

**CHAPTER 7**

**BUILDING GOOD GOVERNANCE THROUGH  
DECENTRALIZATION IN INDONESIA  
(RECOGNIZING SOME INHIBITING FACTORS IN  
THE IMPLEMENTATION STAGE)**

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**INTRODUCTION**

Indonesia began a rapid decentralization framework in 1999. Its intention was not only to transform governmental structure from centralized regime to democratic one, but also to restore relationship pattern among actors of development, i.e. to construct and to strengthen the notion of good governance.

In many ways, decentralization and (good) governance has been reciprocally explaining. Decentralization is a process of transferring power, resources and responsibilities from the central to the sub-national levels of government, while governance is a new mode of government characterized by heterarchy rather than by hierarchy, creating a horizontal relationship among a multitude of actors both public and private. Decentralization aims to promote good governance by enabling citizen participation and democratic elections. In other words, the outcome of decentralization should result in a more participatory government for citizens and improved delivery of public services because of the local participation and accountability (Green, 2005).

As Litvack, Ahmad and Bird (1998) exposed, one of the benefits that can be expected from decentralization is the realization of good governance. Likewise, Oyugi (2000) reveals that for the last fifty years or so, there was an impression that decentralization is a prerequisite for good governance. Meanwhile, good governance is crucial for successful development by providing principles and indicators for a successful decentralization, such as per

capita income (Grindle, 2007).<sup>1</sup> The mutual relationship between decentralization or regional autonomy and good governance has, therefore, been easily accepted. Ebimaro (2006) even strongly asserts that decentralization is synonymous with good government.

Nharnet Team (UNDP, 2005) supports the idea on such mutual relationship by stating that decentralization is the logical application of the core characteristics of good governance at the sub-national and local levels. These characteristics include accountability, transparency, rule of law and responsiveness. This statement infers that without decentralization, good governance seems to be unsuccessfully implemented. Similarly, the Center for Democracy and Governance (USAID, 2000) confidently says that when effective decentralization and democratic local governance advance in tandem, local governments—and the communities they govern—gain the authority, resources, and skills to make responsive choices and to act on them effectively and accountably.<sup>2</sup>

This paper tries to elaborate some factors explaining and contributing to the failure of building good governance through decentralization in the current stage of bureaucratic reform in Indonesia. Before doing so, it would provide a rough picture on good governance and government capacity in implementing decentralization. At the end, it proposes expected strategy to renew the spirit of decentralization in order to achieve more meaningful good governance in Indonesia.

## **1. PREVIEW ON GOOD GOVERNANCE IN INDONESIA**

Indonesia's experience on decentralization implies different results on good governance. Lankaster (2007) has evaluated six indicators of good

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<sup>1</sup> For deeper understanding on the relationship between decentralization and good governance, see Johnson, Ronald W. and Henry P. Minis, Jr., no year, *Toward Democratic Decentralization: Approaches to Promoting Good Governance*, Research Triangle Institute. According to Johnson and Minis Jr., decentralization or devolution offers the most potential for obtaining governance benefits such as accountability, problem solving, and citizen participation.

<sup>2</sup> In a more contemporary debate, however, Oyugi (2000) concludes that whether decentralization contribute to good governance or not will depend on the unique circumstances prevailing in the individual country implementing decentralization program. There is no direct relationship between decentralization and the existence of democracy (including good governance); one may exist without the other.

governance<sup>3</sup> in Indonesia after the fall of Suharto's presidency in 1998 and decentralization law of 1999. Basically, there has been significant improvement since 1998, but the ratings for all indicators are in most cases below the 50<sup>th</sup> percentile. The following table shows the detail of Indonesia's achievement in good governance dimensions in the wide decentralization era.

**Table 7.1.** Progress in Good Governance Dimensions in Indonesia after Decentralization

| Dimensions of Good Governance | Indonesia's progress   |
|-------------------------------|--|
| Voice and Accountability      | <p>Improved largely on:</p> <p>Political parties and civil society organizations have been blossoming.</p> <p>Press freedom has been established, and the media have become vocal critics when government fails to deliver.</p> <p>Two parliamentary elections have been held, as well as elections to local legislatures. In 2004 direct elections for the President took place, and direct elections have been introduced for provincial governors and district heads and mayors.</p> <p>The 1999 and 2004 national elections involved over 100 million voters and were judged fair by international observers. In 2004, there was a peaceful transfer of power from President Megawati to President Yudhoyono.</p> <p>The new constitution gives considerable authority to the national parliament to provide checks on the executive and propose and pass legislation.</p> <p>The military have been removed from any formal role in government.</p> |
| Political Stability           | <p>Exceptionally low on:</p> <p>Periodic violence on a serious scale between Muslims and Christians in some of the outer islands, and until the peace agreement in 2005, there was violence in Aceh.</p> <p>Various terrorist attacks including the Bali bombing of 2002.</p>  |
| Government Effectiveness      | <p>Some improvement on:</p> <p>Policy formulation and implementation has been quite impressive in the key economic ministries.</p> <p>Education, health and administrative services appear to have improved following decentralization.</p> <p>Macro-economic record of the past few years was relatively good.</p>  |

(continued)

<sup>3</sup> World Bank Institute, *The Worldwide Governance Indicators (WGI) Project*. Available

**Table 7.1.** Progress in Good Governance Dimensions in Indonesia ... *(continued)*

| Dimensions of Good Governance  | Indonesia's progress   |
|--------------------------------|--|
|                                | In contrast, public administration has a long way to go. Too often, good intentions and promising initiatives are not translated into action. In addition, pressing issues are simply neglected.   |
| Rule of Law/Regulatory quality | The investment climate remains unsatisfactory. There are other key impediments to investment such as poor infrastructure, rule of law and corruption.<br>Significant institutional changes were introduced after 1999: making the judiciary independent of the executive; a new commercial court system; a Judicial Commission to monitor the performance of judges; and a National Law Commission whose task was to develop a plan to reform the legal system. But the overall impact of these initiatives has been very limited. |
| Control of Corruption          | Mixed results such as:<br>An Anti-Corruption Commission and an Anti-Corruption Court were established in 2002.<br>The perception both outside and inside the country, is that corruption is on the decline.<br>Nevertheless, corruption remains pervasive, particularly in province and district level, as well as in the parliament.  |

Source: Lankaster (2007, modified)

The above data demonstrates that the progress of governance reform in Indonesia has been rather substantial, even though not so promising. Decentralization, for sure, has its limits in promoting good governance. As Green (2005) insists:

“Indonesia fails to fully meet the World Bank’s criteria for successful decentralization. Indonesian local governments lack financial resources completely under their control to provide public services; accountability and transparency mechanisms are not fully implemented, and the legal system is not as effective as it should be in order to facilitate decentralization ... The decentralization being implemented in Indonesia continues to be vague and outcomes vary because the inputs are highly dynamic and accountability is poor.”

However, there are always many rooms for improvement. As decentralization constitutes a strategy to achieve good governance, the failure of good governance might be caused by unsuccessful decentralization framework. In that sense, the failure of decentralization is caused mostly by the

low capacity of local government. From the beginning of decentralization policy, there was wide anxiety on the capacity of local government to run the new wave of government management. Such concern implies that government capacity constitutes *condition sine qua non* for rewarding decentralization.

## 2. GOVERNANCE CAPACITY IN IMPLEMENTING DECENTRALIZATION AND REINFORCING GOOD GOVERNANCE

It is quite fair to admit that government capacity to perform decentralization functions in Indonesia is getting more observable. In April 2011, the Ministry of Home Affairs (MOHA) has announced Ministerial Decree No. 120-276/2011 regarding the rank and performance status of local government as alleged by Government Regulation No. 6/2008. The publication reports that the performance of 29 provinces is deemed to be “high” and only 4 provinces are considered to achieve “average” performance, those are, Aceh, Papua, West Sulawesi, and Central Sulawesi. In the city/district level, 269 districts and 82 city governments have attained high performance, 70 districts and 4 city governments are reaching average performance, while 5 district governments are still under performance.<sup>4</sup>

Simultaneously, on March 2011 the Ministry of Finance (MoF) has passed Regulation No. 61/PMK.07/2011 concerning General Guidance and Allocation of Regional Incentive Fund (*Dana Insentif Daerah - DID*) 2011. By this regulation, 5 provinces, 17 cities, and 38 district governments were awarded with incentive fund for their excellent performance on financial management, education, and welfare and economic development.<sup>5</sup>

<sup>4</sup> Government Regulation No. 6/2008 concerning Guidance on the Evaluation of Local Government Performance. The result of 2011 evaluation is done based on 2009 data and reports. The best three provinces are North Sulawesi, South Sulawesi, and Central Java. The best ten of district governments are: Jombang and Bojonegoro (East Java province), Sragen (Central Java), Pacitan (East Java), Boalemo (Gorontalo), Enrekang (South Sulawesi), Buleleng (Bali), Luwu Utara (South Sulawesi), Karanganyar (Central Java), and Kulon Progo (Yogyakarta). The best ten of city governments are: Surakarta and Semarang (Central Java), Banjar (West Java), Yogyakarta, Cimahi (West Java), Sawahlunto (West Sumatera), Probolinggo and Mojokerto (East Java), Sukabumi and Bogor (West Java). Province and city/district government achieving low performance within 3 years consecutively, will have special examination from *Dewan Pertimbangan Otonomi Daerah* (Council of Regional Autonomy).

<sup>5</sup> DID program was started in fiscal year 2010, when 9 provinces and 45 district/city governments were awarded with incentive funds. Criteria on financial management

The evaluation conducted by both MOHA and MoF provided a broad picture on the promising enhancement of local government capacity in dealing with decentralization tasks. Nevertheless, such kind of evaluation was mainly using desk evaluation method and common-sense survey, which, to some extent, doesn't reflect the real performance. In fact, the capacity of local government is still in need of serious improvement, particularly in the early period of "big-bang" decentralization. At that time, local elites have viewed decentralization as golden opportunity to propose the creation of new local government units.

As a result of proliferation of local governments (*pemekaran*) euphoria, the number of cities (*kota*) and districts (*kabupaten*) has increased by half, from 292 before decentralization to 434 in 2003 (Fitriani *et.al.*, 2005).<sup>6</sup> Since the enactment Decentralization Law No. 22/1999, the number of autonomous local government until the year 2011 has increased by 205, consisting of 7 provinces, 164 districts, and 34 city governments (Partnership for Governance Reform in Indonesia, 2011). The total number of local government until recently is 33 provinces, 399 districts, and 98 city governments (MOHA, 2011).<sup>7</sup> The creation of new layers of government, in turn, may overwhelm national budgets and reduce the capacity of local government in delivering excellent service to its citizen.

One of the indicators showing the low capacity of local government is fiscal dependency on transfer fund from central government. According to Suhendra and Amir (2006) and Hirawan (2007), on average, the districts

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performance include improvement of financial report evidenced by Unqualified Opinion from the Audit Board (*Badan Pemeriksa Keuangan*), and growth of local revenue (*Pendapatan Asli Daerah*) above the national average. Criteria on education development comprise gross enrollment rate, and ability to reduce gap between regional and national IPM. Criteria on welfare and economic development embrace economic growth which is higher than average of economic growth at national level, ability to reduce poverty rate, ability to reduce unemployment rate higher than national average, and fiscal capacity. The objective of DID program are: 1) to encourage local government in managing its finances resources better, and 2) to motivate the region in setting annual budget on time. The total budget allocated for regional incentive funds reach IDR 1.3 trillion per year.

<sup>6</sup> Uganda also shared experience in terms of unprecedented creation of new districts in the beginning of decentralization wave. The number of districts in Uganda has burgeoned at an alarming rate from 33 districts in 1986 to 80 by 2007 which is more than double in terms of growth, with 24 new districts created in the last three years alone (Larok, 2008).

<sup>7</sup> In the beginning of Independence, there were 6 provinces and 99 district/city government. Thus, the increase amounted to 550 percent for province and 502 percent for district/city governments.

relied around 85 to 90 percent on the intergovernmental transfers to fund their expenditures, while the provinces relied only about 55 to 70 percent on average on the transfers. Brodjonegoro (2004) confirms such situation by noting that many new local governments had relatively insignificant local own revenue (PAD) and relied heavily on transfer fund, more specifically general purpose grant (*Dana Alokasi Umum*).

Due to their low fiscal capacity, local governments tend to produce massive regulation in order to generate revenue. Preferably, local governments are supposed to have ability to formulate and implement sound policies and regulations that permit and promote private sector development. Unfortunately, many regulations in province and district level produce high-cost economy and make local governments capacity even worsen. Such situation explains why central government has canceled thousands of local regulations (*Peraturan Daerah*). There are 2399 *Peraturan Daerah* which have been canceled from 2002 until March 2011 (MOHA, 2011).<sup>8</sup>

Government capacity might also be best identified from the degree of integrity shown by public sector institution, especially in the region. In this case, Corruption Eradication Commission (*Komisi Pemberantasan Korupsi - KPK*) has conducted Public Sector Integrity Survey,<sup>9</sup> covering 353 service units scattered among 23 central agencies and ministries, 6 vertical institutions, and 22 city governments. The findings indicate that the public service in Indonesia is highly susceptible to corruption. The vulnerability of public service to corruptive behavior can be observed from 2010 National Integrity Index (IIN) which reached 5.4 point (of scale 1-10), or 1.1 points lower compared to the 2009 IIN. The decrease in integrity index symbolizes the decrease in both service delivery and service quality.

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<sup>8</sup> The detail of *Peraturan Daerah (Perda)* being canceled is as follows: 2002 (19 Perda), 2003 (105), 2004 (236), 2005 (126), 2006 (114), 2007 (173), 2008 (229), 2009 (876), 2010 (407), and 2011 March (114). *Perdas* canceled by central government were mostly about retribution or levies.

<sup>9</sup> Public Sector Integrity Survey is annual survey program by KPK aimed to identify significance and score of public service providers' integrity by using academic assessment to composing Integrity Index (*Indeks Integritas*). Assessment of survey was conducted by combining two elements. Firstly, the experience of integrity (weight 0.667), reflects the experience of respondents to the level of corruption they experienced. This element consists of two indicators i.e. practices of corruption and perception to corruption. Secondly, the potential integrity (weight 0.333), reflects the factors that could potentially lead to the occurrence of corruption perceived by respondents. This element consists of four indicators, i.e. work environment, administrative system (internal business process), individual attitude, and prevention of corruption.

At the local level, integrity index among service agencies is not so promising as well. Of 22 municipalities surveyed,<sup>10</sup> only 2 whose score above 6, i.e. Samarinda and Surabaya, while the other 20 cities received score below 6, i.e. Yogyakarta, Ambon, Tanjung Pinang, Pontianak, Serang, Jakarta Barat, Jakarta Timur, Jakarta Pusat, Mataram, Jakarta Utara, Bandung, Semarang, Jakarta Selatan, Pekanbaru, Manado, Jayapura, Makasar, Palembang, Bandar Lampung, and Medan (KPK, 2011).<sup>11</sup>

Overall, there is a big challenge facing the central and local governments to fortify their capacity in order to assure a better implementation of good governance in the decentralization era. In other words, the quality of good governance in Indonesia can be advanced by accurately detecting and refurbishing some impeding factors for effective decentralization.

### **3. CHALLENGES AND FORTIFYING STRATEGIES TOWARDS DECENTRALIZATION**

After a decade of its implementation, decentralization in Indonesia will be entering a new phase. Decentralization Law of 2004 is about to be reviewed, as many expectations have not materialized during this period. Revision on the law doesn't necessarily mean that decentralization has been failing;<sup>12</sup> it is an effort to boost the efficacy of decentralization in the future

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<sup>10</sup> Survey was held merely over three service activities, i.e. building permit (*Ijin Mendirikan Bangunan*), trading license (*Ijin Usaha Perdagangan*), and issuance of residence identification card (*Kartu Tanda Penduduk*).

<sup>11</sup> See KPK's official website at <http://www.kpk.go.id/modules/news/article.php?storyid=1645>. Moreover, evaluation on the performance of local government, more specifically on the local economic governance, has been conducted by Monitoring Committee on the Implementation of Regional Autonomy (*Komite Pemantau Pelaksanaan Otonomi Daerah - KPPOD*). In 2010, KPPOD has launched a "Doing Business in Indonesia", covering 14 city government, i.e. Balikpapan (East Kalimantan Province), Banda Aceh (Aceh), Bandung (West Java), Denpasar (Bali), Jakarta, Makassar (South Sulawesi), Manado (North Sulawesi), Palangkaraya (Central Kalimantan), Palembang (South Sumatra), Pekanbaru (Riau), Semarang (Central Java), Surabaya (East Java), Surakarta (Central Java), and Yogyakarta. Meanwhile, in 2011 KPPOD releases a Ranking of Investment Climate and Local Economic Governance.

<sup>12</sup> Simatupang's study (2009) serves a balanced evaluation showing that education outcomes improved with decentralization, and that local governments are responding to local needs for education services. Decentralization also brings improvement to health services, as mortality rates and life expectancy are significantly improved with decentralization. However, results indicate that decentralization does not improve availability of health

context. In that senses, there are three conditions where decentralization is likely to be best implemented. Firstly, decentralization must have significant contribution to nation building processes. Secondly, decentralization needs to be comprehensively designed and applied with bureaucratic reform programs. Thirdly, decentralization has to be convergent with regulatory and institutional reform. Lacking of those three requirements will lead to weak decentralization as well as “nominal” governance.

### **3.1 Decentralization and Nation-State Building**

The basic rationale of decentralizing state powers is mixed, from political grounds, economic motives, to administrative objectives.<sup>13</sup> Among such numerous rationales, this paper focuses on the correlation between decentralization and nation state building. Strong state is assumed to be cumulative result of effective decentralization. In other words, decentralization should be appropriately seen as an ingrained strategy in strengthening nation-state building. In Indonesian context, Matsui (2003) suggests that decentralization as the “opportunity to learning by doing” for the central and local governments in the process of the nation state building.<sup>14</sup>

Unfortunately, there are obvious tendencies that decentralization does not convincingly contribute to the formation of solid nation-state building. Throughout the decade, ethnocentrism and primordialism increases along the democratic processes at the local level. Instead of spreading powers and empowering people, decentralization produces vortex of power among particular groups. Zulkieflimansyah (2009) declares that the most current political system in Indonesia is characterized by politics of dynasty, a widespread phenomenon of nominating a figure from the incumbents’ family and the old political elites as Member of Parliament or candidate of head of local

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services, as only small percentage of municipalities in Indonesia have access to health facilities. Likewise, proportional evaluation is available from study conducted by USAID Democratic Reform Support Program (2009) and Widyanti and Suryahadi (2008).

<sup>13</sup> On the rationale of decentralization, read: Rondinelli and Cheema (1983), Smith (1985), Litvack, Ahmad, and Bird (1998), Ford (1999), Hutchcroft (2001), Bardhan and Mookherjee (2006), Cheema and Rondinelli (2007), etc.

<sup>14</sup> The relationship between decentralization and nation-state building can also be scrutinized in other parts of the world. In Congo, for instance, democracy promotion (through decentralization) and state-building are supposed as complementary goals (Barrios and Ahamed, no year). Similarly, the case of Colombia reveals that the reform of the 1991 Constitution (i.e. granting decentralization) installed local development as one of the primary strategies to recuperate the nation-building project (Eslava, 2009).

government. Dynasty is also defined as a primitive system of reproducing power based on blood relation and descendant of particular elites. In the kinship or dynasty system, public participation is neglected, so that it constitutes the real enemy for democracy (Robet, 2010).<sup>15</sup>

Dwipayana (in Gatra, February 18, 2010) affirms such situation as neo-patrimonial phenomenon, i.e. political regeneration based on genealogical ties.<sup>16</sup> In such situation, local democracy erected through decentralization is no longer believed as part of revitalizing national integrity. Inevitably, not only new local kingdoms but also new classes of oligarchy elevates during decentralization era. According to Taslim (2007), the rise of primordialism spirit could be seen as a sign of waning nationalism spirit. Once again, Indonesia is facing solemn challenges with its decentralization framework. The following table on kinship system (i.e. dynasty) among local elites in various regions may explain such phenomena.

**Table 7.2.** Kinship System (“Dynasty”) in Decentralized Indonesia, by Level of Local Government

| Province Level   | District Level  |
|--|---|
| Banten: Atut Ratu Chosiyah (Governor); Hikmat Tomet ( <i>husband</i> , serves as Member of Parliament 2009-2014); Andika Hazrumy (Atut’s <i>firstborn</i> , serves as Member of Senate 2009-2014); Adde Khairunnisa (Atut’s <i>daughter-in-law</i> , serves as | Tabanan District, Bali Province: Nyoman Adi Wiryatama (Bupati, 2000-2010); Ni Putu Eka Wiryastuti (Nyoman’s <i>daughter</i> , serves as Bupati, 2010-2015). |

(continued)

<sup>15</sup> It is interesting to pay attention on Eisenstadt and Roniger’s superior study (1984). They identify four main reasons why kinship-based politics is much more preferable in many countries. Firstly, the relatives are more trusted and considered not possible of doing betrayal. Secondly, the relatives are considered to have a higher loyalty, especially in terms of maintaining dignity and honor of the relatives. Thirdly, the relatives have a strong level of solidarity, especially in helping a large family clan from the bankruptcy of power. Finally, the kinship system is associated with the model of maintaining the prestige and honor of the family.

<sup>16</sup> In the multi-party system, the occurrence of dynasty or neo-patrimonial reflects the failure of political parties to perform the function of political recruitment. Also, it indicates the low competency of political parties in terms of financial sources generation, cadre development, and organizational management. It is worsened by immaturity of political culture from the majority of people.

**Table 7.2.** Kinship System (“Dynasty”) in Decentralized Indonesia... (continued)

| Province Level  | District Level   |
|---|--|
| <p>Vice Chairman of Local Parliament/DPRD, City of Serang); Tubagus Khaerul Zaman (Atut’s <i>brother</i>, previously served as Vice Mayor of Serang, now serves as Mayor of Serang, Banten Province, 2011-2013); Ratu Tatu Chasanah (Atut’s <i>sister</i>, previously served as Vice Chairman of DPRD, Banten Province, and now she serves as Vice Bupati, District of Serang, Banten Province, 2010-2015); Aden Abdul Khaliq (Atut’s <i>brother-in-law</i>, serves as Member of DPRD, Banten Province); Airin Rachmi Diany (Atut’s <i>sister-in-law</i>, serves as Mayor of South Tangerang City, Banten Province, 2011-2016); and Heryani (Atut’s <i>step-mother</i>, serves as Vice Bupati, District of Pandeglang, Banten Province, 2011-2016).<sup>17</sup></p> <p>South Sulawesi: Syahrul Yasin Limpo (Governor, 2008-2013); Ichsan Yasin Limpo (Syahrul’s <i>brother</i>, serves as Bupati of Gowa, 2010-2015); Nurhayati (Syahrul’s <i>mother</i>, serves as Member of Parliament 2004-2009); Tenri Olle (Syahrul’s <i>brother</i>, serves as Member of DPRD, District of Gowa). Syahrul’s <i>father</i>, Yasin Limpo, was Bupati in three different districts, i.e. Luwuk, Majene, dan Gowa.</p> <p>Central Kalimantan: Agustin Teras Narang (Governor, 2005-2015); Atu Narang (Agustin’s <i>brother</i>, serves Chairman of DPRD, Central Kalimantan Province, 2005-2015); Aris Narang (Agustin’s <i>firstborn</i>, serves as Member of DPRD, Central Kalimantan Province); Asdy Narang (Agustin’s <i>nephew</i>, serves as Member of Parliament, 2009-2014).</p> | <p>Kutai Kartanegara District, East Kalimantan Province: Syaokani (Bupati, 1999-2006); Rita Widayarsi (Syaokani’s <i>daughter</i>, serves as Bupati, 2010-2015).</p> <p>Bantul District, Yogyakarta Province: Idham Samawi (Bupati, 2000-2010); Sri Suryawidati (Samawi’s <i>wife</i>, serves as Bupati, 2010-2015).</p> <p>Kediri District, East Java Province: Sutrisno (Bupati, 2000-2010); Haryanti (Sutrisno’s <i>wife</i>, serves as Bupati 2010-2015).</p> <p>Kendal District, Central Java Province: Hendy Boedoro (Bupati, 2000-2006); Widya Kandi Susanti (Hendy’s <i>wife</i>, serves as Bupati, 2010-2015).</p> <p>Indramayu District, West Java Province: Irianto MS. Syaifuddin (Bupati, 2000-2010); Anna Sopanah (Irianto’s <i>wife</i>, serves as Bupati, 2010-2015).</p> <p>Bandung District, West Java Province: Obar Sobarna (Bupati, 2000-2010); Dadang Mohamad Naser (Obar’s <i>son-in-law</i>, previously served as Member of DPRD, West Java Province, now serves as Bupati, 2010-2015).</p> <p>Central Lombok District, West Nusa Tenggara Province: Lalu Wiratmaja (Bupati, 2005-2010); Lalu Suprayatno (Lalu’s <i>son-in-law</i>, serves as Vice Bupati, 2005-2010).</p> |

(continued)

<sup>17</sup> DPRD stands for *Dewan Perwakilan Rakyat Daerah*, is a local parliament body and exists both in province and district/city levels. *Bupati* is the head of district. Source: *Tempo Interaktif* at <http://www.tempointeraktif.com/hg/bandung/2011/03/10/brk.2011-0310-319170.id.html>.

**Table 7.2.** Kinship System (“Dynasty”) in Decentralized Indonesia... (continued)

| Province Level  | District Level   |
|---|--|
| Lampung: Sjachroedin Zainal Pagaralam (Governor, 2004-2014); Rycko Menoza (Sjachroedin’s son, serves as Bupati of South Lampung, 2010-2015); Aryodhia Febriansa (Sjachroedin’s daughter, serves as Member of Senate, 2009-2014). Sjachroedin’s father, Zainal Abidin Pagar Alam, was Governor of Lampung, 1967-1973.<br>Jambi: Zulkifli Nurdin (Governor, 2000-2010), Ratu Munawaroh (Zulkifli’s wife, serves as Member of Parliament, 2009-2014); Zumi Zola (Zulkifli’s son, serves as Bupati of Tanjung Jabung Timur, Jambi Province, 2011-2016). | Bontang City, East Kalimantan Province: Sofyan Hasdam (Mayor, 2001-2011); Neni Murniaeni (Sofyan’s wife, serves as Chairman of DPRD, City of Bontang, 2009-2014).<br>Sragen, Central Java Province: Untung Wiyono (Bupati, 2001-2011); Kusdinar Untung Yuni Sukowati (Untung’s daughter, serves as Chairman of DPRD, District of Sragen, 2009-2014). |

In addition, the desire of maintaining power might be done by any means, including occupying lower position. In the case of Surabaya, for example, Bambang Dwi Hartono has served as Mayor for two periods (2000-2010), so that he is not allowed to run for the third period. He chose to run for vice mayor and has been inaugurated for 2010-2015 period, while the elected Mayor, Tri Rismaharini, was Bambang’s subordinate during his term.

The above description indicates that political powers in grass-root level are still concentrated around specific groups. Decentralization in Indonesia, frankly speaking, is still powerless of spreading powers and creating checks and balances among political actors and other stakeholders. The opportunity to gain power is formally opened inclusively, but the access to power is empirically a very complex effort, not to say impossible. Under such political climate, therefore, good governance can hardly be promoted.

This condition is analogous to some West African and South Asian countries experience. In their study, Manor and Crook (2000, quoted by Prasojo, 2009) demonstrate a clear connection between popular election and bad governance. They conclude that “*some of the worst cases of corruption and ineffectiveness are associated with the direct popular election mayors of chief executives ...*”

There are three reasons why direct local election contributes to poor governance practices. Firstly, political control from local legislative (council) over mayor is weak since they are both directly elected by the same people. Secondly, there is tendency of local elites in developing countries to keep resources limited to a very small elite circle. It explains why incumbent

candidate is always co-opting bureaucracy and financial resources to win the election.<sup>18</sup> No wonder that decentralization insignificantly improves economic growth and well-being of local people due to misallocation of financial resources. Thirdly, awareness, knowledge, and people networks in controlling the local government is extremely weak and limited, especially in the rural and hinterland areas.

The high-cost of local democratic processes<sup>19</sup> may be indicted as inciter of the problem. It means, only those with affluent resources, more specifically financial ones, will have greater chance to get the power. In other words, those having huge resources may get bigger opportunity to be new aristocrats and oligarchs in the region. Moreover, in the country and in the environment where economic gap is remarkably visible, money politics is more likely to take place, not only in affecting people's voice but also in influencing political parties' decisions.

In order to prevent such situation getting worse in the future, "political" decentralization itself is not enough. It should be accompanied by greater fiscal decentralization and economic decentralization, as decentralization would grow faster in strong and prosperous communities. When people are strong and prosperous, they will be able to control the government, and when the government is adequately controlled, there would be an effective, accountable, and responsive (local) government. At last, strong and prosperous communities in the one hand, and effective, accountable, and responsive government in the other hand, reflect the incidence of good (local) governance. In this case, Chinese government experiences in implementing economic decentralization might be an outstanding lesson for Indonesia in constructing stronger and more prosperous communities.<sup>20</sup>

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<sup>18</sup> The phenomenon of elite captures over bureaucracy and financial resources is delightfully enlightened by Agus Dwiyanto in his newest book, *Bringing Public Trust Back Through Bureaucratic Reform*, Jakarta: Gramedia, 2011.

<sup>19</sup> Prasajo (2008) mentions that costly election in local level encompasses registration and re-registration cost due to invalid demographic data, procurement of goods and services to support recurrent voting in every election, cost of political campaign, etc. There is no efficiency paradigm at all in local election. High-cost election can also be calculated from budget allocation. According to Yudhoyono (2008), since June 1, 2005 until August 2008, there had been 414 regions (provincial and district/city level) completed election. If the average cost for a local election is IDR 50 billion, the total cost of election in Indonesia would reach IDR 20.7 trillion. Those costs do not include the costs to be borne by political parties and candidate of governor/bupati/mayor/member of DPRD, from campaign cost to tactical cost to influence people's voice.

<sup>20</sup> Decentralization in China is reflected with the creation of special economic zones, open coastal cities and development zones. Four special economic zones were created in 1978

Another determinant factor affecting the quality of good governance in the region lies in the human resource policy and management. In fact, decentralization is not only about the transfer of authority and budget from the center to the region, it also has to do with recruitment of civil servant (*Pegawai Negeri Sipil* – PNS). On behalf of decentralization, local governments have managed recruitment by giving priority for local resident and limiting the opportunity for other residents. Such practices result in disadvantages such as reducing the prospect to attain national standard among civil servants from different regions and different levels of government. Regions having advanced Human Development Index, for instance, will have a better chance to recruit qualified candidates. Quality standard of civil servant will completely be differentiated among provinces and districts. In this case, lacking of national standard in human resources management triggers the occurrence of common impression that federalism is much more prominent in Indonesia than that of decentralization. Additionally, cultural exchange, cross-regional learning, and enriching experience, will unlikely to happen in such surroundings.

In fact, civil servant or PNS is a vital position expected to be the glue to the unitary state of the Republic of Indonesia (*Negara Kesatuan Republik Indonesia* – NKRI).<sup>21</sup> Decentralized personnel management, unfortunately, tends to weaken the role of PNS as an adhesive to NKRI, as provided by Government Personnel Law No. 43/2009.<sup>22</sup> In the current personnel system, there are types of public officials, i.e. Central officials and Regional officials (article 2). It indicates that Indonesian personnel system implements a

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(Shenzhen, Zhuhai, Shantou and Xiamen in Hainan province). Provinces Guangdong and Fujian were given extensive independence and autonomy to develop their own region economically (authority to approve foreign investment projects up to \$30 million). Furthermore, in 1984 fourteen coastal open cities were created and certain inland cities (those along the Yangtze River and bordering with Russia) are delegated powers like those of the special economic zones (Basuki 2006). The Government of Indonesia (GOI) has set Master Plan of Acceleration and Expansion of Indonesian Economic Development 2011-2025, just in 2011. In this document, six economic corridors have been established, i.e. Sumatra Economic Corridor (EC), Java EC, Kalimantan EC, Sulawesi EC, Bali – Nusa Tenggara EC, and Papua – Moluccas Island EC.

<sup>21</sup> Decentralization is one of the principles of state administration in addition to deconcentration and assistance tasks (from Dutch term, *medebewind*). Philosophically, decentralization is granted within the framework of unitary state, meaning that decentralization constitutes a national government's strategy to strengthen – not to weaken – the unitary states of the Republic of Indonesia.

<sup>22</sup> *The law stipulates that the Indonesian Civil Service (PNS) is to serve the public as well as the state; the law also provides prohibition on political party membership (article 3).*

fragmented system instead of unified system. In the unitary state, government functions may be transferred to local governments, but personnel system and management needs to be centrally managed. Simultaneously, the system of employee exchanges across regions and inter-governmental levels should be introduced.

The prevalent phenomena on augmenting dynasty system and weak roles of civil servants in the decentralization era indicate that good governance does not satisfyingly work or optimally achieved. In other words, decentralization does not significantly contribute to the development of strong state or hard state (“institutionalization” in present term), but promoted an opposite concept of fragile state (Brinkerhoff, 2008) or soft state (Leftwich, 2000).<sup>23</sup> To conclude, considering that decentralization tends to produce kinship (dynasty) system and fails to boost civil servants’ roles in strengthening unitary state, it is somewhat reasonable to support an idea that decentralization in Indonesia has failed to advocate nation-state building processes.

### 3.2 Decentralization and Bureaucratic Reform

Decentralization and bureaucratic reform has twofold faces. On the one hand, decentralization itself is a fundamental reform in terms of sharing power and resources, as well as rearranging new relationship between the central and local government. As a reform, decentralization in Indonesia has successfully changed authoritarian regime into a democratic one. On the other hand, decentralization would be useless without further i.e. bureaucratic reform to deal with delegated new functions. Bureaucratic reform is the best answer for local governments when facing capacity problems. This

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<sup>23</sup> Brinkerhoff (2008) argues that fragile state is the state captured by elites, preys upon its citizens and maintains power through a combination of patronage and repression. Citizens distrust and fear the state, and hold low expectations that government has the ability, or the desire, to meet their needs. Fragile states face deficits in fulfilling all three of the core functions, i.e. assuring security, achieving effectiveness, and generating legitimacy. Meanwhile, Leftwich (2000) proposes that the soft state is characterized by “a general lack of social discipline in underdeveloped countries, signified by deficiencies in legislation and, in particular, in law observance and enforcement, *lack of obedience to rules and directives* handed down to public officials on various level, often *collusion* of these officials with powerful persons or groups of persons whose conduct they should regulate, and, at bottom, a general inclination of people in all strata *to resist public controls* and their implementation. Within the concept of the soft state belongs also *corruption*. As a result, the soft state is incapable of promoting urgently needed development.

makes obvious that decentralization and bureaucratic reform constitute a “one coin with two sides”.

Unfortunately, there are some tendencies that decentralization is not convergent to bureaucratic reform. “Big bang” decentralization was effectively implemented since 2011, 10 years before bureaucratic reform has been initiated by the enactment of Presidential Regulation No. 81/2010 on the Grand Design of Bureaucratic Reform. During 10 years of its implementation, decentralization was inadequately guarded by clear and measurable objectives and outcomes should be achieved by central and local government. Minimum standard of services (MSS) of obligatory and basic services were not well defined as mandated by Law No. 32/2004.

In the health sector, for instance, SMERU (2006) shows that only 53% of districts in the sample have met the minimum standards of service set by the central government, while only few number of *Puskemas* (health center at sub-district level) have the resources required to meet the MSS. Consequently, it is not startling that the performance of government especially among autonomous local government is not so promising. Government regulation concerning the performance evaluation of local government has been promulgated just in 2006.

These situations explain that decentralization has no direct connection to accountability and performance management, so that corruption is about to expand in the era of decentralization. In this sense, Rinaldi, Purnomo, and Damayanti’ study (2007) exposes that shift of power relation between central and local government have given rise to rampant ‘money politics’ —by District Heads seeking to gain and maintain support from the legislature; and legislators exploiting their newly acquired power over local budgets to secure financing for their political parties. The study provides further explanation that both District Heads and local legislators have taken the chance to embezzle funds for self-enrichment. Opportunities for corruption have been opened up by the enactment of inconsistent regulations governing local budgets by the national and regional parliaments, regular ‘cooperation’ between the legislative and executive bodies as well as low levels of public participation and control in local governance.

The modus of corruption deployed are as follows: 1) multiplying and enlarging budget items; 2) distributing budget to fictitious foundations/agencies; 3) manipulating budget for official travelling; 4) procedure infringement of cash disbursement; and 5) manipulating the procurement processes. Similarly, Dwiyanto (2011) writes that decentralization has been followed by spreading corruptive behavior among local elites. The augment-

tation of patronage and clientilism between bureaucracy and local politicians complicates the control efforts over corruptive behavior.<sup>24</sup>

Under such situation, bureaucratic reform is becoming much more essential, though, to be frank, it's rather late. The stipulation of Presidential Regulation No. 81/2010 on the Grand-design of Bureaucratic Reform and Minister of Administrative Reform Regulation No. 20/2010 on the Roadmap of Bureaucratic Reform is fundamentally designated to accelerate the reform. In order to improve the effectiveness of the reform, *National Steering Committee of Bureaucratic Reform (Tim Pengarah Reformasi Birokrasi Nasional – KPRBN)* and *National Bureaucratic Reform Team (Tim Reformasi Birokrasi Nasional – TRBN)* has been established. In performing their duties, KPRBN is assisted by an *Independent Team* and *Quality Assurance Team* that are tasked with monitoring and evaluation and ensure the good implementation of the reform. At the same time, TRBN is assisted by the National Bureaucracy Reform Management Unit (Unit Pengelola Reformasi Birokrasi Nasional - UPRBN).

Unfortunately, the basic design of bureaucratic reform is also problematic. It is applying agency level approach instead of national level approach. Under agency level approach, every ministry and agency is supposed to compose reform proposal which is submitted to TRBN. UPRBN will assess the document and conduct field verification, and the result will be re-submitted to TRBN. TRBN will then convey the assessment result to the Ministry of Finance for the calculation of budget need to be allocated for additional remuneration (performance incentives). The new remuneration scheme will be discussed and approved in the KPRBN, and will subsequently be presented to the Parliament. The consent by the Parliament will be employed to determine the grant of remuneration for approved ministry and agency.

The way how bureaucratic reform works in Indonesia as described above sparks much criticism that bureaucratic reform is merely about getting additional financial benefits, while the genuine transformation of governance never materializes. In Indonesian terms, *reformasi* (reform) is misleadingly

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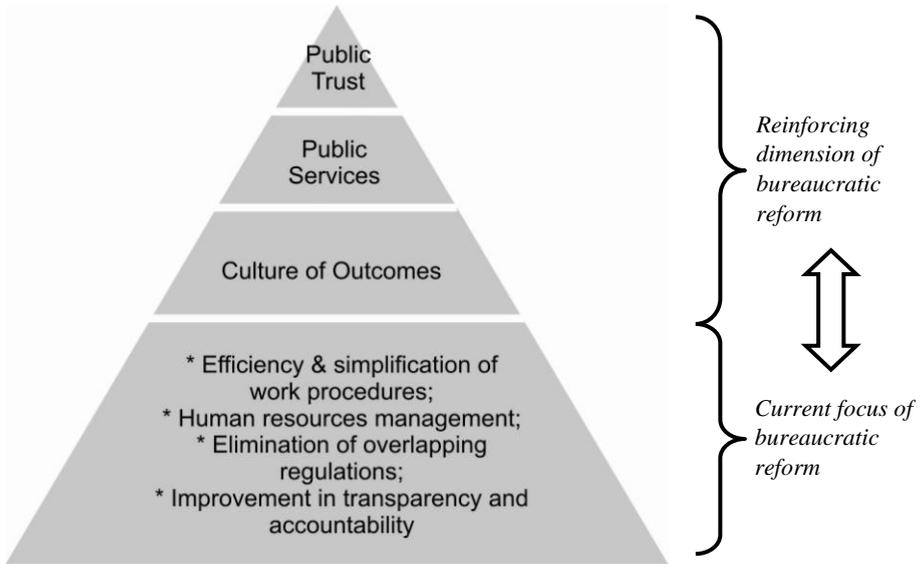
<sup>24</sup> To prevent the decentralization from corruption hostage, some strategies are becoming imperative, such as equipping decentralization with supervisory instrument and rights by the community, strengthening anti-corruption initiatives and platforms in local level. Legal reform, boosting leadership quality, and maintaining cultural reform would also be top priority to prevent from corruptive behavior.

perceived as *remunerasi* (remuneration). Since remuneration is a logical consequence of reform, state budget burden increases dramatically to funding the reform.<sup>25</sup> Moreover, bureaucratic reform doesn't work as expected since document of reform proposals from ministries and agencies are oftentimes prepared by consultant, not by the corresponding agencies, so that they do not experience any learning process, mindset changes, and real improvements. As a result, the ongoing bureaucratic reform is actually representing a nominal (vague) reform, not a substantial reform.

Another weakness of current bureaucratic reform is that it only copes with business process enhancement instead of building culture of outcomes or building public trust. According to Effendi (2011), the ultimate objective of bureaucratic reform is rebuilding and bringing back trust from the people. It may be achieved by providing and delivering excellent service to the public. To do so, cultural change is unambiguously required. Those three dimensions of reform, unluckily, are not getting enough attention in the recent process of reform in Indonesia. In fact, only organizational dimensions that received adequate attention, such as efficiency and simplification of work procedures, human resources management, elimination of overlapping regulations, and improvement in transparency and accountability. In the near future, organizational dimensions should be combined with three reinforcing dimensions to assure the best deed of bureaucratic reform (See Figure 7.1).

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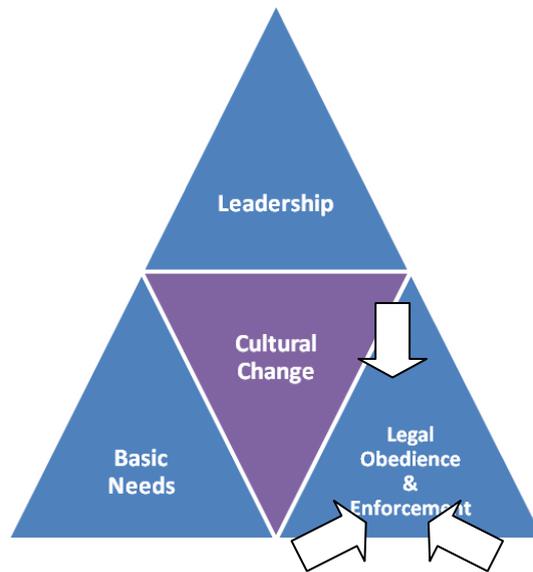
<sup>25</sup> In the province and district/city levels, payment of remuneration or performance incentives is being charged to local budget. Since the budget capacity is diverse across region, the amount of remuneration is also varied. As a result, the jealousy among employees across regions couldn't be avoided. The same jealousy has happened before at the central level over the remuneration granted to Ministry of Finance since 2007, while many ministries and agencies do not receive the same policy treatment. Regarding the source of remuneration fund, government does not need to provide or allocate separate funds, which would burden state budget. Preferably, it should be taken from saving obtained from efficiency due to reform. Otherwise, government may get collapse or even bankrupt.



**Figure 7.1.** The Ladder of Bureaucratic Reform (modified from Sofian Effendi, 2011)

It is widely acknowledged that Indonesian bureaucracy is facing lots of cultural problems. In the *system level*, distrust between government and people is widespread, as distrust among and within government bodies are rampant. In the *institutional level*, efficiency, to some extent, is justified as incapability of budget absorption, and therefore, judging as low performance. Culture of accountability is halfheartedly developed, just opposite of culture of reporting. Culture of output is overwhelming culture of outcomes. In the *individual level*, indisciplinary actions are frequently encountered, while disobedience to the rules and against the superior is also commonplace.

It is truly unfortunate that bureaucratic reform in Indonesia is lagging of cultural touch to solve such problems. Because of cultural deficiency, bureaucratic reform in Indonesia needs to be redesigned by incorporating cultural dimensions. In this case, organizational culture is an aggregate function consists of three components namely (superb) leadership, legal obedience and enforcement, and fulfillment of basic needs. Only when all three components are met, then organizational culture will flourish, and, in turn, will contribute to the efficacy of bureaucratic reform. The mutual association between leadership, law enforcement, and basic needs fulfillment can be viewed in the following figure.



**Figure 7.2.** Model of Cultural Reform Triangle (created by the author)

Leadership is a very essential factor to make government institution more dynamic. At least, there are two roles of leadership in ensuring the sustainable reform for the organization.

In the macro level, good leaders are those who are able to endorse new ideas, fresh perceptions, continual upgrading, quick actions, flexible adaptations and creative innovations. Simultaneously, they are expected to fully promote continuous learning, fast and effective execution, and unending change. Such roles are becoming much more imperative when government institution is typically regarded as a slow, stodgy bureaucracy that consistently and, sometimes, mindlessly enforces outdated rules and sticks to procedures without any care or concern for individuals or businesses (Neo and Chen, 2010). In order to realize dynamic governance, Neo and Chen (*ibid*) propose three critical governance capabilities:

“1) thinking ahead – the ability to perceive early signals of future developments that may affect a nation in order to remain relevant to the world; 2) thinking again – the ability and willingness to rethink and remake currently functioning policies so that they perform better; and 3) thinking across – the ability and openness to cross boundaries to learn from the

experience of others so that new ideas and concepts may be introduced into an institution.”

In a micro level, leadership can only be effective whenever it is able to provide with outstanding behavior and concrete examples. By practicing “walk the talk” principle, a leader is more likely to develop dynamic and effective followership. As *Latour and Rast (2004)* points out, without effective followership, a leader at any level will fail to produce effective institutions. Valuing followers and their development, therefore, is the first step toward cultivating effective transformational leaders.

From the influence model point of view, leaders are model for their subordinates. People tend to change their mindset and behavior if they see their leaders behaving differently. In this sense, Barsh and Cranston (2009) recommends five new roles of a leader:

- Framing: looking at problems in new ways to find better solutions;
- Connecting: actively shaping networks to heighten one’s sense of belonging, ability to influence change, and personal growth;
- Engaging: taking personal accountability for one’s life experience and setting aside fears to step up to opportunities;
- Energizing: actively managing experiences to achieve maximum “flow” in the work day; and
- Meaning: finding an inspiring purpose that is built on strengths, and using it to generate hope and action.

It can be underlined that the most basic role of a leader is empowering the collective efforts of the organization toward meaningful goals. Under such new role, there will be a growing sentiment among people in organization that they are an integrated part of the organization. This kind of feeling will, in turn, lead to willingness to comply with rules and consensus. It implies that qualified leadership might be appropriately functioned as leverage to draw people’s obedience over the law as well as to enforce the law.

One more important thing needed to ensure the best running of cultural reform is discharging basic needs of the people. Corruption cases, in many ways, are not caused by greed and opportunity, but more by needs. Despite recent efforts to increase participation, accountability and transparency, basic needs fulfillment remains an opaque process to many government employees. Certainly, bureaucratic reform is not mere a policy of providing remuneration but minimum living standard is indeed a crucial dimension of the reform. When people are no longer troubled by daily basic needs, they may focus more on their duties as well as having a higher level of law

obedience. At the same time, they are also more resistant to the temptations for corruption acts. Again, only when the aspects of leadership, obedience to law, and fulfillment of basic-needs are well-constructed, there will be strong cultural foundations for a perfect bureaucratic reform.<sup>26</sup>

### 3.3 Decentralization and Regulatory and Institutional Reform

It is assumed that decentralization will bring about the reduction of central government institution number due to transfer of major government functions to local government. In turn, it is expected to increase the amount of budget transferred to local level, and therefore, improving local development as well as enhancing public services. Similarly, decentralization is also supposed to reduce the tendency of over regulating local government.<sup>27</sup>

In fact, decentralization policy in Indonesia has no significant impact on both institutional and regulatory reform. The number of central agencies and local autonomous governments has steadily increased. In the central level, the number of existing ministries is 34, a maximum number allowed by Law No. 39/2008 on State Ministries.<sup>28</sup> Additionally, there are 25 non-ministerial government institutions (*Lembaga Pemerintah Non-Kementerian – LPNK*).<sup>29</sup>

Indonesian post-reform public administration is also characterized by formation of new commissions (*komisi*), councils (*dewan*), board (*badan*), committee (*komite*), team (*tim*), etc. They are all called non-structural institutions (*Lembaga Non-Struktural – LNS*). The number of LNS in 2005 was 42, rising to 85 in 2010, or an increase of more than 100 percent within the

<sup>26</sup> Korean experience provides a good insight on how modern bureaucracy has been built based on traditional culture. Korean government is principally based on the Confucian ideology during the Yi-dynasty (1392-1910). The nine-level of government structure is also adopted from bureaucratic model implemented by the Chosun Dynasty. See: Lee (2007).

<sup>27</sup> Korean experience in bureaucratic reform realizes a policy of streamlining government functions and reducing its size. The new administration reduced the number of cabinet members from 21 to 17 (Kim, 2000). In addition, to precede regulatory reform President Kim Dae Jung has ordered removal of 50% of regulation unconditionally. The purpose of this deregulation is to simplify licensing procedures and provide more legal certainty to the community, including the business sector. Regulatory reform is also intended to reduce quasi-compliance and potential corruption (Choi, 2010).

<sup>28</sup> Just a matter of fact, the number of ministries in Japan is 12, China 24, and Korea 17.

<sup>29</sup> According to Law No. 39/2008 (article 25), LPNK is government institution which is formed to carry out certain duties of state administration. Head of LPNK is directly responsible to the President and is coordinated by the relevant minister.

last five years. The uncontrolled growth of LNS has created effectiveness problem of state administration, particularly concerning potential overlapping of duties across institutions. Furthermore, the establishment of LNS is also considered as a burden to state budget (State Secretary GoI, 2010).

Then, an interesting question occurs: if the establishment of LNSs is engendering task ineffectiveness and budget inefficiency, why are there still desires to create new LNSs? One possible answer is that formation on new LNSs reflects a growing public distrust over existing state agencies. For example, the presence of Ombudsman (*Komisi Ombudsman Negara – KON*) is a sort of public distrust over service-providing institutions. Likewise, deviant behavior of judges is encouraging the formation of Judicial Commission (*Komisi Yudisial – KY*). In other words, government institutions both in central and local level are lacking of appropriate capacity so that they fail to demonstrate the best performance.

It is a weird thing that the problem of weak capacity and low performance of government institution is addressed by establishment of new institutions. Reforming the twisted institutions might be more appropriate than forming the new one. Unfortunately, enlarging the size of government is much more preferred than fortifying organization functions and its capacity to execute. It is truly regrettable, therefore, that institutional reforms tend to be neglected in the spirit of bureaucratic reform, so that decentralization and institutional reform is going to opposite direction.

Similar situation can be observed in the case of regulatory reform. 10 years of decentralization is not marked by the wider space of expressing aspiration or better climate to run business, but it is flawed by new regulations that tend to restrict and burden the citizen. The number of local regulation (*Peraturan Daerah – Perda*) increased dramatically, causing deceleration of local economic engines and escalation of high-cost economy in the region. That's why the central government (i.e. Ministry of Home Affairs – MOHA) needs to strictly evaluate every single Perdas, especially relating to local taxes and levies. Until March 2011, there are 2,399 Perdas which have been canceled by MOHA. The details of Perdas being canceled in 2002-2011 period can be seen in the following table:

**Table 7.3.** Cancellation of Local Regulation (Perda) by Year

| Year | Number of Perda being Canceled | Year         | Number of Perda being Canceled |
|------|--------------------------------|--------------|--------------------------------|
| 2002 | 19                             | 2007         | 173                            |
| 2003 | 105                            | 2008         | 229                            |
| 2004 | 236                            | 2009         | 876                            |
| 2005 | 126                            | 2010         | 407                            |
| 2006 | 114                            | 2011 (March) | 114                            |

Source: MOHA (2011, *modified*)

The reasons of canceling Perdass are diverse, such as incompatible with higher regulation, resulting in double payment/charging, no basis of authority, and so forth. In short, Perdass do not function as a decentralization instrument to improve the welfare of the people; it is misleadingly deployed as income generation tool. Regulatory reforms are abandoned, so that decentralization and regulatory reform is going to opposite direction.

## CONCLUDING REMARKS

Decentralized governance has always consequences. Transferring government functions and its financial and human resources to local government necessitates an alteration of government structure. Local government structure tends to slightly enlarge, whereas structure in the central level is supposed to shrunken. In such structure, the role of central government is simultaneously altered from “steering rather than rowing” to “serving rather than steering”, and from “serving rather than steering” to “enabling rather than serving”. As an enabler factor, the central government plays crucial roles of providing sound policies and nation-wide standardization, and inviting more active participation from private sectors and the communities.

The above description plainly explains the positive correlation between decentralization and good governance. Decentralization contains paradigm and notion of good governance such as participation, people empowerment, transparency, accountability, and rule of law. In other words, good (local) governance is one of the benefits that may occur when decentralization is effectively implemented and appropriately managed.

However, it is true that carrying out the mandate of decentralization is not an easy way. There is a complex situation encountered by Indonesian government.

On the one hand, the government is facing lots of internal limitations in terms of human resources capacity, ineffective institution and inefficient business processes. Given the limited resources, knowledge, as well as human and organizational capacities, “good enough governance”<sup>30</sup> might be actually the most realistic target of decentralization policy.

On the other hand, people’s demand and pressure is getting stronger, while decentralization has not been able to exhibit its function as unifying factor for diversified Indonesia and fortifying strategy to the nation-state building. In dealing with such complexity, bureaucratic reform is convincingly perceived as the best approach to restore the present governance in Indonesia. The objective of bureaucratic reform is to fortify the decentralization framework, while decentralization is intended to boost the realization of good governance. Reaching of good government, in turn, will lead to the betterment of public service.

Finally, we come to the conclusion that decentralization is, undoubtedly, a reform, i.e. a process of getting intergovernmental relation more balanced and more democratic. Nevertheless, decentralization itself is not enough; it is not panacea for all diseases. It should be equally accompanied by systemic enhancement in nation-state building, bureaucratic reform, institutional arrangement, as well as regulatory reform. Otherwise, both decentralization and good governance remains a dream or theory; they would never take place in the real world.

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<sup>30</sup> Grindle (2007) defines “good enough governance” as minimum conditions of governance necessary to allow political and economic development to occur.

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