Harmonizing national interest and local autonomy: Finding an effective institutional arrangement for regional development in Indonesia

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Abstract. Central government intervention in regional development is an important element in both national as well as regional development. It is involve a series of mechanisms that enable local government to handle their region to be develop and to create welfare for their society. The structure of local government have been divided to provincial government and district/city, the effectiveness of development and public services at local level not very satisfy and not fulfill the needs of the people. It is realize that the central government has a large role to play not only in the national interest but also at provincial and district/city levels. This study will review the structure of local government in Indonesia, in order to find effective institutional arrangement at local level. This study will use qualitative approach through literature review from the experience of Indonesian since independent and the experience of others countries.

1. Introduction

Indonesia is following the path of centralized approach in regional development until the Reformation Era in 1999. After that, Indonesia try to find the local government structure which is able to maintain the development process at regional level [1].

Chema (1981a) state there are four interrelated factors that affect regional development performance, these are:
1. individual aspects: technical skills, values, attitudes and beliefs of individuals within the society,
2. environmental aspects: sociopolitical structure,
3. the availability of resources which generates innovative ideas and programmes,
4. institutional aspects as an engine of development.

Chema (1981:4) states that: institutional machinery provide the channel through which various regional development ends are accomplished; relevant societal issues and priorities are articulated; short-term and long-term plans are formulated; regional projects are implemented; people are involved in specific activities undertaken by the government; and the planning and implementation processes are integrated.

2. Decentralization approach

Decentralization arguments emerged in the 1950s and 1960s, were rediscovered again in the mid 1970s which was stressed basic needs, growth with equity and ‘small is beautiful’ approach (Ruland, 1992; 3,4). There are many reasons for decentralization, these are, decentralization can mean giving more power and responsibility in planning and implementation to local government as well as shifting political and administrative functions from the central to local government [2][3]. As Rondinelli and Cheema (1983:18) define decentralization as: the transfer of planning, decision making, or administrative authority from the central government to its field organization, local administrative units, semi autonomous and parastatal organization, local government, or nongovernmental organizations.

Rondinelli & Cheema (1983:18-25) argue that there are four forms of decentralization, these are:
1. Deconcentration: where limited transfer of workload from the central government to the field office.

2. Delegation: transfer of authority to plan and make decisions about specific tasks to an organization such as a public corporation or a regional planning and area development authority.

3. Devolution: transfer of authority and responsibility to local authorities, include the power to plan and execute development projects and programs, as well as financial control.

4. Transfer of government planning and administrative responsibility to nongovernmental institutions. This can mean debureaucratization (allowing decisions to be made in those institutions) and privatization (shifting responsibility for producing goods and services to private organizations.

3. Discussion

The formation of local government (province and district/city) does not mean that central government loses its power to the regions which was happened in Indonesia[4]. It is simply because most of development funds and planning responsible are still in the hand of central government (Ministries) [5]. Indonesia realized that there is a need to decentralized the development process as well political power to local government. Since 1974, the regulation of local government have been changed a several times.

The Law Number 5/1974 about the Principle of Local Government replaced the Law Number 18/1965 which cannot implemented. According to the Law Number 5/1974, Indonesia divided into regional autonomy as implementation decentralization principle and administrative region as implementation deconcentration principle. Provincial Level I (Region Level I/Special Region of Capital City/Special Region) and Region Level II (District/City Level) [6].

In the Era of Reformation, the Law Number 5/1974 was replaced with the Law Number 22 in year 1999 about Local Government. According to the Law Number 22/1999, Indonesia divided into regional autonomy these are Province; District/City; and Special Region of Aceh, Jakarta, and Yogyakarta. All type of regional autonomy are equal and there is no hierarchy. Provinces are also as administrative region.

In 2004, the Law 22/1999 was replace by the Law Number 32/2004. According to the Law Number 32/2004, Indonesia divided into one type of autonomy region, these are province which are divided into Kabupaten and Kota. The State also recognize special region to Aceh, Jakarta, Papua, dan Yogyakarta. The state also acknowledge Desa with traditional right within Negara Kesatuan Republik Indonesia.

Furthermore, the Law Number 32/2004 was replace by the Law Number 23/2014 and follow by the Law Number 9/2015. The arguments about the advantages of decentralization or centralization have been studied by many scholars such as Rondinelli, Chema, Wunch and Werlin [7]. However it is not clear from previous studies that decentralization is the best alternative for development. Many studies indicated that centralized control can produce appropriate goods and services for the community. On the other hand, centralization has not been satisfactory in producing goods and services, simply because the plan, design and management are not at the local level, therefore did not fit local conditions [8].

Werlin (1991b:94) [9][10] noted that: “there is no best way of organizing, they will say, sometimes adding: no best policy, approach, or technology. As evidence, they can point to the fact that centralized hierarchical organization have no greater probability of success than fragmented or decentralized ones.”

Wunsch (1991b:432) conclude that from previous studies, decentralization can produce good as well as bad performance [11]. It was also was happend in Indonesia. The previous studies did not have a theory to explain when, how, and why to decentralize, therefore there are no impact on existing
administrative systems and limited and adequate changes. Wunsch added that: decentralization efforts have not significantly expanded participation, improved project effectiveness or efficiency, increased orientation to rural needs and wants, expanded financial support for local projects and services by rural dwellers, reduced central cost or (much less) redistributed wealth, status or power to the rural areas (Wunsch, 1991b:433).

Furthermore, Wunsch argues that there are several reasons why organizational analysis become a problem for administrative reform in developing countries:

1. the ignoring of variations in organizations as well as in goods and services,
2. the holistic approach of organizational analysis,
3. tendency to overlook regulations, laws and order,
4. little internal consistency and coherence of organizations,
5. the dominance of the centralized-hierarchical bureaucratic model in the third world, so that there are no examples of the diversity of organizational forms in developed countries.

As Wunsch suggested (1991a:19) [12], at times decentralization will indeed be needed: in local governments, private-voluntary organization, the market, and other small and scattered units. However, equally so, key functions will probably remain in centralized institutions, these might include enforcing contracts, stabilizing the currency, managing a capital market, integrating inter-regional infrastructure systems, and the like.

Blakely (1989) states that there are two essentials for effective organizational form for regional development, these are authority (the legitimate power to act on behalf of local government, community, unions, business, and other constituent groups, and other resources).

The focus of this paper is to determining appropriate institutional arrangement of decentralization process for regional development. Base on theoretical approach (Theory-Driven Evaluation) and decentralization experience in Indonesia, it is propose an alternative models for institutional arrangement for decentralization model in Indonesia, these are:

1. Base on the Law Number 9/2015, where Province have more power to supervise District/City but District/City still have their own autonomy.
2. Jakarta Province model, where Province have strong power and District/City as administrative type. (Less political power and more administrative power)
3. An alternative model is Jakarta Province model where District/City but Head of District/Mayor will be directly elected by people. (More political power and administrative power)

Arturo Israel (1990:13-14) questioned why institutions perform differently (why is one institution more effective than others? Israel concluded that there is no theory which responds to this question. He describes institutional building as a process to increase institution capability to be more effective in using human and financial resources. This process in internal terms can be motivated by a leader of the institution or by government intervention and promotion.

In conclusion, there is a need for Indonesia to find an appropriate institutional arrangement between central government – local government relationship, on the basis of political and administrative power. The interrelations should be base on Negara Kesatuan Republik Indonesia. To have an appropriate decentralization arrangement, it is suggest, to evaluate the implementation of the regulations was made after Reformation Era include the Law No.9/2015.

Indonesia needs to rearrange organizational form for regional development in term of relationship between central government, provincial, and district/city. Indonesia should have appropriate institutional capability to manage regional development. The appropriate structure (in term of political and administrative power) of local government. As Chema (1981:5) suggests, there are six main component of institutional capability to be effective:
1. Coordination (vertical and horizontal) for harmonizing and integrating government action.
2. Decentralization to the regional level (in function and finance) to create effective partnership.
3. Cooperation within the society (between government and other non-government institutions in order to increase participation).
4. The capacity of the administrative system in formulating, implementing, monitoring, and evaluating programs and projects.
5. The procedures and practice of planning and budgeting decisions.
6. The structure of personnel in facilitating administrative innovation.

It is hoped the six main components above can be found in the future regulations of decentralization in Indonesia, and an appropriate institutional arrangement will be effective to manage regional development and increase the welfare of the society.

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