

# Decentralisation Policy in Indonesia After 2001

**Wahyudi Kumorotomo, Ph.D**

**Master in Public Policy and Administration Programme  
Gadjah Mada University  
Indonesia  
2010**

[www.kumoro.staff.ugm.ac.id](http://www.kumoro.staff.ugm.ac.id)  
[kumoro@map.ugm.ac.id](mailto:kumoro@map.ugm.ac.id)

# Why Indonesia Should Decentralize?

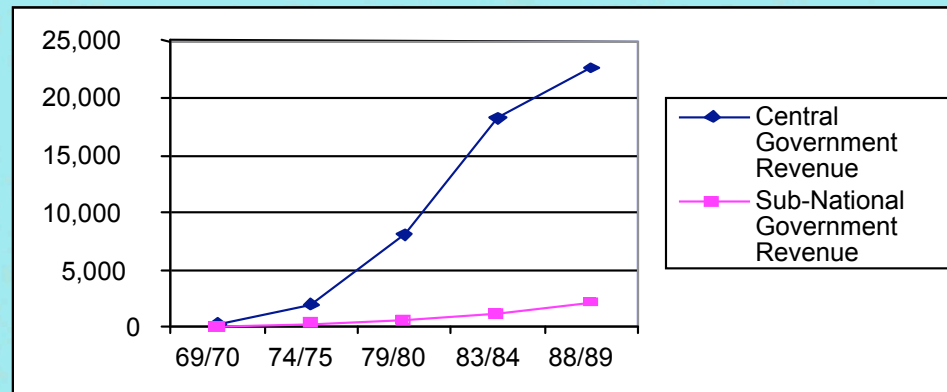
\* **“Decentralization is a must to keep national unity”.**

Facts on Indonesia:

- 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
- Population: 235 million (2007)
- Unbalanced population distribution: 61.7% are resided in Java, which constitutes only 7% of the Indonesian area.



# Inter-Governmental Fiscal Gap During Suharto's New Order



Note: Unit is billion rupiah

Source: MoF, 1997; Ranis & Stewart, 1994

## Decentralisation Policy Under Political Turbulence Abdurrahman Wahid (Sept 1999 - July 2001)



- 1<sup>st</sup> democratically elected through MPR (*upper house*)
- Personal trait of president: physically incapable, combative-erratic
- Political front: ending military domination, pressing need to decentralize
- Economic front: macro stability, sour relations with IMF
- Administrative crash: inconsistent policy (frequent reshuffles of cabinet and MoHA re-structuring).

## Decentralisation under A. Wahid

### Political

- Fear of “balkanisation” disaster
- Military disgruntled of being sidelined
- Spat of words with rich province authorities

### Economy

- Sour relations with IMF → budget dry out
- Ancillary regulations under Law 22 and 25/1999 boosted rich provinces' rev. at cost of poor provinces.

### Administrative

- Conflicts with his own men (MoHA, MoHARA)
- Abolishment of Ministry of Social Affairs, Ministry of Information
- Law 34/2000 on local tax & service charges → bad local regulations

ed

## Decentralisation Policy under Political Turbulence Megawati S. (July 2001-October 2004)



- From VP to president
- Personal trait of president: slow moving, indecisive, short-sighted
- Political front: terrorism (embassy, Bali bombings) restoring order
- Economic front: prudent budgeting, corrupt officials.

## Decentralisation under Megawati

### Political

- Preserving national unity (military approach) while continuing decentralization agenda (mixed signals)

### Economy

- Unconvincing economic improvement → nostalgic sentiment to previous New Order economic wealth
- Fiscal decentralization: revenue sharing rather than fiscal sharing

### Administrative

- 2.3 (49.7%) million public servants are transferred to regions (“big bang”? Not really) → much contingency funds
- Lack of local capacity; much expenditure for routine tasks (salary) than local



## The End of Political Transition (?) Susilo Bambang Yudhoyono (Oct 2004 -



- Directly elected president (serving for the second term)
- Personal trait: military “thinker” background, consensual, “indecisive”
- Political constellation: strong mandate of presidency (62% vote), “semi-parliamentary” system (political party big roles, legislative heavy, bureaucratic politics)
- Economic challenge: reducing budget deficit, macro economy, unemployment & poverty).

## Decentralized & Fragmented Policy Environment under SBY:

### **Political;**

- Coalition; policy making less effective
- Direct local elections (since 2005): policy of “politicking”
- Weakening legitimacy due to corruption cases.

### “Better” **Economic** Recovery;

- Positive sentiments with relatively “stable” politics (JSE Index doubled, 5.6-6.2% growth, increased exports)
- Macro economics did not match with micro-economic (household) indicators

### **Bureaucratic** Politics, Problems of Local Administrative Capacity;

- Conflicts among cabinet members & departments (MoF, MoHA, Bappenas, Technical Departments)
- Lack of local capacity: local autonomy is not supported with competent officials.

## What would you suggest?

1. Is it the right time to decentralize public services to local government?
2. How should Indonesia manage its natural resources (oil, timbre, tin, etc.)
3. What should be the first? Decentralization vs Capacity building at the local government.
4. Administrative reform (Riggs: Administrative development vs. developing administration.