

Edited by

Colin MacAndrews

Central Government  
and Local Development  
in Indonesia

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Colin MacAndrews

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## Preface

SURPRISINGLY little has been written on development and change in Indonesia in the New Order period with the exception perhaps of the work done in the field of economics. This is particularly true in the area of public policy and administration which has scarcely been examined by Western scholars. Yet, there is much to be learned both about Indonesia itself from this period of its history and also, in light of Indonesia's place as the third largest developing country in the world, lessons for other countries to be gained from the Indonesian experience.

This book represents an initial attempt to address this gap. It does not seek to provide a full or comprehensive coverage of all the fields that deserve attention. What it seeks to do is utilize the research and experience of scholars expert in their areas either currently working, or who have recently worked in Indonesia, in addressing a key issue of the period, that of the dichotomy between central authority and local development. Given the lack of attention devoted to this area and the need to provide as up-to-date and as knowledgeable a coverage as possible, all the papers were specially commissioned for this book.

This book, it is hoped, will be particularly useful for three purposes. Firstly, it provides a thorough introduction to a relatively unaddressed aspect of Indonesian development in this period, that of the nature and development of central-local government relationships. Thus, this book should be useful to professionals, whether researchers, consultants or government officials interested in this area. Secondly, it is aimed at providing selected readings in the public administration and public policy fields for graduate students, particularly those in ASEAN universities where it should be of particular interest. Thirdly, specific chapters might be used for courses in administration, policy, finance, economics and planning in the development studies area.

My grateful thanks are owed to a number of people who at various stages have helped move this book through from an initial idea to a final manuscript. This includes the contributors and a large number of people who have commented on various drafts. In particular I would like to express my appreciation to Dr Joseph Black, formerly of the Rockefeller Foundation, who urged me to go ahead with this volume when at various stages I had almost decided to leave it to someone else. I am also grateful to the Rockefeller Foundation who kindly invited me to the Bellagio Center as a Visiting Scholar to work on the first draft in November 1982.

I am most grateful for the help of all of these people in what to me has been a challenging and interesting endeavour.

*Jakarta*  
*September 1985*

COLIN MACANDREWS

## Notes

### Currency

IN December 1965 a major currency reform was announced so that 1,000 'old rupiahs' became equal to 1 'new rupiah'. Unless otherwise noted, all Rp units used in this book are in 'new Rp'. Since then there have been a number of devaluations with the foreign exchange rate of the Rp to the US\$ changing as follows:

	<i>Rp</i>		<i>Rp</i>		<i>Rp</i>
1966	235	1972	415	1978	615
1967	235	1973	415	1981	703
1968	326	1974	415	1983	970 <sup>a</sup>
1969	326	1975	415	1984	970
1970	378	1976	415	1985	1,110 <sup>b</sup>
1971	415	1977	415		

<sup>a</sup>Devaluated 30 March 1983 from US\$1 = Rp 703 to US\$1 = Rp 970.

<sup>b</sup>The rupiah was allowed to float in 1984 and 1985 at an exchange rate to the US\$ between Rp 1,050 and Rp 1,120.

### Financial Years

Until 1969, financial years covered the same period as calendar years. Beginning in April 1969 (January–March 1969 was a transitional quarter), the financial year was changed to cover the period from 1 April to 30 March the following year; thus a period shown as 1972/3 in the text refers to the period between 1 April 1972 to March 1973.

### Statistics

Many statistical series in Indonesia are unreliable. Often two figures from different sources which supposedly refer to the same magnitude vary by as much as 50 per cent. Although all possible care has been taken to check sources and correct for errors, all statistical data presented in this book should be interpreted with considerable care.

## Abbreviations and Glossary

ABRI	( <i>Angkatan Bersenjata Republik Indonesia</i> ) Indonesian Armed Forces
APBD	( <i>Anggaran Pendapatan dan Belanja Daerah</i> ) Provincial Budget

APBN	( <i>Anggaran Pendapatan dan Belanja Negara</i> ) National Budget
BAKN	( <i>Badan Administrasi Kepegawaian Negara</i> ) Civil Service Administration Board
<i>Bappeda</i>	( <i>Badan Perencanaan Pembangunan Daerah, Tk. I</i> ) Provincial Level Development Planning Board
<i>Bappeda</i>	( <i>Badan Perencanaan Pembangunan Daerah, Tk. II</i> ) District ( <i>kabupaten</i> ) Level Development Planning Board
<i>Bappenas</i>	( <i>Badan Perencanaan Pembangunan Nasional</i> ) National Development Planning Board
BPD	( <i>Badan Pertimbangan Daerah</i> ) Provincial Advisory Board
<i>Bimas</i>	( <i>Bimbingan Massa</i> ) agricultural extension programme for rice and other food crops; the <i>Bimas</i> programme provides both credit and a package of physical inputs for farmers
<i>Bina Marga</i>	section of the Department of Public Works dealing with roads
BRI	( <i>Bank Rakyat Indonesia</i> ) the state-owned bank principally responsible for distributing agricultural credit in rural areas
<i> bupati</i>	chief administrative government official of a district, or <i>kabupaten</i>
<i>camat</i>	chief administrative government official of a sub-district, or <i>kecamatan</i>
CIDA	Canadian International Development Agency
<i>desa</i>	Javanese word for a village or rural community, often used interchangeably with <i>kelurahan</i>
<i>dinas</i>	office of a provincial government that provides services in specific fields (e.g. agriculture, health, industry) at the provincial and district levels. It reports to the governor but receives technical direction from the appropriate central government department
DIP	( <i>Daftar Isian Proyek</i> ) list of approved project activities
DPA	( <i>Dewan Pertimbangan Agung</i> ) Supreme Advisory Council
DPR	( <i>Dewan Perwakilan Rakyat</i> ) People's Representative Council
DPRD	( <i>Dewan Perwakilan Rakyat Daerah</i> ) Provincial level People's Representative Council
DUP	( <i>Daftar Usulan Proyek</i> ) list of project suggestions
FSBI	( <i>Federasi Serikat Buruh Indonesia</i> ) All Indonesia Labour Federation
GBHN	( <i>Garis-garis Besar Haluan Negara</i> ) Broad Outlines of State Policy
<i>Golkar</i>	( <i>Golongan Karya</i> ) Functional Political Group
<i>Inpres</i>	( <i>Instruksi Presiden</i> ) presidential instruction-based subsidies of various types to the local government
<i>Ipeda</i>	( <i>Iuran Pembangunan Daerah</i> ) the main land tax

<i>kabupaten</i>	sub-provincial administrative district
<i>kantwil</i>	( <i>kantor wilayah</i> ) representative office of a central government department in a province
<i>kecamatan</i>	administrative division (sub-district) of the <i>kabupaten</i> (district) or <i>kotamadya</i> (q.v.)
<i>kelurahan</i>	administrative unit below the <i>kecamatan</i> , often the same as a <i>desa</i>
<i>Korpri</i>	( <i>Korps Pegawai Republik Indonesia</i> ) Organization of Indonesian Civil Servants
<i>kotamadya</i>	municipally, having the same administrative status as a <i>kabupaten</i> (q.v.)
KUD	( <i>Koperasi Unit Desa</i> ) government-supported village co-operative
<i>lurah</i>	village head, also referred to as <i>kepala desa</i>
LKMD	( <i>Lembaga Ketahanan Masyarakat Desa</i> ) Village Security Institution
MPR	( <i>Majelis Permusyawaratan Rakyat</i> ) People's Consultative Assembly
<i>Pancasila</i>	the five basic principles of the Republic of Indonesia: belief in God; national consciousness; humanitarianism; social justice; democracy
Pertamina	state-owned oil company
PDI	( <i>Partai Demokrasi Indonesia</i> ) Indonesian Democratic Party
PDP	USAID-supported Provincial Area Development Programme
PKI	( <i>Partai Komunis Indonesia</i> ) Indonesian Communist Party
PPP	( <i>Partai Persatuan Pembangunan</i> ) United Development Party
<i>pribumi</i>	An 'indigenous' Indonesian, as opposed to non- <i>pribumi</i> inhabitants (usually taken to mean inhabitants of Chinese descent)
province	the autonomous level of government immediately below the central government
<i>Repelita</i>	( <i>Rencana Pembangunan Lima Tahun</i> ) Five-Year Development Plan
<i>Repelita I</i>	First Five-Year Development Plan, 1969/70–1973/4
<i>Repelita II</i>	Second Five-Year Development Plan, 1974/5–1978/9
<i>Repelita III</i>	Third Five-Year Development Plan, 1979/80–1983/4
<i>Repelita IV</i>	Fourth Five-Year Development Plan, 1984/5–1988/9
SDO	( <i>Subsidi Daerah Otonom</i> ) provincial subsidy from the central government (for local government administration costs)
<i>Tabanas</i>	national small savings scheme
UNCRD	United Nations Centre for Regional Development
UDKP	( <i>Unit Daerah Kerja Pembangunan</i> ) Unit for Co-ordinating Development Activities at the district level
UNDP/OPE	(United Nations Development Program/Office for Projects



	Execution) a unit of the United Nations Development Program with project management responsibilities
USAID	United States Agency for International Development
<i>walikota</i>	mayor of municipality ( <i>kotamadya</i> ) (q.v.)

## Notes on Contributors

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# 1 Introduction

Colin MacAndrews

WITH the coming to power of the New Order government in Indonesia in 1965, Indonesia in the next two decades was to see many changes. One was the beginning of an era of marked political and economic stability, in contrast to the instability of the early years of the Republic from the time that Indonesia first became independent from the Dutch in 1945. With this came the physical as well as the national integration of the country, helped in no small way by the vast improvement in communications at all levels of the society. By the mid-1970s, the historically remote outer island provinces were no longer isolated and difficult to reach, with no provincial capital in Indonesia being more than a single day's flight from the capital of Jakarta. With these developments came greater internal mobility that reflected the attraction of the superior educational and economic resources of Java and also the planned movement of people out of Java to help develop the outer island areas.

These changes were due, to a great degree, to the development programmes introduced by the New Order government, programmes that sought to make the country more economically self-sufficient, to improve living conditions and to develop the country's national resources. These programmes, whether agricultural, educational, health or infrastructure in nature, reached down to every level of society and to every part of the country. With these programmes came, perhaps more than at any period of Indonesia history, the predominance of government, particularly that of the central government, as these development programmes were government programmes and were implemented by government agencies. Thus, if these programmes helped to integrate the country and to bring about internal stability, they also enhanced the role and the strength of the central government.

At the same time, they also led to the strengthening of the role of local governments at the provincial level. Though economically weak because of the general lack of local resources that could generate revenues, local provincial governments began in this period to play an important part in the overall government structure. This reflected their role in administering the central government development policies, particularly as the central government sought to decentralize authority to the local authorities in many of its development programmes to meet its aims of achieving greater equity in the country's development. Decentralization led in turn

to the strengthening of the bureaucratic apparatus of local government in the provinces which, in this period, was to reach down to the village level in every part of the country, although authority to a great extent was still centrally controlled in terms of appointments and of important decision making.

Yet, even if the central government authority still predominated in this period, the move towards decentralization was to lead to the growing awareness of the local governments of their own resources, and the opening up of the possibility of their greater independence *vis-à-vis* the central government in Jakarta. This was well illustrated in the growing stand taken by many of the provinces in discussions, in meetings and even in the mass media in this period, with the provinces arguing that they knew best what was needed in their own areas. Given the enormous diversity of Indonesia, this could not be denied and central government policies had often to be adapted to local conditions.

Given these two trends, the growth in central government authority paralleled by that of the local provincial governments, the challenge to the New Order government was to maintain political and economic stability while seeking greater local development and participation in its development programmes. The latter was seen as essential to providing the popular support it needed for its policies. In the 1970s and early 1980s, this balance was not always easy to maintain and certainly, as Indonesia moves into the future, the need for retaining enough central government authority to maintain stability and still encourage local development will remain just as difficult to achieve. Yet, just as clearly, both in terms of the need to maintain support for the New Order government and also for its development policies, local development and participation in decision making will need continued encouragement in the future.

The chapters in this book examine in a number of key areas the relationships in the New Order period between the central government and the local provincial governments. In Chapter 2, MacAndrews provides an overview of central-local provincial government relationships during the first two decades of the New Order, emphasizing the inherent tension between the perceived need to retain strong central government control and the inevitable development of local government both in structure and in decision making as the New Order government sought broad popular support for its policies through its local development programmes.

Chapters 3–5 examine the structure of government in Indonesia, the ideology underlying it and the attempts taken in the 1970s and early 1980s to strengthen local government. In looking at the structure of government, MacAndrews shows how the present system of government, though rooted to some extent in past traditions, has been built under the New Order into a comprehensive system based on a series of legal enactments that provide a foundation for a strong government system at every level of Indonesian society. Analysing how government functions, he highlights the powerful role of the bureaucracy in Indonesian life and



the relationship to it of the different groups in Indonesian society. Finally, he questions whether this system is an efficient one and, just as important, whether it will be able to meet the demands placed on it in the future. In Chapter 4, Morfit examines a different aspect of the Indonesian government, that of its ideological base. The particular type of ideology, *Pancasila*, that has evolved in Indonesia to provide the ideological underpinning for the policies of the New Order, is particularly important in this period as it has provided both the means to maintain conformity and to encompass marked diversity. As Morfit illustrates, *Pancasila* as an ideology has been used effectively by the New Order to provide legitimacy and coherence to its policies, including that of equality in development. In Chapter 5, Morfit examines the decentralization of government and the efforts and the problems met in the central government's attempts to strengthen local government. If equal development of all parts of the country, however isolated, is a key element in the state ideology and a basic policy of the New Order government, then local government must, he argues, play a key role. This is no easy task, whether in terms of decentralization of power or of the capacity of local government in Indonesia in the 1980s to handle more decision making. In either case, as this chapter illustrates, it will certainly take appreciable time to achieve.

The next two chapters look at one important aspect of any attempt to decentralize government, that of the need to decentralize financial decision making and to build up the capacity of the local governments to handle their finances. This is first examined by Booth, who looks at the attempts of the central government to decentralize fiscal authority as well as to improve the capacity of the local governments to provide adequate local tax revenues. The picture is a bleak one, as the highly centralized economic system in place in Indonesia and the serious problems raised by the weaknesses, as well as the marked economic disparities between the different provinces, make attempts to introduce effective and uniform fiscal decentralization policies extremely difficult. This view is reinforced by Kern who, in Chapter 7, looks at the attempts to build up effective rural credit institutions.<sup>1</sup> While it is fully recognized that rural credit is essential for effective local development, the task of providing it in a reasonably efficient and effective way has proved difficult in post-independence Indonesia. Kern, in examining the credit policies of the government in the New Order period and various attempts to set up rural credit systems, illustrates some of the barriers to establishing really efficient systems and suggests ways of surmounting these in the future.

The final three chapters in the book look at four important features of Indonesia in this period of its development under the New Order that illustrate the various forces at work in Indonesian society underpinning the balance between strong central government and greater local authority. In Chapter 8, Wolf looks at one significant aspect of recent industrialization in Indonesia, the move from rural areas to the periphery of the urban areas. This phenomenon, as she shows, provides a bridge between