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## INDONESIA'S DECENTRALIZATION POLICY FROM A LOCAL PERSPECTIVE: LESSONS FROM LOMBOK TENGAH

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### ABSTRACT

*Setelah beberapa dekade menganut system pemerintahan tersentralisasi, Indonesia merubah system pemerintahan menjadi desentralisasi tahun 2001. Untuk mengidentifikasi berbagai kelemahan dalam kebijakan tersebut, paper ini menganalisis pengalaman 3 tahun pertama era desentralisasi di Lombok tengah, NTB. Lombok Tengah termasuk daerah yang miskin. Fokus analisis pada perencanaan pembangunan, anggaran, dan perubahan organisasi pemerintah daerah. Disamping banyaknya inovasi di daerah, praktek-praktek seperti masa sebelum desentralisasi masih ditemukan. Ketiadaan koordinasi dan keterkaitan perencanaan pembangunan secara vertical dan horizontal merupakan masalah besar. Disamping itu, beberapa kegiatan pusat di daerah menyebabkan berkurangnya inisiatif daerah. Pemerintah, pembuat kebijakan, harus memahami bahwa desentralisasi yang efektif memerlukan institusi yang secara aktif mengkoordinasi dan memberi peluang konsultasi antara berbagai level pemerintahan.*

**Keywords:** *Desentralisasi, Inovasi Daerah, Perencanaan Pembangunan, Anggaran dan Organisasi Pemerintah Daerah, Lombok Tengah*

### INTRODUCTION

Three years have passed since Indonesia initiated an ambitious decentralization program. Enormous difficulties in maintaining national integrity motivated the new government, led by President Habibie, who succeeded the 'New Order' Soeharto in 1998, to decentralize government to obtain broad political support from regions. Two key laws, the regional government law (UU No. 22/1999) and the fiscal decentralization law (UU No. 25/1999), were passed by the parliament in 1999. These laws required that, within one year of approval, all implementation regulations were to be prepared, and the laws implemented from fiscal year (FY) 2001. However, because of the extraordinary political situation, the

Government of Indonesia (the Government) failed to prepare the required implementation regulations before the deadline, and the laws came into effect in FY2001.

The decentralization program targeted more than 300 local governments (Kabupaten or Kota).<sup>1</sup> The hierarchical relationship between provincial and local governments was eliminated, and considerable powers were delegated to local governments. Provinces act autonomously, but retain hierarchical relationships with the central government. The election of local government heads (Bupati or Walikota) no longer requires approval by

<sup>1</sup> In this paper, the term 'local government' is used to refer to municipalities (Kota) and districts (Kabupaten), while the term 'regional government' is applied to both provincial and local governments.

higher authorities, and they are accountable only to local parliament (DPRD). As part of the decentralization process, nearly two million central civil servants were transferred to the regional governments. Intergovernmental fiscal relations were significantly restructured and expanded in the context of decentralization. Two key central transfers, subsidies to regions (SDO) and presidential instructions (INPRES), were eliminated and combined into a discretionary grant known as the general allocation fund (DAU). The scope for revenue sharing was expanded to personal income tax and natural resource revenues from traditional property taxes. In addition, a special allocation fund (DAK) was introduced as a matching grant, and regional tax law was revised to strengthen the taxation authority of the regions (Alm *et. al.*, 2001; Hofman and Kaiser, 2002; Lewis, 2002).

Before its implementation, there was widespread concern about the drastic decentralization program. The IMF feared macroeconomic instability resulting from larger budget deficits at central level. Others feared disruptions to local service deliveries because of the limited administrative capacity of local governments. Despite these concerns, the first three years' experience of Indonesia's decentralization suggests that the radical decentralization program started off much better than many expected (World Bank, 2003). There has been no major disruption to

local public services, and regions, one way or another, have come through substantial changes following decentralization. The central government has gradually brought order to the public finances by combining control over spending with significant tax collection. However, Indonesia's decentralization is far from perfect. Regions have faced formidable operating challenges, and new regulations have brought new problems to the regions. It is therefore important to assess actual local experiences to identify any major weaknesses of the decentralization policy.

This paper sheds light on the first three years' post-decentralization experience of the Central Lombok district (Kabupaten Lombok Tengah) in the West Nusa Tenggara (Nusa Tenggara Barat or NTB) province. This is one of the poorest areas in Indonesia and has limited human and natural resources. The district has 745,000 people and is divided into 12 sub-districts (Sub-district), 131 villages (Desa), and 991 sub-villages (Dusun or Lingkungan). The economy depends heavily on the agriculture, which employs about 40 percent of its workforce. Although the effects of the economic crisis were limited, the area faces extreme difficulties with developing its human resources. Lombok Tengah's human development index (HDI) was ranked 288 out of 294 local governments in 1999, and it has the lowest HDI in the NTB province.

**Table 1** Lombok Tengah: Human Development Index (HDI)

1999	Life Expectancy (years)	Adult Literacy Rate (%)	Mean Year of Schooling (years)	Real Per Capita Expenditures ('000 Rp.)	HDI	HDI Rank
Lombok Tengah	56.0	64.4	4.3	567.6	51.2	<b>287/294</b>
NTB Province	57.8	72.8	5.2	565.9	54.2	<b>26/26</b>
Indonesia	66.2	88.4	6.7	578.8	64.3	

Source: BPS, BAPPENAS and UNDP, (2001)

More than 30 percent of the population lives below the poverty line. Over the past three years, we have conducted field surveys in Lombok Tengah, and interviewed various stakeholders including local government officials, representatives of political parties, village heads, researchers, religious and social leaders, and non governmental organizations (NGOs), about their experiences of decentralization. Topics discussed ranged from local politics to daily operations of local technical bureaus.

This paper focuses on three key topics: 1) local development planning; 2) local budgeting and fiscal conditions; and 3) local government reorganization. Two key objectives of decentralization are to strengthen democracy at the local level and to improve service provisions by increasing local accountability. To make public services delivery more responsive to people's needs, local governments should have a clear development strategy that fully meets their citizens' needs. Further, the established development priorities should be reflected in their budgets. Appropriate revenue capacities must be assigned to local governments so that they can fulfill new expenditure responsibilities. At the same time, organizational changes are required so that new tasks and functions can be performed and the influx of former central officials can be incorporated. This paper is organized as follows. Section 2 discusses the development planning process, Section 3 analyzes budgeting practices and fiscal positions, and Section 4 deals with the reorganization of organizational structures. The final section concludes and summarizes the paper.

## **LOCAL DEVELOPMENT PLANNING**

Lombok Tengah still adopts the traditional planning practices, which comprise top-down and bottom-up approaches. The top-down process, in the past, starts with discussions on national policy guidelines (GBHN) at the

consultative assembly. These are followed by the preparation of five-year development plans (Repelita, currently known as Propenas), strategic development plans of central line ministries (Renstra), and annual development plans (Repeta). Regional governments are mandated to produce their planning documents: the Poldas, Propeda, Renstrada, and Repetada, each of which corresponds to the central planning document. Regional governments are supposed to take into account national priorities in preparing their development plans. By contrast, the bottom-up process starts with sub-village meeting (Musbangdus) and allows people's needs and aspirations to be identified. Similar consultation processes continue at village (Musbangdes), sub-district (UDKP), local government (Rakorbang Kabupaten), provincial (Rakorbang Propinsi), and national (Rakorbangnas) levels. A combination of top-down and bottom-up approaches seems to ensure a delicate balance between top-down priorities and bottom-up demands in local development plans. However, in reality, local development activities were dominated by centrally inspired projects, because local citizens were left out of the decision-making process and bottom-up proposals were filtered out at higher-level coordinating meetings.

Following decentralization, participation in civil society has become intensive. In Lombok Tengah, many stakeholders expressed satisfaction with their deeper involvement. A decisive factor in successful community involvement is village government reform required by the regional government law. Before decentralization, there was no separation of executive and legislative powers at the village level. The village head was the chairman of the village assembly (LMD) and LMD members were appointed by the village head. Moreover, the village community resilience board (LKMD), which was, in principle, an institution for communicating villagers' needs, was dominated by village elites appointed by the village head.

Consequently, most project proposal were the pet projects of the village head and his or her crony elites (Antlov, 2000). However, since decentralization, the village head has been responsible to the village representative council (BPD), which replaced the LMD, and villagers elect BPD members. The BPD is authorized to draft village legislation, approve the village budget, monitor the village government, and propose to local government the replacement of the village head. These reforms have generated transparency and accountability in decision-making at the village level.

Village proposals are forwarded to sub-district to select priority projects for discussion at local government level. In the bottom-up planning system, the UDKP is granted the same status as other coordinating meetings. However, the roles of the UDKP are not necessarily clear. Although there is separation of powers between the executive and the legislature at all levels of government, there is no legislative institution at Sub-district level. The head of Sub-district (Camat) and its staff are all local government employees, and their posts rotate regularly. The job (eselon) position of the Camat is below that of head of the local technical bureau (Dinas), which makes it extremely difficult for the Camat to convey the bottom-up proposals to local government if those proposals contradict the ideas of the Dinas. In Lombok Tengah, the Bupati is trying to resolve this problem by inviting Camats to regular meetings as which they have the same status as technical bureau heads.

Following decentralization, the Rakorbang Kabupaten has substantially increased in importance, because more bottom-up proposals can be conveyed from lower levels and local politicians have become more proactive in pushing their supporters' proposals. Various parties outside government, such as local business people, NGOs, and associations, have the opportunity to express their opinions. However, although discussion is intensive, its

focus is not necessarily clear. As mentioned, local government is required to produce the Poldas, Propedas, Renstradas, and Repetadas. In principle, these documents should be prepared in a consistent manner to realize local development goals in the Poldas. Although Lombok Tengah has prepared these documents, they lack mutually consistency. In particular, it is not easy to find differences between the Propeda and Renstrada. In principle, the Renstrada provides a short list of programs and project activities for each sector identified in the Propeda. However, vaguely defined development goals in the Propeda enable wide interpretations by local executives, legislatures, and other stakeholders in preparing the Renstrada, which leads to a failure to set clear priorities, timetables, and institutional responsibilities for implementation. A key element introduced by decentralization is performance-based strategic planning. Local governments are required to prepare clear indicative targets, detailed costed plans, and fiscal perspectives for planning activities. However, Lombok Tengah has not yet produced indicative targets, and some that have been prepared remain qualitative, rather than quantitative. A lack of quantitative indicators creates difficulties in evaluating the effectiveness of development activities.

In FY2003, the Government circulated a Ministry of Home Affairs letter (SE MOHA No. 050/987/SJ) to provide general guidelines for participatory planning and to specify procedures for consultation and participation in coordinating meetings. The Rakorbang Kabupaten proceeds in three stages: the Pre-Rakorbang, the Rakorbang, and the Post-Rakorbang. In the first, heads of Dinas and Camats are invited to attend and guidelines for development activities are discussed based on the local development strategy and shared among the participants to facilitate discussion at the Rakorbang. The Post-Rakorbang is arranged to check that the results of the Rakorbang and the local budget for the coming fiscal year are consistent with each other. In

addition, the circular letter specifies the participants to the coordination meetings to enable the consideration of a wide range of local needs. Lombok Tengah has followed this guideline since FY2003. However, a key challenge is to incorporate participatory mechanisms into local government structures through councils and boards representing the main sectors. The best examples are the Education Boards (*Dewan Pendidikan*) and School Committees (*Komite Sekolah*), the establishments of which were mandated in *Propenas 2001-2005*. These new institutions have become active in planning and budgeting in Lombok Tengah.

Another new system is a scoring sheet for prioritizing local development proposals. It provides a general guide for setting quantitative priority rankings for all proposals. Indicators include the degree of participation, consistency with local development plans, and effects on human resources and regional development. Since FY2003, Lombok Tengah has used a scoring sheet system that follows these guidelines. The local planning board (*Bappeda*) has prepared a scoring sheet that considers consistency with the development strategies of higher levels of governments, consistency with the local development strategy, costs and benefits of projects, local needs and aspirations, and technical evaluation by *Dinas*. Local officials have acknowledged that this arrangement might facilitate discussion at the *Rakorbang* and improve its transparency. However, our interviews suggest that the diversity of views in lower level coordinating meetings may result in smaller, minimum scale and less beneficial programs because externalities across villages and sub-districts cannot be efficiently exploited. The implication is that local technical bureaucrats, while respecting bottom-up proposals, may need to intervene to make necessary adjustments in the planning process. The success of the new scoring system depends on whether Lombok Tengah can prepare a mechanism that can guarantee a balance

between bottom-up needs and top-down intervention.

Another issue in local development plans concerns linkages with higher levels of government and neighboring local governments. Compared with previous planning schedules, the circular letter sets an earlier planning calendar to increase integration between development plans and budgets. However, because budgets depend heavily on central transfers, earlier planning has made it more difficult for Lombok Tengah to consider its revenue estimates and central priorities in the planning process. For effective planning, lower levels of government need budget information relating to higher levels of government. Otherwise, local development plans and budgets may be fragmented and lack effective linkages with those of higher levels of government. Following decentralization, public attention has focused almost completely on civil society engagement through the bottom-up approach, and reform of the top-down process has received little attention. Even in a decentralized state structure, a top-down element remains necessary for effective linkages between development plans and budgets at all levels of government. It is important for policy makers to recognize that the key challenge is achieving the right balance between bottom-up and top-down elements. In this context, we also note that *Dinas* currently face serious difficulties in coordinating with neighboring local governments; such coordination is needed to internalize spill over effects in local service deliveries. The lack of vertical and horizontal linkages in local planning and budgeting presents a daunting challenge to Indonesia's decentralization program (Usui and Armida Alisjahbana, 2003).

In parallel with continuing efforts to establish a new planning practice, Lombok Tengah has introduced greater discretion at lower levels of government with regard to expenditure by allocating a discretionary grant (*DAU Desa*). Although the new grant must be

allocated to routine and development activities at rates of 40 and 60 percent, respectively, allocation within each category is determined at its own discretion. The amounts allocated to each village increased to Rp. 50 million in FY2003 from Rp. 10 million in FY2001. Each Sub-district received Rp. 250 million in FY2003 to support priority projects at the village level.

## **LOCAL BUDGETING AND THE FISCAL POSITION**

### **The Budgeting Process**

Local governments have long followed a MOHA manual (the Regional Financial Administration Manual 1980), which regulates preparation of the budget, treasury administration, accounting, and reporting. Under decentralization, there have been no guidelines for local budgeting and financial management. However, decentralization laws require local governments to adopt performance budgeting and prepare their own financial management systems. It was not until July 2002 that MOHA released a ministerial decree (Kepmen No. 29/2002) outlining the structure of the regional budget, preparation of the budget, and approval processes. It includes directives on the budgeting calendar, the budget revision process, financial management, accounting principles, and reporting and accountability issues.

Because of the delayed release of the new guidelines, Lombok Tengah still uses the old budget formats and follows old budgeting practices (line items and incremental budgeting). From July to September, each spending unit formulates a budget team (Tim Anggaran) and draws up its budget for both routine and development expenses. These proposals are submitted to an executive budget team (Komite Anggaran), which comprises the Secretary of the Region (Sekda), the Finance Bureau (Bagian Keuangan), the Planning Agency (Bappeda), the Revenue Office (Dispenda), and the chiefs of the spending

units. Traditionally, Bagian Keuangan (for the routine budget) and Bappeda (for the development budget) have dominated this process. Simultaneously, the Dispenda prepares revenue forecasts. In October, the team starts reviewing the revenue estimates and budget proposals from each unit to finalize the local budget proposal. In the process, a couple of bilateral meetings are held with the spending units to discuss the details of their proposals. In theory, local demands are incorporated into the budget proposal based on discussion at the Rakorbang that is held in parallel with the budgeting process. Once the final budget proposal is approved by the Bupati, it is submitted to DPRD, as an annual budget proposal (RAPBD), in October or November. The DPRD budget team (Komisi C) leads the discussion and is authorized to make amendments to the proposal. Local budget (APBD) is to be finalized by the DPRD in December.

Budgeting is the most effective tool to realize local needs and the priorities established in local development plans. In theory, the annual budget should be based on the Repetada, which reflects the key strategies of the Renstrada. In practice, we found there are rarely strong linkages between budgets and development plans. The present annual consultation exercise may make this problem worse. As mentioned, coordination meetings are held annually at all levels of government, with discussions being dominated by issues of development strategy and the budget for the coming fiscal year. The annual nature of consultation tends to lead to short-term local planning and budgeting. Although medium-term strategic planning and performance target were meant to accompany decentralization in theory, annual local budgets tend to be based on the availability of funds. Project selection is based mainly on ad hoc factors (such as the results of the Rakorbang and bilateral negotiations within local government) rather than on medium-term development priorities. Further, they fail to consider the potential

effects of current projects on expenditures in subsequent years, and local officials in Lombok Tengah who have tried to make budget allocation consistent with strategic priorities have made many complaints about DPRD interventions. Evidently, DPRD members intervened for the sake of their own interests and disregarded the local priorities. If development goals in the planning documents are vaguely defined, differences in interpretation among DPRD members arise in their discussions on RAPBD.

Uncertainty about the level of central transfers, which are still the main source of local revenue, remains a problem following decentralization. In discussing RAPBD, Komite Anggaran reviews revenue forecasts before assessing expenditure proposals. However, in the last three years, the announcement of central transfers has been delayed because of the late approval of state budgets (APBN). Lombok Tengah's APBD for FY2003 was approved by the DPRD in late March 2003, three months into the fiscal year, because APBN was passed at central level in early December 2002. Late approval of the budget risks inefficient resource management by delaying the implementation of programs and projects. This problem is exacerbated by delayed disbursement of central transfers, particularly shared revenues from natural resources, at the budget implementation stage. In FY2001, shared revenues from natural resources were disbursed at a very late stage and, according to local officials, were delivered after the end of the fiscal year. As a result, Lombok Tengah was forced to carry over most of the revenues received into the following fiscal year (Usui and Armida Alisjabana, 2003).

Lombok Tengah faces extreme difficulties in obtaining information on central DIP budgets, or 'deconcentration' funds, which are included in APBN as central line ministries' development budgets for the regions. Central line ministries still control development funds

to regions, even though the fiscal decentralization law stipulates that all decentralized functions must be financed and managed through APBDs.<sup>2</sup> Because the funds are distributed directly to the respective local technical bureaus via the provinces, even the Bappeda, which has primary responsibility for local planning and the development budget, cannot easily obtain this information. This fragmentation of local development activities according to the source of funds makes efficient budget allocation difficult at the local level. The Bappeda contacts the technical bureaus and the provincial Bappeda to obtain the information. However, the required information has not been obtained even after the DPRD has approved the APBD.

The Dispenda, which is responsible for all local revenues, has long used the 'target system' in administering local revenues. In this system, a target is set for each revenue item. Lombok Tengah still uses this system following decentralization. Dispenda officials have acknowledged that their revenue projections are based on outcomes in the previous year (allowing for inflation of usually 10 percent), which have nothing to do with actual revenue generating potential. This target system also has a negative effect on local revenue mobilization, because there is no incentive for Dispenda officials to collect revenues that exceed the targets because larger revenues imply higher targets in the next fiscal year. The same problem arises with expenditures. Major routine expenditure items such as utilities, supplies, and rents are estimated from current prices with an allowance for inflation.

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<sup>2</sup> Hofman and Kaiser (2002) shows that central development budgets for FY2002 still allocate as much as Rp. 10-20 trillion to financing devolved functions to regions. This large DIP budget reflects the unwillingness of central line ministries to relinquish control of development funds to regions. In principle, the DIP mechanism should be phased out and the available funds transferred to the DAK.

To implement performance budgeting, local governments must be fully aware of their obligatory functions (KWs) and the minimum service standards (SPMs) they need to achieve. Quantitative, not qualitative, indicative targets that are based on SPMs should be prepared. Furthermore, carefully estimated unit costs for each SPM must be estimated for each sector. However, Indonesia's decentralization was implemented without clear expenditure assignments, and local governments' responsibilities are vaguely defined.<sup>3</sup> In Lombok Tengah, major Dinas such as education, health, and agriculture have been applying national standards and unit costs, adjusted for inflation, which were provided by the central government, before decentralization.

Keppmen No. 29/2002 outlines three key features of local budgeting: 1) departure from traditional routine and development budget approach to a program based approach (unified budgeting); 2) changing to a new budget structure comprising revenue, expenditure, and financing components; and 3) clarifying budget estimates based on line-item budgeting. The old methods still dominate budgeting practices and there is growing concern over the timetable for implementation. This is because the decree stipulates that the new budget systems form the basis for the FY2003 budget preparations. Lombok Tengah has adopted the new budget format since FY2003. However, this does not necessarily mean that it has shifted to performance based budgeting, because it has yet to prepare quantitative targets.

### Local Budgets

Since decentralization, total revenues in Lombok Tengah have approximately doubled, and most of this increase has come from DAU payments. Even after decentralization, more than 90 percent of Lombok Tengah's revenue is from central government transfers. It admits of no dispute that a high dependence on central transfers has negative implications for local accountability on the grounds that linkages between the costs and benefits of public services are lacking. On the other hand, less than five percent of revenues are locally generated revenues (PAD). In general, PAD consists of local taxes, user charges and levies, profits from local enterprises, and other local revenues. In FY2002, local taxes accounted for 32 percent of total PAD, and user charges and levies 23 percent. There are six local taxes, with two (the hotel and restaurant tax and the streetlight tax) accounting for about 75 percent of total tax revenues. Of the revenues raised from the 16 user charges and levies, about 80 percent comes from health services, the identification card, market fee, and local products.

To increase PAD, the health bureau raised the tariff for rural clinics (Puskesmas), which are the greatest source of non-tax PAD revenues. Further, Lombok Tengah is considering introducing new taxes or levies on business licenses, livestock cards, diving activity, and fishing. However, a subject claims our attention is the introduction of 'inter-island commodity trade tax'. The new local tax law (UU No. 34/2000) allows local governments to create new taxes, if it meets some criteria and has central government approval. In FY2001, Lombok Tengah introduced this tax in coordination with three neighboring local governments (Lombok Timur, Kota Mataram, and Lombok Barat).

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<sup>3</sup> Decentralization laws and regulations define the roles of regional governments only in general terms: local governments take primary responsibility for public works, health, education, agriculture, communication, industry and trade, investment, environment, land matters, cooperatives, and human resources, while provincial government plays a coordinating role. These vaguely defined expenditure responsibilities have caused considerable confusion over the demarcation of authority at both the central and regional levels.



**Table 2** Summary of Lombok Tengah Budgets

(Rp. billion)	<i>Before Decentralization</i>			<i>After Decentralization</i>		
	FY99/00	FY2000 <sup>#</sup>	Ave. Share (%)	FY2001	FY2002	Ave. Share (%)
<b>Revenues</b>	101	119	100.0	231	265	100.0
Previous Year's Surplus	1	3	1.8	5	14	3.9
Local Gov. Genuine Receipt	4	5	4.1	7	12	4.2
Balanced Funds	96	112	94.6	219	235	91.9
Tax Sharing	3	3	2.7	10	8	3.9
Non-Tax Sharing	0	2	0.8	5	6	2.4
DAU/(SDO until FY2000)	65	81	66.2	204	221	85.9
DAK/(INPRES until FY2000)	28	25	24.4	0	0	0.0
Local Gov. Borrowing	0	0	0.0	0	0	0.0
Others	0	0	0.0	0	0	0.0
<b>Expenditures</b>	101	119	100.0	231	265	100.0
Routine Expenditure	71	90	73.0	160	174	67.7
Personnel Expenditure	64	80	65.3	136	152	58.1
Non-Personnel Expenditure	7	10	7.7	24	22	9.3
Development Expenditure	30	29	27.0	71	90	32.3

Note: # annualized.

Source: APBD Lombok Tengah.

The main targets are raw materials and agricultural commodities, and the tax rate is set at five percent of the basic prices determined by the local governments. Local officials acknowledged that the tax, which has been eliminated under UU No. 18/1997, was reintroduced following decentralization. More than one year after Lombok Tengah submitted the new tax proposal to the central government, it received letters from both the Ministry of Finance (MOF) and MOHA requesting its cancellation.<sup>4</sup> In response, Lombok Tengah and the other three local governments sent two letters to the central government requesting reasons for the

cancellation. Dispenda officials argued that the tax did not contravene local tax principles, because the commodities on which it was to be levied were not subject to national value added tax. They also insisted that there have been no local objections to the tax. The tax is being collected in FY2003, because the local tax law has not yet been cancelled by the DPRD.

<sup>4</sup> Under the new local tax law (UU 34/2000), local government is obliged to submit new tax proposals to the central government at least 15 days after its approval by local parliament, and the central government must finalize its evaluation within 15 days. Because of this approval procedure, the proposed tax, even if it contravenes the tax criteria, can automatically be effective if the central government fails to finalize its evaluation by the deadline.

### Box 1 Taxes on Inter-Island Commodity Trade (Perda No.10/2001)

In introducing this tax, Lombok Tengah government considered two factors: (1) growing number of flows of transportation, especially those on the delivery of goods in the form of forest yield, sea yield, land yield, livestock and industrial yield as well as natural yields which are forwarded from Lombok Tengah so that, for the purpose of ordering, monitoring and controlling the delivery, further regulations are required to reactivate weighing station (*jembatan timbang*) and (2) as an attempt to support the real, widespread and accountable implementation of regional autonomy, it is required the digging up of sources for local revenue from taxes for financing the organization of government and regional development

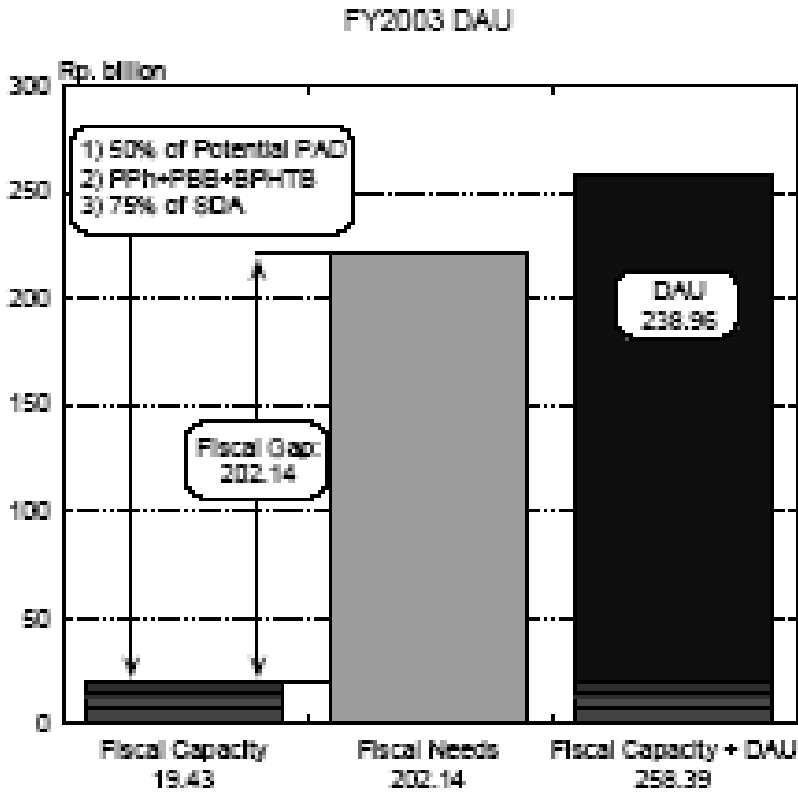
The grounds and imposition of tariff of this tax is that the selling price of the goods delivery among the islands is counted based on the basic price and the amount of tariff of the goods delivery is determined as much as five percent of basic price. Basic price for imposition of tax was determined together by three districts and one city all over NTB as written in a joint decree with two districts of Lombok Barat, Lombok Timur and one city of Mataram (Perda No.11/2000, No.15/2001, No.317/2001, and No. 434/2001, regarding the determination of basic price for imposition of tax for the inter-island goods delivery.

This joint decree contained details of all commodities, basic price for imposition of tax, and types or units as well as the amount of tax. There are six main producing sectors which are mentioned in the decree including (a) forest yields; there are eleven types of commodity under this sector; (b) forest yield, there are 37 types of commodity; (c) land yield, this covers 63 types of commodity; (d) cattle/animal, this includes 23 types of commodity, and (e) industrial products, this comprises 20 types of commodity, as well as (f) other natural yields, there are 10 types of commodity. The determination of this joint decree is revised continually, that is it will be adapted to the development of the prevailing prices of commodities in the market.

At the central level, there has been continuous debate on transferring property taxes (the land and building tax or PBB, and the transfer of land and building tax or BPHTB) to local governments to strengthen their tax authority (Lewis 2003). These taxes are national taxes shared with regional governments. Dispenda and Bagian Keuangan officials reacted unfavorably to the proposed transfer because they expected to bear high administration costs. They also argued that the transfers would have reduced Lombok Tengah's revenue. Under the current system of sharing, after distributing 64.8 percent of PBB and 64 percent of BPHTB to the source

districts, central shares are divided equally between all districts irrespective of its derivations (with the exception of the 3.5 percent of PBB<sup>5</sup>). Local governments with small tax bases, such as Lombok Tengah, derive larger revenues from this lump-sum arrangement.

<sup>5</sup> Although PBB is administered and collected by central government, local governments assist in its collection by providing information and encouraging local citizens to pay the tax. In Lombok Tengah, 12 of the 53 Dispenda staff work on PBB. The 3.5 percent of PBB is distributed to local governments based on their attainments of the previous year's targets.



**Table 4.** The 2003 DAU Distribution

On the expenditure side, routine budgets account for about 70 percent, of which personnel expenditures accounts for more than 80 percent. To finance additional salaries for transferred officials, a major part of DAU was allocated to personnel expenses. Moreover, in the middle of FY2001, the central government announced an increase in civil servant salaries back dated to January 2001, which worsened Lombok Tengah’s financial position. Lombok Tengah responded by postponing several development projects. Hence, the funds initially allocated to projects were diverted to increased salary payments. However, since Lombok Tengah was eligible to receive contingent funds, the project postponements

were cancelled. Development expenditure’s share in FY2001 increased to 31 percent from 24 percent in FY2000, which represents a 2.5 fold increase in absolute terms. At least in the budgeting stage, there were enough funds for development activities, even though local officials repeatedly complained of insufficient development funds because of the increased salaries. The pre-decentralization pattern of the sectoral development budget allocation has persisted, and the increased availability of funds enables greater focus on the trade, education, and health.

## ORGANIZATIONAL CHANGES

Adjusting to decentralization requires organizational reforms at the local level to meet new tasks and functions. The great influx of former central civil servants has made the reorganization more difficult. Since local governments were not allowed to lay off staff, they were required to reorganize government structures to accommodate the extra personnel.<sup>6</sup> Lombok Tengah received 7,530 former central civil servants, comprising 6,630 schoolteachers and 1,170 other staff. In FY2001, Lombok Tengah carried out reorganization based on the government regulation (PP No. 84/2000), which allows regional governments much discretion in developing their own organizational structures. Lombok Tengah is currently comprises: the Sekda, 14 local agencies (Dinas), and technical institutions (Lembaga Teknis) including three Badan and three Kantor. In this reorganization, Lombok Tengah created a new institution, the KCD (the sub-district office of Dinas) and allocated more staff to this institution to facilitate absorption of local needs through closer communication with constituents. Whereas only education and agricultural sectors had a KCD in each sub-district before decentralization, almost all Dinas have KCDs following the reorganization.

[Table 5 around here Karena Panjang sebaiknya ditaruh di lampiran saja]

In FY2003, the Government replaced PP No. 84/2000 with PP No. 8/2003, which provides new guidelines for the organizational position of local government units based on a

scoring system and its maximum numbers (14 Dinas and eight Lembaga Teknis for each local government). Following decentralization, a major concern of the Government was that regions have created too many organizations, and were using a large proportion of their revenues for personnel costs while leaving little for development activities (GTZ, 2003). The concern motivated the new regulation. Lombok Tengah has launched reorganization again in line with the new regulations. The local organization office (BPD) has already finished its first scoring exercise for the units. This allows only three Dinas to maintain their current positions, and implies the downgrading of others or mergers with other institutions. There are strong complaints at the local level that the new regulations ignore local priorities. For example, in Lombok Tengah, most people depend on agriculture, but it is proposed that the farming and husbandry agency be downgraded to Kantor.

## CONCLUDING REMARKS

This paper has analyzed the first three years of Lombok Tengah's post decentralization experience in relation to development planning, budgeting, and organizational changes. Although several innovations were initiated locally, Lombok Tengah still applies the old practices to its key operations. Although topics covered are selective, the problems discussed in this paper, which seem common to most of local governments, suggest various weaknesses in Indonesia's decentralization program. The major issues can be summarized as follows.

With decentralization, stakeholder participation has intensified because of village government reform, which has provided better opportunities for villagers to voice their needs and control village decisions. The new guidelines have further accelerated this change since FY2003. However, it is important to institutionalize participatory procedures by building stakeholder participation in local

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<sup>6</sup> In this context, we note a negative effect of the current DAU allocation method on regional civil servant management and reorganization. Since FY2002, part of DAU has been distributed based on regional wage bills. The implication is that larger personnel expenses without improvements in efficiency will attract higher DAU allocations to such regions.

government structures. An effective example of how the performance and accountability of local public services can be strengthened is stakeholder participation through the establishment of Education Boards and School Committees. Along with supporting bottom-up procedures, the Government must find a more effective mechanism for linking local development plans and budgets to national development objectives. The first requirement is the timely flow of budget information to local governments. The current systems of consultation-based coordination and direct control through central line ministry budgets are not effective in a decentralized state structure. National allocation objectives must be carried out by local governments responding to incentives provided by central grants. To this end, the best policy instrument available following decentralization is the special allocation fund (DAK). However, DAK was not operational in the first two years, and tests of DAK's efficacy for some key sectors only began in FY2003. Indonesia needs to make the best strategic use of DAK to link development plans and budgets at all levels of government. Provincial government roles need to be enhanced so that systematic coordination mechanisms among local governments can be established.

Strategic multi-period planning and performance budgeting are inseparably linked. Local needs and preferences can be met through effective budgeting in response to established priorities based on people's aspirations. However, Lombok Tengah still faces difficulties in establishing local priorities, and linkages between development plans remain weak, let alone linkages between development plans and budgets. Major contributing factors include: 1) the delayed release of new guidelines for local financial management; 2) vague expenditure assignments and the consequent lack of minimum service standards (SPMs); and 3) capacity constraints of planning and budgeting officials. Since output and performance indicators have

not yet been prepared, it is not possible to assess the effectiveness of local budgets. So far, the main concern of local governments has been compliance with the new budget format.

The newly introduced inter-island commodity trade tax clearly shows a lack of understanding of the new local tax law by local governments, and reveals a weakness inherent in central review procedures of local tax proposals. Further socialization efforts of the law and an adequate central monitoring system are required if the proliferation of nuisance taxes is to be avoided. For a possible transfer of property taxes, the Government must realize that the current lump-sum arrangement to redistribute the central share to local governments has generated negative local perspectives along with their concern for tax administration costs. Given that dependence on central transfers has negative implications for local accountability, local tax authorities should be strengthened through the decentralization of these taxes with transitional administrative supports from the central government.

To meet its new responsibilities, and manage the influx of former central officials, Lombok Tengah reorganized in FY2001. New branch offices at the Sub-district level were established to which staff were allocated. This vertical organizational restructuring contrasts sharply with other regions, where many new Dinas were created simply to absorb transferred personnel. However, Lombok Tengah currently requires further organizational change because of the new regulation, which applies a 'one-size-fits-all' principle on maximum numbers of local units and their positions without considering regional needs and priorities. Local governments should be able to use their discretion in preparing their organizational structures to meet their needs and priorities.

Our case study of Lombok Tengah indicates conclusively that a significant weakness of Indonesia's decentralization

policy is that it lacks institutional arrangements for intergovernmental coordination. The Government is required to set up channels for local governments to influence central decision-making on local affairs. Indonesia's decentralization was politically motivated and initiated without regulations for its implementation. Since decentralization, the Government has introduced various new regulations in an ad hoc manner to patch up difficulties without consulting sufficiently with the regions. Many problems that we have identified are due to the lack of consultation processes. Decentralization, by its nature, must be a lengthy process, and the fulfillment of its objectives requires a lengthy process of trial and error. It is, therefore, not surprising that there have been problems with Indonesia's drastic program in the initial stages. However, it is important that the Government carefully monitors local government operations and fully utilizes local feedback in its decision-making through effective consultation mechanisms.

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## LAMPIRAN

**Table 5.** List of Government Agency which received civil worker transfer from central government to the Regency of Central Lombok

No.	Government Agency	Number of Civil Worker in Central Lombok (before the implementation of regional autonomy)	Number of Civil Worker Transfer	Number of Civil Worker in Central Lombok in Current
1	Regional Planning Secretariat	181	28	209
2	Office of Supervise	21	14	35
3	Regional Planning Office	53	11	64
4	DPRD Secretariat	15	8	23
5	Office of Nation State & Security	11	6	17
6	Kan Office of Invesment & Environment	0	15	15
7	Office of Mine & Energy	21	0	21
8	Office of Revenue	37	8	45
9	Office of Social & Man Power	40	23	63
10	Office of Citizenship/Civil Service & Transmigration & Community Development	32	20	52
11	Office of Rural Cooperation Small and Medium Enterprise	42	6	48
12	Office of Industrial & Trade	8	36	44
13	Office of Tourism	18	14	32
14	Office of Fishery & Ocean	40	19	59
15	Office of Communications	30	19	49
16	Office of Land Administration	2	63	65
17	Office of Ed. & Culture Central Lombok Regency	45	19	64
18	KCD. Ed. & Culture Sub-District Praya	5	2	7
19	KCD. Ed. & Culture Sub-District Praya Tengah	4	3	7
20	KCD. Ed. & Culture Sub-District Praya Barat	8	1	9
21	KCD. Ed. & Culture Sub-District Praya Barat Daya	0	8	8
22	KCD. Ed. & Culture Sub-District Pujut	7	2	9
23	KCD. Ed. & Culture Sub-District Praya Timur	9	1	10
24	KCD. Ed. & Culture Sub-District Janapria	3	5	8
25	KCD. Ed. & Culture Sub-District Kopang	8	1	9
26	KCD. Ed. & Culture Sub-District Batukliang	6	3	9
27	KCD. Ed. & Culture Sub-District Batukliang Utara	0	8	8
28	KCD. Ed. & Culture Sub-District Pringgarata	9	1	10
29	KCD. Ed. & Culture Sub-District Jonggat	5	4	9

30	Office of Settlement and Areal Infrastructure (Kimpraswil) Central Lombok Regency	75	115	190
31	KCD. Kimpraswil Sub-District Praya	0	14	14
32	KCD. Kimpraswil Sub-District Praya Tengah	0	9	9
33	KCD. Kimpraswil Sub-District Praya Barat	0	8	8
34	KCD. Kimpraswil Sub-District Praya Barat Daya	0	18	18
35	KCD. Kimpraswil Sub-District Pujut	0	9	9
36	KCD. Kimpraswil Sub-District Praya Timur	0	8	8
37	KCD. Kimpraswil Sub-District Janapria	0	8	8
38	KCD. Kimpraswil Sub-District Kopang	0	6	6
39	KCD. Kimpraswil Sub-District Batukliang	0	8	8
40	KCD. Kimpraswil Sub-District Batukliang Utara.	0	8	8
41	KCD. Kimpraswil Sub-District Pringgarata	0	6	6
42	KCD. Kimpraswil Sub-District Jonggat	0	8	8
43	Office of Agriculture & Livestock Central Lombok Regency	30	21	51
44	KCD. Agriculture & Livestock Sub District Praya	0	17	17
45	KCD. Agriculture & Livestock Sub District Praya Tengah	0	15	15
46	KCD. Agriculture & Livestock Sub District Praya Barat	0	18	18
47	KCD. Agriculture & Livestock Sub District Praya Barat Daya	0	12	12
48	KCD. Agriculture & Livestock Sub District Pujut	0	15	15
49	KCD. Agriculture & Livestock Sub District Praya Timur	0	17	17
50	KCD. Agriculture & Livestock Sub District Praya Janapria	0	15	15
51	KCD. Agriculture & Livestock Sub District Praya Kopang	0	14	14
52	KCD. Agriculture & Livestock Sub District Praya Batukliang	0	17	17
53	KCD. Agriculture & Livestock Sub District Praya Batukliang Utara	0	8	8
54	KCD. Agriculture & Livestock Sub District Praya Pringgarata		9	9
55	KCD. Agriculture & Livestock Sub District Praya Jonggat	0	9	9
56	Office of Forestry & Estates Central Lombok Regency	35	82	117
57	KCD Forestry & Estates Sub District Praya Barat	0	4	4



58	KCD Forestry & Estates Sub District Praya Barat Daya	0	5	5
59	KCD Forestry & Estates Sub District Kopang	0	9	9
60	KCD Forestry & Estates Sub District Batukliang Utara	0	3	3
61	KCD Forestry & Estates Sub District Pringgarata	0	5	5
62	Sub District Praya	12	6	18
63	Sub District Praya Tengah	9	7	16
64	Sub District Praya Barat	13	1	14
65	Sub District Praya Barat Daya	9	2	11
66	Sub District Pujut	19	1	20
67	Sub District Praya Timur	17	1	18
68	Sub District Janapria	14	0	14
69	Sub District Kopang	18	3	21
70	Sub District Batukliang	15	1	16
71	Sub District Batukliang Utara	5	2	7
72	Sub District Pringgarata	13	1	14
73	Sub District Jonggat	10	7	17
74	Village Praya	6	3	9
75	Village Prapen	3	3	6
76	Village Tiwu Galih	5	0	5
77	Village Semayan	3	6	9
78	Village Sesake	4	1	5
79	Village Jontlak	6	3	9
80	Village Ggunung	6	3	9
81	Village Gerantung	3	2	5
82	Village Leneng	3	4	7
83	Village Renteng	4	2	6
84	Village Panji Sari	3	3	6
85	Village Gonjak	3	3	6
86	Office of Health Central Lombok Regency	45	11	56
87	Sub-District Clinic Praya	20	6	26
88	Sub-District Clinic Aik Mual	14	9	23
89	Sub-District Clinic Batu Nyala	9	11	20
90	Sub-District Clinic Pengadang	6	12	18
91	Sub-District Clinic Penujak	12	15	27
92	Sub-District Clinic Darek	11	4	15
93	Sub-District Clinic Mangkung	0	16	16
94	Sub-District Clinic Sengkol	11	24	35
95	Sub-District Clinic Kuta	8	6	14
96	Sub-District Clinic Mujur	15	8	23
97	Sub-District Clinic Muncan	9	10	19
98	Sub-District Clinic Kopang	10	15	25
99	Sub-District Clinic Janapria	9	12	21

100	Sub-District Clinic Langko	4	12	16
101	Sub-District Clinic Mantang	13	8	21
102	Sub-District Clinic Teratak	14	6	20
103	Sub-District Clinic Pringgarata	15	7	22
104	Sub-District Clinic Bonjeruk	16	5	21
105	Sub-District Clinic Ubung	16	10	26
106	General Hospital Praya	99	22	121
107	General Library Praya	1	3	4
107	Local Drinking Water Corporation (PDAM).	0	5	5
	Primary School (SD) Teacher & Non Teacher	0	4897	4897
	Junior Secondary High School (SLTP) & Senior Secondary High School (SLTA) Teacher and Non Teacher	0	1463	1463
	<b>Total</b>	<b>1360</b>	<b>7530</b>	<b>8890</b>

Notes: KCD is Kantor Cabang Dinas – Sub District Branch Office