

CHAPTER ONE

INTRODUCTION

A. Background of Research

One of the issues that gained serious attention after the political reform in Indonesia as the effort on improving the laws and constitutions in accordance with the expectations of the public which occurred in 1998 was the issue of Local Government that has been enacted after several amendments since 1998. The first Local Government Act was enacted in Law No. 22 of 1999 (hereafter Local Government Act of 1999)¹ as a substitute for Law No. 5 of 1974 (hereafter Local Government Act of 1974),² which then amended by Law No. 32 of 2004 (hereafter Local Government Act of 2004).³ In the implementation of those Local Government Act, come into force the Law No. 23 of 2014 (hereafter Local Government Act of 2014)⁴ which is has made changes on Local Government Act because of the issuance of Government Regulation in Lieu of Law No. 2 of 2014 (*PERPPU No. 2 Tahun 2014*), which then in 2015 there was the enactment of Law No. 9 of 2015 on Local Government

¹ Law No. 22 of 1999 on Local Government (Local Government Act of 1999) was the substitute of Law No. 5 of 1974 on Local Government, as the product of political reform and come into force on May 7th, 1999 and implemented effectively since 2001.

² Law No. 5 of 1974 on Local Government (*Pokok Pokok Pemerintahan Daerah*) was the first law which enacted to regulate about the Local Government.

³ Law No. 32 of 2004 on Local Government (Local Government Act of 2004) enacted on October 15th, 2004 in which cause the abolishment of Law No. 22 of 1999.

⁴ Law No. 23 of 2014 on Local Government (Local Government Act of 2014) as the first amendment of Local Government Act of 2004, which is enacted because of the issuance of Government Regulation in Lieu of Law No. 2 of 2014.

(hereafter Local Government Act of 2015) as the second amendment of Local Government Act of 2014.

The most crucial issues which are constantly debated in the developing world is about the degree of control that central governments can and should have over development planning and administration. Thus, new questions about the most appropriate forms of planning and administering development policies have arisen in so many developing countries.⁵ During the 1970's, many governments in Asia, Latin America, and Africa began experimenting not only with new approaches to economic and social development, but also with new political and administrative arrangements for implementing development programs and projects.

A decentralized governance as a replacement to centralized government style has been widespread all over the world to be one of the main features of governance reform.⁶ Not only in advance democracies such as US and the EU, decentralization in its various forms also has been the central focus of government reform in developing countries in Latin America, Africa, and Asia as well.

Decentralization is essentially defined as the delegation or surrender of power or authority in a particular field vertically from higher officials or institutions to the functionaries subordinates officials or

⁵ G Shabbir Cheema, Dennis A. Rondinelli, 1983, *Decentralization and Development*, California, SAGE Publications Inc, p. 5.

⁶ *Ibid.*, p. 7.

institutions so that they are enforced with power and that particular authority is entitled to act on its own behalf in certain affairs.

Decentralization practice in Indonesia can be traced back before its independence day in 1945⁷. During the course of the time, it took various forms and motives behind it. For example, in the days before The independence day of Indonesia, the first attempts to decentralize power had been practiced to maintain the efficiency of colonialist's trading system. Under strict guidance from the colonialist, local leaders were only given very limited power. However under the first president Ir. Soekarno⁸ there was an effort to create a proportional and balanced relation between central and local governments.⁹

Since the 1950's, Indonesia has been a highly centralized but multi-tier unitary state, with provinces and then local government as the tiers under the central government.¹⁰ After the fall of Soeharto in May 1998,¹¹ some significant changes in the Indonesian political and

⁷ The Proclamation of Indonesian Independence (Indonesian: Proklamasi Kemerdekaan Indonesia, or simply Proklamasi) was read at 10.00 a.m. on Friday, 17 August 1945.

⁸ Sukarno (born Kusno Sosrodihardjo; Javanese; 6 June 1901 – 21 June 1970) he was the first President of Indonesia, serving in office from 1945 to 1967.

⁹ Pheni Chalid, 2005, *Keuangan Daerah, Investasi, dan Desentralisasi: Tantangan dan Hambatan*, Jakarta, Kemitraan, p. 2.

¹⁰ Anwar Shah and Zia Qureshi, 1994, "Intergovernmental Fiscal Relations in Indonesia, *World Bank Discussion Paper* and Rober H. Aten, 1997, "Why Increased Local Democratic Decision making Would Aid Indonesia Economic Development" *U.S.A.I.D. Working Paper*.

¹¹ Suharto General of the Army Hajji Suharto (also spelled Soeharto or Muhammad Soeharto; Javanese; 8 June 1921 – 27 January 2008) was the second President of Indonesia, holding the office for 31 years from the ousting of Sukarno in 1967 until his resignation in 1998. resigned as president of Indonesia in May 1998 following the collapse of support for his three-decade long presidency. The resignation followed severe economic and political crises in the previous 6 to 12 months. B.J. Habibie continued at least a year of his remaining presidential years, followed by Abdurrahman Wahid in 1999.

administrative system have taken places. The reform that happen in 1998 has a big impact towards the government structure by applying the decentralization policy which is symbolized by the enforcement of Local Government Act of 1999 and Law No. 25 of 1999 on the Financial Balance of Central Government and Local Government (hereafter Financial Balance Act of 1999).¹² The Government of Indonesia seems to be committed to a major program of governmental decentralization by passed these two Laws and if fully implemented, these laws promise to transform intergovernmental fiscal relation in Indonesia, and many would also see decentralization as a necessary response to the political situation.¹³

The Local Government Act of 1999, that were implemented in January 2001, brought a new hope to those poeple in Indonesia who had been crying out for reformation of the government since the fall of the long-serving President Soeharto in May 1998. The highly centralistic government of the New Order,¹⁴ which kept close control over the use of

¹² Law No. 22 and 25 of 1999 was formulated because of the Issuance of The Decree of the People's Consultative Assembly of the Republic of Indonesia No. XV/MPR/1998 on the Implementation of Regional Autonomy, Arrangement, Distribution, and Utilization of the Equal National Resources, as well as the financial balance of Central and Regional Government in the Framework of The Unitary State of the Republic of Indonesia (*Ketetapan MPR RI Nomor XV/MPR/1998 tentang Penyelenggaraan Otonomi Daerah, Pengaturan, pembagian, dan Pemanfaatan Sumber Daya Nasional yg Berkeadilan, serta perimbangan keuangan Pusat dan Daerah dalam Kerangka NKRI*).

¹³ James Alm and Roy Bahl, 1999, *Decentralization in Indonesia: Prospects and Problems*, US: United State Agency for International Development, p. 1.

¹⁴ The New Order (Indonesian: Orde Baru) is the term coined by the second Indonesian President Suharto to characterise his regime as he came to power in 1966. Suharto used this term to contrast his rule with that of his predecessor, Sukarno (dubbed the "Old Order," or Orde Lama). The term "New Order" in more recent times has become synonymous with the Suharto years (1966–1998).

resources in the various regions in Indonesia, as well as political and economic developments, was increasingly seen as applying a stronghold on the lives of the Indonesian people especially outside Java. There were many who felt that they never really enjoyed the results of 30 years of new order development but instead bore the brunt of corruption, collusion, and nepotism from the central government.¹⁵

Therefore, when the new President of Indonesia B.J Habibie¹⁶ came to office and initiated an ambitious political reform of Indonesia on regional autonomy, by endorsing the concept of decentralization to the parliament.¹⁷ With this new policy some element from central government in domestic affairs are to be delegated into local government, it provides the regency (*kabupaten*) and municipalities (*kota*) with the freedom to regulate their internal as well as their external affairs with the consent of the Governor and President. The 1999 political reforms also endows local communities with autonomy on their external affairs, like the implementation of national laws and policies.

Five years later, the decentralization policy which is embodied in the Local Government Act of 1999 has been implemented in the public

¹⁵ James Alm, Jorge Martinez-Vasquez and Sri Mulyani Indrawati, 2004, *Reforming Intergovernmental Fiscal Relations and the Rebuilding of Indonesia; The 'Big Bang' Program and its Economic Consequences*, Northampton USA, Edward Elgar, p. 5.

¹⁶ Bacharuddin Jusuf Habibie (born 25 June 1936) is an Indonesian engineer who was President of Indonesia from 1998 to 1999. He succeeded Suharto, who resigned in 1998. His presidency is seen as a transition to the post-Suharto era. Upon becoming president, he liberalized Indonesia's press and political party laws, and held an early democratic election in 1999, which resulted in the end of his presidency. His presidency was the third, and the shortest, after independence.

¹⁷ James Alm, Jorge Martinez-Vasquez and Sri Mulyani Indrawati, *Op.Cit.*, p. 66.

administration system at both the Central, Provincial and Regional levels. The implementation of public policy during 2001 - 2004 has been re-evaluated and the laws was revised with the new law on regional autonomy the Local Government Act of 2004.¹⁸

By reviewing the substance of those new laws, it shows that the changes and improvisations will automatically influence the stages of implementation of public policy in the implementation of regional autonomy.¹⁹ Accordingly, this research will be focused on the obstacles faced by the Indonesian government in implementing decentralization as implied on the Local Government Act specifically on the political responsibilities for each level of government under a decentralized structure by reviewing the related laws and to find out about the development of decentralization in Indonesia after political reform.

B. Research Problem

Based on the background of the research above, the researcher would like to discuss about the development of decentralization in Indonesia after political reform.

C. Objective of Research

To understand and analyze on the development of decentralization in Indonesia after political reform.

¹⁸ Ni'matul Huda, 2005, *Hukum Tata Negara Indonesia*, Jakarta, Raja Grafindo Persada, p. 23.

¹⁹ Coen J.G. Holtzappel and Martin Ramstedt, 2009, *Decentralization and Regional Autonomy in Indonesia: Implementation and Challenges*, The Netherlands: Institute of Southeast Asian Studies, p. 1.

D. Benefits of Research

This research provided benefits as follows:

1. Theoretically

This research gives benefits to thoroughly understand and increase the knowledge about the development of decentralization in Indonesia after political reform.

2. Practically

This research develops a better understanding on the development of decentralization in Indonesia after political reform.