices in intergovernmental relations.

Donor Coordination in Support of Decentralization/Local Governance

The success of decentralization depends overwhelmingly on the actions of the Indonesian government and stakeholders. Donor support can play a catalytic role in bringing the stakeholders together and suggesting more effective policy development processes. Moreover, donor funding and technical assistance can cover, in an exemplary fashion, a modest part of the vast capacity development effort that is required to bring about good local governance. In all of the above efforts, donors are well placed to bring to the table good practices from relevant international contexts.

Since 1998 Decentralization assistance has been focused on MoHA and MoF in view of their critical role in providing a framework for the regions on administrative and financial matters. For a time (2003- mid 2005) MoHA became reluctant to draw on donor support for policy making, though MoF and Bappenas continued to invite assistance on selected reform efforts. The closed nature of the drafting process for Law 32/2004 on Regional Government and Law 33/2004 on Fiscal Balance reflected the government’s mood at that time. More recently,

donors support to MoHA has been increasing, and this agency is showing a more open approach to non-government organizations. Bappenas and MoF continue to have steady levels of support.

Following an initial period where bilateral agencies played the dominant role among donors (up to 2000), the IFIs have more recently entered the scene with substantial loans, while taking an increasingly prominent role in the policy dialogue (through the CGI in particular) as well as regional capacity development. The World Bank had, in 1992, become the sponsor of the CGI meeting on the donor side. It used this forum in the reform era to promote a dialogue on reform, including decentralization. This was conducted mainly through the Joint Working Group on Decentralization (JWGD), one of several working groups of the CGI. It is chaired by the GoI (MoHA) and co-chaired by a donor. Bilateral donors continued to play a significant role by chairing the JWGD on the donor side, and being key providers of assistance to MoHA, MoF, and Bappenas. Sectoral projects tended to have a larger IFI presence.

The focus of national policy support in the last two years has shifted somewhat from political/administrative to financial management issues. This includes a new stress on improving national level processes and structures (e.g. PRSP, mid-term national planning, budget processes, special service agencies), with the expectations that similar changes would be made to regional levels or that the more efficient national level actors will have a variety of knock on effects on regional development/governance. A renewed effort to involve donors in the preparation of follow-up regulations to Law 32/2004 is also afoot in MoHA. An effort is being made to find convergence of the various legislative streams (e.g. Law 25/2004 and Law 33/2004) as these government regulations are being produced.

Throughout the above evolution of donor assistance, donors have taken the lead role in coordinating their efforts. Information sharing was usually conducted through personal links among donors and informal multi-donor sessions on occasion. Since 2000 it has been done largely through regular meetings of the Donor Working Group on Decentralization. As the number of donors increased, attempts to intensify and give more structure to coordination and cooperation were seen. On occasion a GoI unit would lead these efforts (e.g. Bappenas in 1999), but in the main these efforts were lead largely by donors, with some success. However, these efforts were not able to avoid a great deal of duplication and waste, as evident in the field of regional planning and budgeting for instance. Donors worked closely with their specific counterparts but were not able to harmonize efforts across donor projects or to encourage coordinated approaches across GoI units.

As the attention given to decentralization in the CGI forum began to wane, the JWGD has struggled to find mechanisms to be more active and effective. The search ultimately lead, in late 2005, to the creation of the Permanent Secretariat to the JWGD, composed of the key Ministries/agencies e.g. MoHA, Bappenas, MoF and MenPAN (Echelon II level) involved in decentralization. This structure is expected to become an operational vehicle for donor coordination, through the establishment of technical working groups combining government, donors, and other stakeholders. However, its establishment has been slow; the Secretariat has scant offices, staff, and resources to match its mandate, making some donors doubtful about its prospects. Some donors also fear that the JWGD/PS will be perceived by other central government organizations as being too dominated by MoHA, and suggestions for a higher placed coordinating body have been floated (e.g. in the President's office).

Another significant development in 2005 was the creation of the Decentralization Support Facility (DSF). DSF is a set of arrangements agreed among several donor partners. It is largely funded by the UK's Department for International Development (DFID), and managed by the World Bank, under Trust Fund arrangements. The partner agencies include ADB, AUSAID, CIDA, DFID, GTZ, Netherlands, UNDP, USAID and World Bank. Its initiatives include efforts to develop regional government performance indicators, the Governance and Decentralization Survey, and the stock taking on decentralization being conducted on behalf of the JWGD. DSF strives to intensify cooperative behaviour among key institutional players at all levels. This effort to harmonize donor support is welcomed by most actors. After a rocky start DSF is now more strategically searching for means to put GoI in the lead for donor harmonization. Besides striving to establish formal links with the JDWG/PS it aims to intensify the coordination with GoI through a ministerial GoI leadership in the DSF management committee and wants to encourage active dialogue of ministerial DG/Director level staff with its technical Focal Area Teams. It also supports a broad engagement with other key stakeholders in decentralization such as the regional governments, RGAs, CSOs and research institutes.

Left on the fringes of coordination to date has been CSOs and the RGAs. Also the political dimension has been lacking; an enlarged dialogue combining all these voices may pose a difficult challenge, but it is one that needs to be met since the government is committing itself to a "consolidation" phase for decentralization that includes elaborating the current framework laws but also revisiting these at some point in the future. This stance of the GoI means that donors can expect to be involved in decentralization/local governance for at least 5-10 more years provided the GoI continues to see the value of this assistance.

The work plan of the PS is ambitious, and will need considerable resources from the GoI and donors, and a closer and more intensive relationship between the two. The structures (roles, memberships, linkages) of the JWGD, Secretariat, and anticipated Technical Working Groups are still ambiguous in some respects. Provided it is properly clarified, this institutional approach promises to be an effective forum for discussions of policies and donor support, but it calls for a significant investment from the GoI to make it work. It will need to coordinate better internally to present some common "GoI" policies (on decentralization and donor coordination) and it will need to have a properly staffed, housed, and capable PS. Donors, for their part, would also need to make more intensive efforts to support the GoI in the lead role. Effective use of the Secretariat may help to avoid the duplications and gaps seen in reform support to date.

Another way to strengthen the JWGD forum is to link it tightly with the CGI working group on aid effectiveness. The latter group has not been very active, but its issues are critical to decentralization support's success; the need to strengthen the Government's capability to undertake reforms and coordinate agencies involved; enhancing involvement of civil society; and identifying and applying the most effective capacity development approaches.

If the JWGD effort fails to deliver, it may however be necessary to identify other forums for more effective coordination in decentralization/local governance. Regardless of the actual form taken, it is important to link the many donor or multiple-stakeholder platforms/forums to the policy coordination efforts of the state.

CONNECTION OF THE STUDY TO GRAND STRATEGY AND NAPFD

The Grand Design⁶ (2005) and National Action Plan for Fiscal Decentralization (NAPFD)⁷ (2005) have been constructed to guide the government in charting the course of decentralization reform. Because their preparation and content do not build on observations and concerns raised in this Study, combining the findings and recommendations of the three papers is not a straightforward matter.

The authors have been able to use the Grand Strategy to some extent in this report to underscore the state/government reform objectives, especially where these have not been easily found in laws, regulations, or Ministerial instruments. The analysis and conclusions of some sections of the Grand Strategy should however be open to discussion, within the frame of the contributions of this report and other voices. In particular, the Grand Strategy does not address important issues covered in this report (it only cover 7 of the 20 topics reported in the study, see table below).

Similarly, the NAPFD is only one slice of decentralization, covering mainly fiscal issues (with spillover into functional assignment and services). It places the DPOD front and centre in terms of its strategies for bringing about reforms. Several of the actions called for in the NAPFD have already been achieved (even before the NAPFD has been finalized); and require clarification and additional review. It is recommended that the NAPFD be open for discussion in places.

Given the different stress and coverage among the three documents, they might best serve as complementary documents rather than a combined effort. For some topics, this report provides additional analysis and recommendations that brings to life some of the issues covered in the Grand Strategy and NAPFD. The preferred outcome would be for a unified GoI strategy, reflecting depth and consensus within the GoI principally, but also among stakeholders and donors, will emerge through a discussion that makes use of all three documents.

⁶ Version of July 15, 2005, prepared by the Ministry of Home Affairs. This was presented to Cabinet and MoHA hoped that it would be turned into a Presidential Regulation.

⁷ Version accompanying letter signed by Sri Mulyani, Minister for National Development Planning to Asian Development Bank, 10 October, 2005.

Chart 1: Comparison of Strategic Documents on Decentralization

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
|---|--|---|---|
| 1. Legal framework | Not addressed | Not applicable | Illustrates inconsistencies, poor choice of products, lack of clarity, closed drafting process. Suggests improvements in process, assistance to MoHA clearinghouse and role for Ministry of Justice and Human Rights, State Secretary. Suggest sectoral harmonization via constitutional amendment. |
| 2. Territorial reform | Calls for revision of GR. Analysis to identify ideal no. of provinces, districts and municipalities. Need for supervision and intensive support to new regions | Not applicable | Suggests moratorium, review of new regions, revision of GR with overhaul in methodology, and dialogue on nature of regional government autonomy desired |
| 3. Functional assignment | Empirical material is unclear. Focus of action is on finishing the GR, its socialization, monitoring and support to regions. Includes directive for Presidential instruction to central ministries to adapt legal instruments | Acknowledges MOHA effort to revise the GR on functional assignments (25/2000) reflecting fully the principle of subsidiarity, and clarifying the relative roles and obligatory functions and sub-functions of national, provincial and local governments. Calls for exploration of feasible solutions to eliminate inconsistencies between the regional autonomy laws and regulations and the relevant sector laws. “The Government, through DPOD, to adopt a clear time-table for the implementation of delegation of authorities between sector ministries (at least in health, education and basic infrastructure sectors) to the provincial and local governments...” | Supports a presidential regulation directing the ministers/head of agencies to prepare laws and regulation (or changes in these) within a set time to align sectoral legal instruments. Stresses role of MSS Consultation Team (Tim Konsultasi SPM). Enjoins donor supported projects active in relevant sectoral ministries to support counterparts so that MSS are properly formulated, costed, trackable, and feasible. Alerts to need to make MSS benchmarks if GoI seems unwilling to attain consistency across policy fields crucial to MSS. Suggests a fundamental review of the policy/legal foundations for regional autonomy, to eventually place agreed principles and provisions in a constitutional amendment that can guide future legislative improvements. Suggests eventual fixes on distinction between obligatory functions and discretionary functions; emerging concept of “remaining functions” (urusan sisa); rules of the game for discretionary functions. |
| 4. Role of the Governor and province | see “supervision” | Not applicable | Suggests GR will enhance Governor’s role and allows provincial administration to be decon implementing units. Encourage in-depth comparative study of international practice in the role of meso level governments in multi-level governments (in unitary |

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
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| | | | states). |
| 5. Inter-governmental fiscal relations | <p>Calls for preparation of follow-up regulations in synchronized way (for Laws 17/2003, 32/2004, 33/2004, 1/2004, 25/2004, 15/2004)</p> <p>Revision of Kepmendagri No.29 Tahun 2002.</p> <p>Increase RG capacities in performance based budgeting, with MSS, achieving efficiencies etc.</p> <p>Shift of decon funds to DAK.</p> | <p>Calls for sound simulation models, to achieve efficient and equitable distribution of resources. The review would focus on: (i) balancing between fiscal needs and fiscal capacities; (ii) the feasibility of gradually expediting removal of the “hold harmless” provision until 2007; and (iii) balancing between different sources of financing, including shared revenues (DBH), general allocation grant (DAU); special allocation grant (DAK); Deconcentrated Funds; and special assistance funds.</p> <p>“MoF in coordination with the DPOD, to submit the recommendations to the Cabinet to ensure the transparency improvement of the DAU system...adopt a timetable for the transfer of deconcentrated expenditures for decentralized activities to DAK...submit recommendations to the Cabinet to strengthen the DAK framework to improve accountability with greater devolution of authority at the regional levels to fulfill national priorities.</p> <p>“Draft revisions to the Law on Regional Taxes and Charges</p> | <p>Suggest GoI should hold the course in phasing out the hold harmless provision of the DAU, revise the DAU to include all revenue sources if feasible, make it more equalizing via inclusion of MSS expenditure norms, and reduce the wage bill component. Suggests the DAK be a transition mechanism to compensate for the equalizing limitations of the DAU, with an enhanced role of the Governor/province, combining a top-down with bottom-up mechanism that rewards service delivery and governance results (performance –based grants). Performance based grants could be modeled early on with the income tax portion directed to districts/cities by the province. Suggests MoF use GR on functions to set out a clear time frame and mechanism for sectoral ministries to make the shift from DIP/tugas pembantuan funds (that relate to functions of the regional government) to the sectoral DAK grants.</p> <p>Suggests clarification of DAU vs. DAK</p> <p>Suggests increase in transparency in municipal credit markets, and introduction of default regulations, and attention to fiscally weak regions in terms of access to other sources of funds.</p> |

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
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| | | (34/2000) to enhance discretion in setting rates as well as to extend the tax base and charges which are stipulated as positive lists (closed lists) submitted to the Parliament.” “MoF to finalize a clear policy and mechanism on intercept of these transfers [DAU – for borrowing]” | |
| 6. Supervision | Notes existence of “hierarchy.” Notes lack of coordination, and lack of follow through. Calls for GR on Guidance and Supervision, sanctions, coordination, enhanced role of Governor as rep. of centre. | Calls for plans for improving financial reporting. Effective enforcement of sanctions for failure to report financial information on a timely basis to higher authorities. More regulations submitted to MoF. Revoking of inconsistent regulations by MoHA. | Suggests a review/refinement of the existing regulations framing intergovernmental supervision, to ensure clarity in concepts, roles and organizations, and incentives/sanctions for lack of compliance with reporting requirements. Also a significant effort to enhance the capacity of oversight and supervisory institutions, in particular at the provincial level. |
| 7. DPOD | Not addressed | “MoHA to ensure that the DPOD is (i) adequately resourced to coordinate the implementation of decentralization, with the attendant tasks of in depth assessments of issues and stakeholder consultations; (ii) empowered to carry out its tasks efficiently; (iii) meets as a full Ministerial Body at least once every quarter; and (iv) tasked as well as provided with adequate resources to monitor and evaluate progress achieved under National Action Plan for Fiscal Decentralization (NAPFD) and submit reports on a quarterly | Treated (lightly) under oversight/supervision |

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
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| | | basis to the DPOD.” | |
| 8. Regional organizational structures | Assumes widespread abuse (“heavy” organizations), a need for uniformity and reflection of central structures. Calls for issuing of revision to GR 8/2003 and other regulations for kecamatan, desa. Piloting of approaches in some regions. | “Adopt a sound regulatory framework to provide clear and adequate incentives and flexibility for local governments on the administrative structures, the number of civil servants, their qualifications and the rewards/incentive system.” | Suggests: freedom to innovate be ensured and more emphasis on disseminating lessons learned, and integrating these into regulations, guidelines, and training; increasing piloting and forming a forum to stay abreast of their development; framework redesign to make clear roles of actors; rules on RGs’ organization to be based on broad criteria including; reforms in personnel have to be compatible with the organizational needs of RGs; new personnel policies and instruments which address and overcome the current ineffective policies and instruments. Suggests a transitional period to facilitate moving from the “old system to the new system”, with pilots to test emerging practices (from Indonesia or elsewhere) and building confidence that models can work. |
| 9. Personnel management | Notes problems of mobility and parochialism, and heavy administration. Calls for GR on qualifications, better HRM, more functional positions, rightsizing, and mobility vertically and horizontally. | See above | |
| 10. Service provision | Notes the low front-line expenditure level (30%) of budgets, lack of clarity in procedures, lack of MSS legal basis, and low capacities. Calls for GR on MSS, more funds for basic services and shift to front-line expenditures, one stop service, complaint mechanisms, improvements in evaluation and reporting, sticks and carrots. | “DPOD to formulate a system of policy mandates and priorities to benchmark the delivery of public services in health, education, and basic infrastructure sectors, with clear sector-level milestones and indicators. The system of policy mandates will be an interim step in the development of MSS in these sectors, which is likely to be phased in over a | Suggests: attention to harmonizing the developing legal framework affecting service delivery; a concerted effort in applying minimum service standards, with donor support to the relevant central level sectoral agencies and a nation wide capacity development effort for regional government; a screening mechanism to validate innovations, and how these can best be packaged for dissemination; examine the role of good practices/innovation disseminating organizations in service delivery to note where cooperation can increase and |

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
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| | | period of 6-8 years, in line with national commitment to the achievement of MDG.” “Formulate methodologies and costing for MSS in at least 3 sectors (Health; Education; and Basic Infrastructure).” | duplication can be reduced; explore peer-to-peer mechanisms; encourage development and dissemination of good practices/innovations through recognition/awards; spur regional government investment in basic services through performance based grants that recognize efforts to close service gaps. |
| 11. Planning and budgeting/ financial management | Not addressed | Calls for regulatory reforms and capacity development measures instituted to strengthen regional financial management, including effective management of local government assets. | Suggests: further “synchronization” in drafting current draft GR on Regional Planning; provide concrete guidance (e.g. manuals/training on MTEF, gender analysis, pro-poor budgeting) to regional planners and financial administration staff in a larger capacity development strategy (stress, sequence) that can ensure national coverage and sustainability of the capacity development effort; monitor regional government practices in planning, budgeting, and other aspects of financial management that will yield feedback to central level policy makers; harmonize, simplify and elaborate the policy, legal and guidance framework on regional planning and budgeting/financial administration. |
| 12. DPRD | Collusion between DPRD and regional head is noted, as well as antagonism, their stronger ties to party vs. electorate, and money influence in elections. Calls for the GR on Information on Implementation of Regional Government, capacity raising; technical staff seconded to DPRD. | Not applicable | Suggests: making the Council Secretary independent from the influence of the local government; professional staff for Council Secretariats recruited from inside or outside local government; end practice of rotating Council Secretary with other district office heads; expand CB on Perda drafting and draft evaluation for the executive, the council secretariat, and council members, esp. on protection and promotion of constitutional rights; support communication strategies for councils/members on budget, policies, and regulations, DPRD sessions/meeting schedules, |

| | Grand Design | National Action Plan For Fiscal Decentralization | Decentralization Stock Taking Study |
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| | | | outcomes of meetings, decisions and statements; support development of supervision mechanisms to increase accountability; include political parties in CB efforts |
| 13. Heads of Regions | Preparation of several GR and guidelines. Socialization and capacity building of Head of regions and DPRD. | Not applicable | Suggests: developing more capable electoral administration to ensure integrity of the pilkada process, including provisions for more avenues to address grievances; pushing for greater democracy within parties in selecting candidates and eliminating money politics in the arrangement; maximizing the room still available for DPRD to hold regional head accountable. |
| 14. Local Parties | Not addressed | Not applicable | Suggests: support development of party programs; further internal regulations of parties, esp. financial management (e.g. reporting mechanisms on party assets and finances to the public and internally to party members and codes of ethics in relations with constituents); membership development; democratic selection of party candidates for top party posts and positions on election lists; dialogue with constituents between elections. Possibility of independent candidates. |
| 15. Local Elections | Evaluation of Regional Elections. | Not applicable | Suggests: improvements in election law (e.g. in open lists); continued support to KPU; internal party practices (see local parties); disseminating information on candidates; reform of law on political parties. |
| 16. CSOs | Not addressed | Not applicable | Suggests: improve legal provisions on freedom to organize and the right to assemble (e.g. old regulations on mass organizations and on associations); increase CSO CB with balance on individual and networking support; work on CSO-stakeholder trust building; assess sustainability of initiatives; seek to understand why CSO involvement in decentralization/local governance is relatively low; |

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| | | | emphasize constitutional and human rights. |
| 17. Villages | Not addressed | Not applicable | Suggests: clearly establish the scope and process of the revision of village policies and legal instruments, and driving vision; develop academic position paper by October 2006 and undertake exemplary process this time around. |
| 18. CSO/university networks | Not addressed | Not applicable | Suggests: diagnostic work prior to more support for CSOs/universities, their networks, and their linkages with government; intensify discussions on the objectives and approaches to supporting CSOs/universities active in decentralized governance, and the division of labor between government and donors (e.g. exit strategies for donors, and how CSOs can be instrumental in shortening the time donors need to be present/form of presence). |
| 19. Regional Government Associations | Not addressed | Not applicable | Suggests: donors should intensify discussions on how RGAs can best be supported (“intermediary” role, support to the secretariats that are sustainable, division of labor between donors); increase RGA ability to do technical analysis as base for advocacy; explore models of RGA-government accords on communication/negotiation, with reference to international experience. |
| 20. Donor coordination | Not addressed | Not applicable | Suggests: clarifying JWGD coordination structures; rationalizing the many donor working groups; ensuring that the DSF dovetails effectively with the JWGD/Permanent Secretariat; integrating aid effectiveness discussions in the JWGD; intensifying the discussion on crucial topics of aid effectiveness/decentralization/local governance (e.g. on joint efforts, assessment of good practices, modalities, exit strategies); considering the creation of an additional forum, |

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| | | | or expansion of the existing JWGD, to accommodate the voice of civil society. |
| 21. Special Autonomy Aceh | Calls for preparation of Law 18/2001. Aims for Diklat Training, and capacity building. | Not applicable | Not addressed |
| 22. Special Autonomy Papua | Expresses the need for development of concepts on issues, such as governance, education, health, indigenous land rights, status of West Papua, political concept, Peoples' Representative Board. Socialization. | Not applicable | Not addressed |