



Asymmetric Decentralization: Indonesian Experience

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Discussion Agenda

1. Why Indonesia should decentralize?
2. Asymmetric Decentralization: Terms, Implications and International Practices.
3. Indonesian asymmetric decentralization: Aceh, Papua, and Jogja.
4. From political to economic impetus.
5. Equal prosperity: The ultimate challenge.



Why Indonesia Should Decentralize?

- Sheer size: 4.8 million km square; only 1.9 million km square lands
- Islands: 13,667
- Distance: 5,110 km from West to East; 1,880 km from North to South
- Large population: 252 million (2015)
- Unbalanced population distribution: 61.7% are resided in Java, which constitutes only 7% of the Indonesian area.
- More than 300 ethnics and local dialects, diversity in customary traditions and religions.

INDONESIA



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- National capital
- ⊙ Provincial capital
- ◻ Town, village
- International boundary
- - - Provincial boundary
- Main road
- - - Secondary road
- Railroad
- + Major airport



What do we mean by Asymmetric Decentralization?



- Different arrangements between the central government and different groups of, or individual, lower-level governments, may be justified from an economic efficiency perspective

A decentralized system of regional and local governments is better able to accommodate differences in tastes for public goods and services (Garcia-Mila & McGuire, 2002).

We find that asymmetry is intrinsic to fiscal decentralization, even in a scenario where clear advantages from well-developed decentralized systems arise. (Sacchi & Salotti, 2014).



How Countries Share Natural Resource Revenues?

No.	Country	Shares	
		National	Sub-National
1	Switzerland	45%	55%
2	Estonia	50%	50%
3	Malaysia	60%	30% (states)
4	USA	54%	46% (states)
5	Germany	75%	25%
6	Brazil	55%	45% (mining tax) 2.3% (districts)
7	Nigeria	Flexible, according to Federal Account	31.5% (states) 10% (districts: 25% shared, 75% population-based)
8	Pakistan	80%	20%
9	Russia	61%	39% of taxes (provinces) 36% of taxes (districts)
10	Indonesia	85%	15%
11	China	90%	10%

Source: Bahl & Tumennasan, 2002; Kaji, 2008



Indonesian Legal Framework

1. The 1945 Constitution:

- Section 18A verse 2:

The central and local government relations on finance, public services, and natural and other resources utilization should be regulated and implemented in a justice and fair conduct according to the the law.

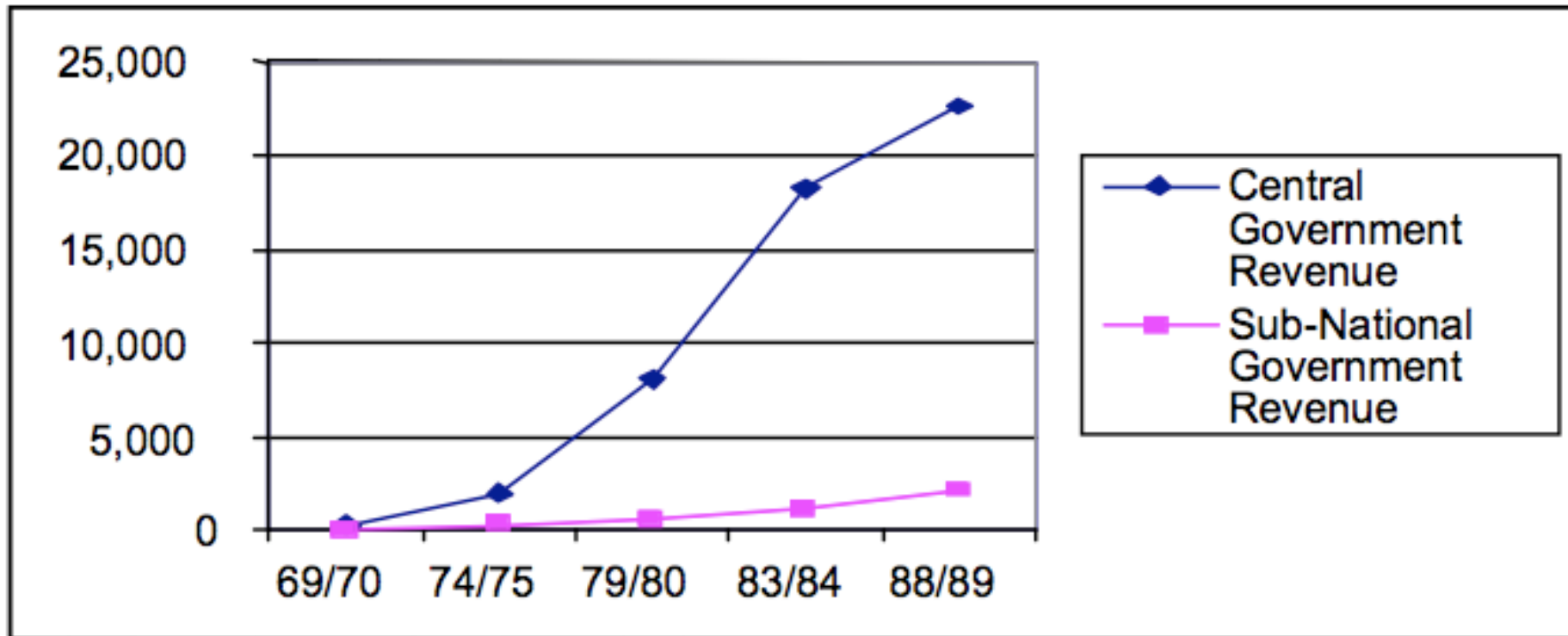
- Section 28I verse 2:

Freedom for every citizens is highly supported, all shall not be discriminated by any means, and all the citizens' rights are protected.

2. Law No.22/1999, Law No.32/2004 and Law No. 23/2014 on Regional Administration Systems.
3. Law No.33/2004 on Fiscal Balance Between Central and Local Governments
4. Law No.17/2003 on State Finance
5. Law No.18/2001 and Law No.11/2006 on Aceh Special Autonomy, Law No.21/2001 on Papua Special Autonomy, and Law No.13/2012 on Jogja Special Autonomy.



Inter-Governmental Fiscal Gap During Suharto's New Order

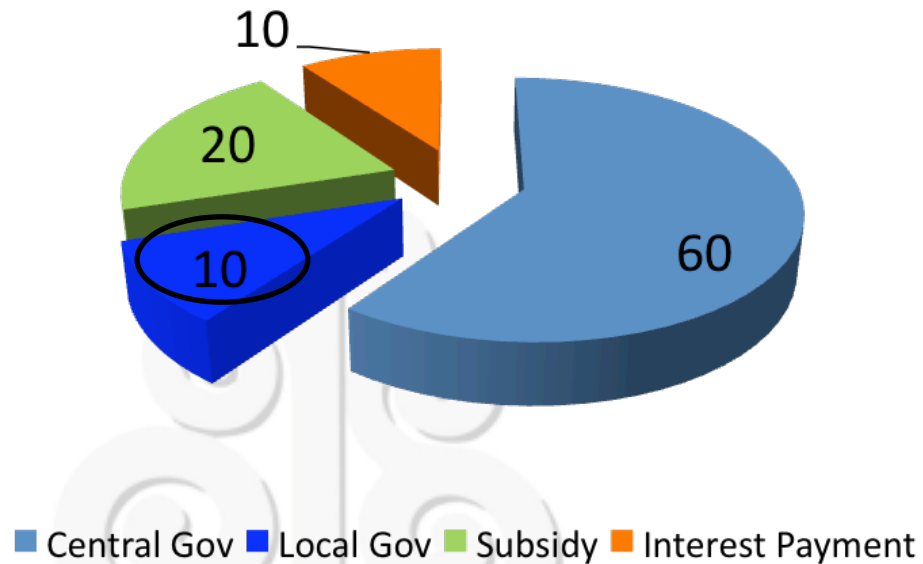


Note: Unit is billion rupiah

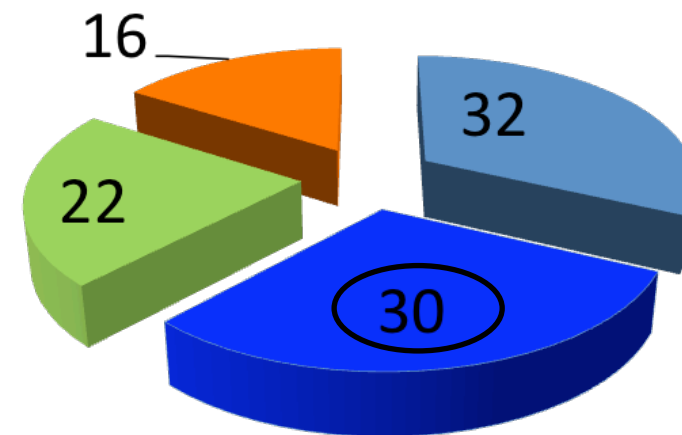
Source: MoF, 1997; Ranis & Stewart, 1994



Significant portion of transfer increased to Local Governments' budget



2010



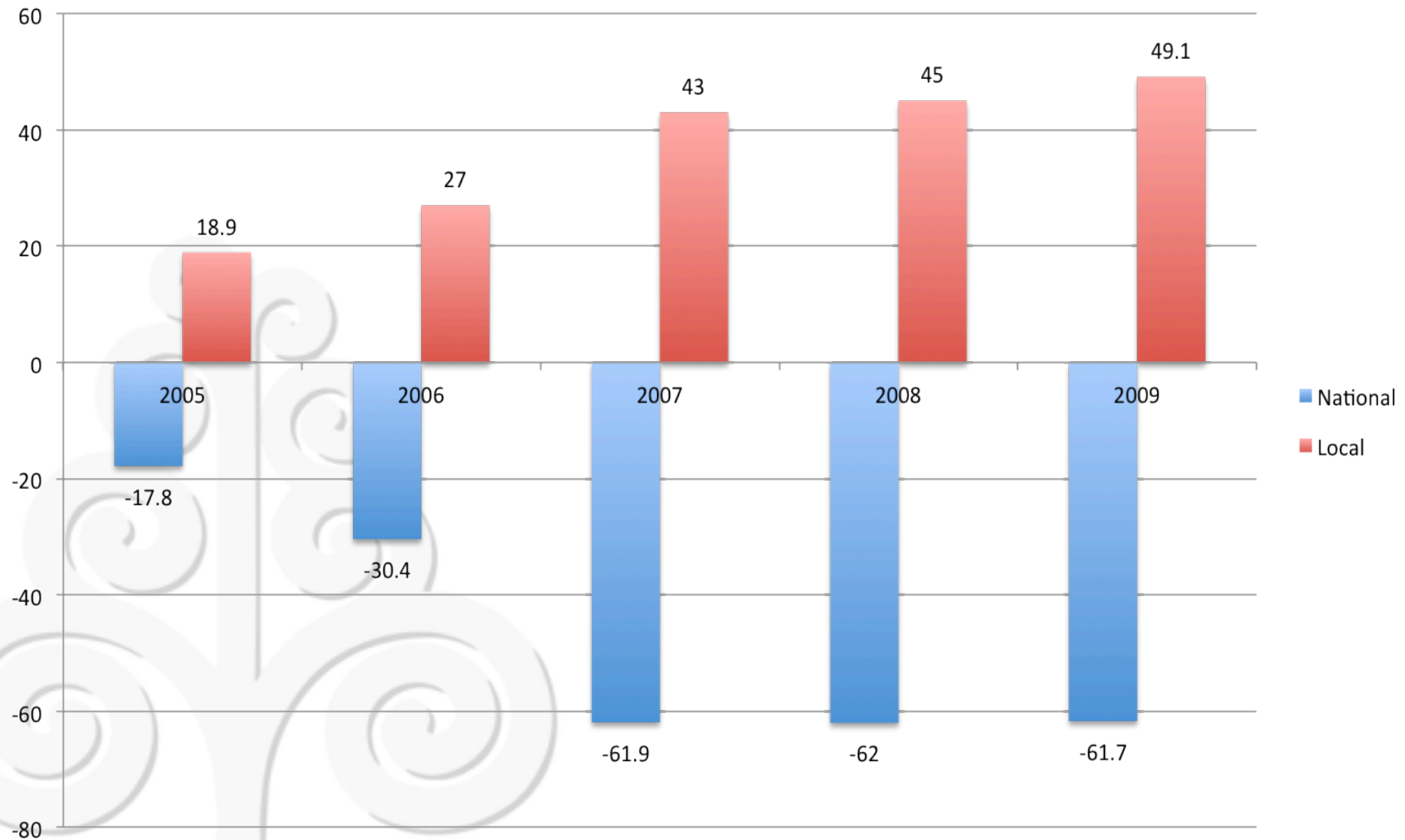
Fiscal Decentralization Strategies (Ministry of Finance)



- Fiscal Decentralization (FD) is an instrument to support local and national economic development.
- FD in Indonesia is emphasized on the expenditure side, and is funded from transfers. Discretionary power to spend according to local priorities are devolved to the regions.
- It is expected that better financial relations between national and sub-national governments (provinces, districts, municipalities) would support local economic development and would result in better and equal prosperity.



Surplus – Deficit in Central vs. Local Government Budget (Rp trillion)



Source: National Budgets, MoF

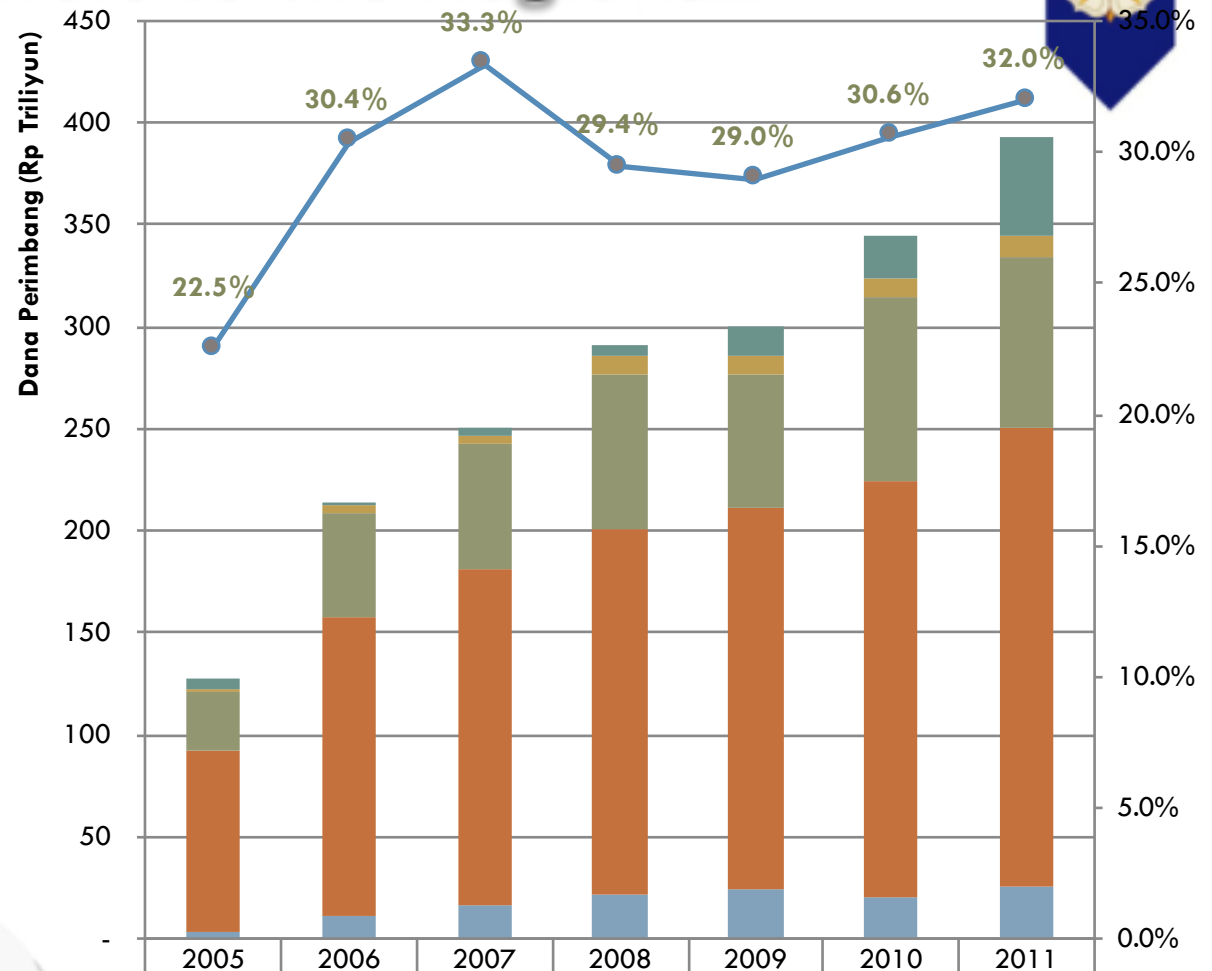
Transfers to the Regions



Objectives:

1. Narrowing down fiscal gap between national and sub-national gov'ts.
2. Support national development priorities that are carried out by the sub-national gov'ts.
3. Improve public services.
4. Increase local revenues.
5. Expand local infrastructure development.

(MoF, 2012)



Dana Penyesuaian	4,703	301	4,362	5,806	14,490.0	21,150.0	48,235
Otsus	1,775	3,488	4,046	8,180	8,857	9,099.6	10,421
DBH	27,977	51,638	60,502	76,585	66,073	89,618	83,558
DAU	88,766	145,664	164,787	179,507	186,414	203,607	225,533
DAK	4,014	11,570	17,048	21,202	24,820	21,138.4	25,233
% Dana Perimbangan Thd APBN	22.5%	30.4%	33.3%	29.4%	29.0%	30.6%	32.0%



Revenue-Sharing Funds (Dana Bagi Hasil / DBH)

Appportioned from the national budget (APBN) on a certain percentage:

- Tax-Revenue Sharing (property tax, land transfers fee)
- Natural resource revenue-sharing (DBH-SDA): oil & LPG, forestry, general mining, fishery, geo-thermal.
- Revenue sharing from excise taxes: tobacco, liquors.

Political Impetus for Asymmetric Measures: Perceived Inequalities & Exploitation



- They tend to intensify conflicts, separatisms, e.g. Indonesian cases in East Timor, Aceh and Papua (Mancini, 2007), Nepal (Gates & Murshed, 2005). Econometrics evidence is compelling (Østby, 2007).
- Economic inequality would be the underlying trigger of political conflicts among regions. It has common evidence in developed countries (Basel and Catalonia in Spain, IRA in England) as well as in developing countries (Aceh in Indonesia, Pattani in Thailand, Moro in the Philippines).
- Perceived oppression: “During these last thirty years the people of Aceh, Sumatra, have witnessed how our fatherland has been exploited and driven into ruinous conditions by the Javanese neo-colonialists: they have stolen our properties... Aceh, Sumatra, has been producing a revenue of over 15 billion US dollars yearly for the Javanese neo-colonialists, which they used totally for the benefit of Java and the Javanese” (ASNLF Declaration of Independence, 4/12/1976).

Arguments for Asymmetric Decentralization in Indonesia (#1)



1. It is actually based on Law 25/1999 (from bill to law, only took 3 months).
2. Asymmetric: national govt treatment to the regions “are not similar due to different political process”.
3. There is no formal document (academic draft, legislature note, general explanation) to support arguments for revenue-sharing proportions.
4. It was agreed by most decision makers that Asymmetric Decentralization was a political solution for regional diversity.
5. Asymmetric decentralization does exist in many countries, but in Indonesia there is a lack of rational justification.

Arguments for AD in Indonesia (#2)



- Asymmetric revenue-sharing scheme was a short-term political solution. In the long-term, there must be objective, transparent, and accountable arguments.
- Examples:
 - Germany → apportionment of 75:25 for national and state governments. Bavaria was a poor state, it needs 25% revenue-sharing to catch-up with other states and to overcome environmental issues.
 - US → the 54:46 apportionment was based on the principle of fiscal federalism; the states were given a significant authority to manage its natural resources.
- Then, what was the basis for 85:15 apportionment of DBH-SDA in Indonesia?

Special Autonomy for Aceh



- Aceh has never been conquered, or occupied, by other system, not even the Dutch.
- The Aceh Freedom Movement (GAM) was a serious threat for national integration. Inherited from the New Order govt.
- Aceh bear out Islamic shari'a law, very distinctive from other regions in Indonesia.
- Law No. 18/2001: 70% of oil and LPG revenue goes to the province, remaining 30% goes to central government.

Special Autonomy for Papua



- The Papua integration was carried out through a military operation (Trikorra) instead of free pebliscit.
- Revenues from mining activities do not give adequate benefit to the Papuans.
- Separatist movements of the Free Papuan Organization (OPM) had always been creating security concerns.
- Law No.21/2001: The Papuan People Assembly (MRP) was involved in local policy formulation. It stipulates a revenue-sharing of 70:30 for the province within 25 years and of 50:50 afterwards.

Special Autonomy for Jogja



- The kingdom of Jogja has been a local administrative entity, since Indonesia independence (Panembahan Senopati, 16th century).
- The court authority on lands in the province of Jogja remained significant (Sultan Ground & Paku Alam Ground).
- Sultan Hamengku Buwono IX was a notable figure during the national independence movement.
- Jogja is the center of Javanese heritage culture.
- The governors of Jogja province are hereditary and appointed, they are not elected. Note: local elections have been a waste for public money due to rampant “money politics”.
- Law No. No.13/2012: The acknowledgement of Jogja province special autonomy, a special fund is then allocated for cultural preservation and development.

Revenue Sharings in Indonesia



No	Sector	Law 33/2004 On Fiscal Balance	Law. 21/2001 on Papua	Law 18/2001 On Aceh	Law 13/2012 On Jogja
1	Forestry	80%	80%	80%	80%
2	Fishery	80%	80%	80%	80%
3	General Mining	80%	80%	80%	80%
4	Oil	15,5 %	70%	70%	15,5 %
5	LPG	30,5%	70%	70%	30,5%
6	Special treatment	-	-	-	10% of basic services

Source: UU No 21 Tahun 2001 Pasal 34 ayat (3);

UU No 11 Tahun 2006 Pasal 181 ayat 1b dan ayat 3; UU No 33 tahun 2004, UU No.13/2012



General Principles of Revenue-Sharing from Natural Resources (Searle, 2004)

1. Natural resources are non-renewable (principle of *exhaustible or replenishable*).
2. Impact on infrastructure requirements.
3. Ownership of the exploited resource.
4. Impact on the environment.
5. International or national market.



Anecdotal Evidence from Special Autonomy

1. Aceh:

- Special autonomy has been able to pacify separatist movements.
- Local economic development from the Otsus funds has flourished across the province
- A danger of stern shari'a law has created discrimination, hypocrisy and social conflicts.

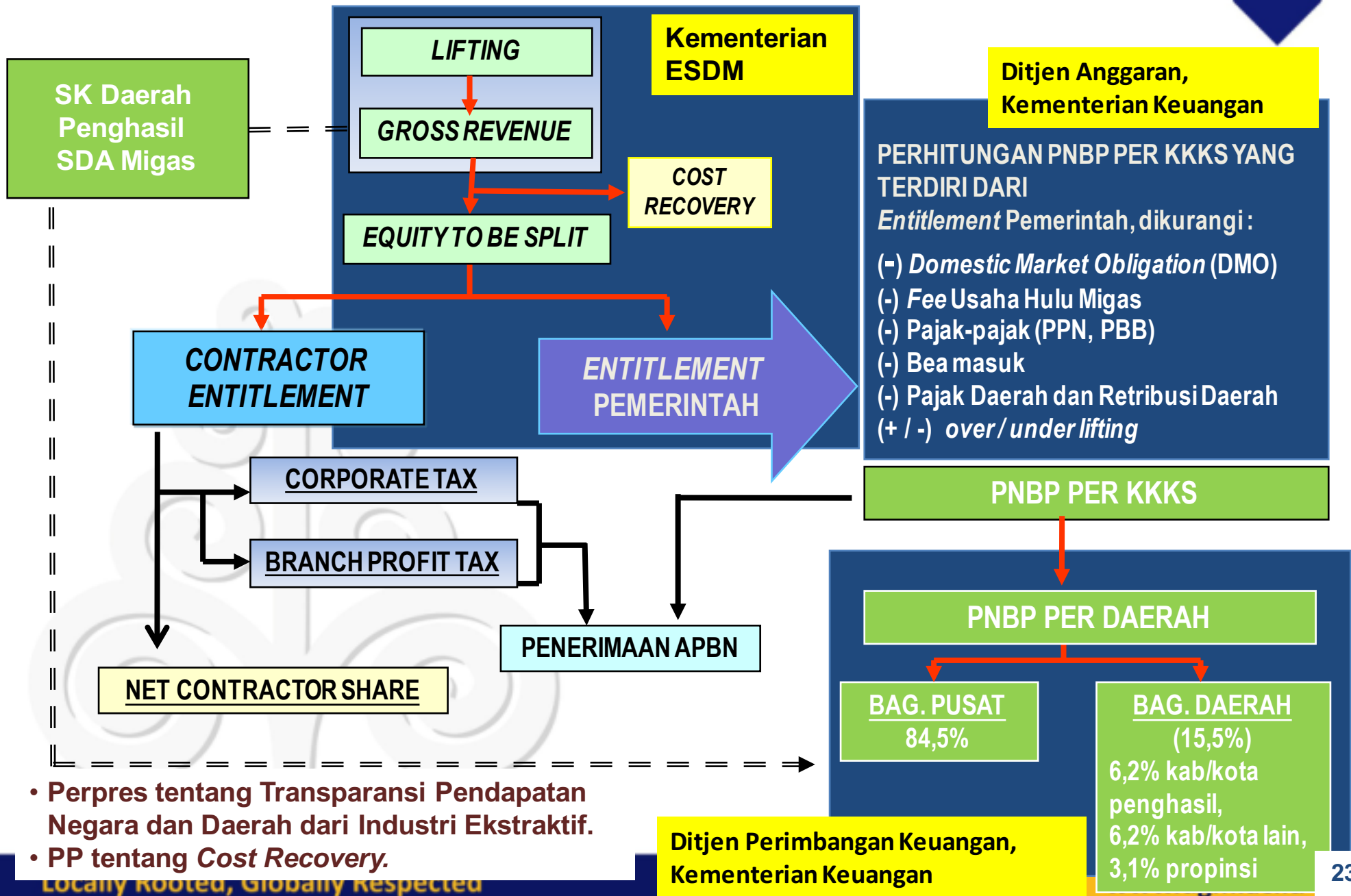
2. Papua:

- Rampant corruption due to primordial leadership → issue of accountability
- The use of Otsus fund does not deter separatist sentiments
- Too much focus on infrastructure development; the core issue on social development (education, health, social alienation) is left untouched.

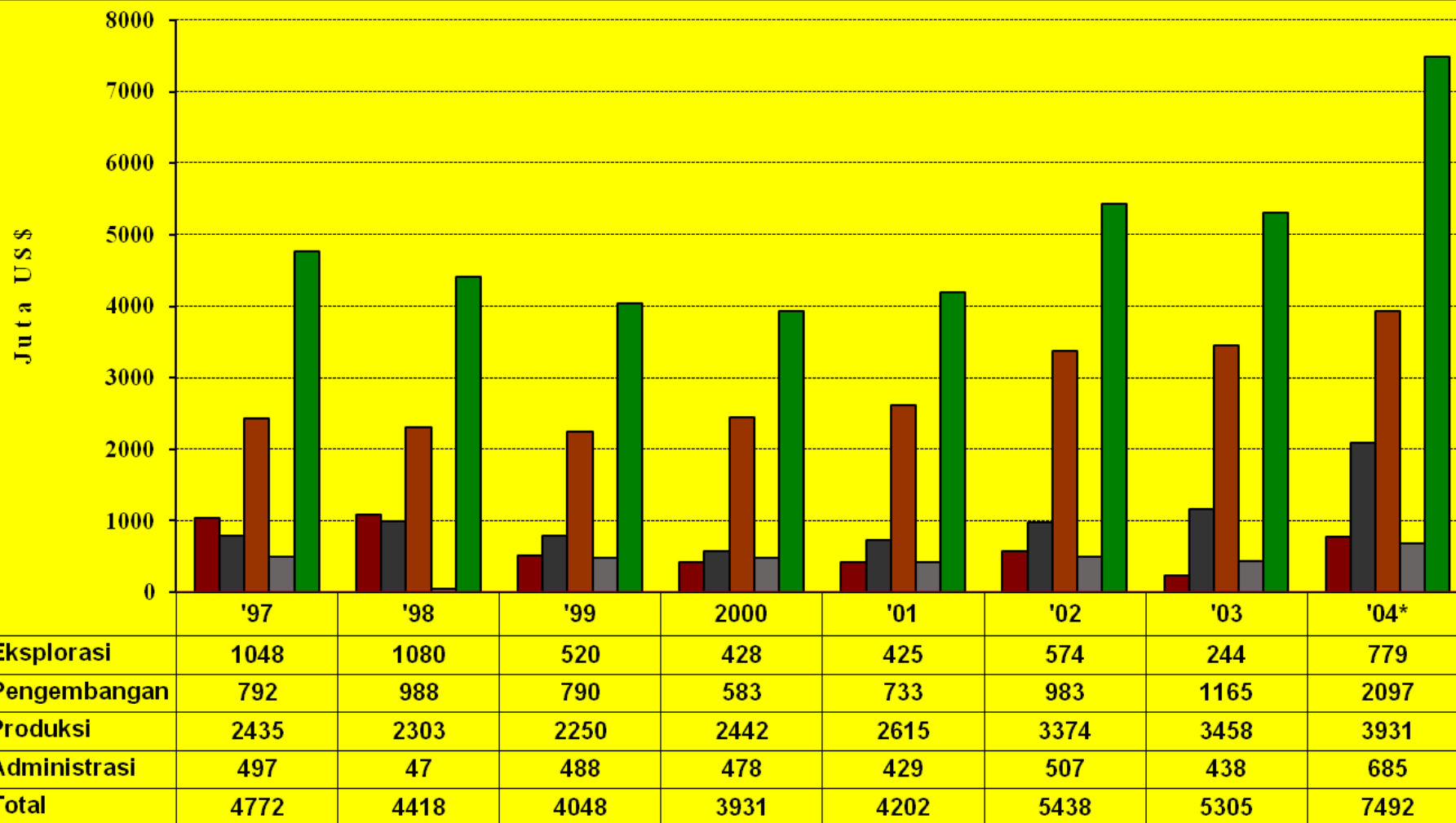
3. Jogja (since 2012):

- The future of monarchy remains unclear. Local democracy?
- Inequality (Gini index: 0.43, highest among provinces) is a threatening issue.
- So much of the specialty funds (dana keistimewaan) is undisbursed and under-utilized.

Confusing Method for Calculating Revenue-Sharing from Oil



Complaints from East Kalimantan: Why revenue-sharings for Papua & Aceh are different from that for East Kalimantan and Riau?

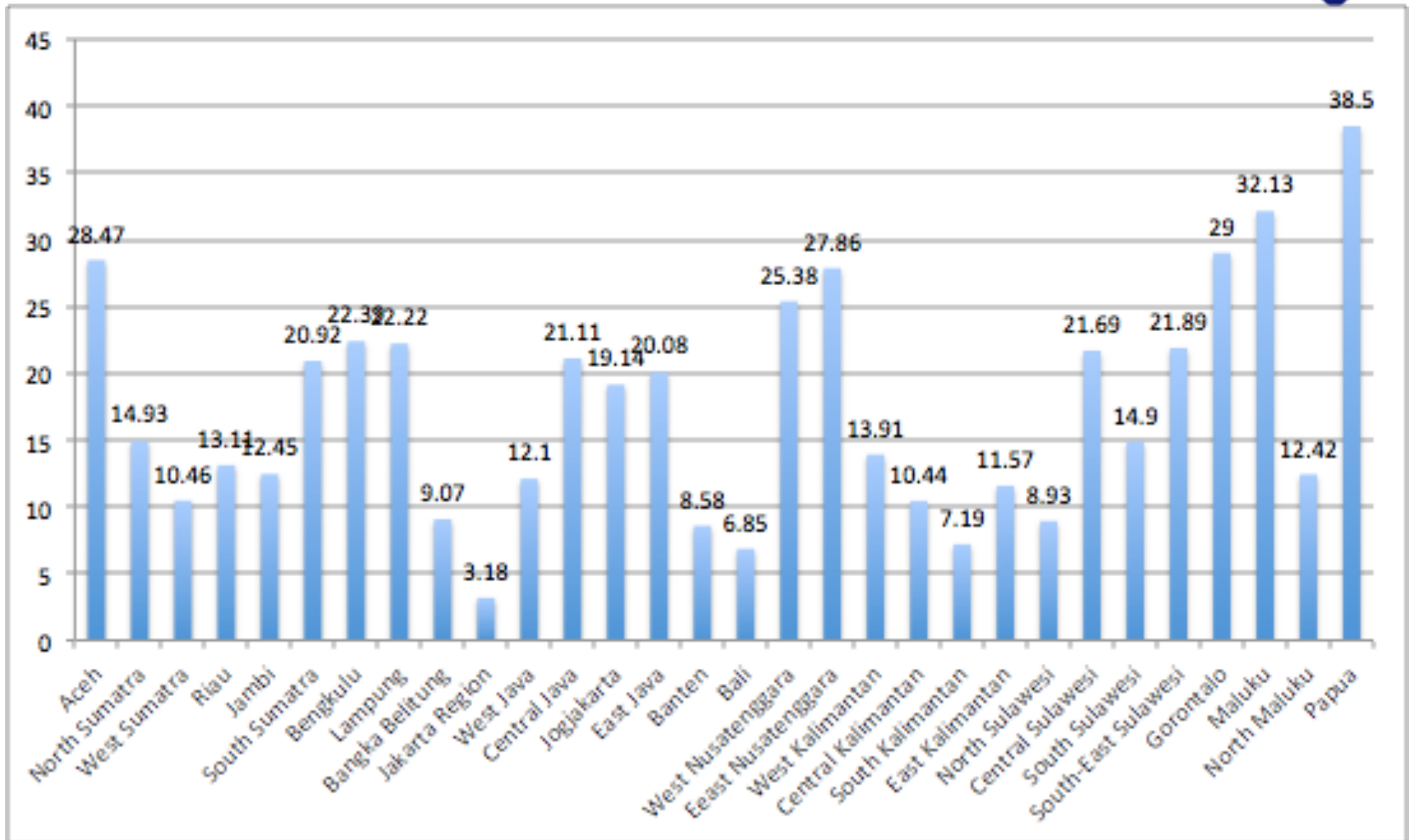


*) Angka Budget

Sumber: DESDM

■ Eksplorasi ■ Pengembangan ■ Produksi ■ Administrasi ■ Total

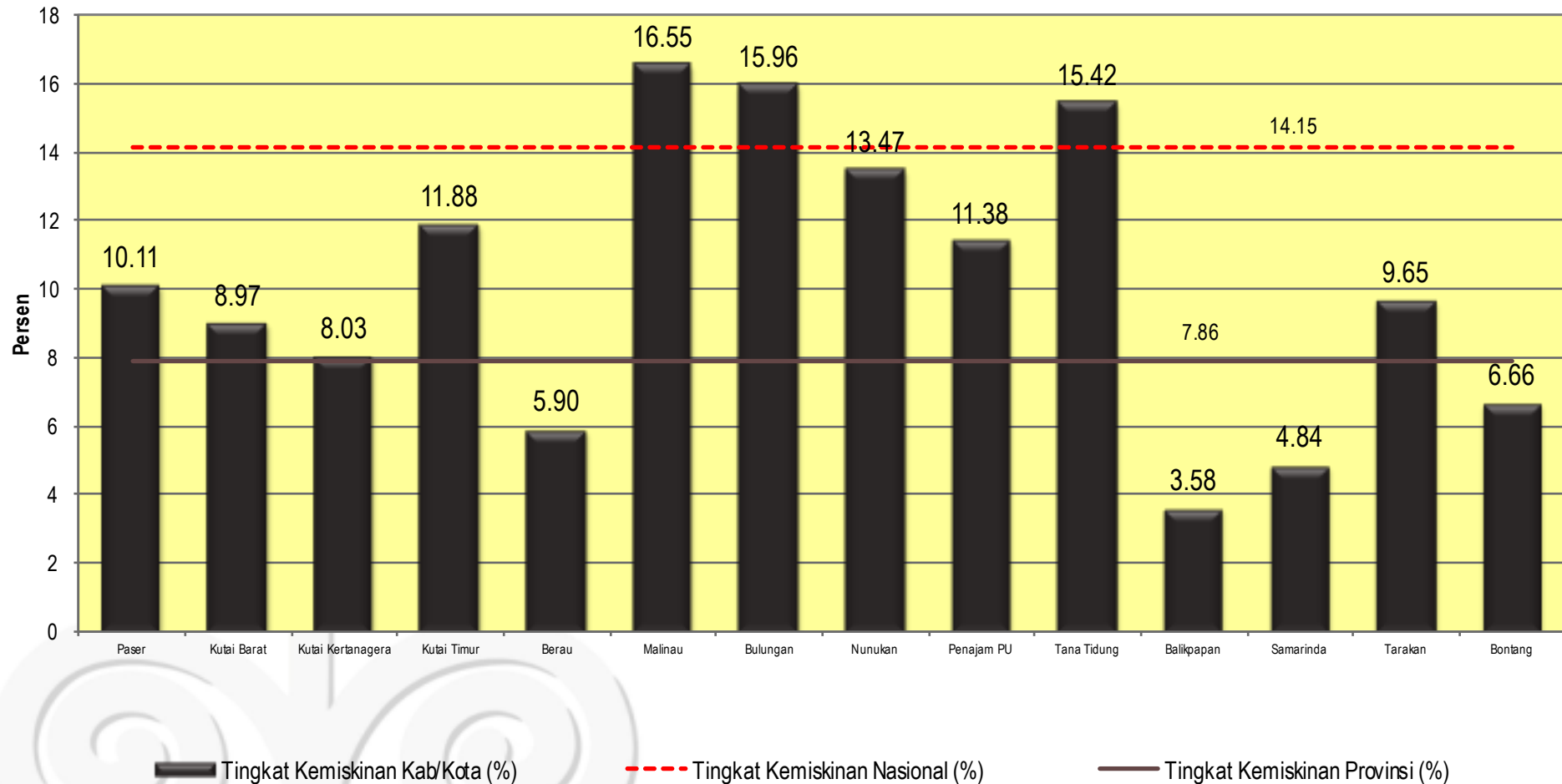
Poverty in the Provinces (%), 2009





Its Impacts on Poverty Are Limited

Case: East Kalimantan



Its Impacts on Environment Are Significant

Case: East Kalimantan

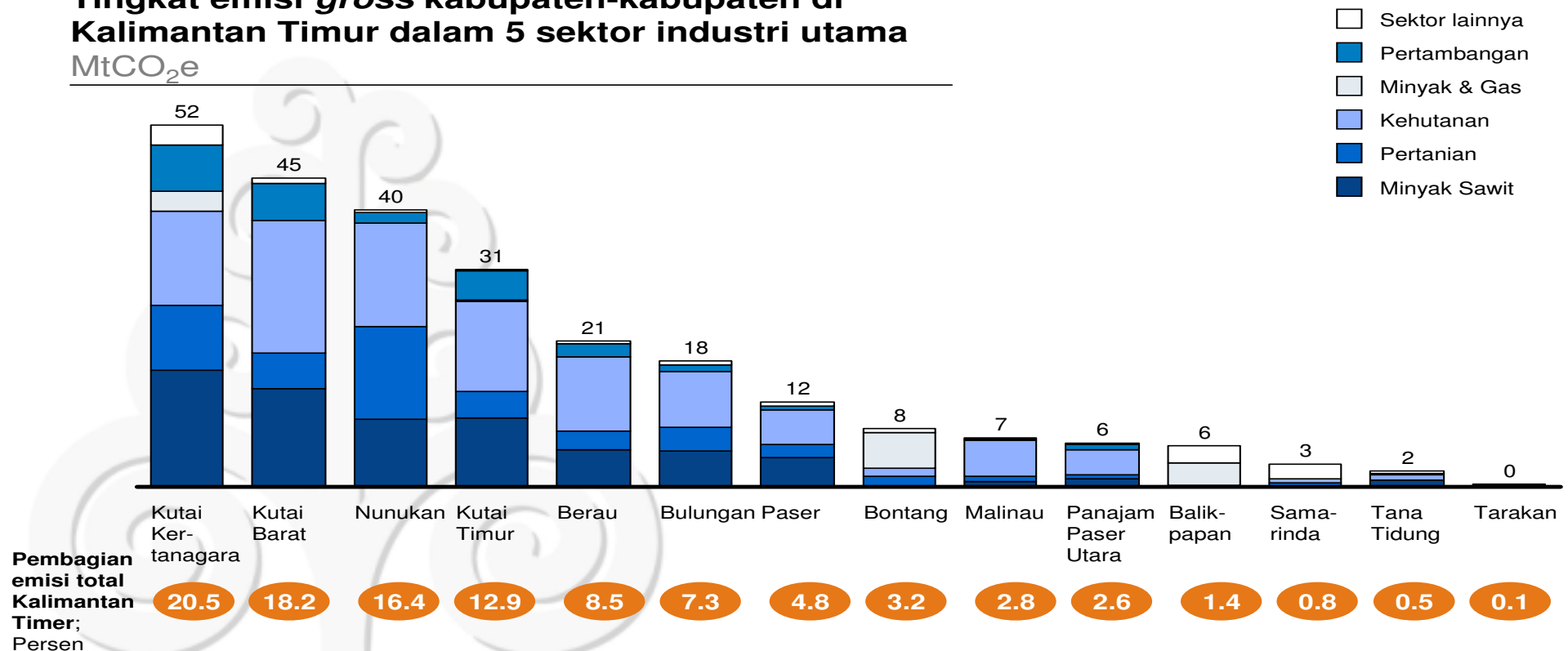


Emisi tidak tersebar merata dimana tiga kabupaten terbesar berkontribusi sebesar lebih dari 50% emisi

CONTOH KALIMANTAN TIMUR

Tingkat emisi *gross* kabupaten-kabupaten di Kalimantan Timur dalam 5 sektor industri utama

MtCO₂e



Source: Wetlands International, Statistik Kalimantan Timur, 2009

Concluding Remarks



1. Decentralization, not centralization, is the necessary policy to keep national unity.
2. Asymmetric decentralization in Indonesia has been mostly driven by political issues rather than actual issues of local development.
3. Special autonomy in the three provinces (Aceh, Papua, Jogja) has different characteristics and resulted in different outcomes.
4. Natural resource revenue-sharing schemes have limited impacts on poverty, but have serious impacts on environment.
5. An urgent need to connect decentralization policy with equal prosperity. A pending issue of capacity building.



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Thank You