

Indonesia

1. BRIEF DESCRIPTION OF THE COUNTRY

1.1 Socio-economic profile

Indonesia is a maritime country, with a total land area of 9.8 million square kilometres. It also comprises a vast sea area of 7.9 million square kilometres (including an Exclusive Economic Zone), which constitutes 81 percent of the total area and a land area of about 1.9 millions square kilometres.

In terms of population size, Indonesia is the fourth largest country in the world after China, India and United States. The total population of Indonesia in 2000 was 205.8 million. The population growth rate was 1.49 per cent during 1990-2000. It has decreased fast since 1980, from 1.97 per cent per annum during the period 1980-1990 to 1.49 per cent during 1990-2000. The population distribution in Indonesia by province is shown in Table 1 below.

Table 1: Population size, growth rate and density

Provinces	Population (in thousand)			Annual growth rate of population (%)		Population density (per km ²)		
	1980	1990	2000	1980-1990	1990-2000	1980	1990	2000
Nangroe Aceh Darusalam	2,611	3,416	3,929	2.72	1.46	50	66	76
North Sumatera	8,361	10,252	11,642	2.06	1.32	114	139	158
West Sumatera	3,407	4,000	4,249	1.62	0.63	79	93	99
Riau	2,169	3,279	4,948	4.22	4.35	23	35	52
Jambi	1,446	2,018	2,407	3.39	1.84	27	38	45
South Sumatera	4,630	5,492	6,899	3.15	2.39	50	68	74
Bengkulu	768	1,179	1,564	4.38	2.97	39	60	79
Lampung	4,625	6,016	6,731	2.66	1.17	131	170	191
Bangka Belitung*	-	820	900	-	0.97	-	-	56
DKI Jakarta	6,503	8,228	8,361	2.38	0.17	9794	12439	12635
West Java	27,454	29,414	35,724	2.57	2.03	794	1032	1033
Central Java	25,373	28,516	31,223	1.17	0.94	780	876	959
DI Yogyakarta	2,751	2,913	3,121	0.57	0.72	863	914	980
East Java	29,189	32,488	34,766	1.08	0.70	609	678	726
Banten*	-	5,968	8,098	-	3.21	-	-	936
Bali	2,470	2,777	3,150	1.18	1.31	438	493	559
West Nusa Tenggara	2,725	3,369	4,009	2.14	1.82	135	167	199
East Nusa Tenggara	2,737	3,268	3,823	1.79	1.64	58	69	83
West Kalimantan	2,486	3,228	4,016	2.65	2.29	17	22	27
Central Kalimantan	954	1,396	1,855	3.88	2.99	6	9	12
South Kalimantan	2,065	2,597	2,984	2.32	1.45	47	60	69
East Kalimantan	1,218	1,875	2,452	4.41	2.81	5	8	11
North Sulawesi	2,115	1,762	2,001	1.60	1.33	139	162	132
Central Sulawesi	1,290	1,703	2,176	2.82	2.57	20	27	35
South Sulawesi	6,062	6,981	8,051	1.42	1.49	97	112	129

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Provinces	Population (in thousand)			Annual growth rate of population (%)		Population density (per km ²)		
South East Sulawesi	942	1,349	1,820	3.66	3.15	25	35	48
Gorontalo*	-	716	833	-	1.59	-	-	68
Maluku	1,411	1,154	1,163	2.76	0.08	30	40	26
North Maluku*	-	699	732	-	0.48	-	-	25
Papua	1,174	1,630	2,214	3.34	3.22	3	5	6
	146,935	178,500	205,843	1.97	1.49	78	95	109

Note (*): new province

Source: Statistical Year Book of Indonesia 2001, Central Board of Statistics

The population increase has been unevenly distributed regionally. Java Island is the most populated area, where 59 per cent of the total population reside on a land area constituting only 7 per cent of Indonesia. Meanwhile, Maluku and Papua constitute 24 per cent of the total area of Indonesia, but are inhabited by only 2 per cent of the total Indonesian population.

Demographic conditions in Indonesia are characterized by rapid urban population growth, and simultaneous decline in rural growth rates, as summarised in Table 2:

Table 2: Urban and rural population growth in Indonesia during 1990-2025

Year	Total of Population	Urban Population		Rural Population	
		Number	%	Number	%
1990	179.243.375	55.432.788	30,93	123.810.587	69,07
1995	194.800.106	71.656.845	36,78	123.143.261	63,3
2000	209.535.490	87.577.148	41,80	121.958.342	58,2
2005	222.841.452	102.534.128	46,01	120.307.324	53,99
2010	235.071.379	116.480.985	49,55	118.590.394	50,45
2015	245.698.893	129.245.269	52,60	116.453.624	47,4
2020	254.214.909	140.309.949	55,19	113.904.960	44,81
2025	261.441.010	150.052.009	57,39	111.389.001	42,61

Source: National Development Planning Board, 2001

The urban population is expected to continue to increase. It is expected that in year 2025, the urban population will constitute about 57 per cent of the total population. The fast growth of urban areas is caused by several factors such as: (i) the extension of existing urban areas due to rapid development in urban fringe-areas around metropolitan and large cities, (ii) the extension of physical urban development in suburban areas which formed uncontrolled urban conurbation and (iii) the increasing number of 'urban villages' included in statistical data.

At this time, there are nine cities in Indonesia classified as metropolitan cities, which have population of more than one million. Most metropolitan cities are located in Java Island: Jakarta, Bandung, Surabaya, Bekasi, Tangerang and Semarang. The rest are located in Sumatra Island (Medan and Palembang) and Sulawesi Island (Makassar).

Table 3 below indicates Indonesia present national economic condition. For the year 2001, growth of Indonesia's economy showed a better performance than in 2000, with a growth of GDP (at 1993 constant prices) of 3.32 per cent. However, the growth per capita income decreased by around 1.51 percent in 2001 after an increase of 8.03 percent the previous year.

**Table 3: Trend of Gross Domestic Product and Per Capita National Income
Constant 1993 Market Prices**

	1998	1999	2000	2001
Gross Domestic Product	376,374.9	379,325.5	397,934.3	411,132.1
Per Capita National Income	1,632,512.9	1,637,116.0	1,769,959.6	1,744,178.3

Source: National Development Planning Board, 2001

The Gross Regional Domestic Product (GRDP) in each province is shown in Table 4:

**Table 4: Gross Regional Domestic Product (GRDP)
(By province)**

Province	1997	1998	1999	2000
Nangroe Aceh Darusalam	11,444,454	10,384,958	9,949,896	9,999,017
North Sumatera	25,065,405	22,332,690	22,910,086	24,016,652
West Sumatera	800,663	7,458,576	7,577,036	7,868,589
Riau	20,433,959	19,644,474	20,308,602	21,633,953
Jambi	3,268,452	3,091,527	3,181,314	3,251,212
South Sumatera	14,207,488	13,239,321	13,659,787	14,468,495
Bengkulu	1,740,586	1,631,372	1,677,279	1,743,491
Lampung	7,201,338	6,701,179	6,874,387	7,065,799
Sumatera	91,362,345	84,484,096	86,138,387	90,047,207
DKI Jakarta	69,543,445	57,380,517	57,215,224	59,492,203
West Java	71,568,924	58,847,840	60,200,705	63,149,580
Central Java	43,129,839	38,065,273	39,394,514	40,932,538
DI Yogyakarta	5,378,525	4,777,199	4,824,391	5,018,093
East Java	64,853,576	54,398,897	55,393,853	57,594,982
Java	254,474,309	213,469,726	217,028,686	226,187,395
Bali	7,556,533	7,250,948	7,299,401	7,521,841
Java and Bali	262,030,842	220,720,674	224,328,088	233,709,237
West Kalimantan	7,219,744	6,879,361	7,066,058	7,275,422
Central Kalimantan	4,290,178	3,993,187	4,045,946	4,133,556
South Kalimantan	6,235,962	5,890,821	6,042,961	6,333,623
East Kalimantan	20,672,716	20,514,623	21,481,648	21,889,882
Kalimantan	38,418,600	37,277,991	38,636,613	39,632,483
North Sulawesi	3,767,016	3,677,888	3,889,665	4,131,705
Central Sulawesi	2,316,865	2,225,138	2,287,380	2,383,700
South Sulawesi	9,893,420	9,366,229	9,631,076	10,100,508
South East Sulawesi	1,644,024	1,549,033	1,588,457	1,672,193
Sulawesi	17,621,325	16,818,287	17,396,578	18,288,105
West Nusa Tenggara	3,363,240	3,259,977	3,362,136	4,510,571

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Province	1997	1998	1999	2000
East Nusa Tenggara	2,836,328	2,758,906	2,834,212	2,946,892
Maluku	3,085,740	2,902,761	2,197,398	2,076,087
Papua	7,501,814	8,456,232	8,162,153	8,424,572
Others	16,787,122	17,377,875	16,555,899	17,958,122
TOTAL	426,220,234	376,678,923	383,055,565	399,635,154

Note: Data presented are data from 26 provinces and at 1993 constant prices. There are not PDRB data available for the 4 new provinces.

Source: Gross Regional Domestic Product 1997-2000, Central Board of Statistic

As seen in Table 4, Java Island is the biggest contributor of Gross Regional Domestic Product (GRDP), with about 56.6 per cent. By province, West Java is the biggest contributor (15.8 per cent) and Southeast Sulawesi province the smallest (only 0.4 per cent). This trend indicates an unbalanced economic development among the regions.

The economic crisis, which began in mid-1997, devastated the Indonesian economy. As a result of the crisis, poverty levels increased substantially, especially in urban areas, with the island of Java suffering the most. The urban population living below the poverty line increased significantly from around 7.2 million (9.7 percent) to 17.6 million (22 percent) of the total population by 1998.

Using the (new) National Socio-economic Survey/SUSENAS (1998) definition of the poverty line, BPS estimated that in 1996 the percentage of the population below the poverty line was 13.6 per cent in urban areas, rising to 21.9 percent in December 1998, with a marginal decline to 19.5 percent in February 1999. It is also clear that poverty is an increasingly urban issue, considering the rapid growth of the urban population—an annual rate of 4.4 percent during 1990-99.

Table 5: Poverty line

	Poverty line (Rupiah)		Population below the poverty line (%)			Population below the poverty line (millions)		
	Urban	Rural	Urban	Rural	Urban + Rural	Urban	Rural	Urban + Rural
1996	42032	31366	13.6	19.9	17.7	9.6	24.9	34.5
1998	96959	72780	21.9	25.7	24.2	17.6	31.9	49.5
1999	92409	74272	19.5	26.1	23.5	15.7	32.7	48.4
1999	89845	69420	15.1	20.2	18.2	12.4	25.1	37.5
2000	91632	73648	14.58	22.14	18.95	12.1	25.2	37.3
2001	100011	80382	9.76	24.95	18.40	8.5	28.6	37.1

Source: National Survey on Socio-Economic, Central Board of Statistic and SUSENAS

During the economic recovery and more stable political situation of 1998-1999, the number of poor people decreased again slowly. In 2000, the number of poor people in Indonesia (excluding Nangroe Aceh and Maluku) was around 37.3 million people (18.95 per cent of the total population) with 12.1 million living in urban and 25.5 million in rural areas.

The recent economic improvements encouraged progress in access to housing facilities and basic infrastructure, as indicated in Table 6.

Table 6: Living condition (percentage of households) (2000)

Access to facilities							
Source of drinking water	%	Source of lighting	%	Type of cooking fuel	%	Toilet facility	%
Pipe	18.25	State Electricity	83.48	Electricity	2.92	Private	54.88
Pump	13.30	Privately Generated Electricity	2.78	Gas	8.22	Shared	12.71
Packaged Water	1.43	Pumped Lamp	2.72	Kerosene	44.10	Public	5.72
Protected Well	33.50	Oil Lamp	10.35	Firewood	43.23	Others	26.69
Unprotected Well	13.74	Others	0.67	Charcoal	0.27		
Protected Spring	7.69			Not Cooking	0.09		
Unprotected Spring	5.15			Others	1.17		
Rivers	3.52						
Rain Water	3.05						
Others	0.37						

Source: Statistical Year Book of Indonesia 2001, Central Board of Statistics

The data shows that in 2001 most households utilized clean drinking water (accesses from pipes, pumps or protected wells). Moreover, 86 per cent of households utilized electricity. However, as of 2001, 27 percent of households still had no toilet facility.

1.2 Political and administrative structure

Indonesia's present Constitution, called Undang-undang Dasar 1945 (UUD), has been gradually amended by the elected MPR (People Consultative Assembly). There have been many significant changes related to the role and authority of government bodies.

The highest authority in Indonesia is currently in the hands of the parliament, known as Majelis Permusyawaratan Rakyat (People Consultative Assembly), abbreviated as MPR. MPR consists of members of Dewan Perwakilan Rakyat (House of People Representative or Parliament) and Dewan Perwakilan Daerah (Regional Representative), which are all elected through general elections. There are at least three main authorities of MPR's, which are: (i) to amend and stipulate the Constitution; (ii) to inaugurate the President and/or Vice-President, and (iii) to dismiss the President in the period based on Basic Law (UUD).

The DPR has the following authorities: (i) to formulate laws and regulations, (ii) legislation functions, budget functions and supervision, (iii) other rights specific to the executive government.

The Indonesian government system has adopted a presidential system, where the President is the highest executive level of the government. Based on the amended law and the new law about President and Vice President Elected (Law no.23/2003), the president is elected directly by the people through general election, which is held every five years. In performing his/her duties, a president is assisted by ministers. The President has full authority to appoint and dismiss ministers. In addition, the president has the right to propose drafts of laws to DPR but the president cannot suspend or dismiss the council.

Dewan Perwakilan Rakyat (DPR) or House of People Representative is the legislative council, and its members are coming from political parties elected through general elections (Pemilu). Like the president, DPR also has the right to propose laws. Any proposed laws are then discussed and legalized together with the president. However, if in a certain period of time the president does not legalize the approved proposed law, the law is still considered legal. In performing its role, DPR also has legislative, budgeting, and monitoring functions. In performing his/her function, the president has interpellation rights and rights to express opinion.

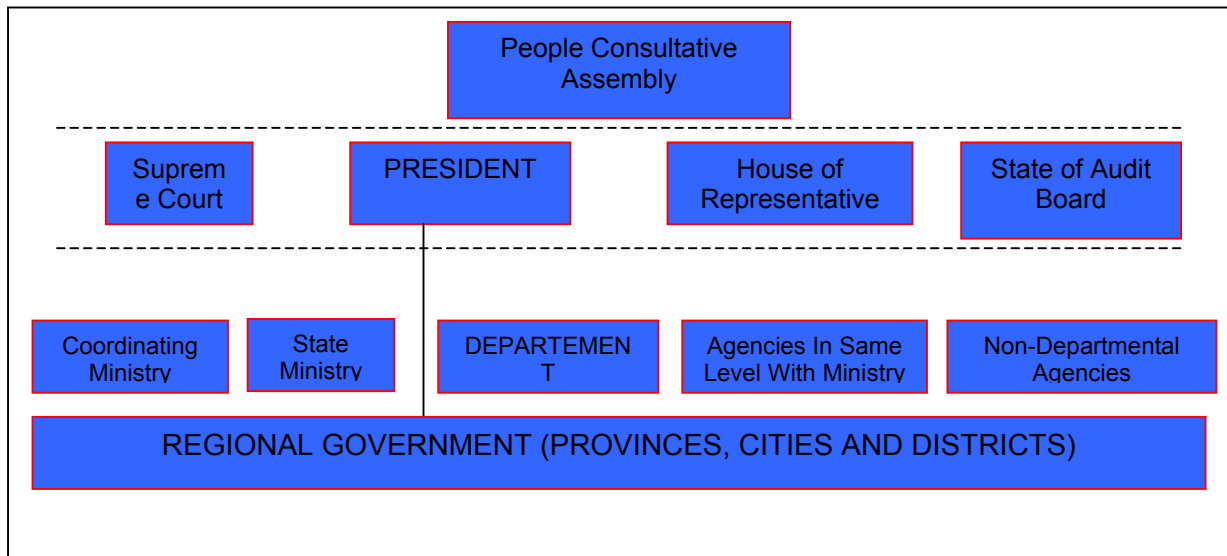
Other than the highest and high boards mentioned before, there is also an advisory board whose duty is to give advise to the president. The State of Audit Board has a duty to monitor the finance management and the Supreme Court has the power to organize the judiciary to enforce laws and justice.

Indonesia is a unitary state, which is divided into provincial and city/district levels of government. At each level, both the provinces and city/district have their own government system and legislative body called Dewan Perwakilan Rakyat Daerah (Provincial/Local Parliament). A Governor elected by local parliament heads the provincial level of government. The city/district level of government is headed by a Mayor for the city and a Regent for the district. Since the decentralization policy implemented in 1999, there is no hierarchical links between provincial and city/district levels. The law stipulated that city/districts are autonomous regions.

Decentralization policy has several implications on the government system. Two laws have been passed in 1999 by the Government of Indonesia related to decentralization policy: Law No. 22 on Regional Government and Law No. 25 on Financial Balance between Central Government and Regional Government. Based on the decentralization law, the local government has authority for all development sectors in the region, except international affairs, defence, judiciary, monetary and fiscal policies, and other authorities governed in the laws (which belong to Central Government authority). Provincial government has authority on matters across local governments.

The government structure in Indonesia is summarised in the figure below:

Figure 1: Government structure of Indonesia



Source: www.ri.go.id (Indonesia Official Website)

2. EVOLUTION OF LOCAL GOVERNMENT

The 1945 proclamation brought a new system of local government in Indonesia. The constitution provides a local government system and makes it clear that local autonomy is one of the principles of governance in Indonesia. The article provides the basic principle of the local government system with regard to the traditional rights of the regions that have special characters.

The first of a series of laws enacted by the new republic was the Local Government Act Number 1 (1945), in which the following provisions were covered:

- In each region a Local Board of the People's Representative (BPRD) was formed;
- The BPRD elects a Chief Executive of the local government;
- The Chief Executive is both a central government officer as well as a leader of the local government; and
- Three levels of local government were created: residence, county and municipality.

Local Government Act No. 22/1948

This law issued on July 10, 1948 replaced the previous Law No. 1/1945, which was considered not to be in line with the spirit of freedom. This law focused on de-concentration aspects:

- Local government consisted of the House of Representative and the Local Advisory Board (LAB);
- The Local Advisory Board was headed by the Chief Executive;
- The Local Advisory Board was responsible to the House of Representative;
- The Chief Executive was both a central government representative as well as a leader of the local government; and
- Three levels of autonomous local government were created: province county or municipality and village or governor.

Local Government Act No. 1/1957

This law was stipulated due to high pressure, and is also focused on decentralization:

- Local government consisted of the House of Representative and the Local Advisory Board;
- The local chief executive was the leader of the Local advisory Board; and
- Three level of autonomous local government was created: first, second and third.

Presidential Decree No.6/1959

This is a continuation of the Presidential Decree to control the government in line with the Basic Law:

- The local chief executive was both a local leader and a central government representative;
- The local chief executive was not responsible to the local House of Representative; and
- The local chief executive was to be assisted by the Daily Executive Board (DEB).

Local Government Act No.18/1965

In the mid of 1960s aspirations emerged to revise the local government system to be closer be in line with recent ideologies (lead-democraton and Nasakom abbreviated from National, Religion and Communism):

- Local autonomy was to be executed as extensively as possible;
- The chief executive was the leader of the local House of Representative;
- The local chief executive was responsible to the president through the minister of home affairs; and
- Three levels of local government were established: province, county or municipality and district or governor.

This act was never implemented because of the change in national government in September-October 1965 that changed the policies of the central government regarding local government.

Local Government Act No.5/1974

This law was issued as part of the governmental transition from Old Order to New Order. There were three basic principles namely: decentralization, de-concentration and task-assistance. In practice, the de-concentration principle is more dominant than others:

- Local autonomy was to be real and responsible local autonomy;
- Local autonomy was focused on the local government level rather than on the regional government level;
- Local autonomy should give priority to aspects of both harmony and democracy;
- Local autonomy was aimed at increasing efficiency and productivity, especially in the execution of development process, providing public services an maintaining political stability as well as national integrity; and
- Both the decentralization and de-concentration principle were to be applied.

Local Government Act No.22/1999

This law was implemented on 1 January, 2000 because Law No. 5/ 1974 was no longer compatible with the principles of local autonomy and the changed political and socio-economic conditions. In the law of local autonomy, local government is given authority that is realized by the regulating, allocating and utilizing national resources as well as fiscal balance between central and local government in accordance to democratic principle, public participation, equality, and justice as well as local potentials and diversity.

Matters determined in the Law No.22/1999 are:

- Area Division: the territory of Indonesia is divided into autonomous Provincial Regions, Regency Regions, and Municipal Regions. A region has full authority in the field of governance
- The complete and full implementation of local autonomy is put upon regency/city.
- Head of Region is responsible to DPRD (Local Parliament), which also can propose dismissal of Head of Region to Central Government; and
- This law also regulates village governance and its apparatus, which are village head and Village Representative Board.

3. MAIN FEATURES AND CHARACTERISTICS OF LOCAL GOVERNMENT

3.1 Local Government categories and hierarchies

Indonesia consists of 30 Provincial Regions and 416 Local Regions, which are divided into 92 *Pemerintah Kota* (City Governments) and 324 *Pemerintah Kabupaten* (District Governments). In principle, there are no hierarchical relationships among the different levels of government. However, there are multiple forms of coordination,

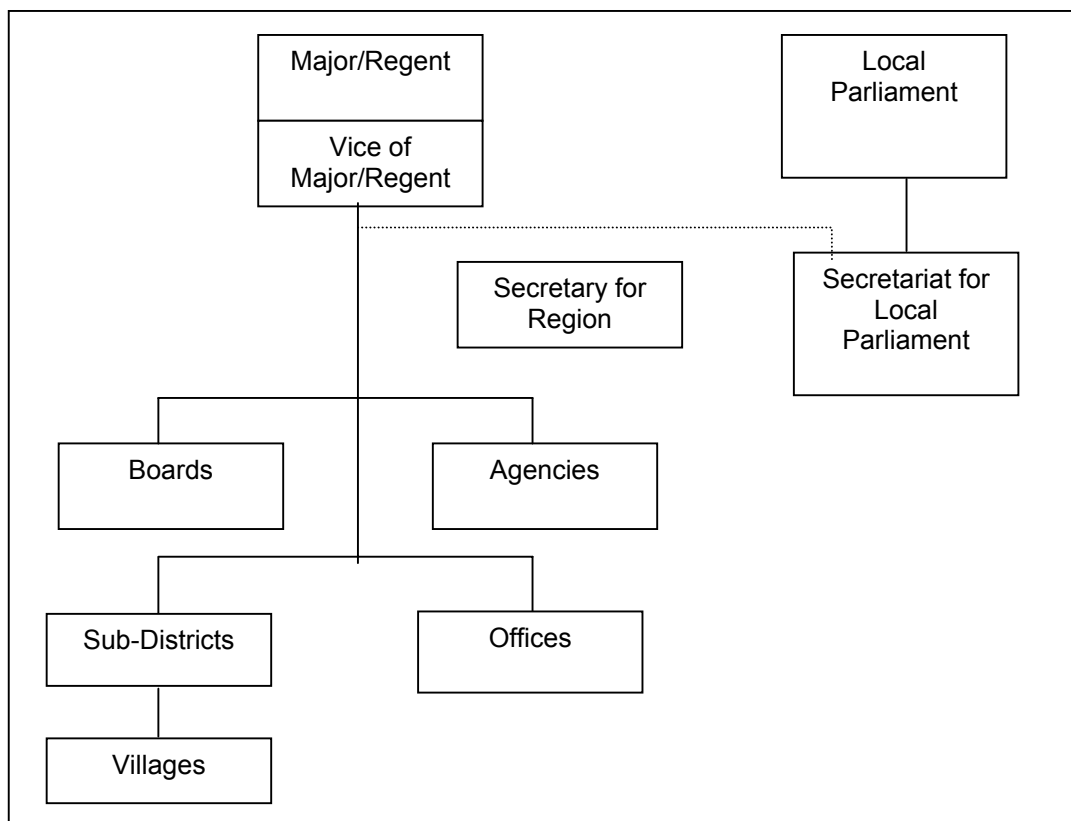
cooperation and partnership between them. At every level of government a People's Representative Council serves as legislative institution.

Regions are formed based on their economic capacity, regional potentials, socio-political context, population size, land area and other considerations which enable regional autonomy. Regions incapable of organizing local autonomy may be eliminated and/or merged with other regions. These are stipulated by government regulation no. 129 (2000) on the requirements to form and to extend regions.

3.2 Local government structures and functions

The enactment of Law No. 22/1999 has resulted in recent changes of authority of central and local government, both in terms of duties and organizational structures. Based on these new laws, the form and structure of local administration now consists of DPRD (Local parliament) as the legislative body, and local government as the executive body. Local government consists of a Head of Region and local apparatus. The general local government structure is shown in Figure 2 below:

Figure 2: Local government structure



Local Legislative body (DPRD)

The local legislative body (DPRD) is elected every five years in general election. Members of the legislative body come from political parties as well as TNI/Polri, which are appointed without general election. The number of members of each legislative body is based on the total number of people in each region.

The local legislative body is separated from the executive body with the purpose to empower the former in increasing local government responsibility to the people. There is a big difference in the rights and authorities of the legislative body in Law No. 22/1999 compared to the previous Law No. 5/1974. Based on the new laws, the legislative body has a wider authority. For example, whereas in the past the Head of Region had the authority to monitor the legislative body, the reverse is now the case, and the legislative body can reconsider his/her position before the service period expires.

The local legislative body has the authority to elect the Governor/ Deputy Governor, Regent/ Deputy Regent, and Mayor/ Deputy Mayor; to establish local regulations, local revenues, and expenditure budgets; to conduct investigation; to express opinion and considerations, as well as to facilitate and follow up the aspirations of its citizens. In performing its duties and authorities, the legislative body is assisted by the Secretariat who is responsible to the Chief of legislative body

In addition, the local legislative body is entitled to ask for information from the Head of Region regarding policy drafts and implementation, as well as on matters that requires legal action. Furthermore, the local legislative body can conduct investigations, including collection of information on public opinions. This is in an effort to empower the local legislative body to avoid “contempt of parliament”. There has thus been shifts of paradigm from a “strong executive system” to a “strong legislative system” in Law No. 22/1999 that have implications to the criteria of professionalism and quality of the local legislative body.

The local legislative body is also obligated to develop democracy in the organization of local governance, improve people’s welfare, take into account and to channel aspirations, to receive people’s complains and reports, as well as to facilitate the follow up thereof.

Executive body (local government)

The local government consists of a Head of Region, and local apparatus (a local secretariat, office (dinas) and technical units). These offices and technical units differ between regions depending on different needs.

The Head of the Region, whether at the provincial or municipal/regency (governor and mayor/regent) level, is elected by the local legislative body. A Deputy Head of Region assists every Head of Region. The Head of the Region should serve for 5 years. The Head of Provincial Regent has two positions at the same time: as representative of central government and responsible to the president and as head of the region and responsible to local legislative body.

The Head of the Region leads the organization of regional governance based on policies stipulated jointly with the local legislative body. In performing his/her duties and authorities, the Head of the Region should be accountable to the local legislative body and obligated to submit reports at the end of budget year. If the report is rejected, the Head of the Region has to revise it in the period of 30 days. If still rejected, the local legislative body can propose dismissal to the president.

In performing his/her duties, the Head of the Region is assisted by regional apparatus which consists of a (i) Regional Secretariat, with a duty to prepare policies and develop working relationship with service offices, technical institutions and other executive units, (ii) Regional Service Office, as regional governance executing element; and (iii) other technical regional institutions, in accordance with regional requirements.

The organization of local apparatus is determined by regional regulations, while the kind and number of organizations are determined by each local or regional government based on ability, needs, and workload of the region. The organization of the local apparatus is formed based on the following considerations:

- Governance authority owned by the region;
- Characteristics, potentials and needs of the region;
- Ability of local finance;
- Availability of apparatus resources; and
- Development of cooperation (between region and/or with third party).

Based on Law no. 22/1999 article 7-11, a region has the authority to manage the interest of the local citizens based on their own aspirations. Some regions establish regional regulations to enforce its people to be involved in development planning and/or the preparation of local regulations. The more intense the process of public participation, the higher the awareness of government, public demands for their involvement in every development process, and transparency of governance.

Regions cooperate with another on issues such as the management of natural and human resources and heritage, as required. There are also additional issues that regions cannot solve by themselves. In conducting such cooperation, a region can form a Regional Cooperation Unit (Badan Kerjasama Antar Daerah), which needs to be approved by the local legislative body.

According to Law No.22/1999, article 4 (2), Provinces, Regencies and Cities are independent and have no hierarchical relation to each other. The relationship between the central and local government is no longer hierarchical in Indonesia, and supports local autonomy. Therefore a regency and municipality become more self-sufficient and intervention from central or provincial levels should no longer exist. The only form of intervention performed by the central government relates to training and investigation in an effort to enforce the laws. This has authorized local governments to make policies and development programs for their own regions. This shift of authority from central to local government automatically brings the public policy makers closer to the people. However, the policy prepared by local government should not contradict the policy at the higher level. It needs the involvement of stakeholders in the region including government, private sector and the community to control the issuance of new local regulations.

3.3 Local government finances

To have a wide, real and accountable local autonomy requires an ability on the part of the local government to generate finance on its own, supported by a fiscal

balance between central government, provincial government and the regency/municipal government.

As Indonesia has had a long history of centralized government, there are many regions that still cannot manage their resources well due to the lack of human resources at the local level. In addition, finance limitation is often seen as an obstacle to implement local autonomy to the fullest. This occurs because the authority provided to local government is not balanced with adequate funds. As a result, there are many local programs that cannot be realized. However, this does not happen in all regions, and the new system is very beneficial to those regions with sufficient/adequate resources. With the new law on financial balancing, local government gets more money from revenue sharing from natural resource exploitation.

The Local Government Act No. 22/1999 has specified a fiscal balance between central and local government in line with the unitary state, comprising financial division between the central and local government and equality between regions in a proportional, democratic, just, and transparent way. This includes taking into consideration the potential, condition and the requirements of the regions, in line with the obligation and division of authority and the procedures on the implementation of said authority, including the management and its financial supervision.

Table 7: Revenue and expenditure of local government

Revenue	Expenditures
<ol style="list-style-type: none"> 1. Surplus from previous year 2. Local generated revenue <ul style="list-style-type: none"> - Local taxes - Local retribution - Profits form local own enterprises - Others local revenue 3. Balancing fund <ul style="list-style-type: none"> - Balance fund consists of local share from revenue of the land and property tax, tax in acquisition of land and building rights and natural resources - General Allocation Fund - Special Allocation Fund 4. Local loans <ul style="list-style-type: none"> - Domestic loans - Foreign loans 5. Others 	<ol style="list-style-type: none"> 1. Routine <ul style="list-style-type: none"> - Salaries - Non-salaries 2. Development: <ul style="list-style-type: none"> - Industry - Agriculture and forestry - Manpower - Trade, unfolding regional initiative, regional financial and cooperatives. - Transportation - Tourism and telecommunication - Education, national culture, youth and sports - Health, social welfare, women participation, child and adolescent - Religion

Source: Law No.22/1999

Local Government Act No. 22/1999 also regulates the balance funds and the source of local revenue, which comes from the State Budget (APBN) to support the implementation of local autonomy, especially the improvement of service delivery and welfare to citizens. The balance fund consists of local shares from revenue of land and property taxes, tax in acquisition of land and building rights and natural resources, Public Allocation Funds, and Special Allocation Funds (Table 8).

Table 8: Share of the central and local governments in the Balance Fund

Types of revenue	Central government (%)	Local government (%)
State revenue of land and property tax*	10	90
State revenue of tax on acquisition of land and building right*	20	80
State revenue of forestry natural resources	20	80
Commissions on forestry resources	20	80
The general mining sector	20	80
Commissions on forestry resources	20	80
Fishery business retribution and the fisheries business retributions	20	80
State revenue of the oil mining produced	85	15
State revenue of the natural gas mining	70	30

*) All parts of central government have been shared with all regencies and cities.

Source: Law No.25/1999

Table 9: Percentage of local government portion

Types of revenue	Province	City/ County	Share of other kabupaten/city in related province
State revenue of land and property tax*	16.2	64.8	
State revenue of tax on acquisition of land and building right*	16	64	
State revenue of forestry natural resources	16	64	
Commissions on forestry resources	16	32	32
The general mining sector	16	64	
Commissions on forestry resources	16	32	32
Fishery business retribution and the fisheries business retributions	-	-	-
State revenue of the oil mining produced	3	6	6
State revenue of the natural gas mining	6	12	12

Source: Law No.25/1999

In addition, the government determines the system and composition of General Allocation Funds (DAU), and Special Allocation Funds (DAK). The General Allocation Fund is at least 25 per cent from Domestic Revenue, which has been stipulated in the State Budget. Ten per cent of the General Allocation Fund is for the provincial- and 90 per cent for the regency/city-level. The General Allocation Funds for a certain province is based on the total multiplication of the general allocation fund for all provinces (stated in the state budget) and the province proportion concerned.

Special Allocation Funds can be allocated from the State Budget to certain regions to assist special, unpredicted needs. One of the sources of special allocation funds comes from reforestation funds (divided into 40 per cent for the producer area as the special allocation funds and 60 per cent for the central government.) *Kabupaten/cities*, which receive the special fund, are also eligible for an additional fund from the local budget, which is appropriate with the potential of the region concerned.

Besides budget sources determined in Law No. 22/1999, a regency/city may enter into loans from domestic and foreign sources as a source of local revenue. Loan requests must be supported by a guarantee of competence of the local apparatus, especially the loan managers. To enter into both domestic and foreign loans, local governments must inform the central government. Local loans are governed by a Head of Region decision or DPRD approval. Only a few regency/cities have used foreign loans, since there are as yet no clear government regulations on this. In a certain condition, where a regency/city needs funds for urgent needs, they can use emergency funds from the State Budget.

A main portion of local budget is allocated for personnel salaries, which constitute almost 57 per cent of total budget. Another expenditure is allocated for development, covering all sectors under local government authority.

3.4 Personnel system in local government

The above-mentioned implementation of Law No. 22/1999 has resulted in changes in the personnel system of local government. One of the steps that need to be taken by local governments is the rearrangement of central government personnel to the regency/city-level. In turn, all responsibility, command, allocation and costs related to personnel become the responsibility of local government. This is governed in the Letter of Ministry of Internal Affairs and Local Autonomy no. 800/2365/SJ on relocation guide and arrangement of central and local civil personnel.

In a decentralized era, local government has the authority to determine the number of local agencies based on their needs. This will be different from one local government to another. Local government also has the authority to determine the number of personnel to conduct the tasks. This is regulated in Government Regulation No. 97 of year 2000 on civil servant formation. In order to improve the capacity of local personnel, the government should provide training and a career promotion system as regulated in Government Regulation No. 96 of year 2000.

The governor determines transfer of personnel between a regency/city within a province, while transfer of personnel between provinces is determined by central government. Mutation between provinces or between regency/cities is based on an agreement between those regions.

3.5 Local Autonomy

The decentralization era began since the implementation of the new laws on decentralization (Law No. 22 and Law No. 25, both in 1999). In the era of decentralization, local government has more authority than before in Indonesia. These authorities cover all fields of governance except international policies, defence and security, judicature, monetary and fiscal issues and religious affairs. Local authorities also do not cover policies on national planning and macro national development control, financial balance funds, state administration and the economic institutional system, human resource development, natural resources utilization as well as strategic high technology, conservation and natural standardization.

Provincial-level authority is divided into two: authority as an autonomous and as an administrative region. The authorities as autonomous regions include inter-regency and municipality governance. The authorities as an administrative region cover the field of governance delegated to governors as government representatives.

The regency/city has the authority to manage local national resources and is responsible for its local sustainability. Therefore, local government must utilize their natural resources properly and wisely. The regency/city has all governance authorities, except for the authorities mentioned above.

The new authority of local government in Indonesia can be summarised as the freedom to be responsible to choose and determine matters according to local needs within the parameters of financial ability to support them.

4. EXTENT OF PUBLIC PARTICIPATION

The implementation of local autonomy, which is focused on the regency/city level, needs to emphasise democratic principles, public participation, equality and justice, as well as pay attention to local potential and diversity. Through the implementation of local autonomy, local development is expected to be more effective and efficient. Local government is considered to know more about the real condition and problems faced by its people and make appropriate programs and policies accordingly. This is different from what happened in the past when local government was only the executor of the programs prepared by the central government.

This shift has encouraged dynamic changes for the government as well as the public. While central and local governments are expected to be more democratic and responsive to local needs, citizens are simultaneously expected to have an awareness of their rights and responsibilities, be willing to actively participate in the organization of public matters, and have the ability to have a relationship with the government and other public institutions.

Public participation is a must in implementing democratic governance principles. Ideally, public participation is conducted through involving the public in the process of planning, decision-making and implementation of development programmes. The implementation of local autonomy policies is expected to increase public participation in Indonesia, and shift the perception of the public as beneficiaries, or even the ignored group, in the implementation of development to active agents of change.

The role of the public can be realized by their involvement in the development planning process. In Indonesia, this process can be divided into three processes: planning at the sub-district, district and city level. These phases have been used long before the era of local autonomy, but in the past the process was not participative and was often only following the formal procedure, and not based on the real needs and problems of the city and the public.

With the fast change from centralization to decentralization, many regions are in practice still not ready to implement local autonomy, especially when it comes to involving the public. Many development programs are still planned only by the local government, and not in line with the real needs and problems faced by the public. If there were involvement of the public, this has usually only been a formality. In general, limited funds are given as the reason not to conduct activities, which involve the public.

In the last three years, some regions have tried to involve the public in the planning and implementation of policies. One such popular initiative has been the public forum or consultation forum, for development and public service at the local level. Public forums are usually an alliance of various non-governmental organization and community-based organizations, and provide a forum to discuss problems, and find solutions. The result can become a recommendation for local government to make policies or certain steps, as well as function as conflict resolution forum at the local level.

Even though public forums have been developed in many regency/cities in Indonesia, their existence and effectively are still doubtful. On one hand, forums are regarded as effective tools to organize and consolidate public aspiration to be involved in development, and have shown success in improving communication between the public and local government. On the other, they do not yet have a legitimate basis and adequate human resources.

Increased public participation has faced resistance from both the public and the local government. From the public side, it will take time to take on a new active role, after years of being perceived as only beneficiaries, and a tendency to take development "for granted". In addition, there remains a lack of experience and ability of the public in preparing programmes. From the local government side, there has been a fear that public participation would disturb the existing system and only extend time and costs.

Despite these obstacles, local government, DPRD as well as the public have reaped benefits from participative planning. The public feels that their existence is acknowledged and appreciated. The public is also feeling a sense of social

cohesion, ownership of the development, and the ability to plan appropriate development programmes. The local government, as facilitator, has also started to get a clearer picture of the new roles they must play in the organization of the public sector. From the legislative side, their direct involvement in every planning process is making them more responsive to follow up public aspiration. With the above factors, programs that are prepared through participative planning become more legitimate and accountable. However, in some regions participation means only public information after the decision-making process is completed in the local legislative.

Public participation in Indonesia cannot be separated from the role of civil society organizations (CSOs) and non-governmental organizations (NGOs). These institutions have a big role in encouraging participative development in Indonesia. One example of the role of non-governmental institutions is the increasing number of city/public forum, mentioned above, in many regency/cities as well as villages across Indonesia.

Although, it has not been specifically mentioned, women have a great role in achieving regional autonomy. Women participate in the whole development process, including planning, implementation and monitoring. There are many women involved in NGO's. However, women's involvement in legislative/parliament is still limited. Based on a survey in thirty cities, the percentage of women in parliament ranges from 0 to 16 per cent, with an average of 6 per cent. This is relatively higher than the national average of only 2 per cent.

In order to improve women's role in politics, Law No. 22 of year 2003 on general election stipulated that each political party should allocate about 30 per cent of parliament seats for women in each level. Hopefully it will increase the number of women in parliament and increased gender representation.

5. CONCLUSIONS

Recent system and political changes that have occurred in Indonesia have brought quite a large impact on duties performed by local government.

Some key challenges faced by local government in the implementation of local autonomy are:

1. In the "boom bang" decentralization era Indonesia needs the capability of local governance to formulate policies (before most policies were designed by the central government);
2. The tendency of local independence creates "local egos" while many local problems require cooperation with other regions;
3. The increased responsibility of the local government is not being balanced with adequate funds, which are allocated by central government. Therefore local government has to put more efforts to increase its revenue to cover the cost of development;
4. The expectation of DPRD is of an improved ability and professionalism at the local level; and

5. The expectation is for local government to more closely meet public aspiration to the fullest, and adjust its governance role to one of facilitator in development.

Recommended actions to be taken include:

1. **Capacity building:** In the long run, local government must recruit additional professional local apparatus to meet new requirements of expertise. In the short run, present staff will require training to improve their capacity.
2. **Cooperation:** Regions need to separate problems that can be solved by the region itself and those which need cooperation with other regions. For that, local government must play an active and supportive role in identifying cooperation opportunities with other regions.
3. **Management of local potentials:** Local government must identify and manage local potentials wisely so that the result can be used to the fullest by the people. In addition, local government will need to ensure long-term sustainability, and not introduce policies with short-term advantages, which are contra-productive in the long run.
4. **Empowerment of political parties:** In the long run, the improvement of DPRD's (Local Parliament's) ability and performance is related to the empowerment of political parties in developing itself through professional cadres. In the short run, DPRD needs to be involved in capacity building programs.
5. **Creation of a democratic governance climate:** DPRD, together with the Heads of the Regions, need to create a democratic governance climate. In performing its duties, DPRD needs to be responsive and proactive towards the aspirations of the community and integrate these aspirations into regulation and monitoring processes. Another action that should be taken is to continue the conduct of forums to enable and increase the voice of public aspiration.

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