

DECENTRALIZATION: WHY IT MAY EITHER FOSTER OR FOSTER ECONOMIC DEVELOPMENT?

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ABSTRAKSI

Artikel ini mendiskusikan prediksi tentang keuntungan-keuntungan dari meningkatnya perhatian terhadap efektivitas desentralisasi. Demikian juga bahaya-bahayanya yang tidak bersesuaian dengan formulasi kebijakan dan pelaksanaan. Disamping itu, dibahas juga hasil uji coba terhadap faktor-faktor yang menyebabkan rendahnya kinerja menurut ukuran bahwa kebijakan desentralisasi merupakan harapan baik perencanaan maupun masyarakat. Beberapa temuan dibuat pada studi awal dari beberapa kunci yang menentukan kinerja desentralisasi di Indonesia, yaitu dari tahun kedua dilaksanakannya desentralisasi

Key words: Decentralization; deconcentration; Sub national unit; Tiebout effect

INTRODUCTION

The spate of efforts to decentralize authority is visible in most countries in the developing world today. The impetus for decentralization has been driven by among other factors by; the persistent central government failure to deliver goods and services the culmination of which are interminable long drawn fiscal crises (Binswanger and Deininger, 1997:1988); gross inefficiency and ineffectiveness of the bloated bureaucracy manifested in its inability to deal with increasingly complex and diverse demands of the citizenry (Dillinger and Fay 1999; Rambana, 1992); the increasingly firm belief that market-friendly policies are more likely to promote growth and

development than state interventionist dictates (Bhattarai, 2000); emergence of articulate, educated urban middle classes with little links to traditional patronage which has led to increased demands for more authority at lower levels (Dilliner and Fay, 1999); increased general awareness of the inalienable civic rights among the ruled which has stimulated the desire for more local leverage to decide on what is consumed, the quality thereof, who delivers the goods and services, and in which way; donor agencies unremitting pressures on aid beneficiaries to carry out decentralization policy as one of the preconditions for approval of any of any form of assistance (Schwartz, 1994); the tendency for centralized states to under perform at almost all

economic and social indicators in contrast to decentralized nations, which has been construed by many as inherent inability of centralization to deal with economic and social development issues.

The performance of decentralization differs from one country to the other. While it succeeds in some countries in terms of economic prosperity and political stability, it has been associated with anarchy and chaos in others. It is thus imperative for an assessment of the performance of decentralization process in countries that have adopted it in order to identify the key factors that influence its differential performance from one state to the other. By so doing, it is hoped that one is equipped with the mechanism to choose the mode of decentralization feasible in a particular state, or region; the best way to implement such decentralization so as to cause minimum dislocations and disaffection in the affected areas, which should pave the way for all countries, large and small, poor and rich, to enjoy the benefits accruing from process.

Decentralization has quite several definitions. While (Dillinger and Fay, 1999:19) defines it as the, 'shifting of responsibilities and resources to sub national units', Lin and Liu (2000:1) see it as 'the devolution of power in a state to elected local authorities in which process people and political leaders

attempt to reverse the concentration of power in the hands of a single, central authority'. Bhattarai (2000) view on decentralization is that of a process whereby 'the deconcentration of the responsibilities of the central government to its regional branches or to the local administrative units is done', a definition that emphasizes the reduction in the authority exercised by the central authority in relation to that vested in the sub national units. The underlying theme in all the definitions is the some of the authority at the center over certain, economic, social and political decisions is transferred to lower levels of government, which by so doing increases the role played by local governments in all kinds of issues affecting citizens inhabiting their areas. The power that is held by few individuals at the center is either delegated or devolved to sub national government levels. So much is expected from decentralization; yet so immense are the challenges. Section two assesses the differential performance of decentralization policy in a number of countries, which followed by section three that focuses on how to make decentralization live to the expectations. Section four is a prognosis of the decentralization policy in Indonesia to date, and section five draws the conclusion.

DECENTRALIZATION: A DOUBLE-EDGED SWORD?

The pursuit of decentralization Policy by scores of

developing countries is based on a number of expectations. It is expected that the solution to government inefficiency and ineffectiveness is the decentralization of some authority to lower levels of government. Decentralization is therefore regarded as the panacea for inefficient governance that is dogging many a developing nation. Such thinking is underpinned by the proposition that decentralization facilitates the participation of those individuals at sub national levels who have information on local tastes and circumstances which enables them to provide requisite goods and services efficiently as well as effectively. Since the nation consists of a diversity of people living in different localities having various tastes and attitudes towards all manner of goods and services, the satisfaction of local concerns is surmised to lead to the fulfillment of the interest of the entire nation at large, which stimulates growth and development (Roy, 1999; Wollen and Phillips, 1998).

Consequently decentralization of authority to sub national units is supposed to usher in increased public participation in social, economic and political programs made by the government since such programs by virtue of the fact that they emanate from the people they trust, enhances the likelihood of their acceptance. Public acceptance of programs increases the effectiveness of governance. With better governance in place, decentralization facilitates

economic growth and development (Bird and Vaillancourt, 1999; Lin and Liu, 2000, 2). Public participation in decision-making implies that programs are rooted in the desires and aspirations of the local people, which increases the efficiency of resource use.

In addition, decentralization is lauded for reducing income inequality since development programs are formulated in consultation with local representatives who know how economic prosperity in their respective areas can be improved. In a decentralized political system, concentration of economic activities is politically difficult as clamors for equitable development always arise once such deviations are registered. Local participation is not only possible at program design and implementation levels but also in key areas that significantly affect welfare such as fiscal policy. The involvement of sub national units in determining taxes on goods and services both public and private, facilitates ample consideration of the impact of such policies on the well being of the local population. It is no longer the center to determine policies basing on lofty whims of armchair politicians far removed from local economic and social realities, rather by the very people whose political authority is owed to the public in areas they serve (Roy, 1999; Bird and Vaillancourt, 1999; Lin and Liu, 2000).

Besides, decentralization leads to better macroeconomic

performance and political stability. This is because the interests of local people are served in all regions and districts of the country through the involvement of individuals who are well versed with local aspirations and interests. The possibility of conflicts between the central government and the local government on one hand, and among local governments on the other, is enhanced but also political stability. Moreover, consideration is made of the impact of any fiscal and monetary policy on the economic well being of the people inhabiting sub national units before implementation is made, which increases the chance of success. Small wonder that decentralization paves the way for macroeconomic stability.

With increased local participation in decision making in such fields as the relevant educational skills to be emphasized, products and services to serve as key local outputs, and infrastructure that is in line with the long term goals of the local government's development, decentralization facilitates the cultivation of an aura of creativity in line with local conditions, tastes, preferences, environment and idiosyncrasies. This should stimulate local entrepreneurs who then serve as *avenger guards* in strives towards economic development. Capital accumulation should be made at an accelerated pace, leading to each area performing well economically, socially and politically.

Decentralizing revenues and expenditures is expected to increase over all tax revenue as well as reduce leakages since the local government is under continuous and perpetual scrutiny by the local legislature, whose tenure of office is based on the ability to serve as checks and balances on the services rendered by the local government officials. Thus, with each sub national units using rates, taxes, user charges that are pertinent to their areas, taxation capacity is expected to increase, which reduces the burden on the central government to provide funding to local Governments (Roy, 1999). Moreover, by relinquishing fiscal responsibilities to sub national units, the central government in effect puts the local governments in financial straight jackets. Hardly can they expect to make expenditures without requisite sources of financing them. An era of fiscal discipline is supposed to accompany the implementation of fiscal decentralization if and when all arrangements necessary are streamlined. This should stimulate national development by reducing regional economic disparity and promoting over all rural development (Bums, 1993; Lin and Liu, 2000; Gazzell, 1992; Woller and Phillips, 1998).

Well founded though they are, expectations of decentralization fail to materialize in a good number of countries. Woller and Phillips (1998) find out that there is hardly any strong systematic relationship between fiscal decentralization and economic growth

in less developed countries between 1974-1991. Similar results are found by Bums (1993) on decentralization policy in China. Apparently there are factors that prevent the country that adopts the decentralization policy from reaping the benefits associated with it, and may instead usher in social, political, and economic instability and insecurity.

It is not unusual that local governments by virtue of their control over local enterprises may end up setting up barriers to protect such enterprises, which effectively fragments the national market. The case of districts and city councils in Indonesia exacting arbitrary tolls and rates over the past year in their bid to maximize tax revenue is a case in point. Arbitrary taxation does not only reduce trade flow and volume but also acts as a disincentive to investors local and foreign, the attraction of whom has been achieved through costly investment workshops and talk shows conducted by both local and central government.

In addition, decentralization of authority is not usually accompanied by fiscal decentralization, with the implication that as much as political authority is relinquished to sub national units, with the means of financing such programs remaining in the hands of the central government, local governments are left little leeway for maneuver. Local initiative and creativity can not develop when major decisions on fiscal policy

are out of reach for local governments-, red tape remains a stumbling block, one could even say worsens since political decentralization lengthens the offices one has to go through for operation licenses, obtaining of land certificates, and a diversity of permits necessary: or running any business (Bums, 1993).

One should not rule out increased rent seeking to result from decentralization drive. This is in cases where decentralization of authority is a top-down process in which some power, deemed dispensable by the center, is delegated to local governments. Since local government officials do not owe their positions to the local electorate, as they consider themselves mere extensions of central government apparatus in local areas, this increases the likelihood of indulging in 'asking for questionable payments' from those who demand their services. Local government officials being influential in the setting up of local government rules, regulations, and byelaws ensure that their interests are protected. This leads to an increase in rent seeking as authority in the hands of local-government officials over sub national taxation, human resources recruitment, training and development, local, regional and interregional trade increases (Krueger 1974). Such conditions reduce investment, innovation, creativity and over all economic growth (Sandholtz and Koetzle, 2000; Bardhan 1997: 1327-1330; Mauro, 1995; Lul, 1985;

Shelfer et al., 1993).

The risk of increasing macroeconomic instability cannot be dismissed entirely if decentralization policy is not well formulated and implemented. With rules guiding the decentralization both fluid and flux, this may engender different interpretations by different local governments, which ends up weakening the effectiveness state machinery on such issues as monetary and fiscal policy. With different local governments for example adopting different tax rates on similar products or services, over liberal investment incentives that ruin the chances of other local governments, it becomes hazardous for the central government to harmonize national policy. Macroeconomic instability in such circumstances cannot be avoided (Schatzel et al., 1997).

It should be noted that decentralizing economic activities with the intention of spreading economic development evenly, might thwart international competitiveness. This is true for economic activities that are knowledge intensive hence most likely to concentrate in particular areas because of the availability of the necessary infrastructure (Schatzel et al., 1997). In such a case decentralization reduces the pace of national economic activity in spite of headways in narrowing regional income disparity. In addition, decentralization may lead to the emergence of economically unfeasible

projects in different regions where one large-scale project would be sufficient, economical and competitive. In such circumstances, decentralization doesn't increase national welfare, but dissipates it through the existence of economically unfeasible ventures. It isn't uncommon moreover, for local governments to put in place tax and tariff regimes that are aimed at protecting local enterprises from competition from products originating from other regions, and nations. Local population has to pay higher prices for not necessarily good quality products, creativity and inventiveness suffers, monopolistic tendencies reign supreme, all of which undermine economic and social welfare (Roy, 1999). Such policies result into *Tiebout* effects which is a situation whereby differential distribution policies cause people with similar incomes and preferences to move from zones imposing high tax rates into zones with lower tax rates, a process that culminates into the enrichment of the latter to the detriment of the former. Regional rivalry is hardly avoidable under such circumstances which forces the national government to come in, a process that undermines the very spirit of decentralization (Kim, 1994).

Decentralization jeopardizes growth and development if it is merely seen as a way to reduce regional political pressure on the central government. In such cases, hastily formulated decentralization policies are adopted without much

participation from sub national units, with the consequence that local needs and tastes are not accorded requisite consideration. Contrary to expectations thus, decentralization may end up intensifying local bitterness against the central government as the former vies for real transfer of authority from the latter. Development suffers considerably since conflict situations hardly offer political stability, which obviously is an imperative for a good investment climate.

The existence of powerful pressure groups at the sub national level increases sub optimality as they contest for power and influence to gain control over local resources. The focus is diverted from long-term national issues to short term trivialities (Becker, 1983). The case of decentralization in Indonesia is a case in point. Realizing that decentralization reduces the contribution of the center to sub national governments, powerful elites at the local government level have dug in their heels against privatization of key state enterprises invoking communal land rights, which according to them can't be transferred to private ownership. This stance seems gaining acceptance in different areas as it is seen to increase local government bargaining position against the center to the detriment of national development agenda.

Decentralization may be opposed by the majority in situations

where it promotes the interests of powerful local elites at the expense of the non-influential majority. This is because in such circumstances policy objectives discourage the provision of public services at affordable costs. This is due to the fact that influential elites take advantage of their influence on decision making on policy to disfavor public service provision of key services preferring instead private enterprises to do the job. Such tendencies are driven by factors such as local elites sharing ownership of such firms; collusion with local firm owners; and possibly owing to their capacity to afford them at higher cost than the local population. Doubtless, in such circumstances, fruits, from decentralization will be enjoyed by the local powerful elites, the effect of which fuels animosity of the locals against the policy.

It is an indisputable fact that low level of economic development hampers administrative reforms. This is because the government is regarded as the employer of the last resort implying that it is inconceivable for it to make job cuts despite the overwhelming need for such a policy to induce efficiency. In addition decentralization falters if the government lacks sufficient funds to support the transfer of some responsibilities to the sub national level. It is thus dilemmatic that the national government must decentralize the delivery of services to increase efficiency of resource use yet without ample financial resources it

becomes hard for sub national governments to carry out the delivery of such services even at the very minimum level (Bums 1993). Underdevelopment may hinder the successful implementation of decentralization since sub national units are not able to take up financial responsibilities in line with increased political responsibilities. Strains on the national government increase as it is forced to incur extra costs arising from the unbundling of service delivery. Financial crises and collapse may be difficult to avert under such situations.

MAKING DECENTRALIZATION POLICY DEVELOPMENT- FRIENDLY

Hard as it may seem, the success of decentralization in some countries is ample evidence that there are key elements which must be fulfilled by the country in question, to facilitate the fruition of devolution or delegation of authority, depending on whether the authority transfer is a bottom up or top down process, respectively.

One of the most important ingredient of a successful decentralization policy is the existence of 'coherent, explicit and stable set of rules' underlying the process (Roy, 1999). Such rules should elucidate duties and responsibilities of the center and those of the sub national units so that the problem of center-

local bickering over the scope of authority is averted. The components of such rules are likewise deemed crucial for the success of the decentralization drive.

An effective decentralization process should delineate the division of national political power between the national and sub national units. The transfer of power from the center to the 'periphery' should be done in such a way that sub national interests are well accommodated without jeopardizing national interests. In light of this therefore, bastions of power at the sub national level should be considered in the formulation of decentralization rules since without their involvement, it is hardly likely that implementation will be accomplished without qualm. The rules put in place should also be explicit on the functions and resources assigned to the national government and those transferred to the sub national level (Roy, 1999).

Decentralization should facilitate the establishment of a government structure with several tiers under which sub national governments deliver services that benefit the population inhabiting areas under their jurisdiction. Under such an arrangement decentralization rules produce a complicated set of principal-agent relationship with lower levels of government serving both as agents for higher levels and their own principals in the delivery of services. The division of services is based on

the level of government that best delivers the service reflecting both the interest at stake as well as comparative advantage. In other words, the principle of *subsidiarity* should be followed to the letter as far as it is technically and financially possible. The provision of non-excludables such as minimum education, health, and sanitation should be the onus of the central government while the day-to-day management of local issues is bestowed on the shoulders of sub national units. Such an arrangement removes one source of hitches and conflicts between national government and sub national units. Moreover, the mechanism for handling unanticipated issues in the national-sub national government relationship should be inbuilt in the decentralization policy by making it more accommodating, flexible, and adjustable but not necessarily too susceptible to all local government demands.

There is no successful decentralization package that is not founded on clear-cut reliable and sufficient sources of funding. The transfer of political power should be supported by transfer of fiscal authority if the dependence of sub national units on national government is to be reduced. Whichever function that is transferred there should be reliable as well as predictable source of funding for it, either from the center or sub national level, and where necessary a combination of both. Decentralizing services without

providing requisite resources results into lower quality services such as evident in many African and Latin American countries that have adopted decentralization policies (Roy, 1999). Sub national units should be allowed to obtain revenue through user charges on water, sewage disposal, taxes on land, premises, and businesses, in addition to transfers from the center. Such transfers are vital in fields where sub national units serve both as agents of national government and as their own principals. This is because not all sub national units have the same capacity to meet the cost of good quality services, which is essential not only for the local government but also the nation at large. Yet the spread as well as the quality of such services is pivotal for national development. Doubtless, the funding of education, health and income support should be met partially by the central government through such transfers, which should be 'simple, transparent, and predictable'.

It should be noted that sub national units in their infancy have the tendency of indulging in putting up grandiose projects as they attempt to show quick results to their constituency as well as a means to attract investment. Small wonder that one of the most eloquent demands advanced by sub national governments is to be allowed to borrow on their own account. The rules on decentralization should proscribe local government borrowing without national government approval

(Dillinger and Fay, 1999: 21). This is because, local governments debt, like it or not is seen by banks both domestic and foreign, as guaranteed by the national government which implies any failure to repay must eventually be met by it. Running local government deficits should not be allowed as it affects not only the macroeconomic stability of the sub national government running such a defect but also other local governments and national government. Nor should local governments be allowed debt relief, except in cases of disasters and natural calamities. Resources should be provided either through transfer or allowing sub national units to tax only for services the delivery of which is transferred to sub national units. This prevents the problem of free riding, a situation where local governments receive transfers from the center yet remain uncommitted to deliver the services as they are sure the national government will deliver them. Decentralization should improve local government ability to finance their activities without necessarily increasing fiscal costs to the national government.

Decentralization is hard to accomplish without democratization and privatization. Democracy should engender the direct election of local government by the local population (Barro, 1999). Democracy ushers in an era of responsibility and accountability of local government officials to the local population instead of the central government, which

reflects, increased local participation in decision-making. In addition, democratization removes all vestiges of subtle central government control over authority that is transferred to the local government; increases the accountability of local government officials since their mandate lies with the local population; reduces felonies such as nepotism which might characterize the decentralization process if it is a top down process. As democracy becomes rooted into the body politic of the local government, non-government organizations from a cross section of fields should come into being which serve as vital corrective agents on local governments as well as providing linkages between the local government and the national government. With democracy the misuse of resources transferred by the center to sub national units as well as those inherent in local territories, is minimized since local government effectiveness is enhanced as more watch dogs who must see to it that local government plans are in line with local interests, capabilities and potential.

Privatization increases the control of the local population over the resources lying under local government jurisdiction, which stimulates creativity and innovation (Bird and Vaillancourt, 1999:190). Privatization increases local government control over human and other resources for the benefit of the local people, stimulates creativity and initiative as red tape is broken,

increases the pace of economic activity and general welfare. More privatization should facilitate the participation of investors from other areas within the country and abroad which should stimulate growth and development. Yet even the privatization efforts should be harmonized lest rivalry between regions ensues which might jeopardize national security.

The transfer of central government assets and staff constitutes one of the crucial elements that determine the success or lack of it, of the decentralization policy. In order to minimize hurdles in the way of the decentralization process the transfer of government staff to local governments must be conducted with due consideration of local governments' interests, capabilities, economic potential, social and cultural affiliations. The assets and staff that must be transferred should add value to the local government rather than a mere transfer of the responsibility of meeting the costs thereof to sub national governments. With keen interest to promote sub national economy, only productive staff should be accommodated. Hence national government should take the bold step to retrench staff that is made redundant by the transfer of some authority to sub national level if decentralization is to enhance efficiency.

The establishment of institutions at the sub national level

which reduces transaction costs incurred in measuring attributes of goods and services, specifying nature of and enforcing contracts (Binswanger and Deininger, 1997:1978). Such conditions are conducive to collective action, lower fixed costs and risks of initiating and transforming institutions. Thus, avenues for the establishment of new and the improvement of existing institutions which are vital for effecting the decentralization process; increase the participation of the local population through electing representatives and taking part in collective action; and increase the confidence in the population since they are certain that initiatives once proposed have high chances of being enforced.

It is no longer an incontrovertible fact that effective decentralization calls for reinvesting the government, which should be manifested in redefining its goals, strategies, structure, programs, and culture. It is not enough for the national government to merely relocate the entirety of national government to the sub national level, but fundamental reforms in the paradigm have to be made if efficiency is to be improved. Thus decentralization must be implemented in simultaneity with debureaucratization, the simplification of rules and procedures, rethinking auditing and budgeting programs. The concept of service delivery should shift from mere ensuring of

public welfare to that of adding value for money with minimum social cost.

In order for decentralization to take root and achieve sustainability, social stability must be in place for a long time. Without social stability constant changes in power relationships makes it impossible for the emergence of stable interest groups necessary for demanding for more authority and influence from the center. This ironically makes it easier for the national government to play off one interest group against the other without making any real concessions in form of decentralization of either political or fiscal authority. This is very pertinent to the Indonesian situation where due to social the implementation of decentralization in some provinces has failed to take off.

The decentralization should never be viewed as an end in itself, rather as a framework that underlies a systematic liberalization of economic, social and political mechanisms that link the center with the 'periphery' on one hand, and among the sub national governments, on the other. The national government should ensure coordination of fiscal and monetary policy, trade among local governments, the monitoring of excesses of local governments over their subjects. It should in other words serve as 'court of appeal' (Lin and Llu 2000). This should increase the benefits of the decentralization for all regions, reduce regional income

disparity, and enhance political stability.

That said, it is important to emphasize that sticking to the rules by both the national government and sub national governments is vital for the perpetuation of the decentralization process. This averts the stop-go decentralization-centralization cycles, which reduce the benefits of decentralization. The implication is that decentralization should be conducted as much as humanly possible in the wake of democratization which process should produce rules, regulations underlying decentralization acceptable to the local population. It should be the elected local leaders who should serve as co-formulators in designing the decentralization package along with the central government, both parties being guided by experts on decentralization. Then, and then, can decentralization produce the much-needed stimulus to economic growth and macroeconomic stability, social and cultural harmony (Roy, 1999; Woller and Phillips, 1998).

PROGNOSIS OF THE DECENTRALIZATION POLICY IN INDONESIAN

Decentralization policy in Indonesia has just entered its second year since its inception in January 2000. The law on decentralization in Indonesia subsumed in Acts No. 22 and 25, 1999 show quite good

accommodation of some of the tenets vital for widespread acceptance. The principles underlying decentralization are well laid out which encompass democracy, Justice, equality, potential and the respect for human rights. It thus captures some of the key aspirations of the general public to date. The general scope of authority delegated to sub national units though lacking important specifics is also sufficiently delineated. So are the definitions of what constitute local governments in spatial terms. Stipulation of the objectives of the decentralization process is exhaustively articulated, which among others are: to empower the local people, stimulate local initiative and creativity; increase people's participation; increase the role of local governments) as well as the authority exercised by both the central government and local governments. Sufficient treatment of the factors on the basis of which local government formation must be based is undertaken, which should include the local government economic potential; social, cultural, and political factors, size of the population and territory plus other considerations. The law on fiscal decentralization Act No. 25 1999, clearly links the transfer of responsibility to the resources necessary for the implementation; hence finance follows function, which is commendable.

Yet despite such laudable accomplishment, flaws are not that hard to discern in the thick and thin of

the 1999 decentralization package. The thread running through the articles and sub articles is the obvious fact that sub national governments are recipients of a recipe made by the national government, which they must accept. Thus from the word go there is lack of local government participation in the policy formulation. The very nature of implementation, which includes the sequencing, the determination of standards upon which performance of the decentralization package will be based still rests on the shoulders of the central government. An aura of the national government knowing 'all the answers to all questions' is apparent, an issue likely to compromise the smooth implementation of the policy.

Quite astonishing is the ambivalence of the decentralization law on the very nature of the local government-national government relationship. It is stipulated that there is no hierarchical relationship between local governments, which has sparked offregency heads-governor wrangles as the former no longer regard them as their heads, sounds more divisive than integrative hence contravenes the principle of maintaining a unitary government as well as in line with the 1945 constitution. No doubt this problem has led to second thoughts on the decentralization policy as it is promulgated under the Acts 22 and 25 1999 from a variety of sources.

The law makes use of idealistic phrases such as equality and Justice,

which may be susceptible to all kinds of interpretations by both national and sub national government officials depending on the interests pursued. This may provide the 'Pandora's box', which may derail the entire process if not well handled.

In addition concern may be expressed about the immense powers vested in the local government consideration body, *Badan Pertimbangan Daerah* comprising of ministers of finance, internal affairs, secretary to the Cabinet as well as local government representatives which has the power to decide the fate of any local government, smacks of efforts of the center to retain control over vital local government affairs.

Though efforts at fiscal authority transfers from the center to the sub national level are well articulated, the powers of levying taxes by sub national units are both complex and inexplicit on important issues, a flaw that has sparked off a spate of reckless enacting of local government regulations, which in main undermine the body and spirit of the decentralization drive. In addition, rules and regulations on local government borrowing are not as explicit as those on the transfers from the central government, which induced some sub national governments to endeavor to fill in the gaps left between expected local government expenditure and locally available funds.

Judging from the foregoing it

can thus be argued that the decentralization package may not be flawless after all. Nor does any one expect it to be perfect considering the complexity and enormity of the issues involved. Nonetheless, there are key areas, the handling of which, will determine whether the decentralization policy in Indonesia will achieve much needed social welfare, increased local population participation in decision making on issues affecting them, empowering of local governments, stimulating creativity and initiative, and economic development, or it might end up as any other national government antics in gamesmanship.

The ability of the national government to solve the problem of deep-seated regional disparity which is due to differences in economic potential, size of population, and availability of human resource. The importance of this lies in the fact that regional autonomy or decentralization is based on among other factors, on an area's economic potential, and size of the population, economic potential, social, political, cultural factors, and size of the area. It is debatable whether an area will accept less authority over political and fiscal administration merely because its performance on the criteria set by the national government is found wanting. This is vital, since it should be recalled that decentralization is underpinned by the recognition of heterogeneity and diversity among the regions comprising the nation, which should

and must be respected.

The ability of the national government to overcome incessant demand for greater autonomy. Decentralization should induce easy policy formulation, implementation, and evaluation, rather than opening avenues for higher fiscal costs by relinquishing more authority than local areas are capable of handling.

The difficulty of 'fusing' regions considered not feasible if granted autonomy on their own which might create more problems than solutions. Villages driven by the excitement of the time can undergo some marriage of convenience to form regency in order to fulfill the criteria set for being granted regional autonomy, yet in the long term things may fail to work out. Villages can be homogenous on political, social and cultural issues yet driven merely by the desire to hold political power may lead to demands for a break up!

The capacity of the national government to handle the problem of job loss by powerful elites who might resort to efforts at regaining their lost glory through jockeying for immense influence in the sub national units. This is a hot political potato already affecting the privatization of state enterprises.

The ease and pace at which national government will be able to reduce costs of policy and program coordination and over all implementation which should arise

from decentralization of public service delivery. The decentralization policy success should lie the way it affects national finances as seen by national politicians as well as donor agencies. If fiscal decentralization leads to larger national budget deficits than are sustainable, some shadow of doubt will be cast at its continuation.

The effectiveness of national government efforts alleviating or even eradicating malpractices such as corruption, nepotism, and cronyism at both the local and national government level will influence the performance of the policy. This is vital since regional officials have to be involved in such activities yet in the main they are likely to be the 'targets'. Enforcement of law should more difficult harder with decentralization unless police, and Judiciary are sufficiently decentralized. Without ample resources at the local level it is hard to imagine how felonies of corruption can be handled effectively. In any case the influence of the local government officials over local law enforcers is enhanced thanks to more authority bestowed on their shoulder.

The maintenance of political and social security at both the sub national and national level. Political security will no longer be the preserve of the national government but in the main a responsibility of provincial governors. Being directly elected by local population it seems unlikely governors will be willing to allow national government intervention

except at a time when things are already beyond control. The issue is whether there is a mechanism under which the national government can overrule local government opposition for the sake of national security.

The capability of local governments to discard local parochialism in order to work along with other local governments in areas where such involvement is considered to impair the respective area's economic prowess (for instance harmonization of taxation rates to reduce emigration of investors from one area to the other and averting the imposition of tolls that impede transportation of merchandise between and among regions). Without regional harmony trade is likely to suffer, investment climate will continue to worsen, economic growth will become as elusive as ever. It is definitely difficult to sustain a policy that is seen by many as irksome and anathema to economic development in the long run.

The capacity of the national government to impose hard budget constraints on sub national governments, at time when the former is not able to provide such resources. This is important to ensure macroeconomic stability at both the regional and national level. This calls for efficient ilovemment bureaucracy, sufficient and appropriate human resources at both the national and sub national government level, social, political,

and economic stability. Many of these are apparently still lacking.

The ingenu ity of the sub national and national government to define both territorial and 'celestial' scope of each decentralized unit to avert interregional conflicts over fisheries, forestry and land rights. This should reduce possibilities of conflicts over rights. Yet it is easier said than done; stakes being extremely high and complex.

The capability of both the national and sub national government to educate the population on the meaning and implications of decentralization; responsibilities as well as duties of the layman and leadership in the process. Enlightenment on the principles of democracy should go hand in hand with education on decentralization issues for it is doubtful whether decentralization can succeed without democracy.

The way national government will be adept at handling the transfer of both fiscal and human resource responsibilities to sub national units matched by the capacity of the latter to deliver such responsibilities effectively. The realization that adopting the same mode of decentralization across the board in different areas, which possess differing capacity and willingness, to shoulder fiscal and other responsibilities is likely to founder.

The commitment of the national government to deliver on its

promises of adhering to democratic principles will be crucial for the credibility of the policy. More involvement of the local population in affairs concerning the determination of the mode of decentralization that suits their respective area, having a say in determining those to implement it as well overseers, should go a long way to prevent local bickering.

Yet vital to the entire process will be the capacity of the national government to retain strong political and financial strength to nip in the bud any efforts by some regional governments unsatisfied with any form of decentralization short of independence. The center has to be strong to decentralize, rather than decentralize at the cost of voting itself out of existence. This raises the question as to whether decentralization should have been conducted at such times of economic distress with the center so weak and divided that in the end more authority than necessary will fall into the hands of local governments, which are likely to be as weak and as divided. Surely, there is indisputable evidence that many local governments despite eloquent denials to the contrary, lack ample means to execute the delivery of such services without immense central government assistance!

The realization that decentralization is not a panacea for all ills, rather one among a

multiplicity of policies, that should be carried out consistently with all commitment from national and sub national governments, involvement of neighboring states, as well as international donor agencies. Interdependence should not be jeopardized by decentralization, for doing so will not only smack of anachronism, but anti-development as well.

CONCLUDING REMARKS

It is indisputable that decentralization is becoming a buzzword for economic, social and political development. Driven by public awareness of the waste attributed to government inefficiency, high level of education, relentless pressures from pressure groups from both within and outside national borders, many governments are carrying out decentralization in one way or the other. Those countries that conduct the policy with all commitment and political will; provide the necessary forum for debate on the form, scope, and degree of decentralization to be adopted, where public involvement is considered invaluable at the idea generation, policy formulation, implementation, and evaluation stage; clear-cut rules, rights of national and sub national units are evident; and democracy and privatization are part and parcel of the decentralization drive remarkable outcomes are there for the taking. Success ensues manifested in better

governance, increased efficiency, which foster high economic growth and development. Regional income disparity becomes a thing of the past, which paves the way for political stability.

The case is very different for nations that reluctantly adopt decentralization either because in the main, they are obliged to 'meet the terms' demanded by international donor agencies or as a politically expedient tool to 'cool off' the political steam fueled by incessant demands from sub national units for more political and financial authority. Decentralization is considered as any other mechanism used in 'politicking.' Promises of public involvement are made, the realization is which is not reflected in programs-, democracy is a mere smoke screen; rules, rights, and responsibilities of the national government and sub national units are far from well defined and distinct; decentralization is projected as a panacea for the ills of the state; commitment to decentralization is not strong and wavers from time to time resulting into cycles of half hearted decentralization only to be followed by cycles of re-centralizations. Undoubtedly, failure awaits such endeavors at decentralization. Proper policy formulation, meticulous planning of the implementation and evaluation phases, consistent involvement of the public by democratizing the political process, increased public

participation in economic activities through privatization and increased fiscal responsibilities of local governments provide building blocks for as formidable and irrevocable as any decentralization drive that can hardly falter.

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