Central-local government relationships: The role of the Provincial subsidy scheme (Inpres Dati I) in regional planning in Indonesia

Sukesi Widosari
The University of Montana

Let us know how access to this document benefits you.
Follow this and additional works at: https://scholarworks.umt.edu/etd

Recommended Citation
Widosari, Sukesi, "Central-local government relationships: The role of the Provincial subsidy scheme (Inpres Dati I) in regional planning in Indonesia" (1992). Graduate Student Theses, Dissertations, & Professional Papers. 8679.
https://scholarworks.umt.edu/etd/8679

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
CENTRAL–LOCAL GOVERNMENT RELATIONSHIPS:
THE ROLE OF THE PROVINCIAL SUBSIDY SCHEME (INPRES DATI I)
IN REGIONAL PLANNING IN INDONESIA

BY
SUKESI SOOTYO WIDOSARI
B.A., Bogor Agricultural University, INDONESIA, 1977

Presented in partial fulfillment of the requirements for a
Master of Science Degree in
Rural Town and Regional Planning
UNIVERSITY OF MONTANA
1992

Approved by:
Chairman, Board of Examiners
Dean, Graduate School

Date

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
Indonesia faces problems in the financial relationship between its central and regional governments. The problems today in Indonesia are multitude: first, there is a lack of a clear functional division of responsibilities between the central and regional government. Second, there is a relatively high degree of centralization in government. And, third, there is a desire for national political stability. These all culminate in a strong central government capable of exercising effective authority throughout the country, and controlling taxation and the total expenditures of the local governments. Consequently, regional governments are highly dependent on central grants and subsidies.

This paper examines this issue by focusing on the role of the Provincial Subsidy Scheme in regional development activities, which contains features crucial to both the regional and central governments.

The program is funded by the central government but administered by the provincial governments. It makes up about 65 per cent of the development revenues of the provincial governments, and is mainly devoted to helping the provincial governments to regional development. However, in the name of national interest and in order to be able to discharge its responsibilities for managing the economy effectively, the central government imposes directions and prohibitions to the local governments. The purpose is to ensure that aggregate local government spending is compatible with national economic objectives.

The program also serves as a path through which the central government delegates some of its authority to lower levels of government. The purpose is to share burdens in providing services to the people and in training local staff to manage development projects in an efficient manner.

The devolution of power is not meant to consolidate the political bargaining position of the local governments vis-à-vis the central authority. Rather, local governments are to carry forward development in accordance with regulations previously determined by the central government. Not surprisingly, local governments have little latitude to reinterpret central plans and priorities.

This paper is to explain the role of the Provincial Subsidy Scheme in regional development in Indonesia. It does not claim to provide a thorough analysis of the program, but has two modest purposes: to summarize the rationale, objectives and the administrative procedures of administering the program, and, consequently, to provide or pertinent questions for further exploration.
Table of Contents

Abstract ..................................................... ii
Table of Contents .......................................... iii
Lists of Tables ........................................... iv
Lists of Illustrations ................................... v

1. INTRODUCTION
   1.1 The Problems of Decentralization in Developing Nations ............................................. 1
   1.2 Decentralization Efforts in Indonesia ........... 5
   1.3 The Problems of Decentralization .............. 12
   1.4 Methodology ..................................... 18
   1.5 Organization of the Professional Paper ...... 19

2. LOCAL GOVERNMENTS UNDER THE LAW NO. 5 OF 1974
   2.1 Introduction .................................... 22
   2.2 Administrative Structure ...................... 24
   2.3 Regional Units and Local Autonomy ........... 29
   2.4 Structure of Provincial Government .......... 35
   2.5 Provincial Planning ............................ 37
   2.6 Provincial Budget ................................ 39

3. PROVINCIAL SUBSIDY SCHEME: PROCESS AND POLICY
   3.1 Program Rationale and Description ........... 42
   3.2 Program Strategy and objectives .............. 53
   3.3 Administrative Procedures .................... 62
   3.4 Program Finance ................................ 64
   3.5 Central Supervision ............................ 68
   3.6 Community Participation ....................... 72

4. STRENGTHENING THE CAPABILITIES OF LOCAL AGENCIES: ISSUE2E AND STRATEGIES
   4.1 Introduction .................................... 74
   4.2 Major Changes .................................... 76
   4.3 Types of Decentralization ..................... 78
   4.4 Strengthening the Capacities of Local Governments ............................................. 80

5. CONCLUSIONS AND RECOMMENDATIONS
   5.1 Conclusions ..................................... 84
   5.2 Policy Recommendations ........................ 84

BIBLIOGRAPHY ............................................... 86
# List of Tables

<table>
<thead>
<tr>
<th>Tables</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Allocations of Inpres Funds Among Different Programs</td>
<td>14</td>
</tr>
<tr>
<td>1.2 The Percentage of Budget Absorbtion and Residual, 1974/75 - 1983/84</td>
<td>18</td>
</tr>
<tr>
<td>3.1 National Recurrent and Development Budget During the First Five-Year Development Plan, 1969/70 - 1973/74</td>
<td>45</td>
</tr>
<tr>
<td>3.2 Percentage of Regional Development Sources of Funding, 1969/70 - 1973/74</td>
<td>47</td>
</tr>
<tr>
<td>3.3 The Allocation of Regional Funding Through the ADO and the Government Grant in Lieu of ADO Scheme, 1969/70 - 1973/74</td>
<td>52</td>
</tr>
<tr>
<td>3.4 National Recurrent and Development Budget During the Second and the Third Five Year Development Plans, 1974/75 - 1983/84</td>
<td>54</td>
</tr>
<tr>
<td>3.5 Percentage of Regional Development Sources of Funding, 1974/75 - 1983/84</td>
<td>56</td>
</tr>
<tr>
<td>3.6 Provincial Development Budget, 1969/70 - 1983/84</td>
<td>57</td>
</tr>
<tr>
<td>3.7 Ratio Between The Highest and The Lowest Funding Granted to each Province During 1973/74 - 1983/84</td>
<td>66</td>
</tr>
</tbody>
</table>
List of Illustrations

Figures

2.1 The Structure of the Indonesian Central Government .................................. 28
2.2 The structure of Provincial Government ......... 34
2.3 Map of Indonesia, 1976 ......................... 38
3.1 Provincial Subsidy Funding, 1973/74-1983/84 . 68
1.1. The Problem of Decentralization in Developing Nations

As a consequence of a number of influences, including pre-colonial forms of government often reinforced by colonial regimes experienced before independence, most developing nations have generally regarded unified, centralized and regulatory government as highly desirable. Centralization has tended to be both the norm and the ideal that pervades the concepts or political, economic and administrative organization.¹

This tendency was often reinforced by the intention to insure rapid industrial growth through intensification of capital formation as ingredients of alleviating poverty and generating income and savings. To attain these objectives, central planning was prescribed as an absolute requirement for development.²

By the 1960s, however, it was widely recognized that


central planning had not achieved these goals. Though growth rates were high, economic growth remained sluggish. Often, relatively small groups benefited from increased national production, while income disparities between the rich and the poor, as well as among regions, widened in many developing nations. The phenomena that resulted were economic instability, social unrest, and political disorder, often culminating in civil disturbances and local insurrections.

Confronted by these facts, many governments of the Third World, particularly during the 1970s, began questioning the effectiveness of the strategy of central planning, and tried reversing directions. Beginning with this critical period, they began to experiment not only with new approaches to development, but also with new political and administrative arrangements for planning and governing development programs. The increasing interest in decentralizing authority for planning and administration to regional and local units arose from three converging forces: first, from disillusionment with the result of the central planning and control of development activities during the 50s and 60s; second, from the implicit requirements for new ways of managing development programs that were embodied in growth-with-equity strategies that emerged during the 70s; and third, from the growing realization that it becomes increasingly difficult to plan and to administer all
development activities efficiently and effectively solely from the center. 3

Nevertheless, the realization of the need for decentralization does not automatically guarantee that the Western experience relating to this issue could be easily transferred to these countries. Because of fundamental differences in political structure and legal traditions, as well as socioeconomic differences between the old established countries of the West and the newly emerging nations, and in addition to the political attitudes of the leaders of the latter toward decentralization itself, the concept has been used tacitly, sometimes extremely loosely, to permit many different kinds of institutional arrangements to be presented in its name. Indeed, this variety underlines the political importance attached to decentralization in developing countries. On the one hand, the central authority insists that the local unit be autonomous, but on the other hand, it treats the local government as the extension of its authority reaching right down to each locality. 4


4 Harry J. Friedman, "Decentralized Development in Asia: Local Political Alternatives," in Dennis A. Rondinelli and G. Shabir Cheema, Ibid, p. 35.
One of the difficulties derives from the traditions and patterns of decentralization in the West: In some Western countries, decentralization refers to the territorial distribution of power and authority. It is concerned with the extent to which functions are dispersed throughout the geographical hierarchy of the state, and the institutions and processes through which such dispersal occurs. In addition, it also entails the subdivision of the state’s territory into smaller areas and the creation of political and administrative institutions in those areas.¹

Furthermore, in Western parlance, the granting of power to subordinate units of government implies the use of constitutional structure and legislative guarantees in order to protect those powers. Authorities so granted cannot arbitrarily be withdrawn, while the national administration is generally denied the right to intervene within these realms reserved for the lower level of government. Therefore, smaller areas below the national level became autonomous local units, which have the full right to manage their own affairs. From the Western point of view, the great strength of local autonomous units should be that they promote efficiency, by providing services that better fit local conditions and

circumstances than can ever be achieved by more distant decision makers.⁶

1.2. Decentralization Efforts in Indonesia

It is not possible in a brief paper such as this to review the general experience with the decentralization efforts in the developing world. Only a single example will be covered, that of Indonesia, and even here only in a brief review. Since its inception as an independent republic in 1945, the government of Indonesia has been tried to become more democratic delegating some of its authority to local levels. Initially decentralization in Indonesia was merely seen as a continuation of the Dutch concept of federalism, which had been interpreted by the revolutionaries as a mechanism for the perpetuation of colonialism.⁷ Many argue that decentralization could help the government by securing public compliance and stabilizing the political order. Moreover, regional diversity, the archipelagic nature of the country, as well as the desire to deliver governmental services to the people in a more efficient fashion, have provided other reasons for decentralization. More importantly, can increase political stability and national


unity by accommodating regional differences theoretically through broader participation in the decision making processes.

However, while decentralization became an article of faith and was widely accepted as a highly desirable policy to be launched in pursuing national objectives, there was no common understanding or agreement as to its real meaning and the best way of achieving it. Such uncertainty is not unusual. Diana Conyers, for instance, in a general study of decentralization as the latest fashion in development administration concludes that during the drafting of constitutions prior to independence, there has often been a wide spread debate regarding decentralization. The discussions relating to this topic were intensified by considerable disagreement about the degree of decentralization and the form which should take. Therefore, it is not surprising that decisions regarding the degree of control that the central government could and should have over regional affairs, and the room that should be provided for local initiatives within the overall governmental process, have always been a subject of controversy.

For Maryanov, the tension between the center and the

---

local authorities relating to decentralization in Indonesia stemmed from two different views. First, there were groups who insisted that a "top-down" approach in terms of government organization and the needs for leadership be institutionalized. On the opposite side, other groups strongly required that a "bottom-up" mechanism in terms of popular demands and regional agitation be legitimized and practiced. For the former the problem was decentralization, while for the latter it was regional autonomy.®

From an economic perspective, people from deficit regions in Indonesia have persistently supported centralization and redistribution from the center, because of difficulties in raising revenues locally. The reason has been to obtain central grants and subsidies to cover their expenditure. On the contrary, people from more prosperous surplus regions have preferred regional autonomy and local government rule. This is because they want to keep their surplus revenue within their own regions and to decide how to spend them without being dependent upon central support.

The initial solution of these conflicting demands was set up by enacting the first local government law in 1948. Worried by problems of destabilizing into a weak federalism and the need to consolidate the nation, the government then

set to favor centralization rather than regional autonomy. This decision was taken not without good cause. John Legge, who studied the problem of central-local relations in Indonesia during the first years of independence, found that distribution of power would have weakened the bargaining position of the center in leading the country. Therefore, he concluded, that though the law was designed to be the basis of establishing subnational autonomous units in the year to come, and to lay the pattern foe eventual regional development, central supervision and control still prevailed.¹⁰

Nevertheless, the central government apparently did not intend to perpetuate that system. During the succeeding years, the centralized nature of the law was gradually modified by transforming three of the levels of the regional hierarchy into self-governing local units. Unfortunately, the Dutch police action and the capture of the republican capital hindered the process. Further, the problem the central government was facing was aggravated by the fall of several cabinets within a very short period of time. These events indicated how weak the central government was in coping with the issue of delegation.

---

In order to keep the tension from becoming more explosive, in 1957 the government ratified the second local government law. Having learned from past experience, an emphasis upon real autonomy and the delegation of power as widely as possible was introduced. Real autonomous and delegation of power are the main ingredient in the decentralization. Since 1957, local governments have been able to act with some autonomous on a whole range of matters which the central administration had not previously treated. However, once again the tendency of the center to sustain its dominant role over regional affairs made the tensions between the center and the local authorities steadily worsen. They reached their peak in 1965.

With the new order government after 1965, the system of local government and central-local government relationships were dramatically restructured; the primary concern was the establishment of a strong national leadership supported by a centralized political order and bureaucracy. It was decided that regional development should go hand in hand with the maintenance of central sovereignty. Under these circumstances, the decentralization program has been seen not merely as a right of local units to be independent from the center and to run the regional administrations democratically. Rather, it was seen more as their obligation to participate in carrying forward development as a means to achieve the prosperity of the people. As such, authorities
and powers delegated by the center can, at any time, be withdrawn, while the local units can be abolished by national law.\textsuperscript{11} A common theme underlying this policy centers on the importance of building institutional capability, particularly the capacity of local agencies to manage both their own affairs and powers granted to them by the center. This basic guidance then materialized into the new local government law, ratified in 1974.

Under the current act, decentralization gets a new meaning. The source of local income was restructured, and more than 60 percent comes from the center. More importantly, the central government then took over the responsibility of the local governments to pay their staffs' salaries by granting annual funding known as Autonomous Regions Subsidy (SDO - Subsidi Daerah Otonom). In addition, the pattern of local expenditure also has been improved, in the sense that funding should be allocated more to the economic-productive sector. To assure that the program would be undertaken as planned, the central government introduced a package of regional development programs, funded by the center but administered by the local agencies. One of them is Provincial Subsidy Scheme.

In implementing this program, the room for local judgement is quite limited, since at all times, the authority

\textsuperscript{11} Department of Interior, Law No. 5 of 1974, Article 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
of the national government remains supreme. Regions have only the right to organize and to manage the program in accordance with prevailing regulations determined by the center. After eighteen years in operation, this program is still administered in the same way. There is still not any delegation on real power to regional governments.

The present study was carried out to gain insights into this Provincial Subsidy Scheme by looking in detail at three main issues: first, its role in fostering regional development activities; second, the responsibility of both the central agency and the office of governor in its implementation; and, finally, in assessing the increased ability of local agencies to manage development projects within the scheme as well as to highlight obstacles fears the government. This study also suggests some alternatives to improving management skills and implementation of the program.

---

1.3. The Problem of Decentralization

Strengthening the capabilities of local government agencies has always been a reasonable objective to be pursued by any democratic regime. This could be achieved in a number of ways.

In Indonesia, a number of major regional development programs designed for implementation at the local level have been put into operation during the last several years. These programs have been identified as a potential focus for project support with reference to the government strategy of launching projects which promote development benefits for the local people, as well as fostering increased involvement of this sector of the populace in the overall development process.

At present, there are eight major programs, launched under the Presidential Decree Program, which in order of inception, include the following:

1. Inpres Desa - Village Subsidy Scheme (1969/70);
2. Inpres Kabupaten - Regency Subsidy Scheme (1970/71);
3. Inpres S.D. - Primary School Subsidy Scheme (1973/74);
4. Inpres Kesehatan - Community Health Scheme (1974/75);
5. Inpres Propinsi - Provincial Subsidy Scheme (1974/75);
6. Inpres Penghijauan - Reforestation Subsidy Scheme (1976/77);
7. Inpres Pasar - Market Building Subsidy Scheme (1976/77);
8. Inpres Penunjangan Jalan - Local Road Betterment Subsidy Scheme (1979/80).

---

In total, some Rp. 1,106,000,000,000 are included in the 1988/1989 budget for these special regional and district development program out of a total development budget of Rp. 8,897,600,000,000, or 12.4%. In the previous fiscal year, the amount was only Rp. 921,200,000,000, or 11.9%, out of the Rp. 7,756,600,000,000 total development budget.

In the fiscal year of 1983/84, final year for which this study has data, the funding disbursed for these programs was even higher, about Rp. 1,476,118,300,000 out of Rp. 9,290,000,000,000 (15%). The decrease since then is due not to decreases in total government revenue. Instead, it reflects an increase in recurrent expenditures that need to be covered, so that funding that could be disbursed for development activities should be reduced.

In terms of the amount of funding which has been allocated to each scheme from the inception of the programs until 1983/1984, the Primary School Building Scheme received the largest allocation, which accounted for Rp. 2,263,645,490,000. This was followed by the Provincial Subsidy Scheme with Rp. 1,307,173,450,000, and the Regency Subsidy Scheme with Rp. 1,110,866,202,000. The breakdown is provided in Table 1.1.

As is apparent from their names, all of these schemes, except for the Provincial Subsidy Scheme, are devoted to carefully determined areas or projects, e.g., health.

---

education, agriculture. Hence, the scope for local judgment and initiative is very limited. The determination of broad policies and the right to allocate funding for each project are commonly the prerogative of the central agencies.\footnote{See Michael Morfit, "Strengthening the Capabilities of Local Government in Indonesia: Issues, Strategies, and Experiences," \textit{Journal of Contemporary Southeast Asia}, Vol. 6, No. 1. (Singapore, 1984), p. 61.}

Table 1.1


<table>
<thead>
<tr>
<th>Programs</th>
<th>Allocation (Thousand Rupiahs)</th>
<th>% of Total INPRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village Subsidy</td>
<td>452,736,000</td>
<td>7.0</td>
</tr>
<tr>
<td>Regency Subsidy</td>
<td>1,110,866,202</td>
<td>17.3</td>
</tr>
<tr>
<td>Primary School Subsidy</td>
<td>2,263,645,490</td>
<td>34.8</td>
</tr>
<tr>
<td>Health Subsidy</td>
<td>450,490,334</td>
<td>6.5</td>
</tr>
<tr>
<td>Provincial Subsidy</td>
<td>1,307,173,450</td>
<td>20.2</td>
</tr>
<tr>
<td>Market Subsidy</td>
<td>305,000,000</td>
<td>3.9</td>
</tr>
<tr>
<td>Reforestation Subsidy</td>
<td>410,568,000</td>
<td>6.3</td>
</tr>
<tr>
<td>Road Betterment Subsidy</td>
<td>261,996,500</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,563,088,584</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


Some aspects of the Provincial Subsidy Scheme, however, deserve special attention. First, funding for this scheme is directly transferred from the central budget and is intended to be the basic development revenue for each province. The funding then is divided into two kinds:
decided fund (dana yang ditetapkan) and guided fund (dana yang diarahkan). The utilization of decided fund is usually the prerogative of the center. It has to be used to finance three important subsectors: roads; irrigation dams; and bridges. As with the other programs, the scope for local judgement in conducting programs covered under decided fund is almost non-existent.

On the other hand, the right to utilize guided fund almost completely devolves to the local institutions. In this respect, the central agency sets only a general guidance to be followed, which can be adjusted to meet the special conditions of each locality. Sectors to which this funding can be allocated is decided by the local government guided by the Provincial Planning Board.

In addition to this, each provincial government also has its own income sources derived from some basic activities. Taxes on land, commodities, vehicles, changing ownership of vehicles, licence fees as well as revenues from government and privately owned enterprises are the most important sources. Furthermore, both income granted by the center through the Provincial Subsidy Scheme and genuine local revenues must be combined together into the Annual Provincial Revenue and Expenditure Plan. Generally, although the center imposes some regulations upon local budgets, to a great extent, they are not enforced on the local revenue budget. This means that projects and purchases that are prohibited for funding through
the Provincial Subsidy Scheme, such as luxurious official cars and building new office complexes can be covered by the local budget. However, a report issued by the Ministry of Interior shows that only four out of twenty seven provinces have local revenues that exceed funds granted by the center. 

Therefore, the opportunity of almost all of provinces to initiate projects on their own is very limited, while the dependency upon the central subsidy is extremely high.

To undertake projects, the local government must first, develop annual project proposals to be undertaken in the next fiscal year, and obtain approval of the proposals by the center, Ministry of Interior, Directorate General Regional Development. The approval is needed to insure that the standard guidance set by the center has been met. Here again, the distribution of funding for each sector needs to be in accordance with the national planning.

In the next stage, all of these projects must be put together into Provincial Annual Plans, and can only be implemented so far as they have been approved by the Minister of Interior. More importantly, all projects above Rp. 200,000,000 ($120,000.00), after being tendered by the local government to any private firm or contractor, must be authorized by the central agency.

\[16 \text{ See Department of Interior, Report on the Conduct of Provincial Development Programs, op.cit., pp. 17-19.}\]
Many certain problems such as the delay of projects and the inability of local governments to absorb this delegated funding have experienced by all provinces. The Annual Report produced by the Directorate General of Regional Development shows that during the Second Five Year Plan (1974/75 until 1978/79), as much as 23.81 percent of the total funds that could not be expended by the local governments. These residual funds were even higher during the Third Five Year Plan (1979/80-1983/84): 38.41 percent. The breakdown is provided in Table 1.2.

Furthermore, the report maintains that the source of these problems have always been both the central and the regional governments. The lack of expertise, of heavy equipment, as well as bonafide local contractors in some provinces are honestly recognized. On the other hand, the weakness of coordination which is still a problem until recently, is attributed to the center.

In addition, central approval over all local planning and project implementation, apparently, is one of the most critical source of delay.

Based on government regulations, the local government fiscal year coincides with the national fiscal year and starts on April 1 and ends on March 31. However, the report shows that the Provincial fiscal year has always started on June, since the central approval has always been received by that time.
### Table 1.2
The Percentage of Budget Absorption and Residual
(1974/75 - 1983/84)

<table>
<thead>
<tr>
<th>No.</th>
<th>Fiscal Year</th>
<th>Absorption</th>
<th>Residual</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1974/75</td>
<td>81 %</td>
<td>19 %</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>1975/76</td>
<td>82 %</td>
<td>18 %</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>1976/77</td>
<td>79 %</td>
<td>21 %</td>
<td>PELITA II</td>
</tr>
<tr>
<td>4.</td>
<td>1977/78</td>
<td>74 %</td>
<td>26 %</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>1978/79</td>
<td>66 %</td>
<td>34 %</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>1979/80</td>
<td>63 %</td>
<td>37 %</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>1980/81</td>
<td>63 %</td>
<td>37 %</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>1981/82</td>
<td>65 %</td>
<td>35 %</td>
<td>PELITA III</td>
</tr>
<tr>
<td>9.</td>
<td>1982/83</td>
<td>65 %</td>
<td>35 %</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>1983/84</td>
<td>53 %</td>
<td>47 %</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>1984/85</td>
<td>53 %</td>
<td>47 %</td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>1985/86</td>
<td>71 %</td>
<td>29 %</td>
<td>PELITA IV</td>
</tr>
</tbody>
</table>


In short, the problems sketched above raise the question of how is it possible for the central government to decentralize some of its authority and resources to lower level governments without retaining any strict measure of control over their use.

1.4. Methodology

This study basically reviews the Provincial Subsidy Scheme since its inception in 1974/75 up to 1983/84. The data upon which the analysis is based derives primarily from secondary sources. Of particular importance are reports issued by the Indonesian Government, and research.
undertaken by individuals and organizations. The emphasis is chiefly on the role of the Provincial Subsidy Scheme (Inpres Propinsi) on the process of regional development; the latitude provided by the center for local judgement; the scope of central supervision and control; and the benefits to the local administrative and technical staffs from having participated in the overall process.

Data regarding local funds, central subsidies, regulations imposed by the center, and job descriptions of both central and local institutions, are the basic source material.

1.5. Organization of the Paper

The study is divided into five chapters. Following the historical background of the ratification of local Government Law No.5 of 1974 presented above, the second and third chapters deal with the structural system of local government and process and policy of carrying out the Provincial Subsidy Scheme.

More specifically, Chapter 2 presents the system of local government under the current act, by examining the administrative structure, in terms of regional units and the nature of local autonomy as well as the concept of decentralization currently implemented in Indonesia. The position of the Governor, who has a dual functions, i.e., as the elected head executive of local government, and as the
representative of the central interest in the region, including the role of local legislature, will be elaborated. The regional budgeting and planning procedure is discussed at the end of this chapter.

The central focus of the paper is presented in Chapter 3. Here, the role of the Provincial Subsidy Scheme as the largest source of local development revenue, and its rationale and objectives are thoroughly discussed.

To provide a better understanding of the program as an initial stage of strengthening local institutional capabilities, the administrative procedure of allocating funding and of developing plans to be submitted to the central authority will be emphasized. The subsequent discussion regarding the scope of central supervision and the latitude for local initiatives will add to the understanding of the program. Community participation, as one of the most crucial objectives, will also be described.

Chapter 4 addresses finding ways of improving the implementation of the program. Because of the initial objectives, the shift toward a more decentralized process is assumed as the most desirable policy to be accomplished. Inevitably, the reduction of central intervention and strengthening the bargaining position of the local government within the program cannot be avoided.
Finally, conclusions are presented in chapter 5, along with some policy recommendations.
2.1. Introduction

After 1965 the military establishment started to govern the country in a completely different pattern from that of the administration it replaced. As a new regime taking over after decades of turmoil, there were four immediate challenges that the government had to face. The first one was the need to establish control and authority of the center throughout all parts of the country; the second was the need to restore economic stability and to prepare the basis for economic development; the third was the need to legitimize its sovereignty as a regime; and the fourth was the need to secure public compliance. The new ruling elite came into power and was immediately confronted with accomplishing these four massive tasks. It is therefore hardly surprising that this government needed nearly a decade before it could handle all the challenges it faced.

However, after twenty years of leading the country, there are some fascinating aspects of change which epitomize the regime’s achievements. Among other things, political

stability, economic growth, and the final recognition of the central authority throughout the archipelago stand as the hallmarks. These accomplishments could only be achieved by introducing strict austerity measures, in term of depolitization of political activity, rationalization of bureaucracy, and restructuralization of central-local government relationships.

The implementation of such measures was highly influenced by the political approach which assumed that the economic development of a non-industrialized nation can only be accelerated so long as the central government is strong enough to maintain stability and order as well as manipulate the political process. In addition, development is no longer seen merely as a set of ends. Rather it is seen almost exclusively as a process.

The period from 1965 to 1974 saw the strict implementation of such a model. The authority of the central government in deciding all crucial policies was dramatically strengthened, while the participation of regional government within the process was greatly reduced. It was not until 1974 that the government started to restructure the political and administrative framework for central-provincial government relationships.

The central governments policy with regard to the development of such relationships was articulated primarily in Basic Law no.5 of 1974. This act constitutes the legal
framework for all subsequent programs and policies affecting the development of local government in Indonesia, and it is the basic reference point to any study of the experience of local government under the new regime. This law has brought about a fundamental change in the regional authority and its position vis-a-vis the central administration. It is the intention of this chapter to examine briefly the local government structure under the current law. This explanation will provide a basis for understanding the nature of regional development programs currently undertaken in Indonesia.

2.2. Administrative Structure

The current structure of government in Indonesia was first broadly outline in the 1945 Constitution, and has been amended at later stages through additional legislation. The influence of the Dutch colonial administration which evolved over some 350 years, as well as the ecological and cultural differences among the people have persistently influenced the form and the structure of government at various times. Since independence in 1945, MacAndrews sees that one of the most crucial factors that has continuously influenced the type and the shape of government has been the dynamics of the relationship between the central government, based on Java,
and the much larger areas of the outer islands.¹⁹
The balance of power and the scope of political influence that the center can and should have over regional affairs have been of particular significance.

The central government consists of six principal organs: (1) People's Consultative Assembly (MPR); (2) President; (3) House of Representatives (DPR); (4) Supreme Advisory Council (DPA); (5) Supreme Audit Board (BPK); and (6) Supreme Court (MA).

Technically, the MPR holds supreme power in the state, and adopts the constitution and sets policy guidelines for the state. Its other main tasks are to elect the President and the Vice-President. The MPR consists of 1,000 members, one-half of which are elected members of the House of Representative (DPR), and the other half are appointed by the President representing various social, political, and functional groups. The entire assembly must meet at least once every five years.

The House of Representatives is the legislative body of the state. It consists of 500 members, 400 of which are elected members by the three major political parties recognized in the system, while the remaining 100 are appointed by the government to represent both military and non-military groups. Members of the House hold office for a fixed term of five years, meeting in sessions which run

throughout the year.

The key figure within the government is the President. Although responsible to the MPR, he is effectively the chief executive of the government, as well as head of the state. He holds office for a term of five years, and is eligible for reelection. In his capacity as head of the state, he has command over the armed forces, appoints ministers and governors, and promulgates laws. However, both in the ratification of laws and in the budgetary process, he must consult with the House of Representatives (DPR).

In conducting the administration, the President is also advised by the Supreme Advisory Council, a group of twenty-seven senior people appointed by the President himself. The council can rule on issues raised by the President and has the right to submit proposals to the government. Representing all elements of the socioeconomic spectrum, the council effectively acts as the President's private brain trust.²⁰

In practice, the real government of Indonesia is the cabinet, headed by the President. Currently there are twenty-one ministers in charge of departments: three coordinator ministers; eight state ministers without portfolios and six junior ministers.

²⁰ Department of Public Works, Institutional Framework With Special Reference to East Indonesia. (Jakarta: 1974), p.4
In conjunction with national development planning, the President is also assisted by the National Planning Board, which is linked directly to the office of the President. Its main responsibilities are (1) to devise long and short term development plans; (2) to coordinate national and regional development programs; (3) together with the Ministry of Treasury, to forecast national income and expenditure patterns; and (4) to set policies concerning investment as well as foreign aid.

In addition, the central government is also functions through a number of important agencies or boards in different fields, that, in most cases, report directly to the President. They include the Civil Service Administration Board; the Central Bureau of Statistics; the Institute of Science; the National Family Planning Coordination; the State Legistic Agency; and the Agency for Assessment and Application of Technology. Figure 2.1. summarizes the structure of the Indonesian central government.

At the local level, a quite similar structure of administration has been put into operation. Some institutions are intrinsic parts of the local government structure, while others are units of central agencies stationed in the regions. The local governments are equipped by central grants and subsidies, and have a right to manage their own affairs.

---

Figure 2.1. The Structure of Indonesian Central Government.

However, in keeping with the unitary character of the state, the creation of local government in Indonesia takes the form of an authorization, that is a delegation of authority on the part of the center. This brings an implication that residual powers always remain with the central government.

Local government Law No. 5 of 1974 states that delegation of central authority will be undertaken by three basic processes: decentralization, deconcentration, and cooperation. The central department which is in charge of coordinating the process of local government is the Department of Interior. The adoption of these three principles has affected the structure of local government in Indonesia, as well as its bargaining position vis-a-vis the central administration and the way it conducts its functions.

2.3. **Regional Units and Local Autonomy**

Indonesia is a unitary state which consists of a strong central government with four additional tiers of government: (1) provinces; (2) districts (consists of two kinds of local units, i.e., regency and municipality); (3) sub-districts; and (4) villages.

The first three tiers are established by national laws, which stipulate: (1) administrative and physical boundaries; (2) all matters relating to home rule of the local government concerned; (3) the necessary service offices and their related budget; and (4) sources of revenues and patterns of the
expenditures. The fourth tier is established by provincial government law. The legislation on local government also specifies what central government functions can be delegated to the local levels, including provision for the necessary equipment and needed sources of income.

The constitutional basis for regionalizing the country is found in Chapter 18 of the 1945 Constitution, which has since been modified at later stages through operational legislation. The regionalization is carried out both physically, which is conducted to fulfill the intention of the decentralization program, and administratively, which is undertaken to fulfill the intention of deconcentration. The former produces daerah otonom, a generic term meaning local self-government, while the latter produces wilayah administratif or administrative area, that is a territorial hierarchy or division of the central offices in the region.

Currently, administrative areas exist at three levels, i.e., province, district (regency or municipality), and suddistrict. These three levels of administrative areas were established to be the headquarters of branch offices of central departments or vertical institutions which have authority to undertake, not to decide, deconcentrated policies, programs and projects previously determined by the central authority. Briefly stated, the vertical institutions stand only as the representative of the central authority stationed in the regions, and are not entitled to a right to
manage their own affairs. Each vertical agency is led by a centrally appointed leader called as Kepala Kantor Wilayah, and reports directly to the relevant central government department. Programs they are undertake are known as sectoral development programs, and the funding for these programs is directly derived from the national budget.

At the provincial level, the leadership of administrative areas is assumed by the Governor. At the district level, it is entrusted to the Bupati (in the case of regency) and to the Walikotamadya (in the case of municipality), and to the Camat at the subdistrict level. All of these leaders operate as the representative of the central authority in their regions, and report to the center hierarchically.

Further, as another element of the decentralization principle, there exist daerah otonom (autonomous regions) in the country. Currently, autonomous regions consist of two levels, i.e., Daerah Otonom Tingkat I and Daerah Otonom Tingkat II (first and second level of autonomous region).

In detail, daerah otonom is supposed to be an entity to which the central government decentralizes some of its authority to be fully undertaken by the government of this region. Hence, this entity is granted local autonomy, meaning a right to manage its own affairs. Accordingly, it is equipped with its own source of income.

The leadership of these regions is assumed by the Kepala Daerah Tingkat I (chief executive of the first level of local
government), and **Kepala Daerah Tingkat II** (chief executive of the second level of local government). Both leaders are elected by the respective local representative councils from lists of two to five candidates nominated by factions in the councils, and authorized by the President. The prime task of the **Kepala Daerah** is to administer the government and to provide services in accordance with the aspirations and needs of the local people concerned. As such, he should consult and work hand in hand with the local representative council.

On a day to day basis, the **Kepala Daerah** is assisted by an Executive Secretariat consisting of one Executive Secretary and several assistants, and served by various local technical agencies. Programs they undertake are called **decentralization development programs**, and funding for the programs is derived directly from the **genuine local budget**.

For efficient administration and better coordination, this physical boundaries of an autonomous region and an administrative area coincide, and the leadership of the two entities are combined in the same person.

Therefore, the first level of local autonomous unit (**Daerah Otonom Tingkat I**) is unified with the first level of administrative area (**Province**), and its name becomes **Propinsi Daerah Otonom Tingkat I**. The same provisions are also imposed at the second level of local government.

At the provincial level, the governing of this unified entity is assumed by the Governor **Kepala Daerah Tingkat I**, who
performs a dual function. First, as a Governor, he serves as the representative of the central government in the region and is in charge of overseeing and coordinating the implementation of the sectoral programs deconcentrated by the center to all of the vertical institutions stationed in his region. Second, as a Kepala Daerah Tingkat I, he is the highest ranking official in his region, and is responsible for administering the government of Daerah Otonom Tingkat I. In this context, his prime task is to manage the implementation of decentralized development programs funded by the provincial budget. To some extent, he reports to the Provincial Representative Council, since any program he is going to launch can only be implemented after being authorized by this institution. The unification of these two entities results in the unification of the provincial governmental structure, presented in Figure 2.2.

In addition to the decentralization and deconcentration principles, the central government also delegates some of its authority to be partly administered by provincial governments through medebewind, meaning cooperation. This channel is mainly exercised by the center in distributing grants through the Provincial Subsidy Scheme (Inpres Dati I). These grants are disbursed by the center to be directly attached to provincial annual budgets. Although they are delegated to the local governments, to a great extent policies are set by the central government. The provincial government can only
Figure 2.2. The Structure of Provincial Government.

implement the program, and to some extent, adjust the central directions to the local conditions, in accordance with guidelines previously set by the center. Since funding disbursed via this channel makes up about 60 per cent of the total provincial annual budget, the determination of its allocation and the degree of control over how it is carried out, is critical to the independence of the provincial government.

2.4. Structure of Provincial Government

The extent to which the Decentralization Law serves as a 'constitution' for regional government is indicated by the organizational framework it authorizes. Specifically, law No. 5 of 1974 provides for two crucial entities: the Chief Executive of the Province (Gubernur Kepala Daerah Tingkat I), and the Provincial Representative Council. Since the Governor holds dual functions, this office is not entirely elective. The Governor is elected by the Provincial Representative Council in the sense that two to five candidates from nominations by the factions within the Council are voted on and submitted to the central government, however, the final selection is made from among these candidates directly by the President. Through that procedure, the Governor, becomes both in charge of administering the regional government and simultaneously in charge of coordinating the central government interests or programs in his region. In detail,
his prime task is to:

1. initiate policy for his region;

2. coordinate all the service departments that operate in his region and to coordinate these same service departments with the provincial government;

3. supervise the operation of the provincial government and the local governments within his jurisdiction;

4. undertake other duties entrusted to him by the central authority.\(^{22}\)

The Provincial Representative Council is the legislative body of the provincial government. Its members are elected through a general election held every five years, in which the three political parties recognized by the system participate. Its prime task is to scrutinize development programs submitted by the Governor, and together with the Governor, promulgate provincial legislation.

The Speaker of the Council is usually chosen from the political party which dominates the council's seats, and he has three Deputy Speakers each chosen by each party in the Council.

Another important agency inherently linked to the Provincial Government is the Provincial Inspectorate, led by a Provincial Inspector and staffed by the provincial civil service. The agency is responsible for controlling the use of both development and routine budgets of the provincial government.

\(^{22}\) Department of Public Works, op.cit., p. 5.
2.5. Provincial Planning

For political and economic reasons, the development apparatus of the nation, particularly during the First Five-Year Development Plan (1969/70 - 1973/74), was characterized by a high degree of concern with planning, policy making, program identification, budgeting, and implementation. Responsibility for national planning was concentrated in the National Planning Board, and the sectoral departments located in Jakarta. To ensure the implementation of the centrally generated programs, the Regional Development Division of the Board established across the nation ten 'development centers." (Map 2.3). Each center was supposed to be a "growth center" to which the central government would allocate a greater degree of funding and locate major projects in the hope that benefits would trickle down to the adjacent areas. Most plans and programs were administered by the national agencies with insufficient provincial participation.  

The lack of validity of this concept has persuaded the central government to shift to a more decentralized pattern of development mechanism which gives more latitude to the regional governments to translate regional planning into reality. This was followed by the establishment of Provincial Development Planning Boards in 1974, which were intended to be the sole planning agency concerned with comprehensive provincial planning and intersectoral coordination in

23 IBRD, op.cit., p.3.
development implementation. Their prime function is to assist the Governors regarding regional development planning activities.

Since regional planning currently undertaken at local levels is funded by three different sources, the existence of the Board becomes more crucial. In the first instance, it is in charge of devising the overall provincial plans, including lists of projects and programs to be funded by the provincial budget, both from genuine provincial income and the Provincial Subsidy Scheme. Prior to its submission to the central government, the proposal must be presented by the Governor to the Provincial Representative Council.

The second main task of the Boards is to coordinate vertical Agencies in arranging the proposals of sectoral development plans to be funded by the central government. The involvement of the Board within the process is to prevent conflict and duplication between provincial and sectoral plans. The tasks of the Boards are elaborated in Chapter 3.

2.6. Provincial Budget

The Provincial Budgets are divided into recurrent operating receipts and expenditures on the one hand, and development receipts and expenditures on the other. Both recurrent and development receipts rely heavily on central grants and subsidies, as well as taxes which are turned over
Central subsidies granted through provincial recurrent revenue are known as *Autonomous Regions Subsidy* (Subsidi Daerah Otonom). They are mainly devoted to paying the salaries, pensions and honorariums of the local governments' staff and employees, and make up about 82 percent of the total routine revenues. The genuine provincial routine receipts are primarily used for maintenance of the local properties, such as buildings, and purchase of office supplies. Funding for each province is calculated mainly on the basis of staff currently employed by the provincial government.

In addition to this routine subsidy, this central authority also disburses annual development block grants for the provincial governments, known as *Provincial Subsidy Scheme*. It accounts for almost 60 per cent of the total provincial development receipts. Unlike Subsidi Daerah Otonom, the allocation of this scheme is administered on an equal basis. Each province receives the same funding, and the regulations for using it. All funding should be utilized completely during the ongoing fiscal year. Provincial development genuine revenues, which constitutes around 40 per cent of the provincial revenues, are mainly used to construct and to purchase projects and equipment that are prohibited for funding through the central grants.

---

24 Department of Public Works, op.cit., p. 25.
Furthermore, the role of the Provincial Subsidy Scheme as the largest source of local development revenue, and its rationale and objective are will be thoroughly discussed in Chapter 3.
3.1. Program Rationale and Description

Following the original objectives of ensuring national unity and spurring economic growth through a centralized pattern of government and regional redistribution Indonesia is today struggling to produce greater equity and social justice in development benefits. Actually, stages of development which are currently taking place were largely outlined in the Twenty-Five Year Development Strategy following the determination of the new Indonesian government to implement a more comprehensive national development plan. The prime objective of the plan are the improvement of the quality of life of the population under a strong national leadership by promoting economic growth and building a cohesive political structure.

After his inauguration as the new President in 1967, Suharto ordered the newly established National Development Planning Board (BAPPENAS - Badan Perencanaan Pembangunan Nasional) to commence preliminary steps to draft a new Five-Year Plan (PELITA). The drafting process took almost two years, from March 1967 until it was presented to the Parliament in January 1969. Because it was led and staffed by leading well-trained economists and planner, the
BAPPENAS could have completed the plan sooner. Nevertheless, Stephen Hoadly^\textsuperscript{25} contains that this lapse of time was deliberately set by the Suharto government. First, he maintains that the President himself indicated in 1967 that the plan should not come into effect until 1969, by which time it was hoped that economic stability especially price stability, would be achieved; physical and economic infrastructure rehabilitation gotten well underway; and political as well as administrative institutions firmly established under the New Order government. If this was the case, the Bappenas was fortunate not to be compelled to work against a very strict deadline, as had the former National Planning Agency in 1956-1960. Second, the President, in some of his Presidential Addresses, gave only some broad policies and guidelines to be considered by the planners. Among other things, the Plan was supposed to provide for growth in all economic production sectors, such as heavy industry. In addition, more balanced regional and sectoral development programs would lead to the formation of a just and prosperous Indonesian society.

Given the expertise of the Bappenas' staff and senior officials, the tasks of combining all of these objectives together were possible. However, major problems arose when the planners had to rely on their political acumen to determine what was politically acceptable as well as economically feasible. In addition, the Bappenas has also been firmly convinced that it needed to emphasize macro and sectoral planning, although it was realized that it tended to accentuate regional disparities in growth and development. Therefore, finding an adequate balance between the acceleration of economic growth and the need to reduce regional inequalities was another objective it had to pursue.

The result was the first Five-Year Development Plan (REPELITA I) which was to be launched in 1969/1970-1974/1975. In this plan, political stability, national integrity and economic rehabilitation, together with the depolization of political activities, were greatly stressed. To guarantee social stability, the government then tried to control prices by ensuring the availability of at least nine basic commodities in the market place, while the focus of development was emphasized on economic and social development at the national level. Inevitably, public sector investment objectives should be concentrated on the construction and rehabilitation of basic national infrastructure facilities, such as highways, electricity and irrigation systems, public schools and hospitals, and the like. The Domestic market was
even opened up to international investment. The resultant economic growth was remarkable, and the hyperinflation inherited from the former administration had significantly been reduced. More importantly, as presented in Table 3.1., because of an increase of the price of oil on the international market in the 1970s, the national revenue also increased tremendously.

This increased revenue has enabled the government to expand its functions by launching a variety of programs in the years until 1982 when the petroleum price dropped.

Table 3.1

National Recurrent and Development Budget
During the First Five-Year Development Plan, 1969/70 -1973/74
(In Billion Rupiahs)

<table>
<thead>
<tr>
<th>No.</th>
<th>Fiscal Year</th>
<th>Recurrent Budget</th>
<th>Development Budget</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1969/70</td>
<td>217</td>
<td>118</td>
<td>335</td>
</tr>
<tr>
<td>2.</td>
<td>1970/71</td>
<td>288</td>
<td>170</td>
<td>458</td>
</tr>
<tr>
<td>3.</td>
<td>1971/72</td>
<td>349</td>
<td>196</td>
<td>545</td>
</tr>
<tr>
<td>4.</td>
<td>1972/73</td>
<td>438</td>
<td>298</td>
<td>736</td>
</tr>
<tr>
<td>5.</td>
<td>1973/74</td>
<td>713</td>
<td>451</td>
<td>1,164</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,005</td>
<td>1,233</td>
<td>3,238</td>
</tr>
</tbody>
</table>

Source: Department of Interior of Indonesia: The Role and Function of the Directorate General of Regional Development. Appendix 4., p. 124.

Note: $US1 is approximately Rp.300.
During the early 1970's, 58.53 per cent or Rp.721,737,802,100, out of Rp.1,233,000,000,000 of the national development budget was disbursed for regional planning activities. Unfortunately, because of the highly centralized nature of the development mechanism, about 73.92 per cent or Rp.533,491,000,000, out of this funding was directly generated from the center through sectoral development programs, undertaken by the vertical agencies stationed throughout the regions. Only 12.36 per cent or Rp.89,251,902,100, was delegated to be administered by the regional authorities. This kind of funding was channelled through the first three Regional Development Programs launched under the Presidential Decree Programs (Program Inpres), initiated during this period. However, funding for these three programs was not supposed to be directly included in the provincial annual budget. Rather, it was devoted to the second level of local governments (kabupaten and Kotamadya), and designed to develop badly needed infrastructure in the rural areas. In addition, the central government also allocated annual grants for each province to cover their development expenditures, disbursed through the Automatic Foreign Exchange Scheme (Alokasi Devisa Otomatis - ADO). Until 1973/74, funding allocated via the ADO Scheme accounted for Rp.98,994,000,000.

The provincial governments also have their own financial sources derived from local taxation. Therefore, during
this period, there were four basic sources to finance regional development activities, three of which came from the central budget. The breakdown for each scheme is presented in Table 3.2.

<table>
<thead>
<tr>
<th>No.</th>
<th>Programs</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sectoral</td>
<td>533,491,000.00</td>
<td>69.36</td>
</tr>
<tr>
<td>2.</td>
<td>Presidential Decree</td>
<td></td>
<td>11.60</td>
</tr>
<tr>
<td></td>
<td>- Village Subsidy</td>
<td>26,840,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Regency Subsidy</td>
<td>46,596,902.10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Primary School Subsidy</td>
<td>15,815,000.00</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>ADO Scheme</td>
<td>98,994,900.00</td>
<td>12.87</td>
</tr>
<tr>
<td>4.</td>
<td>Provincial Funds</td>
<td>47,445,320.00</td>
<td>6.17</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>769,183,122.10</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Republic of Indonesia, Department of Information, The First Five-Year Development Plan, 1969/70-1973/74. Figure for ADO was derived from Department of Information, Presidential Address, 1979, Chap. XII, p. 10; while figure for local fund was taken from Department of Interior, The Role and the Function, op.cit., Appendix 5, p. 120.

Note: $US1 is approximately Rp.300.

However, since this study is mainly directed at exploring regional planning activities at the provincial level funded both by the provincial funds and the provincial subsidy scheme, sectoral programs generated from the center and other kinds of Presidential Decree Programs will not be...
discussed.

From Table 3.2. it is clear how dependent the provincial governments were upon central grants (ADO). During that time, total provincial development budgets were Rp.146,440,220,000. Provincial funds accounted for only Rp.47,445,320,000 (32.40 per cent), while the remaining Rp.98,994,900,000 (67.60 per cent) was the contribution of ADO.

The main purpose of distributing grants via ADO was to help the regional governments finance development expenditures. Ironically, Sanders found that a significant part of the ADO allocation was used to cover deficits in routine budgets. In West Java alone, he found that 75 per cent of the ADO allocation was devoted to such a deficit, while in Jambi the situation was even worse, and almost all of the ADO grant was diverted to routine expenditures.26

By its nature, the ADO Scheme was partially supposed to be a method of inducing the regions to revive exports, in conjunction with the overall economic program to rehabilitate and stabilize the economy.27 Through this scheme, each province was authorized to collect a ten per cent share of the value of goods and services exported from it, with the


27 Dorodjatun Kuntjoro Jakti, op.cit., p. 147.
exception of petroleum, tin, and bauxite. As such, ADO funds accrued only to the province from which the export took place, not to the producing provinces. Under these circumstances, regions with significant export production but without harbour facilities received hardly any ADO funds, whereas other regions, such as the capital city of Jakarta, were entitled to substantial ADO revenue, even though they produced little for export. Consequently, central block grants to provinces disbursed via ADO were highly imbalanced.

Another deficiency implicit in the ADO Scheme was that provinces which produced vital non-export commodities, such as rice and sugar, would barely get any benefit from the system. Under the ADO-Scheme the central administration in essence gave no assistance to provinces producing commodities for inter-provincial trade. Consequently, in order to obtain foreign exchange, the governments of rice surplus regions preferred to export their products, even at lower prices, while the non rice-producing areas had to spend ADO proceeds to purchase rice from abroad.

More disastrously, to be able to export, each province tended to construct its own port, although with minimum facilities. Exports from these smaller ports were to

\[\text{28 Martin Sanders, op.cit., p. 71.}\]

Singapore for sorting and upgrading, with two additional drawbacks for Indonesia. Firstly, the higher export revenue obtainable for export goods that had been upgraded and sorted within the country was lost. Secondly, it caused the loss of additional employment opportunities.30

The ADO Scheme also had an effect on regional inequalities. In 1969, for example, funding granted by the center through the ADO Scheme was Rp.14,636,700,000. Out of this amount, Rp.8,399,000,000, was allocated to five leading exporting provinces, whereas the rest of Rp.6,237,700,000, was unevenly disbursed to another 21 provinces. Here, North and South Sumatra, which produce rubber and other crucial commodities, such as cooking oil, tobacco, and wood, received more than Rp.2,000,000,000. each, while so-called minus provinces, such as East and West Nusa Tenggara, received only Rp.24,100,000, and Rp.11,300,000, respectively.

Dissatisfaction with inequalities and other defects of both central planning and the ADO system led the government to come up with a more equalized pattern of regional redistribution. From this point onward, balanced regional growth was designated as the main agenda of national development.

In conjunction with regional development, the central government then undertook measures aimed at improving the situation by replacing the ADO Scheme with the Government

30 Martin Sanders, op.cit., pp. 72-73.
Grant in Lieu of ADO. Under this system, each province would receive a grant equal to its former ADO revenue plus an additional flat sum of five per cent across the board.

Theoretically, differences in grants among provinces would be narrowed. However, if grants allocated by the center through this new mechanism, as shown in Table 3.3 are carefully examined, the promise of improvement brought by this new arrangement was still illusive. While the number of provinces which received more than one billion increased from five to eight provinces, in succeeding years, two of them, West Java and East Kalimantan, reverted to funding equal to their former ADO share. On the other hand, South and North Sumatera, the biggest exporting regions, experienced a tremendous gain by receiving more than four billion each, while regions like Yogyakarta, Bali and Maluku received funding even smaller than they did under the ADO Scheme.

To attempt to control the ever widening regional disparities, in 1974 the central administration then introduced a more equalized financial arrangement the so-called Provincial Subsidy Scheme (Inpres Propinsi).

Under this system, the direct link between subsidy and regional export performance was abandoned. Funding disbursed to each province was related to the real needs of the province with special attention to deficit areas.
Table 3.3.
The Allocation of Regional Funding Through The ADO and the Government Grant in Lieu of ADO-Scheme
1969/70 - 1973/74
((n Million Rupiahs)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>69/70</th>
<th>70/71</th>
<th>71/72</th>
<th>72/73</th>
<th>73/74</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.I. Aceh</td>
<td>306.0</td>
<td>300.0</td>
<td>406.0</td>
<td>406.0</td>
<td>406.5</td>
</tr>
<tr>
<td>N. Sumatera</td>
<td>2,850.0</td>
<td>4,415.9</td>
<td>5,326.8</td>
<td>4,490.0</td>
<td>4,754.2</td>
</tr>
<tr>
<td>W. Sumatera</td>
<td>374.9</td>
<td>391.2</td>
<td>549.9</td>
<td>498.0</td>
<td>470.9</td>
</tr>
<tr>
<td>Riau</td>
<td>541.4</td>
<td>1,266.0</td>
<td>1,026.4</td>
<td>1,071.7</td>
<td>1,071.7</td>
</tr>
<tr>
<td>Jambi</td>
<td>510.0</td>
<td>884.5</td>
<td>884.5</td>
<td>884.5</td>
<td>834.1</td>
</tr>
<tr>
<td>S. Sumatera</td>
<td>2,190.0</td>
<td>2,762.5</td>
<td>3,884.6</td>
<td>4,159.3</td>
<td>4,159.3</td>
</tr>
<tr>
<td>Bengkulu</td>
<td>210.0</td>
<td>493.3</td>
<td>155.0</td>
<td>34.6</td>
<td>72.4</td>
</tr>
<tr>
<td>Lampung</td>
<td>1,139.0</td>
<td>1,457.5</td>
<td>1,487.5</td>
<td>1,487.5</td>
<td>1,487.5</td>
</tr>
<tr>
<td>Jakarta</td>
<td>200.0</td>
<td>300.0</td>
<td>300.0</td>
<td>350.0</td>
<td>311.9</td>
</tr>
<tr>
<td>West Java</td>
<td>950.5</td>
<td>1,227.0</td>
<td>967.8</td>
<td>957.3</td>
<td>967.8</td>
</tr>
<tr>
<td>Central Java</td>
<td>830.0</td>
<td>664.0</td>
<td>450.0</td>
<td>490.0</td>
<td>499.1</td>
</tr>
<tr>
<td>Yogyakarta</td>
<td>25.2</td>
<td>19.5</td>
<td>-</td>
<td>10.0</td>
<td>12.6</td>
</tr>
<tr>
<td>East Java</td>
<td>1,200.0</td>
<td>1,500.0</td>
<td>1,500.0</td>
<td>1,388.2</td>
<td>1,388.2</td>
</tr>
<tr>
<td>W. Kalimantan</td>
<td>020.0</td>
<td>1,305.1</td>
<td>1,186.7</td>
<td>1,186.7</td>
<td>1,186.7</td>
</tr>
<tr>
<td>C. Kalimantan</td>
<td>210.0</td>
<td>325.4</td>
<td>320.8</td>
<td>320.8</td>
<td>321.0</td>
</tr>
<tr>
<td>S. Kalimantan</td>
<td>400.0</td>
<td>630.0</td>
<td>605.0</td>
<td>605.0</td>
<td>605.1</td>
</tr>
<tr>
<td>E. Kalimantan</td>
<td>540.2</td>
<td>1,635.6</td>
<td>824.7</td>
<td>898.2</td>
<td>824.7</td>
</tr>
<tr>
<td>N. Sulawesi</td>
<td>406.3</td>
<td>406.2</td>
<td>397.7</td>
<td>397.0</td>
<td>397.0</td>
</tr>
<tr>
<td>C. Sulawesi</td>
<td>168.2</td>
<td>360.0</td>
<td>250.0</td>
<td>211.8</td>
<td>213.9</td>
</tr>
<tr>
<td>S. Sulawesi</td>
<td>165.0</td>
<td>175.0</td>
<td>150.0</td>
<td>150.0</td>
<td>143.0</td>
</tr>
<tr>
<td>S.E. Sulawesi</td>
<td>89.6</td>
<td>112.5</td>
<td>112.9</td>
<td>112.5</td>
<td>112.6</td>
</tr>
<tr>
<td>Bali</td>
<td>130.1</td>
<td>68.0</td>
<td>140.0</td>
<td>82.0</td>
<td>83.0</td>
</tr>
<tr>
<td>W. Nusatenggara</td>
<td>24.1</td>
<td>25.0</td>
<td>25.0</td>
<td>24.2</td>
<td>24.2</td>
</tr>
<tr>
<td>E. Nusatenggara</td>
<td>11.3</td>
<td>50.0</td>
<td>135.5</td>
<td>134.1</td>
<td>60.5</td>
</tr>
<tr>
<td>Maluku</td>
<td>135.0</td>
<td>160.0</td>
<td>105.0</td>
<td>-</td>
<td>71.4</td>
</tr>
<tr>
<td>Irian Jaya</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>14,636.7</td>
<td>20,992.7</td>
<td>21,151.1</td>
<td>21,661.6</td>
<td>20,552.8</td>
</tr>
</tbody>
</table>

Source: Department of Information, Presidential Address. (Jakarta: 1979), Chap. XII., p. XII/10. ADO was implemented only until 1970, and then replaced by the Government Grant in Lieu of ADO until 1974. Note: $US1 is approximately Rp.300.

The purpose was to equalize the rate of growth among regions. Probably, this move was made possible because the resources
of the regime were becoming greater, and its power was more fully consolidated than ever before.\textsuperscript{31}

3.2. Program Strategy and Objectives

The Second Five-Year Development Plan, launched in 1974/75-1978/79, saw a very impressive change and shift in regional policy and practice in Indonesia. Starting from this point in time, a growing interest in decentralization materialized with the introduction of another four regional programs. Two of them were directly implemented in the 1974/1975 fiscal year, while the other two were put into operation the following year. The last program was initiated in 1979/80, that is in the first year of the Third Five-Year Development Plan. Because of its specific features, the Provincial Subsidy Scheme is the most crucial one.

Basically, the Provincial Subsidy Scheme was merely meant to be the continuation of the Central Grant in Lieu of ADO, in an improved version. A significant increase in national revenue made the inception of this program possible. From the state financial statistics presented in Table 3.4., one can see that during the Second Five-Year Development Plan, central revenues increased by 455.9 per cent, or from Rp.3,238,000,000,000 in the First Five-Year Plan to Rp.18,000,000,000,000 in the Second Five-Year Plan.

\textsuperscript{31} Dorodjatun Kuntjoro Jakti, op.cit., p. 151
The table also indicate the development budget accounted for Rp. 9,128,000,000,000, while the remainder, Rp. 8,872,000,000,000, was for the routine budget. Supported by such a huge funds, the central government could increase the allocation for regional planning by 494.31 per cent. A tremendous increase in state revenues continued through 1983/84.

Table 3.4
National Recurrent and Development Budget During the Second and Third Five-Year Development Plan, 1974/75 - 1983/84
(In Billion Rupiahs)

<table>
<thead>
<tr>
<th>No.</th>
<th>Fiscal Year</th>
<th>Recurrent Budget</th>
<th>Development Budget</th>
<th>Total Budget</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1974/75</td>
<td>1,016</td>
<td>962</td>
<td>1,978</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>1975/76</td>
<td>1,333</td>
<td>1,398</td>
<td>2,731</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>1976/77</td>
<td>1,630</td>
<td>2,055</td>
<td>3,685</td>
<td>PELITA II</td>
</tr>
<tr>
<td>4.</td>
<td>1977/78</td>
<td>2,149</td>
<td>2,157</td>
<td>4,306</td>
<td>74/75-78/79</td>
</tr>
<tr>
<td>5.</td>
<td>1978/79</td>
<td>2,744</td>
<td>2,566</td>
<td>5,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8,872</td>
<td>9,128</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>1979/80</td>
<td>4,062</td>
<td>4,014</td>
<td>8,076</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>1980/81</td>
<td>5,800</td>
<td>5,916</td>
<td>11,716</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>1981/82</td>
<td>7,501</td>
<td>6,399</td>
<td>13,900</td>
<td>PELITA III</td>
</tr>
<tr>
<td>9.</td>
<td>1982/83</td>
<td>7,002</td>
<td>8,606</td>
<td>15,608</td>
<td>79/80-83/84</td>
</tr>
<tr>
<td>10.</td>
<td>1983/84</td>
<td>7,275</td>
<td>9,290</td>
<td>16,565</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31,640</td>
<td>34,225</td>
<td>65,865</td>
<td></td>
</tr>
</tbody>
</table>


Note: Pelita is acronym for Five-Year Development Plan. During the Pelita I, $US1 was approximately Rp.300, while during the Pelita II it was Rp.800.
In spite of such a dramatic increase in revenue, it was still possible to control centrally, to, some extent. However, because of the limits of central planning in distributing the fruits of development, and the danger of congestion within the central bureaucracy, the government decided to share burdens in providing services with the local authorities.

More interestingly, the central administration felt that time had come to educate the local people in taking charge of their development activities. For that purpose, as presented in Table 3.5., the central government then divided that portion of the development budget specified for regional affairs into three important parts, i.e., Sectoral Programs, Presidential Decree Programs, and Provincial Programs.

Table 3.5. shows that total funding devoted to regional planning during the Second and the Third Five-Year Development Plans was Rp.21,350,396,574,000. Out of this amount, Rp.12,622,965,000,000 was fully controlled by the central government through sectorally generated projects. Eighteen different sectors were covered, within which 46,235 projects were completed during this ten-year period dispersed throughout the country.  

---

32 Department of Interior, The Role and The Function, op.cit., p. 77.
Table 3.5

Percentage of Regional Development Sources of Funding,
1974/75 - 1983/84
(In Thousand Rupiahs)

<table>
<thead>
<tr>
<th>No.</th>
<th>Programs</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sectoral</td>
<td>12,622,965,000</td>
<td>59.13</td>
</tr>
<tr>
<td>2.</td>
<td>Presidential Decree</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Village Subsidy</td>
<td>426,508,606</td>
<td>1.99</td>
</tr>
<tr>
<td></td>
<td>- Regency Subsidy</td>
<td>1,064,269,300</td>
<td>4.99</td>
</tr>
<tr>
<td></td>
<td>- Primary School</td>
<td>2,247,830,490</td>
<td>10.53</td>
</tr>
<tr>
<td></td>
<td>- Community Health</td>
<td>450,490,334</td>
<td>2.11</td>
</tr>
<tr>
<td></td>
<td>- Provincial Subsidy</td>
<td>1,307,173,450</td>
<td>6.12</td>
</tr>
<tr>
<td></td>
<td>- Market Building</td>
<td>305,000,000</td>
<td>1.43</td>
</tr>
<tr>
<td></td>
<td>- Regreening Subsidy</td>
<td>410,568,000</td>
<td>1.93</td>
</tr>
<tr>
<td></td>
<td>- Local Road Subsidy</td>
<td>261,996,800</td>
<td>1.22</td>
</tr>
<tr>
<td>3.</td>
<td>Provincial Funds</td>
<td>2,253,594,594</td>
<td>10.55</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>21,350,396,574</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from Department of Interior, *The Role and the Function of the Directorate General of Regional Development*, op.cit., pp. 77-84.

In addition, funding channelled through Presidential Decree Programs also increased to Rp.6,473,836,682,000. The portion devoted to the Provincial Subsidy Scheme was Rp.1,307,173,450,000, out of which Rp.317,361,450,000 was devoted to finance development programs during the second five-year development plan, whereas the remainder, Rp.989,812,000,000, was disbursed during the five succeeding years.

During the same period of time, the provincial governments could also utilize their own revenues derived from
local taxation, amounting to a further Rp.2,253,594,000,000. Therefore, development budgets intrinsically managed by the regional administrations amounted to Rp.3,560,768,044,000, the sum of the Provincial Subsidy Scheme plus the provincial funds. The budget during the Third Five-Year Development Plan was much larger than that of the previous five year term. The breakdown for comparison is given in Table 3.6.

Table 3.6
Provincial Development Budget
1969/70 - 1983/84
(In Thousand Rupiahs)

<table>
<thead>
<tr>
<th>No.</th>
<th>Sources</th>
<th>Amount</th>
<th>Percentage</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ADO Scheme</td>
<td>98,994,900</td>
<td>67.60</td>
<td>PELITA I</td>
</tr>
<tr>
<td>2.</td>
<td>Provincial Funds</td>
<td>47,445,320</td>
<td>32.40</td>
<td>69/70-73/74</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>146,440,220</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

| 1.  | Provincial Subsidy    | 317,361,450| 44.96      | PELITA II  |
| 2.  | Provincial Funds      | 388,601,938| 55.04      | 74/75-78/79|
| Total|                       | 705,963,388| 100.00     |            |

| 1.  | Provincial Subsidy    | 989,812,000| 34.67      | PELITA III |
| 2.  | Provincial Funds      | 1,864,992,456| 65.33     | 79/80-83/84|
| Total|                       | 2,854,804,456| 100.00    |            |

Source: Compiled from Department of Interior, op.cit., p. 63.

The table clearly shows how the percentage share of central grants allocated through the ADO Scheme and the Provincial Subsidy Scheme within the provincial development...
program decreases with time. On the other hand, it also represents the improved ability of local governments in raising their own revenue. However, if the situation which lies behind these figures is carefully scrutinized, some provocative facts emerge.

First, although the provincial governments have been able to exploit their own economic sources so as to enable them to derive more funds for their own purposes, this was unevenly distributed among regions. For example, out of the Rp. 47,445,320,000 representing self generated provincial development budgets from the First Five-Year Development Plan, about 67 percent was contributed by four provinces: North and South Sumatera, Greater Jakarta and East Kalimantan. The other 33 percent was unequally dispersed to the other 22 provinces. Although the distribution tends to improve with time, the ability of each provincial government to mobilize local sources was still unequal. In other words, development funds collected locally have always been imbalanced.

Secondly, the inequality of funding also occurred within the sectoral programs, since it is impossible to disburse balanced grants to each area. This difference in central budget allocation then resulted in dissimilarities in the number of projects that could be completed in each region, as well as contributing to irregular regional economic growth.

Given this background, the introduction of the Provincial Subsidy Scheme was simply meant as a device to reduce these
disparities. In detail, its role within the overall planning network in Indonesia is:

(1). to balance regional and sectoral development plans by including regional considerations into sectoral programs;

(2). to reduce disparities in the rate of growth and development among regions resulting partly from the imbalance of central grants disbursed via the ADO Scheme;

(3). to help provincial governments solve large-scale provincial problems by balancing sectoral priorities with regional needs;

(4). to improve the capability of the local governments to plan, to manage, and to control development programs undertaken within their jurisdictions.\(^{33}\)

To ensure that these objectives could be successfully achieved, the central government then implemented policies consisting of four essential elements: first, planning at the center for a hierarchy of planning regions and for the provinces within them; second, considering the spatial aspects of sectoral planning; third, integrating national and sectoral plans at the regional level, taking into account regional goals; and, fourth, the devolution of planning responsibility to various levels of local government.

It was inevitable that planning institutions would have to be created at the regional level to receive delegated authority in devising regional development plans, in which

aspects of sectoral and local developments would be combined. The so-called Provincial Planning Boards (BAPPEDAs), were established in 1974, and their assigned tasks specifically include:

(1). The translation of national development policies, plans and programs into effective provincial development action (particularly, for example, those policies concerned with the national growth center strategy as this affects the province concerned);

(2). The formation of systematic provincial plans, integrated with the national plan, but expressing specific provincial development priorities in relation to local development problems needs;

(3). The conversion of this provincial plan into integrated sectoral programs and the organization of the development apparatus needed at the provincial level to secure effective intersectoral coordination in development implementation;

(4) The identification of specific subregions within the provinces for concentrated development attention designed to reduce internal development disparities;

(5). The provision of expert advice to the provincial government on the priorities required in sectoral budgetary allocations both for the Five-Year Plan and the annual program;

(6). The organization of procedures for the systematic and regular evaluation of developmental progress within the provinces, sector by sector; that is, the organization of a provincial development information system.\(^{34}\)

If the implications are thoroughly examined, there were consequences which needed to be considered by the government. First, the government should review its policy emphasizing economic growth, since there may be conflicts between high economic growth and equitable regional development. More importantly, it would also require that the center pay more attention to: (1) the spatial aspects of growth within and between sectors; (2) the greater needs of spreading out administrative and political responsibilities of the central authority to the lower level agencies; and (3) the necessity for political channels to enable the local people to take part properly in the development process.

Quite clearly this poses a dilemma. However, encouraged by the political stability achieved over the previous five years, and with the realization of the deficiencies of urban oriented development, the government decided to institute regional planning. However, the form of decentralization to be implemented was still firmly linked to the nature of the unitary state. The clear implication is that residual power must always remain with the central government. This decision demonstrated that there was still some fear of allowing devolution of power to go too far, getting out of hand, and destroying the unity which had been so carefully nurtured over the years. Hence, the decentralization of power and responsibility was contained within the field of executive responsibility only, and did not as yet involve change in the
legislative position of the local authority. As such, the role of the Provincial Subsidy Scheme within the overall planning network in Indonesia was not meant to consolidate the political bargaining leverage of the local government vis-a-vis the central authority. It was only designed for an administrative purpose, i.e., to strengthen the capability of local agencies in managing development programs.

Consequently, the central authority needed to devolve only a limited amount of power and responsibility to the local agencies and were able to address a political necessity with minimum concessions from the center.

3.3. Administrative Procedure

The annual operating cycle of the overall provincial development program, of which the Provincial Subsidy Scheme funding is an inherent part, is geared to the timing of the national budget. Both start and end simultaneously. The process begins in the early July, when each regency government on behalf of the provincial government requests that all of the village authorities under their jurisdiction undertake a series of meetings to prepare lists of priority projects for submission to the central administration. Usually, the provincial government forecasts the next year's budget on the basis of the current budget. In detail:

---

35 I.B.R.D., op.cit., p.3
(1). Under the guidance of the District Government, the village authority prepares a list of the projects that need to be covered in the budget of the succeeding fiscal year that will begin the following April;

(2). The list of these projects is then thoroughly discussed and refined at the District level;

(3). The list is then carefully examined in the Regency Development Coordination Meeting by regency technical officers. This examination involves: (a) making any necessary measurements at the location of the proposed projects; (b) carrying out any investigation necessary for constructing earthworks, foundations, etc., e.g., drilling and sounding; (c) other research into resource materials, e.g., local stone and gravel; (d) analysis of planned expenditures;

(4). The kinds of expenditures that can be included into projects consist of: (a) preparation expenditures (b) construction plus taxes; (c) general expenditures for project leadership, project treasurer, technical staff, field supervision, administrative staff, and any other officials (the appointment of these officials must be confirmed in writing by the Governor); (d) expenditures for travel to the provincial offices for committee meetings, or to the projects for supervision, and (e) administrative costs including purchase of writing materials, preparation of papers and photos for the project;

(5). Summaries of expenditures for each kind of projects, the projects themselves, the types of monthly expenditures, and a schedule of daily wages as well as prices of the required construction materials are then handed over to the Governor to be translated into project proposal (DUPDA). On the provincial level, the task of combining all of these items together is undertaken by the Provincial Planning Board, assisted both by the provincial technical departments concerned, such as Department of Public Works, Department of Manpower, Department of Health and Department of Education, and bureaus within the Executive Secretariat of the Governor office;

(6). By mid November, the central government, represented by all central departments and led by the National Planning Board, organizes the National Development Meeting. On this occasion, the provincial governments are expected to present their project
proposals to be scrutinized by the central officials. The purpose is to ensure that all of central regulations, prohibitions and guidelines have been followed. In special cases where central guidance and regulation could not be conformed with, the central authority makes the necessary adjustment;

(7). The meeting then concludes with the preliminary central approval of the regional planning program proposed by the local authorities;

(8). Based on this national meeting, the central government then tries to reconcile development expenditures submitted by the local governments with its expected revenue for the next fiscal year. After a series of limited meetings intensively organized on the national level, the central government then comes up with the exact amount of funding to be disbursed for regional affairs. It is usually presented by the President of the Republic in the first week of January. As stated above, this funding consists of two important sections: guided and directed funds;

(9). Given this information, the provincial governments then decide which projects should be funded by which source. This is important since each source of funding i.e., guided funds, directed funds locally derived funds, has its own regulations. The result of this examination is then presented again before the central Supervisory Team which comes to each region to give the final approval to the proposals.  

3.4. Program Finance

Following a pattern established in 1974 in the nationwide Provincial Subsidy Scheme, and departing from what was then established practice, the program was funded through the national budget with allocation made directly to

each individual province. Initially, the portion given to each region was decided on the ground of minimum and maximum allocation of Rp.500,000,000 and maximum allocation of Rp.5,659,000,000 were given to Irian Jaya and East Java respectively. Comparatively, the ratio between these two allocations was 11.3 : 1. Compared to the ratio between the lowest and the highest allocation granted through the Central Grant in Lieu of ADO a year before, this ratio has improved greatly. In the previous year, 1973/1974, North Sumatera received the highest grant, amounting to Rp.4,754,200,000 and the lowest grant, Rp.12,600,000 was disbursed to Yogjakarta. In that year, the ratio was 375.7 : 1. The report released by the Department of Interior is presented in Table 3.7 and shows that the ratio between the lowest and the highest allotment tends to become narrower with time.

However, the criteria that are used by the central government in making this allocation are not clear or explicit. Given the large regional disparities that existed under the former grant system, reducing the gap should be one of the main objectives. Practical consideration are another criterion. T.A. Salim has stated that the prime consideration used in arranging this minimum and maximum allocation policy was: (1) the length of roads and bridges that need to be improved or maintained; and (2) the width of

Table 3.7

Ratio Between the Highest and the Lowest Funding Granted to Each Province During 1973/74 - 1983/84 (In Million Rupiahs)

<table>
<thead>
<tr>
<th>No. Year</th>
<th>Allocation</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 1973/1974 *)</td>
<td>4,734.2</td>
<td>12.6</td>
</tr>
<tr>
<td>2. 1974/1975</td>
<td>5,659.0</td>
<td>500.0</td>
</tr>
<tr>
<td>3. 1975/1976</td>
<td>6,366.0</td>
<td>750.0</td>
</tr>
<tr>
<td>4. 1976/1977</td>
<td>7,068.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>5. 1977/1978</td>
<td>7,774.0</td>
<td>1,500.0</td>
</tr>
<tr>
<td>6. 1978/1979</td>
<td>8,174.0</td>
<td>2,000.0</td>
</tr>
<tr>
<td>7. 1979/1980</td>
<td>8,875.0</td>
<td>2,500.0</td>
</tr>
<tr>
<td>8. 1980/1981</td>
<td>9,980.0</td>
<td>5,000.0</td>
</tr>
<tr>
<td>9. 1981/1982</td>
<td>10,000.0</td>
<td>7,500.0</td>
</tr>
<tr>
<td>10. 1982/1983</td>
<td>11,000.0</td>
<td>9,000.0</td>
</tr>
<tr>
<td>11. 1983/1984</td>
<td>11,000.0</td>
<td>9,000.0</td>
</tr>
</tbody>
</table>


*) : Funding allotted through the Grant in Lieu of ADO Scheme.

In each successive year this grant was increased gradually, but the criteria for deciding the minimum and the maximum allotment for the regions becomes more blurred.

For example, by 1982/1983, the ratio had been reduced to 1.2 : 1. From this time, it can be argued that the central government wants to give the impression that it does not favor...
any particular region at the expense of others. In 1988/89 the allocation was equalized, and all regions received Rp.12 billion. Quite clearly the allocation for each year depends on the national revenue.38

For instance, in the year of its inception, funding channelled through this program totalled Rp.43,950,000,000 and was used to finance 2,301 projects. Only five regions received allotments of four billion rupiahs or more, and seven regions received between one and two billion rupiahs. The remaining fourteen provinces received between five hundred million and one billion rupiahs.

Because of increased national revenue, by 1978/79, the government raised grants for this program to Rp.85,674,450,000,000 or an increase of 94.93 per cent. In this year, ratio between the highest and the lowest allocation was 4 : 1, with 1,844 projects completed.

Furthermore, unlike programs funded through the ADO Scheme, funding for this program is divided into two portions. The first one is called the decided fund (dana yang ditetapkan), designated to finance three important subsectors: (1) roads and bridges improvement; (2) dam irrigation improvement; and (3) irrigation exploitation and maintenance. The second one is known as the directed fund (dana yang diarahkan), which can be utilized for any program designed

specifically to meet the real needs of each province, but still within the guidelines that have been set by the center. The breakdown for each fund is provided in Figure 3.1.

![Bar chart showing Provincial Subsidy Funding, 1973/74-1983/84.](image)

**Figure 3.1. Provincial Subsidy Funding, 1973/74-1983/84.**


3.5. **Central Supervision**

Central Supervision over the implementation of the program is imposed by setting standard provisions in terms of work priorities, limitations, administrative procedures and work quality. These are laid out in the Ministerial
Instruction repeated each year. In this instruction, it is clearly stipulated that:

(1). funding should be allocated for highly prioritized development projects in communication, production infrastructure, social and economic sectors stated in the recent Provincial Five-Year Development Plan to

(2). open isolated areas and provide enhanced employment prospects in the regions concerned by making use of local manpower and materials and use as few imported commodities as possible, which is turn will

(3). increase the level of citizen participation in development activities by tendering projects to local private firms, and not simply by (unpaid) cooperative work, and can be completed in one financial year and should

(4). support other projects within the region in the national development program.39

In addition, each year the provisions also specify the kinds of projects that are highly encouraged, such as road construction, road improvement and maintenance, irrigation networks, reservoir floodgates, flood prevention, terracing for rice cultivation, drainage, village infrastructure improvement and the like. Projects prohibited are: land development, such as office buildings, houses, luxury swimming pools as well as the purchase of luxurious cars for individual officials. In somewhat greater detail, the provisions also state that the local government should not provide working capital either for the local governments' 

enterprises or for other parties in the community.

In additional notes to the provisions, the Secretary of Interior also maintains that the execution of the projects may not depend on other projects launched under different programs, while the staff and technical experts available within the regions must be capable of planning, supervising, and completing the projects in a timely manner.

Pivotal to the success of the program is coordination and the administrative procedure for evaluating the implementation of the program. As the sole power in the province, the Governors are authorized to coordinate various central plans with projects carried out through the Provincial Subsidy Scheme. But on a day to day basis, the coordination is administered by the Provincial Development Planning Boards.

Further, in devising the administrative procedures, attention was also given to the problems of evaluation and corruption.\(^{40}\) Although the program is initiated and

\(^{40}\) In his notes on the Kabupaten Program, another scheme launched under the Presidential Decree Program, Y.B. de Wit quotes two widespread but unchecked opinions current in Indonesia, that decentralization tends to foster corruption, and that it can and should be controlled by intricate and extensive administrative procedures. For de Wit, however, both assumptions are questionable. But, he maintains that under Indonesian circumstances, minimizing corruption should be put forward as a separate basic principle of any program. See Y.B. de Wit, "The Kabupaten Program, in Bulletin of Indonesian Economic Studies. Vol. IX., No. 1 (Canberra: March 1973), p. 73.
financed by the central government, it is realized that, to get the program going smoothly all functions, whether in preparation and execution, supervision and control, should be decentralized as far as possible. On the other hand, decentralization, to be effective, requires clear instructions and responsive guidances coupled with attentive overall supervision and inspection. Since decentralization might lead to unmanageable diversity, it was decided that certain basic procedures have to be uniform. This has resulted in the project forms (Daftar Usulan Rencana Proyek) and a set of simple planning and reporting forms. To prevent cumbersome administrative red tape which is made possible by the acceptance of the principle of decentralization combined with the bureaucratic spirit, it was therefore stated explicitly that procedures should be simple, while the administrative work is kept to a minimum.

Further, the project leader and the project treasurer must send monthly reports to the Governor, and the Governor in turn reports to the Department of Interior on a quarterly basis. To deliberately attack corruption, the provisions also state that payments are made as work progresses by the Treasury Bureau within the Executive Secretariat, not by the Treasuries Section in the executing agencies. The Treasurer must present the contractors's accounts and reports of physical progress certified as correct by authorized provincial technical staff to the Treasury Bureau. The
contractors then are paid by check. In addition to the normal salary, provision was also made for payments to those taking part in the administration of the program. The purpose is to reduce illegal payments made by the contractors to those officials responsible for the projects.

3.6. Community Participation

Because one of the primary objectives of the Provincial Subsidy Scheme is to strengthen local planning and executing agencies, the strengths and weaknesses of these agencies are central to the success of the program. Since the program’s inception, there have been fundamental changes in the status and the capacities of these institutions, while mechanisms to institute rational planning at the local levels in order to widen the scope of community participation have also been developed.

The first step in generating greater popular participation in governmental decision making by the central government was the introduction of the 'bottom up' planning mechanism. This was followed by the establishment of village councils (LKMD), which were to be umbrella organizations for all development activities in the community. These include, for example, women’s groups, family planning groups, water user associations and the like. The purpose of the LKMD

---


Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
is to coordinate and support development programs, and it functions as the forum in which local planning officials meet with rural people where they can express their desires and assessment of local needs to the local government planners and implementers. Through this forum, it is hoped that the communication linkages between local governments and the communities they serve will be developed, while the passive recipient’s roles previously allotted to the community will be improved.

The spirit of village council as a development approach is the granting of power in planning and managing development from the provincial government to local (Kabupaten) government. It is thought to strengthen the capabilities of local government, which will be discussed in Chapter 4.
CHAPTER 4

STRENGTHENING THE CAPABILITIES OF LOCAL AGENCIES: ISSUES AND STRATEGIES

Introduction

Although the Provincial Subsidy Scheme is a national program, its long range objective is to strengthen the capabilities of local agencies in planning and managing locally designed development projects. Central to this strategy is the need to encourage the devolution of authority and responsibility from central to lower levels of government and to develop communication linkages between local governments and the rural communities they serve to ensure that localized needs and aspirations are addressed. This policy is based on the belief that until local governments have established the basic capacity to plan and manage development programs, the central government is unlikely to delegate significant authority to and vest substantial financial resources in local governments, and as long as the capacity of local governments is limited, it is unlikely that they can develop effective linkages with the communities within their jurisdictions. In detail, the major themes underlying the decision to delegate the implementation of the program to local governments are:

42 USAID, "Project Paper: Indonesia-Provincial Area Development Program II," Ibid., p. 3.
(1). Lower levels of government are more likely to be sensitive to local conditions and responsive to local needs, and thus, more effective;

(2). Local control over development projects, moreover, will more likely encourage local support for project activities and responsibility for the continued maintenance and use of project resources;

(3). The sustainability of project benefits is enhanced if local control over development process is encouraged;

(4). Efficiency is another reason for devolving responsibilities to lower levels of government, because such agencies are more likely to respond quickly and appropriately to the needs of a locality;

(5). Finally, strengthened local capability to plan, implement, and manage development projects is often viewed favourably on ideological grounds. In order words, it is inherently desirable to increase the participation and effective control by local agencies in place of central intervention in local affairs.\[^{43}\]

As such, the Provincial Subsidy Scheme is attempting to establish a process of economic and institutional development rather than being a conventional project with narrowly defined outputs and a limited time horizon. Therefore, the program involves both developing field administrative structures on an area basis, in which horizontal links between different offices are at least as important as the vertical lines of authority linking local agencies with central departments, and also decentralizing authority over planning and implementing development programs to local decision making bodies.

\[^{43}\] Michael Morfit, op.cit., p. 50.
4.2. Major Changes

In order to achieve greater efficiency and effectiveness, the government of Indonesia has made several important changes. One such change in the Department of Interior was the elevation of the former Directorate of Regional Development to the level of Directorate General of Regional Development. This change represents a significant step in the move to focus the attention of the government on the importance of the active participation of local level agencies in development activities. As a Directorate General, this agency has access to larger and a more skilled staff, additional budget resources, and a more influential position in the government.\(^{44}\)

Another crucial change was the recognition of the importance of coordination, which was so neglected in the past. This issue was raised by the current belief that the success of the program would heavily be affected by two major factors at the national level of policy formation and program planning. Decision makers must compare multi-sector programs with two other more traditional approaches to development: the single activity project and the nation-wide sectoral programs. One issue is the extent to which the central government macro planners should become directly involved in coordination of multi-activity programs rather

\(^{44}\) USAID, Project Paper: Indonesia-Provincial Area Development Program II, op.cit., p. 3.
than be concerned with allocation of budgets among sectors and let the local technical departments and planning institutions undertake whatever amount of interagency coordination they think is called for. The second issue is the extent to which development is promoted through policies and programs of nation-wide coverage rather than programs that deal with location specific problems and potentials.

These conflicting ideas were resolved by combining the two arguments into one policy package. Studies undertaken so far show that lack of coordination has resulted in wasteful use of resources. Examples that have been encountered include: irrigation projects planned and implemented without consideration of local agronomic, marketing, or social characteristics. These projects have resulted in primary and secondary canals being built ten or more years ago which still do not irrigate land today; agricultural production programs in areas with no transportation links to markets have brought about local market gluts and farmers eventually reducing production to self-sufficiency levels; and irrigation projects in areas with no marketing roads or marketing system, etc. Confronted with these facts, the government of Indonesia decided that inter-agency coordination at the national level

---

should be preserved to provide close horizontal communication between the staff of numerous agencies in planning, implementation, and monitoring and evaluation. Conditions in which the center acted merely as the provider of funding without being able to intervene in the program was rejected. On the other hand, the freedom of regional governments to overcome their specific problems is also guaranteed by providing a broader scope of local initiatives in utilizing the directed funds. This combination of central involvement and regional autonomy has resulted in a unique type of decentralization of programs conducted so far.

4.3. Types of Decentralization

In Western parlance, decentralization has always referred to a transfer of planning, decision-making or management functions from the central government and its agencies to field organizations, subordinate units of government and semi-autonomous public corporations. In its implementation, it can be distinguished by the degree of authority and power, or the scope of functions which the government transfers to or shares with organizations within its jurisdiction: deconcentration; delegation; devolution; and transfer to non-

---

6 Dennis A. Rondinelli, John R. Nellis and G. Shabir Cheema, 1987, op. cit., p. 11.
government institutions. Each of the terms has its own meaning, and they can be implemented simultaneously or at different times. Some developing countries began with one approach and later shifted to another after assessing the initial results. Other governments have used various combinations of the four, while a number of countries have delegated development management responsibilities to local governments but have maintained strong indirect controls over them.

Given its nature, none of the terms fits the Provincial Subsidy Scheme. Specifically, déconcentration can be defined as the handing over of some amount of administrative, authority and responsibility for interpreting policy to lower levels within central government ministries and agencies, while the implementation of the Provincial Subsidy Scheme is handed over to purely local agencies, not to vertical agencies stationed in the regions.

Delegation and devolution imply the transfer of sovereign authority for specified functions and duties to local units, which guarantees these institutions broad discretion in carrying out the explicitly granted functions. Under both programs, local units are autonomous and independent, and their legal status makes them separate or distinct from the

---

central government. As a consequence, central authority frequently exercises only indirect-supervisory control over such units.

In Indonesia, this is not the case. Specifically, this decentralized program does not create separate and distinct local governments, which can embark on any project at their own discretion. The central authority still exercises direct control over the program, by promulgating central directives and prohibitions. Therefore, this type of decentralized program can be defined as 'medebewind,' a Dutch generic term meaning 'cooperation.' The program is administered by the local agencies, but under strict control of the central authority. Consequently, strengthening the capability of local institutions refers primarily to implementation aspects of the program, rather than to overall aspects, such as planning and controlling. The basis for such a policy is the belief that project planning in its broader scope is very complex and the most difficult one.

4.4. Strengthening the Capacities of Local Governments

Because of the highly centralized character of the present pattern of governance, strengthening the capacities of local government has always referred to the provincial government. Decentralization of authority, then, has frequently been taken to mean giving greater scope for the exercise of judgement at the provincial level of how to
implement government policy.\textsuperscript{48} The executing agencies that are being strengthened are both planning agencies and local technical departments within the office of the Governor, on the grounds that it is located at the pivotal intersection between 'bottom up' and 'top down' flows of authority and administrative activity. Besides, the current local government law also stipulates that the Governor has broad administrative oversight and responsibilities over development activities undertaken in his region. The Ministerial Decree regarding the Provincial Subsidy Scheme further strengthens the Governor's role by making him responsible for supervising the development of the Five-Year Plan, and making him the key figure in the determination of projects to be included in the annual development plan as the sole authority in the region.

In another context, the office of the Governor can also play a crucial role in communicating local needs to the central government. It seems entirely appropriate, however, that the provincial planners should play a more active role in analyzing local demands and problems, in searching for complimentarities between local initiatives and national programs, and identifying key targets of opportunity for national programs within the province.

In addition, the provincial planners can make an important contribution to national development efforts by evaluating, in a constructive fashion, national efforts within

\textsuperscript{48} See Michael Morfit, op.cit., p. 51.
the province in terms of their impact on the local population and their responsiveness to local needs. This information can provide feedback to national development.

Therefore, the provincial planners represent the first link in a chain which can tie national programs (top-down) to local efforts (bottom-up). This crucial position can further be strengthened by vesting more authority in this agency by devising integrated planning, in which spatial, programmatic, financial, budgetary and investment aspects are woven into a comprehensive process. The most appropriate long-term goal of institution building at the provincial level should include:

- mobilization of financial resources;
- determination of broad policies;
- allocation of resources;
- planning of specific projects;
- implementation of projects;
- overseeing/co-ordinating/monitoring implementation of projects.

To undertake realistically and successfully a job of this magnitude, the provincial government should have more than the tools, i.e., the authorities and responsibilities. This office must also have the wherewithal to use those tools, i.e., the staff capacity. To sum up, the political commitment of the national government to vest more power in local authorities, the ability and willingness of the national bureaucracy to facilitate and support decentralized development programs, and the capacity of field officials of national departments to coordinate their activities at the provincial level will strongly influence the success of the
program.

Overall, after thoroughly review the progress of the Provincial Subsidy Scheme and look the past achievement it will be some policy recommendations for future prospects discuss in Chapter 5.
5.1. Conclusion

The preceding review of the current decentralization program in Indonesia revealed the limited nature of provincial authorities to conduct their overall functions. Neither the superior management of the provincial administration nor their access to external support appear to have been utilized to encourage a more systematic or effective use of delegated funds to respond to demands from the community grass roots levels. It is appropriate that the provincial authority be encouraged to take a much more positive role in shaping more integrated responses to locally perceived needs.

5.2. Policy Recommendations

In the near future, the provincial administrations can anticipate an increasing role in coordinating local and national development activities. Therefore, it will be necessary to assure that the provincial governments are provided with an adequately organized body of information on public investment in their jurisdictions. It is also essential that they experiment with new management devices to increase their influence over technical staff of the line ministries to ensure better coordination and eventual
integration of their activities. To support this goal, the role of provincial governments in integrating top-down and bottom-up planning should be strengthened. In addition, there are various roles which are essential to 'comprehensive regional planning' that should be assumed by the provincial governments. These include:

(a) establishment of a data and information management center;

(b) conflict resolution among contradictory provincial plan elements;

(c) selective regional issue and problem analysis;

(d) provision, either directly or as a broker, of a pool of technical resources for assisting provincial planning;

(e) preparation of standardized components for local projects design activities, i.e., standard cost-benefit pro forma;

(f) facilitation of interagency and intergovernmental coordination information transfer and guidelines; and

(g) selected training activities.

Finally, the willingness and ability of the central authority to relax its tight control over the implementation of the program, and the willingness of the government to widen the scope of local initiatives will be critical to the future success of the program.
BIBLIOGRAPHY


Department of Public Works, Institutional Framework With Special Reference to East Indonesia. (Jakarta: 1976).


Friedman, Harry J. "Decentralized Development in Asia: Local Political Alternatives", in Dennis A. Rondinelli and G. Shabir Cheema, op.cit., 1983.


----- and G. Shabir Cheema. "Implementing Decentralization Policies: An Introduction", in Dennis A. Rondinelli and G. Shabir Cheema (eds.)


