

EVALUATION OF THE PROLIFERATION OF ADMINISTRATIVE REGION IN INDONESIA 2001-2007

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BADAN PERENCANAAN PEMBANGUNAN NASIONAL (BAPPENAS)

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Foreword

Indonesia has undergone a rapid proliferation of regional administrations resulting from a policy aimed at improving equity in development and enabling greater prosperity amongst local populations. After more than 5 years of its implementation, many now question whether the creation of additional administrative regions will achieve its objectives. Although the division and creation of new autonomous administrative regions has emerged as an inevitable trend within the Indonesian political discourse, attempts to foster more a objective assessment will be useful in determining the future direction of this and similar policies.

This evaluation study was carried by BAPPENAS with the full support of UNDP Indonesia in order to review progress in the regions undergoing division or being established over the 2001-2005 period. The key areas of focus are economic growth, regional fiscal management, public services and regional government personnel. While essential issues in the division and establishment of regions include socio-political concerns, jurisdictional boundaries and security, the four aspects analysed in this study are the main pillars of long-term regional development. In this study, regions formed through administrative division were selected according to input and output indicators in Government Regulation No. 129/2000, with sampling restricted to new regencies established by division from existing regencies. Excluded were conflict zones, disaster-hit areas and special autonomous regions. The study applies the “control-treatment” approach, albeit within a very limited time frame.

The study team concludes that in the five years that the policy has been implemented, the original or “parent” regions and the control regions consistently showed better results in all areas of focus compared to the new autonomous regions. This suggests the need for a preparatory period for transfer of personnel and for local economic and governance infrastructure to be established before proceeding with administrative division. One indisputable prerequisite is the equitable division of economic potential for new autonomous regions to develop on par with the parent regions. In the short-term, changes in the pattern of personnel and development expenditure are necessary to stimulate local demand for goods and services. Full support must be provided for the development of agriculture as an economic base for new autonomous regions. Moving forward, there is an urgent need for fundamental changes in the law governing the division and establishment of new autonomous regions.

Despite constraints in the sampling size, available data, some differences in the weighting of indicators and the no comprehensive survey of public perceptions, our hope is for the study to reflect the progress achieved in new autonomous regions, and provide input for strategic policies on regional structures and on the broader scope of decentralisation and regional autonomy.

Our gratitude goes to all who have contributed to this study, from officials at BAPPENAS itself, UNDP Indonesia and the Ministry of Home Affairs to the regional governments participating as samples, and to all who have assisted in bringing the publication to fruition. We also welcome any input, suggestions and criticisms for improving the quality of this evaluation and future policy development studies.

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Executive Summary

Among the numerous socio-political changes that have taken place in Indonesia is the decentralisation process under the provisions of Act No. 22/1999 concerning Regional Administration, specifically for the *Establishment and Criteria for Division, Dissolution and Merging of Regions*. The drive for regional autonomy has been reflected, among other things, in the desire of some regions to establish themselves as separate entities, with the aim to bring greater prosperity to the population. Issues arising from the resultant proliferation of regions have been examined in several studies, among others by the National Development Planning Agency (Bappenas) (2005), the Institute of Public Administration (2005) and the Ministry of Home Affairs (2005). To complement these, Bappenas and UNDP undertook an evaluative study, designed to accomplish three objectives:

- Evaluate performance in regard to the **local economy, fiscal management, public service delivery and government personnel**; and
- Identify problems that have arisen since the proliferation of new administrative areas; and
- Develop policy recommendations related to the administration of regions, particularly in context of the regulation 129/2000.

This study applies the 'treatment-control' method to evaluate performance and progress on a range of indicators in new autonomous regions in Indonesia. The scope of this study is the establishment of new autonomous regencies from existing regencies, and not the conversion of regency to municipality, as has been typical in Java. The new regions established where the policy has been applied are the 'treatment regions', the ones chosen for this study being those formed in 2000. The study also identified, in advance, other 'comparable' regions in their original form (not part of the administrative sub-division process) to be used as 'control regions'. By comparing the two groups, it is possible to establish whether the policy for the division and establishment of new autonomous regions is working as intended. The regions used as samples in this study were selected from 72 regencies/municipalities in six provinces on four major islands. Twenty-six samples were selected: ten 'parent' regencies, ten new autonomous regencies and six control regencies.

The study focus areas, noted in bold above, are each represented by several indicators, which are used to generate a single index. These indices represent weighted averages of all indicators representing the aspects evaluated in the study, based on the standardised value of each indicator using the range between minimum and maximum indicator values as denominators. (The indicators are described fully in Chapter 2). The study uses secondary data relevant to the four key performance areas evaluated, taken from publications by the Central Statistics Agency (BPS), the Ministry of Finance, the Ministry of Home Affairs, and the National Civil Service Agency. The study also sought to gain an in-depth understanding of the situation through detailed interviews and focus group discussions in regencies formed through division where conditions are extreme. These regions were: Luwu Utara Regency and Luwu Regency in South Sulawesi and Lampung Regency and Lampung Timur Regency in Lampung.

Two important comparisons are used to evaluate the proliferation of administrative areas or regions. The first is to what extent administrators in the newly-formed regions are maximizing 'inputs' to improve the welfare of the people. Second is the extent of 'outputs' directly received by the region and its people, either as a direct impact of the administrative division, or through changes in the regional government system.

This study of the division and establishment of administrative regions produced noteworthy findings for each of the aspects analysed. The study team's general conclusion is that the central government and regional governments began with different perceptions of the purpose and process of dividing and establishing regions. When drafting Government Regulation No. 129/2000, the central government sought to

identify new autonomous regions capable of operating on a self-reliant, self-sustainable basis. To this end, it prepared a set of indicators that essentially identified the capabilities of proposed new autonomous regions. Regional governments, on the other hand, took a different view. They saw the division and establishment of administrative regions as a means to quickly emerge from their economically disadvantaged situation. In general, it is apparent that new autonomous regions started life in no better position than their parent regions or the control regions. In fact, five years into the process, new autonomous regions still generally lag behind other regions.

Two key issues identified in **the performance of the local economy** were: the **inequitable division of economic potential** and **increased burden of the poor**. In terms of regional fiscal performance, new regions formed through the Policy on Regional Administration demonstrated lower levels of performance compared to the control regions. This is explained by various aspects of regional fiscal management: greater **fiscal** dependence in regions formed from the division due to sizable allocations of capital expenditures in these regions; low optimisation of revenues and contribution to the economy; and low proportion of regional government allocations for capital expenditure. These issues suggest a lack of effectiveness in the regional fiscal policy in stimulating local economic activity in both consumption and investment, particularly in the new autonomous regions. Regarding the performance of public services, the study found poor levels of performance in newly divided regions that can be explained by several issues including: lack of effective use of funds, lack of personnel for providing the public services; and low utilisation of these services. Concerning the performance of regional government personnel, the following issues were identified: personnel qualifications not matching needs; a generally low level of qualifications; and underemployment of regional government personnel.

Concerning **economic growth**, the study results indicate that new autonomous regions have seen more fluctuation compared to parent regions, where growth is more stable and improving. As is widely reported, the newly divided regions have worked on improving their economic performance, but it has not yet been possible to harness the full range of economic potential because of the time required in the transition.

Concerning **poverty reduction**, the new regions have not managed to close the gap with their parent regions, even though prosperity levels in the new regions are roughly on par with other regencies. Economic performance in the new autonomous regions lags behind that of their parent regions and other regions due, in general, to the limitations in the natural and human resources at their disposal, and to inadequate government support for the economy through public investment.

Concerning **regional fiscal management**, the study found that regional budgets in newly divided regions play a less effective role in stimulating economic activity compared to the control regions. In public service delivery, new autonomous regions still lag behind the parent regions. The performance in public service delivery in both the new regions and parent regions remains generally below that of the control regions and the regency average. Performance of local government personnel in the new and parent regions has fluctuated, although in the past two years, parent regions maintained better performance than the new autonomous regions. The five years of implementing the policy have seen an increase in numbers of personnel, but officials working in new autonomous regions still lack proper qualifications.

Great care must be taken in the process of dividing administrative areas. The preparations for proposed new autonomous regions must be adequate and take account of actual local conditions. Provision of a lead time of ten years could be made for the following preparatory tasks: transfer of officials to positions appropriate for their capacity, preparation of economic infrastructure and government facilities, and supporting infrastructure

for regional government personnel. In the allocation of resources, there must be proper arrangements for division of natural resources, human resources and other supporting infrastructure between parent regions and new autonomous regions. Economic development in new autonomous regions should be directed towards support in its broad sense for the leading economic sector, i.e. agriculture, through the provision of infrastructure and field extension workers.

In the short term, changes are needed for development to be capable of stimulating fresh demand for improved public service delivery. The regional bureaucracy must focus more on ensuring that local government personnel are properly qualified according to the needs of the region, beginning with recruitment but also addressing promotions and transfers. In addition, there needs to be a structuring of local government personnel in the regions in transition. At the national level, this calls for a 'grand design' for personnel structures at the regional government level. In other words, there is a need for stronger central government support to parent regions preparing to divide, under the regulation 129/2000, and for those that are newly formed. This does not amount to re-centralisation per se, but acknowledges the role of central government in ensuring quality development rather than simply a proliferation of new administrative areas. This is not only a tenet of responsible and sustainable development, but reflects national priorities related to the decentralisation process in the government's Medium-Term National Development Plan 2004-2009 ('RPJMN').

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List of Acronyms and Abbreviations

Bappenas	: National Development Planning Agency
CAPEX	: Capital Expenditure indicator
DAU	: General Allocation Fund
GDP	: Gross Domestic Product
RPJMN	: National Medium-term Development Plan
STPDN	: Institute of Public Administration
UNDP	: United Nations Development Programme

There is a need to evaluate the impact of this process more systematically in order to assess whether the current policies are working for the welfare of the people at the local level.



1 Introduction

1.1. Background

Near the end of the 1990s, dramatic socio-political changes in Indonesia led to the decision to launch decentralisation as a key mode for the nation's development. This step was marked by the promulgation of Act No. 22/1999 concerning Regional Administration, subsequently amended by Act No. 32/2004. In the Medium-Term National Development Plan (RPJMN) 2004-2009, the revitalisation of the decentralisation and regional autonomy process has been established as a national development priority with focus on: (1) clarification of the division of power between levels of government; (2) promotion of interregional cooperation; (3) restructuring of regional government institutions for greater effectiveness and efficiency; (4) strengthening the quality of regional government personnel; (5) building regional fiscal capacity; and (6) structuring of new autonomous regions.

Enthusiasm for regional autonomy itself is one factor that has led to the desire for regions to split from their former administrative jurisdictions, the procedures for which are set out in Government Regulation No. 129/2000 concerning Requirements for *Establishment and Criteria for Division, Dissolution and Merging of Regions*. In practice, the division and establishment of autonomous regions has received far more attention than the dissolution or merging of regions. As stipulated in the government regulation, regions are entitled to propose their separation from their original or 'parent' regions insofar as they satisfy technical, administrative and physical requirements¹ for bringing greater prosperity to their citizens.

Most fundamentally, the process for division and establishment of regions is intended to improve local prosperity (article 2 of Government Regulation No. 129/2000). This is based on several considerations, such as shortening the span of control between government and citizens, especially in areas previously not covered by government facilities. The division and establishment of regions is also envisaged as bringing about greater equity in development. In the past, development benefited only the regions near regional government capitals. New administrative areas will enable resources to flow to the lesser developed regions. Another reason cited the stimulation of local democracy through devolution of powers to smaller administrative units (Ida 2005).

The application of government regulation 129/2000 has produced a new trend in the regional structure of Indonesia: prolific growth in the number of regencies/municipalities and provinces (see Chart 1.1 below). By 2004, the number of provinces had climbed from 26 to 33 (26.9%) and regency/municipality administrations from 303 to 440 (45.2%). In 2005, the central government halted the process of division, but by the end of 2006 there was a renewed wave of proposals for new regions. These proposals called for the establishment of 114 regencies/municipalities and 21 provinces. The pause during 2005-2006 became increasingly difficult to sustain, given the absence of a strong basis for this action, despite concerns at the Ministry of Home Affairs over inadequate progress in new autonomous regions due to various problems and constraints (Ministry of Home Affairs, 2005). This issue arose from the lack of clarity over allocation of resources between parent regions and new autonomous regions. Another issue was the absence of a government limit on the total number of regions, which encouraged more proposals for division of regional administrations. Due to the strong pressure from the regions, Indonesia resumed the proliferation of regional jurisdictions in 2007.

¹ For more information, see elucidation of Government Regulation No. 129/2000.

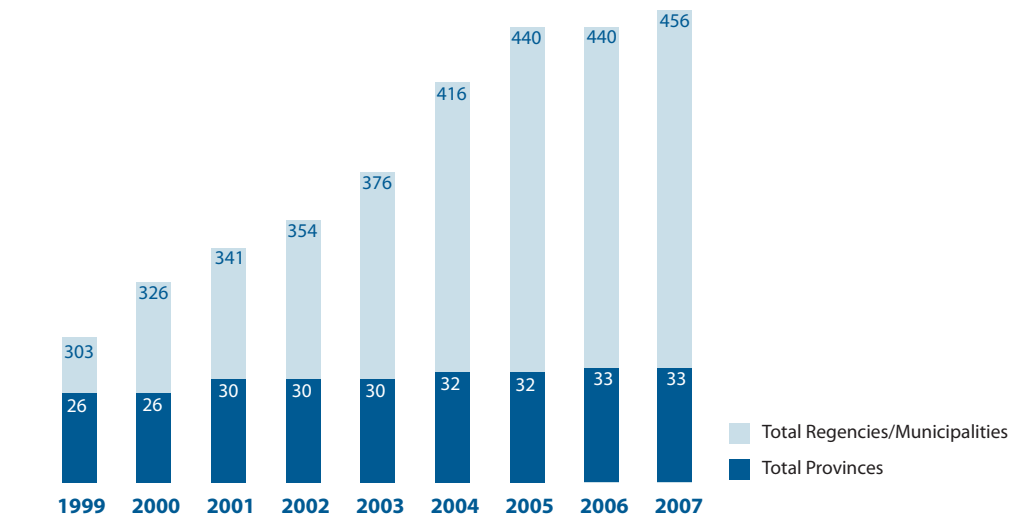


Chart 1.1. Total Regencies/Municipalities and Provinces, 1999-2007

1.2. Past studies

To date, there has been no comprehensive study on the impact of the policy which has seen a proliferation in the number of regions in Indonesia. However, some studies have looked at events and progress in some of the newly autonomous regions. Below is a brief overview of these studies.

Bappenas (2005) has produced the “*Study on Accelerating Development in New Autonomous Regions*”, which study focused on issues related to development in newly autonomous regions and the sectors that would drive economic development. The study examined the regions of Serdang Bedagai Regency (North Sumatera), Sekadau Regency (West Kalimantan), Tomohon Municipality (North Sulawesi), West Sumbawa Regency (West Nusa Tenggara), and Tasikmalaya Municipality (West Java).

The study concluded that these regions had progressed in mobilizing locally-generated revenues, even though most were still heavily dependent on General Allocation Funds. The regions also expanded the share of development expenditure, despite proportions remaining low compared to recurrent expenditure. However, in the view of public respondents, the establishment of new regions has brought no change. This is explained by the ongoing work in newly autonomous regions in setting up regional institutional structures, local government infrastructure, personnel and regional fiscal management. In the area of human resources management, the ratio of government personnel to total population in new autonomous regions was still below the national average, although in some sample regions there was no significant relationship between numbers of personnel and satisfaction with public services. The study also noted the low education levels of officials deployed on the front line in public services, most of whom are high school graduates.

In 2005, the Institute of Public Administration conducted a “*Performance Evaluation of Autonomous Regions for the 1999-2003 Period*” (LAN 2005). The evaluation focused on prosperity levels, public services and local democracy. In assessing 136 regencies/municipalities, this study sought to ascertain the performance of the regions and identify issues and obstacles in the operation of regional autonomy. The findings of this study pointed to a prevailing improvement in general prosperity as indicated by social and economic indicators, including the Human Development Index. Nevertheless, disparities persist between Western Indonesia and Eastern Indonesia.

Concerning public services provided through basic infrastructure, the LAN 2005 study found that the ratio of the total length of roads to geographical area in fact declined over time. On the other hand, services in education and healthcare underwent significant improvement. Local democracy, assessed by voter turnout

at elections, was marked by a high degree of participation. Although this study was not directly related to regions formed through division, conditions in the parent regions, newly autonomous regions, and unchanged regions were nearly identical.

In 2005, the Regional Autonomy Research and Development Centre at the Ministry of Home Affairs (2005) conducted a study entitled “*Effectiveness of Proliferation of Regions in the era of Regional Autonomy*”. Research in nine new autonomous regions concluded that none had attained self-reliance, even though various requirements for support of local administration had been fulfilled under existing guidelines. The underlying problem was that new regions lacked the capacity to formulate the powers or functions appropriate to local conditions, the characteristics of the region and the needs of the population. The study also examined institutional structures, finding that locally-established institutions were not fully aligned to the tasks designated for local government. Problems related to institutional structures include the proliferating trend in numbers of institutions (regional government units), excessive organisational structure and failure to establish criteria for effectiveness and efficiency in these institutions. In regional fiscal management, only one of the nine regions was classified as self-reliant. The main problem concerned the lack of capacity in mobilizing sources of locally-generated revenues. In regard to personnel, only one of the nine regions was classified as having fully competent personnel for running the local administration. This was evident from deployment, qualifications and suitability of personnel for filling positions and the existing personnel structure. As a rule, new autonomous regions had not been able to resolve these issues.

All these studies form an important body of work to better understand the processes and effects of the division and establishment of regions in Indonesia. However, there is a need to evaluate the impact of this process more systematically in order to assess whether the current policies are working for the welfare of the people at the local level.

1.3. Study Objectives and Relevance

There are some who believe that the division and establishment of further administrative regions is not the primary answer for building prosperity (Ida 2005). Fitriani *et al.* (2005), for example, stressed that the process would create new opportunities for bureaucratic and political rent-seeking, exploiting the opportunity by tapping both central government funding and locally-generated revenues. On the other hand, new autonomous regional governments must demonstrate their capacity to mobilise local revenue potential. This leads to efforts to boost local revenue collection, which in turn creates a higher cost economy, given local government tendencies to collect levies and user fees related to many economic activities. The process of division and establishment of regions is also perceived as a business for regional-based elite groups in pursuit of official titles and positions. This trend is further reinforced by the euphoria over democracy. Political parties, which are still maturing, provide a vehicle for the elite to voice their aspirations, which include support for a proliferation in the number of regions.

The 2004-2009 Medium-Term Development Plan calls for a program for structuring newly autonomous regions. The objective of this program has been to design and implement a policy for establishing new autonomous regions, so that improvements in public services and local development by these regions do not drain fiscal resources. The key activities set out in the Medium-Term Development Plan include the following:

1. Evaluate the process of public service delivery in new autonomous regions;
2. Launch a policy for establishing new autonomous regions and/or merging of autonomous regions, including policy design and implementation of alternatives to the establishment of new autonomous regions, in order to bring about improvement in public services and accelerated local development;
3. Resolve ownership status and optimum use of regional assets; and
4. Develop administrative structures in new autonomous regions.


The current study relates to regional capacity for implementation of regional autonomy. If a region shows no improvement in performance and fails to develop its potential over a five year period, it may be dissolved and merged with another region (Ratnawati *et al.* 2005). The evaluative study was undertaken to provide a picture of the general condition of new autonomous regions established and in so doing, provide useful material for determining the future direction in decentralisation policy, including related to merging of regions.

Accordingly, this study is designed to fulfill a number of objectives:

1. Evaluate performance in regard to the **local economy, fiscal management, public service delivery and government personnel**; and
2. Identify problems that have arisen since the proliferation of new administrative areas; and
3. Develop policy recommendations related to the administration of regions, particularly in context of the regulation 129/2000.

1.4. Structure of the Report

This report is divided into four chapters. Chapter I, the introduction, describes the background and significance of the study. Chapter II describes the evaluation concept and study design. This chapter also describes the evaluation focus and indicators for that purpose, as well as the sampling methodology used in the study. Chapter III presents an evaluation of fiscal performance in the newly divided regions. This chapter is divided into four parts consistent with the four areas of the study: (a) the local economy, (b) regional fiscal management, (c) public service delivery; and (d) regional government personnel. Chapter IV presents the conclusions and policy recommendations derived from the study.

A young girl with dark hair, wearing a yellow short-sleeved shirt and a green skirt, stands next to a wall-mounted health scale. She is looking towards the camera with a neutral expression. Her right hand is resting on the wall above the scale. The scale is circular with a white face and a black dial, featuring the text 'HEALTH SCALE' and 'MADE IN THE PEOPLE'S REPUBLIC OF CHINA'. The background is a plain, light-colored wall.

Public services also reflect the extent of regional government capacity to improve the public's quality of life and general conditions within the region itself.

2 Study Concept & Design

2.1. Conceptual Framework

This study is considered an evaluator work, given its objectives as outlined in the previous section. Evaluation is essentially a process of measuring and comparing envisaged results with the actual outcomes, according to prescribed targets and standards. The purpose of evaluation is to provide an assessment of performance or usefulness of a particular activity (LAN 2005). In Government Regulation No. 39/2006, evaluation is defined as a series of activities comparing input, output and outcomes against plans and standards².

The basis for evaluating the division and establishment of regions is set out in the objectives of the Government Regulation No. 129/2000. The process consists of the division of provinces, regencies, or municipalities into multiple regions. Chapter II Article 2 of the Regulation states the objective of this process as being to bring greater prosperity to the population by: (i) improving delivery of services to the public; (ii) promoting democracy; (iii) accelerating regional economic development; (iv) accelerating the mobilisation of regional potential; (v) strengthening security and order; (vi) developing more harmonious relations between the central government and the regions.

Related to improvements in general prosperity there are two key considerations: **First**, how the government will achieve it; and **second**, what the impact will be on the public and the region five years after the division that created the region. In the **first** question, the aspect studied is the extent to which that 'inputs' owned by administrations in regions formed through division are put to maximum use to foster prosperity, therefore, the indicators for evaluation at the stage of regional government inputs are regional fiscal management and regional government personnel. Both have a highly significant role in the affairs of regional administration. Efforts to improve general prosperity through the six means outlined in the regulation and cited above will be difficult without financial resources and personnel.

The **second** line of questioning assesses the condition of 'outputs' received by the region and its people, whether as a direct impact of the process of creating new administrative areas, or through changes in the regional government system. For this reason, the evaluation of 'outputs' will focus on that which is of vital interest to the public in sustaining their livelihoods, namely, the economy. If peoples' economic conditions steadily improve during the period following division from a former region, this will indirectly improve public access to services, including education and health. On the other hand, public services also reflect the extent of regional government capacity to improve the public's quality of life and general conditions within the region itself.

Based on these two concepts, a conceptual framework was developed for the evaluation as outlined in the diagram in Chart 2.1. The evaluation focuses on four key aspects:

- a) the local economy;
- b) regional fiscal management;
- c) public service delivery; and
- d) regional government personnel.

These four areas of focus are interrelated. In theory, the division and establishment of regions lead to the establishment of new administrations. To operate, these administrations must be staffed by regional

government personnel. In performing their official tasks, the competent officials must make maximum use of the existing financial resources to support public services and promote regional economic activity. This takes place through personnel expenditure and capital expenditure. This spending will ultimately feed back into the regional fiscal cycle through taxes and user charges, and will be returned to the public in the form of public services.

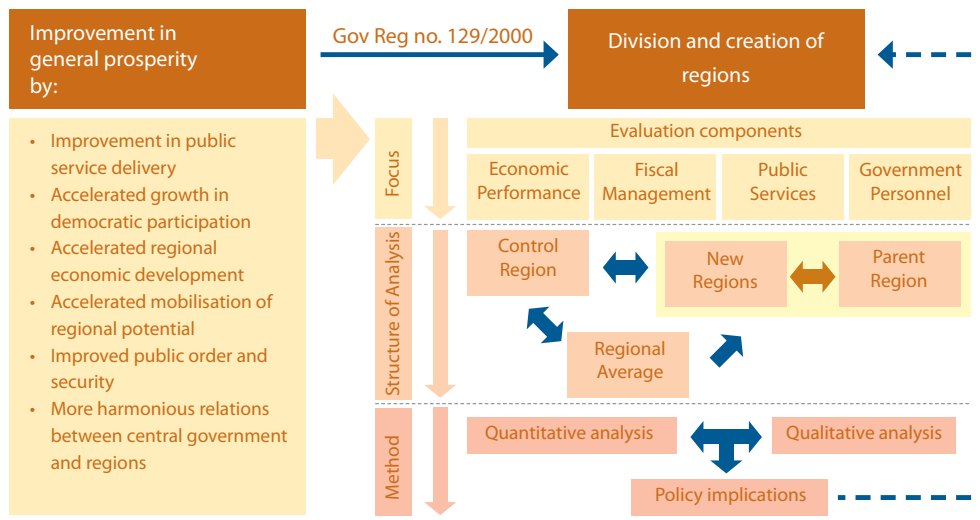


Chart 2.1. Conceptual Framework for Evaluating the Establishment of New Autonomous Regions

To assess progress in the new autonomous regions, it is necessary to compare a region’s performance before and after division. From this, it can be ascertained whether significant progress has taken place in the region over time. This approach can be regarded as flawed, however, if there are no equivalent regions for comparison. For this reason, it is necessary to compare regions that have undergone division with others that have not. As a method, this involves evaluating a difference using the treatment-control principle. In addition to comparing the new regions with ones unaffected, they can be compared with a parent region to ascertain whether the division has brought adequate benefits to both regions or only to one. Other comparisons can also be made with regencies/municipalities within the same province to obtain a general picture of new autonomous regions, their parent regions and progress in other nearby regions.

2.2. Study Focus and Indicators

The data used in this study is secondary data published by the Central Statistics Agency (BPS), Ministry of Finance, Ministry of Home Affairs and the National Civil Service Agency. As explained above, the evaluation focuses on four key aspects: (a) the local economy, (b) regional fiscal management, (c) public service delivery, and (d) regional government personnel. Each of the study focus aspects is represented by several indicators, from which an index has been formed. The index is essentially an average of all indicators for each of the particular aspects. To eliminate the impact of ‘units,’ the indices are calculated on the basis of the standardised value of each indicator. The standardisation uses the range from the minimum to maximum values of the indicators as a denominator.

The indicators and their calculation are explained below.

I. LOCAL ECONOMY

The purpose of focusing on economic performance is to determine whether the division of regions has produced an improvement in local economic conditions or otherwise. The indicators used to measure local economic performance are:

1. Growth in the Non-oil and Gas Regional GDP (ECGI)

This indicator measures changes in the regional economy that result in job creation and improvements in general prosperity. Economic growth is calculated on the basis of Regional GDP at constant 2000 prices.

2. Regional GDP per Capita (WELFI)

This indicator reflects the level of general prosperity in a region.

3. Ratio of Regency GDP to Provincial GDP (ESERI)

This indicator measures the extent of economic development in one region with other regions within the same province. The magnitude of a region's role is correlated with improvement in economic performance.

4. Poverty Levels (POVEI)

Economic development should reduce poverty levels as measured by the head-count index, i.e., the percentage of total citizens living in poverty.

To obtain a general picture of improvement in the local economy, the **Regional Economic Performance Index (IKE)** has been created. In principle, this is an average of the four indicators described above. For regency *i* in year *t*, this index is formulated as follows:

$$IKE_{i,t} = \frac{(ECGI_{i,t} + WELFI_{i,t} + ESERI_{i,t} + (100 - POVEI_{i,t}))}{4} \dots\dots\dots(1)$$

II. REGIONAL FISCAL PERFORMANCE

Regional fiscal management does not only reflect the overall direction and progress of fiscal policy in promoting local development, but also the extent to which a regional government (regency) exercises its powers and functions within the context of fiscal decentralisation. Therefore, the evaluation of regional government fiscal performance in the context of the division and establishment of new regions requires using fiscal performance indicators that not only reflect micro financial performance in fiscal management, but also macro performance. This is in order to obtain measured, balanced and comprehensive indicators, namely:

1. Fiscal Dependence (FIDI)

This indicator is the percentage of General Allocation Funds (subtracted by payroll expenditures) to total regional budget revenues.

2. Revenue Generating Capacity (FGII)

The proportion of local government revenue is not stated in relation to the total regional budget, but as a percentage of the regional GDP. This is to depict regional government performance in mobilising local revenues on the basis of the income generation capacity of the individual region.

3. Proportion of Capital Expenditures (FCAPEXI)

This indicator highlights the trend in government expenditure management for long-term benefits, i.e. ones that generate increased multiplier effects for the economy in the long-term. This indicator is formulated as the percentage of capital expenditures to total expenditures in the regional budget.

4. Government Sector Contribution (FCEI)

This indicator highlights the government contribution to economic activity. This value is stated as a percentage of total government expenditures in the local regency GDP.

To obtain a comprehensive picture of regional fiscal performance, the **Regional Fiscal Performance Index (IKKPD)** was developed for this study. In principle, this is an average of the four indicators described above. For regency *i* in year *t*, this index is formulated as follows:

$$IKKPD_{i,t} = \frac{((100 - FIDI_{i,t}) + FGII_{i,t} + FCAPEXI_{i,t} + FCEI_{i,t})}{4} \dots\dots\dots(2)$$



III. PUBLIC SERVICE DELIVERY

The evaluation of performance of public services will focus on service delivery in education, health, and infrastructure. However, it must be noted that significant changes in service delivery outcomes may not show tangible results in five years since new regions were established, as this is considered a relatively short period. For this reason, the public services performance indicator formulated for this study places greater emphasis on the inputs for the services themselves. The indicators used are as follows:

1. Students per School

This is an indicator of school enrollment capacity within a region. Different ratios are calculated for elementary and lower secondary education (**BEFI**) and the upper secondary level (**AEFI**).

2. Student-Teacher Ratio

This is an indicator of the deployment of teaching personnel. This indicator is also disaggregated by basic education (elementary and junior high) and senior high school education. Different student-teacher ratios are calculated for elementary and junior high school education (**BETI**) and senior high school (**AETI**).

3. Provision of Healthcare Facilities (PHFI)

Provision of healthcare facilities is expressed as a ratio to 10,000 of population (this figure is used as an approximate representation of scale at the sub-district level). The healthcare facilities included in the index are hospitals, community health centres (puskesmas), community health posts (pustu), and treatment points.

4. Deployment of Health Workers (PHOI)

Deployment of health workers is expressed in a ratio to 10,000 of population (this figure is used as an approximate representation of scale at the sub-district level). Included as health workers are doctors, paramedics, and assistant paramedics.

5. Quality of Infrastructure (PRQI)

This indicator is derived from the percentage of the length of good quality roads to total length of roads in the regency.

To obtain a comprehensive picture of public service performance, the **Regional Public Services Index (PPI)** was developed for this study. In principle, this is an average of the four indicators described above. For regency *i* in year *t*, this index is formulated as follows:

$$PPI_{i,t} = \frac{(BEFI_{i,t} + (100 - BETI_{i,t})) + AEFI_{i,t} + (100 - AETI_{i,t}) + PHFI_{i,t} + PHOI_{i,t} + PRQI_{i,t}}{7} \dots\dots\dots(3)$$



IV. PERFORMANCE OF REGIONAL GOVERNMENT PERSONNEL

The key point in evaluating government personnel is the extent to which deployment is able to meet demand for public services. Furthermore, in regard to financing, numbers of personnel are crucial to the ability of the region to raise its own revenues and ultimately this has implications for the demand for goods and services within the region itself. When considered in terms of numbers, greater amount of personnel directly involved in public services can mean that the government is better able to deliver its services. In evaluating the division and establishment of regions, three key indicators can be used to portray the deployment and quality of government personnel:

1. Qualifications of Government Personnel (PPNSI)

Educational levels are a reflection of levels of understanding and knowledge. The higher a person's education, the greater the potential for improved quality of work. This indicator is stated as a percentage of government-employed university graduates to total government personnel.

2. Percentage of Government Teaching Personnel (EPNSI)

This indicator reflects capacity for delivery of public services, in this case education. The data used in this study is the number of government-employed teachers to total government personnel in a region.

3. Percentage of Government Paramedics (HPNSI)

This indicator reflects capacity for delivery of public services, in this case health. The data used in this study is the number of government-employed medical personnel to total government personnel in a region. Medical personnel are defined as doctors, midwives, and nurses employed in hospitals, community health centres, community health posts and village delivery posts.

The **Government Personnel Index (IKA)** combines these indicators and is formulated as follows:

$$IKA_{i,t} = \frac{(PPNSI_{i,t} + EPNSI_{i,t} + HPNSI_{i,t})}{3} \dots\dots\dots(4)$$

2.3. Sampling Methodology

The evaluation of new regions cannot only rely on observation of the most recent conditions in those regions. A 'before and after' comparison ignores the alternative path that the new region may have taken over the course of time. Such a comparison takes one and the same region as a benchmark, and this is problematic because the region under study is in a changing state, i.e., it is in the process of transition and is subject to terms in the relevant policy guiding its division and/or creation. To make a better comparison, another benchmark would be needed against which the divided regions could be compared.

This study applies the 'treatment-control' method to evaluate performance and conditions in new autonomous regions. New regions formed through division are regarded as 'treated' in terms of the policy being applied there. Apart from identifying such regions, it was also important to first identify the other 'comparable' undivided regions (those not subject to division or coming under the policy, regulation No.129/2000) to be used as control regions. By comparing the two groups, it is possible to establish whether the policy for division and establishment of new autonomous regions is working as intended.

In applying this methodological framework, the selection of control and treatment regions to be used as research samples is key. The first region excluded from consideration for sampling is Java. Java is not included in this study because the typical pattern in new autonomous regions on this island is that of conversion of regency to municipality, while the scope of this study is the establishment of new autonomous regencies *from existing regencies*. Also excluded from sampling are conflict-ridden or disaster-hit regions. The purpose of this is to eliminate the special circumstances faced by regional governments in these areas.

The sampling was determined progressively, beginning with macro regions (large islands) and working down to the regency level. The regions chosen were formed from the division and establishment of autonomous regions in 2000. The sampling method is explained as follows:

- a. As a first step, Indonesia was divided into four macro regions (major island regions), i.e. Sumatera, Kalimantan, Sulawesi, and the combined region of Papua, Maluku and Nusa Tenggara. Provinces were then selected from each of the macro regions. The selection of provinces was based on economic homogeneity among regencies within the same province. This was done to assess progress in regencies after the division of regions, assuming that levels of prosperity would be similar and offer a basis for comparison. Homogeneity is obtained using a standard deviation of Regional GDP/capital among the smallest regencies within a specific province, based on 1998 data (before division).
- b. In each of the selected provinces, a list of the regencies that underwent division was prepared. This became the list of parent regencies. From this list, two or three regions were selected as samples. This method was similarly applied to the selection of new autonomous regions as samples.
- c. The selection of control regions was based on the initial endowment approach and socio-cultural conditions before administrative division. The control regions are regencies in the same provinces that have not undergone division. A regency was selected as a control, if before division from the parent, it showed the least differences in economic growth and fiscal management with the parent region.

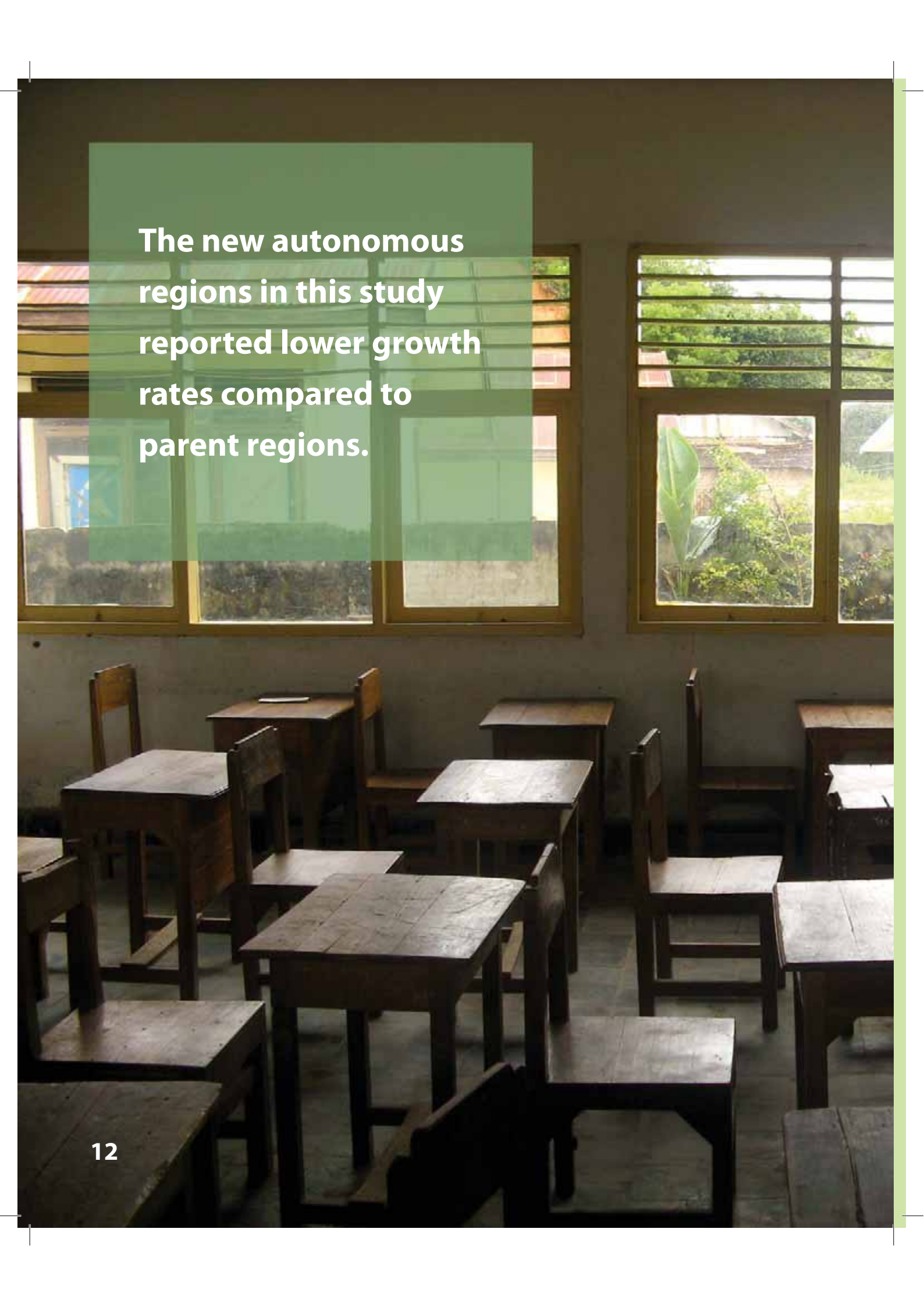
In moving progressively through the sampling stages described above, sample regions for the study were obtained. These are as presented in Table 2.1 below.

Table 2.1 Sample Regions

No.	Region	Province	Original Regions	Parent Regions (10 Regencies)	New Autonomous Regions (10 Regencies)	Control Regions (6 Regencies)
1	Sumatera	Jambi	Bungo Tebo Sarolangun Bangko	Bungo Merangin	Tebo Sarolangun	Kerinci
2	Sumatera	Lampung	Lampung Tengah	Lampung Tengah	Lampung Timur	Lampung Barat
			Lampung Utara	Lampung Utara	Way Kanan	
3	Kalimantan	Kalimantan Barat	Sambas	Sambas	Bengkayang	Ketapang
			Pontianak	Pontianak	Landak	
4	Sulawesi	Sulawesi Tengah	Banggai	Banggai	Banggai Kepulauan	Donggala
			Buol Toli-Toli	Toli-Toli	Buol	
5	Sulawesi	Sulawesi	Luwu	Luwu	Luwu Utara	Tana Toraja
6	Nusa Tenggara & Maluku	NTT	Flores Timur	Flores Timur	Lembata	Belu

The regions used as samples in the study were selected from 72 regencies/municipalities in six provinces on four major islands. 26 samples were selected: ten parent regencies, ten new autonomous regencies and six control regions.

The study also gathered more detailed information through in depth interviews and focus group discussions in selected regions. The four regencies selected for this qualitative part of the study were Luwu Utara Regency and Luwu Regency in South Sulawesi Province and Lampung Regency and Lampung Timur Regency in Lampung Province. The field case studies were conducted in regions with extreme conditions that required further qualitative analysis. These field case studies yielded information on perceptions and socio-cultural issues, as well as verifying other findings. Individual and focus group discussions were held with resource persons from stakeholder groups in the regions and at the central government level: relevant government agencies, regional legislative councils, community leaders, and academics as well as experts specialising in public administration and regional development.

A photograph of a classroom interior. The room is filled with rows of simple wooden desks and chairs. The desks are arranged in a grid pattern. In the background, there are large windows with wooden frames. The windows look out onto a lush green landscape with trees and a building. The lighting is natural, coming from the windows. A semi-transparent green box is overlaid on the left side of the image, containing white text.

The new autonomous regions in this study reported lower growth rates compared to parent regions.

3 Performance Evaluation

This chapter presents the results of calculations and analysis of data. The description is divided into several stages involving the evaluation of each indicator for each focus area. The four focus areas are: (a) the local economy, (b) regional fiscal management, (c) public service delivery, and (d) regional government personnel.

3.1. The Local Economy

As discussed earlier, the economic indicators consist of economic growth, general prosperity, role of the local economy within a province, and poverty levels within the region.

Economic Growth and Contribution of New Autonomous Regions

Economic growth is an indicator of progress in various development sectors and a source of new employment. Increased value added in an economy points to a rise in internal economic activity within the region and economic activity within the context of interregional interaction.

The new autonomous regions in this study reported lower growth rates compared to parent regions. Chart 3.1 shows that economic growth in parent regions was generally more stable at 5%-6% per annum, while growth in new autonomous regions fluctuated more widely. This fluctuation is explained to some extent by the dominance of agriculture in economic activity in the new autonomous regions. The susceptibility of this sector to changes in prices, seasons and climate means that even a slight change in this sector will have a major effect on regional GDP formation. In some sample locations, output of some agricultural commodities suffered from pest attacks, for example. The Luwu Utara and Lampung Timur Regencies recorded negative growth in agriculture due to pest attacks and adverse natural conditions, such as flooding on cultivated land.

At the same time, parent regencies with their stronger non-oil and gas manufacturing base maintained more stable levels of economic growth. In the parent regions, industry accounted for 12% of the regional GDP. This compares to only about half of this level in the new autonomous regions. The greater the manufacturing role within a region, the more advanced the region itself. During the post-crisis period of economic recovery, manufacturing was a more robust growth sector. This works to the advantage of regions with relatively large manufacturing sectors (Brodjonegoro 2006).

The regional GDP contribution of new autonomous regions to total provincial GDP was very low (about 6.5%), less than for the control regions (12%) or parent regions (10%). This proportion remained largely constant during the 2001-2005 period, indicating that the regions separated from parent regions have relatively smaller total GDP. The division and establishment of new autonomous regions has not created regions on equal standing with their parent regions.

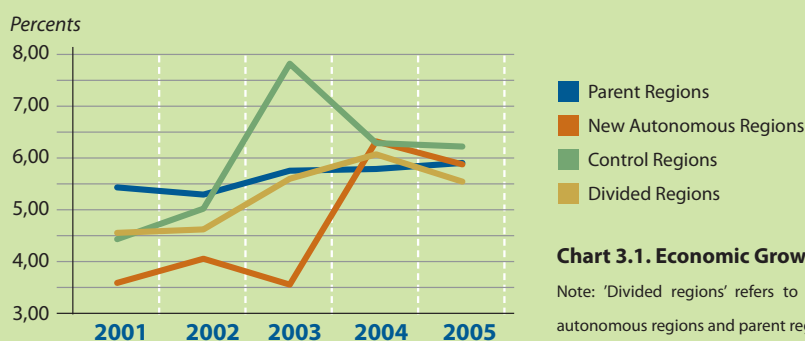


Chart 3.1. Economic Growth

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

The relatively low contribution from new autonomous regions is indicative of low economic activity. There are several possible reasons for this. **First**, is the inequitable division of economic resources between new autonomous regions and their parent regions. Parent regions usually dominate in the allocation of economic resources, such as industrial estates and productive natural resources. **Secondly**, there is relatively little private investment in new autonomous region with the result that the past five years have not seen changes significant enough to boost the local economy. **Thirdly**, the economy in new autonomous regions does not benefit from an optimum stimulus from the local government, either because relevant programs are not effective or because budget allocations have yet to show tangible outcomes.

Public Prosperity and Poverty Issues

Regional GDP per capita is a macro indicator that in aggregate terms can be used to depict public prosperity and economic growth in the region. Parent regions had a higher regional GDP per capita than the new autonomous regions. There are several reasons for this. **First**, the process of division of regions has encouraged parent regions to let go of impoverished sub-districts. Indications of regions releasing these burdens are supported by the fact that no poverty indicators are included in the technical requirements for creation of new regions³. **Second**, parent regions are better prepared in terms of resource potential, whether in public administration, society or infrastructure. This will also lead to more rapid development in parent regions which, after division, 'benefit from' smaller populations with better quality of economic resources.

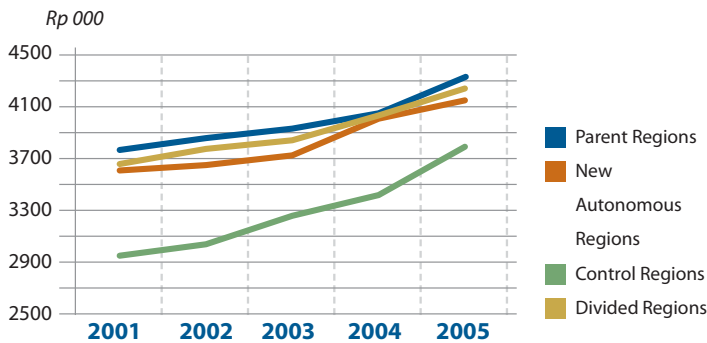


Chart 3.2. Regional GDP per Capita (Rupiahs)

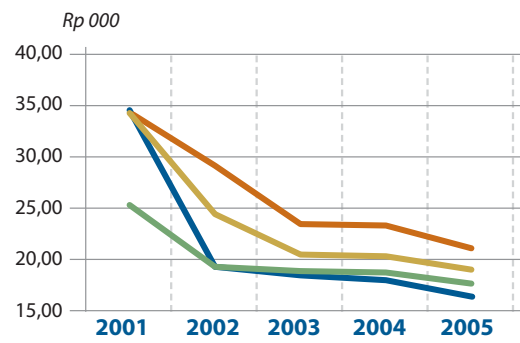


Chart 3.3. Poverty Levels

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

The prosperity indicator, regional GDP per capita, must also be contrasted with poverty indicators. Poverty figures provide a picture of the extent of the lowest income groups in the economy. Efforts to build prosperity in all regions must also be followed by reductions in numbers of the poor. In 2001, 19.14% of Indonesians nationwide, or about 38.7 million people, were living in poverty. By the end of 2005, these figures had been reduced to 15.97% or about 35.1 million (BPS 2005).

Parent regions had a higher regional GDP per capita than the new autonomous regions.

This study shows that even though regional GDP per capita in new autonomous regions almost reached the average for all regions in 2005, the poverty levels in new autonomous regions were higher, at 21.4% of the population compared to 16.7% in parent regions. In addition, poverty remained more prevalent in the divided regions (parent regions and new autonomous regions combined) than in the control areas. This shows that despite higher prosperity levels compared to the control regions, the regions created through division also have more citizens living in poverty.

³ Poverty numbers are not included in Government Regulation 129/2000 because of limitations in data, which does not enable disaggregation of citizens living in poverty down to the sub-district level.

The high poverty levels in the new autonomous regions are explained by several factors. **First**, pockets of poverty are generally least developed areas with only limited natural resources (agriculture), and therefore have very limited capacity for maximizing the potential of these resources. Agriculture is generally a major factor in poverty, with about 60% of the poor employed in this sector (Ikhsan 2001). **Second**, infrastructure such as roads, schools and other economic facilities are very limited and new regions' centres are located far from the former regency capital. In fact, many of the new autonomous regions include isolated areas in mountain ranges and on the coast. This results in the poor having limited access to resources for improving their lives, including economic capital held in the form of agricultural land or financial resources. **Third**, from a social perspective, the poor generally have low education level, due to their limited access to education. For this reasons, it is virtually impossible to bring poverty levels down in a short period of time.

Regional Economic Performance Index

The data presented above was subsequently used to calculate the regional economic performance index. On one level, parent regions still had stronger economies than the new autonomous regions. There is generally a substantial gap between new autonomous regions and the parent regions, indicating that the new regions have seen little progress.

At the same time, the control regions continued to demonstrate better economic performance than the regions formed through division (new autonomous and parent regions). In Chart 3.4, control regions were consistently ahead of the divided regions. Accordingly, divided regions generally showed less rapid progress, even though on par with average performance for regencies/municipalities within the same province. The index findings also show indirectly that the regions formed through division are not prospering or even on par with their parent regions, but are struggling more to bring prosperity to the population and improve existing conditions.

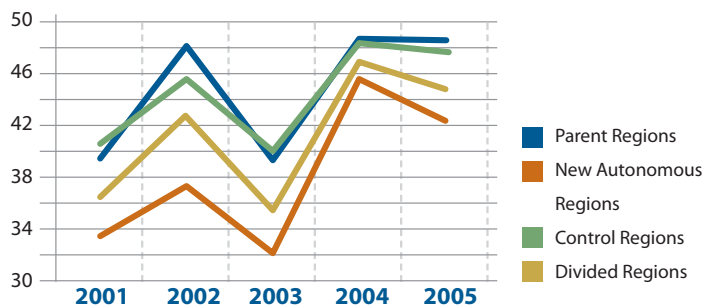


Chart 3.4. Regional Economic Performance Index

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

In view of the wide disparity between new autonomous regions and their parent regions, the question arises as to whether the new regions are able to close the gap. After five years, positive signs are emerging in some key areas, such as more construction of infrastructure and emergence of public service facilities in new autonomous regions. However, the regions that did not undergo division showed generally a similar performance. Although past conditions in the divided regions before division and establishment of new administrative areas (2000) differed little from the control regions, marked differences emerged in the 2001-2005 period. After division, the new autonomous regions lagged far behind both parent and control regions. It can therefore be said that the economic disparities came into being during the five years after the division and establishment of the new regions.

Two key problems can be identified from the indicators as described above:

- **Inequitable Division of Economic Potential.** The current trend in data indicates that the new autonomous regions have lower economic potential compared to parent regions. This is borne

The regions formed through division are not prospering or even on par with their parent regions, but are struggling more to bring prosperity to the population and improve existing conditions.

out by Regional GDP for new autonomous regions, which remained below the levels recorded by the parent regions even though under Government Regulation No. 129/2000 the capacity of a parent region may not differ widely from that of a prospective new autonomous region. In real terms, this potential consists of industrial zones, productive agricultural land and estates, aquaculture ponds, mining, and facilities supporting the economy.

- Increased Burden of Impoverished Communities.** One of the conclusions reached earlier was that regions undergoing division, in this case new autonomous regions, are typically burdened with higher numbers of poor citizens. Accordingly, far more robust efforts are necessary to stimulate regional economies so that higher income levels can be achieved. The poor generally have limited capacity in education, knowledge and income generating abilities. Furthermore, pockets of poverty have very limited natural resources. For example, populations tied to land that will only support cultivation of low-yield food crops.

3.2. Regional Fiscal Performance

This section explains the progress of new regions against the following evaluation indicators: regional fiscal performance, covering fiscal dependence, enhancement of revenue generating capacity, management of long-term expenditures; and contribution to the economy. These indicators are explained as follows:

Fiscal dependence and locally-generated revenues

Fiscal dependence is used to measure the extent to which administrations in divided regions are able to strengthen regional fiscal capacity in order to meet fiscal needs for financing development through their management of locally-generated revenues and equalisation funds. Equalisation funds are provided by the central government. From the elucidation to Act No. 33 of 2004, it can be said that the General Allocation Funds (DAU) are intended to promote more equitable fiscal capacity in fulfillment of the financial distribution function of the government. However, the DAU component itself includes a basic allocation for salary payments to regionally-based civil servants who come under the general responsibility of the central government. Therefore, to map fiscal dependence in parent and new autonomous regions, this payroll component must first be subtracted from the DAU funds. It is then possible to obtain a picture of fiscal dependence in divided regions by comparing the DAU (non-personnel expenditures) with total revenues.

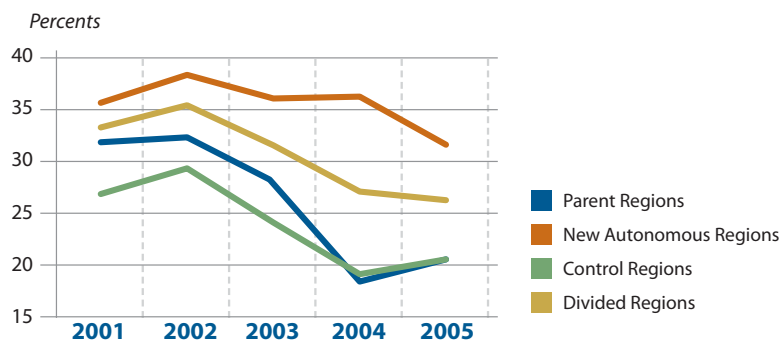


Chart 3.5. Fiscal Dependence

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

In overall terms, fiscal dependence is in decline (see Chart 3.5). During 2001-2005, new autonomous regions showed higher levels of fiscal dependence compared to parent regions and control regions. Nevertheless, the trend in new autonomous regions reversed in 2003-2004. In 2004-2005, when dependence increased in parent and control regions, the new autonomous regions recorded lower percentages.

Fiscal dependence also decreased at a far steeper rate in parent regions compared to in control regions. This indicates that the parent regions reaped gains from their division from new autonomous regions. Since 2004, parent regions have shown less fiscal dependence, with percentages below even those recorded in control regions.

Despite a downward trend, fiscal dependence in new autonomous regions has consistently been greater than in control and parent regions. This again bears out the fact that new autonomous regions are not the kind that can be hastily readied to take over the powers of regional government. This is even in spite of the approximate doubling in non-payroll DAU funds (from about Rp 40 billion in 2001 to Rp 88 billion in 2005) for new autonomous regions, while the equivalent value of support for parent regions has remained largely constant. If this fiscal dependence were to include payrolls, the dependence would be even greater than shown by this indicator.

However, the decline in non-personnel DAU funds to total revenues is the result of efforts by regional governments to strengthen their fiscal self-sustainability through increased locally-generated revenues. The ratio of locally-generated revenues to Regional GDP measures regional fiscal performance in terms of macro revenues. It is frequently also called a tax effort indicator, measuring the extent to which regional governments generate income based on the capacity and potential of the economic environment in their regions.

It can generally be said that new autonomous regions have not developed their local revenue sources to the same degree as the parent regions. In the initial period (2001-2002), there was only a narrow gap between the efforts of new autonomous regions and parent regions to promote sources of locally-generated revenue. At that time, new autonomous regions and parent regions had not fully separated their administration and personnel. However, after 2002, performance improved in the parent regions in contrast to drastic deterioration in new autonomous regions. Similar conditions also become evident in the comparison of revenue generation in parent and new autonomous regions against control regions, with far lower levels of revenue generation in parent and new autonomous regions (see Chart 3.6).

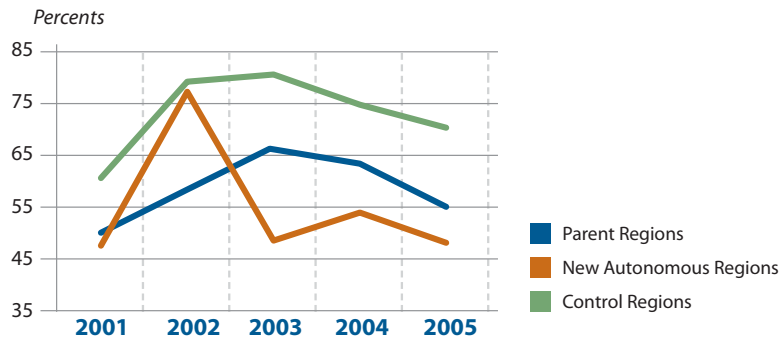


Chart 3.6. Locally-generated revenues to Regional GDP

Building optimum levels of locally-generated revenues should be seen as distinct from hikes in tax rates or the proliferation of taxes or user charges. These efforts should be based on improvement in the government role in supporting and creating economic activity, which in turn promotes growth in existing economic sectors. Economic growth will in itself boost locally-generated revenues. This is consistent with Act No. 33/2004 concerning Fiscal Equilibrium between the Central Government and Regional Governments, in which local governments are prohibited from increasing locally-generated revenues by enacting Regional Regulations (the legal basis for regional taxes and user charges) that result in a high cost economy and hamper the mobility of citizens and flows of goods and services. An earlier study (Bappenas 2004) states that the tax

New autonomous regions are not the kind that can be hastily readied to take over the powers of regional government.

base in new autonomous regions is not based on a region’s economic growth or advancement. The reasons for this lie in inadequacies in the management of revenue sources, ranging from system design and regulation, to institutions and individuals. This has also resulted in the limited scope of taxable sources of revenue in the regions.

Investment Expenditure and Regional Budget Contributions

The ratio of government capital expenditures to total expenditure (also referred to as the CAPEX or Capital Expenditure indicator) is a measure of government budgeting policy orientation to long-term benefits or investment. Capital expenditures are used in the construction of regional infrastructure, such as roads, bridges, irrigation, school buildings, hospitals, and other assets including government infrastructure ranging from the regent’s office to regional government offices.

During 2001-2005, CAPEX in new autonomous regions was generally higher than in parent regions⁴. New autonomous regions visibly demonstrated investment-oriented rather than consumptive expenditures. This was to be expected, as these regions had only just gained their new autonomous status and have urgent needs for facilities and infrastructure. The concern is over the declining percentage in parent regions: since 2004, parent regions reported lower percentages of CAPEX (as a proportion of total budget) compared to the control regions

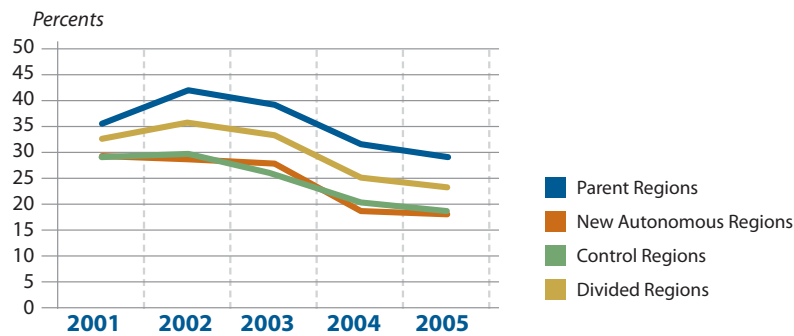


Chart 3.7. Capital Expenditures vs. Total Expenditures

Note: Divided regions are new autonomous regions combined with parent regions.

If described in more detail, capital expenditures in new autonomous regions have a different focus compared to parent regions and other regencies. In new autonomous regions, capital expenditures are focused on investment in government infrastructure, such as office buildings, transportation, and also office equipment and furnishings that the region has not previously possessed as they were not an autonomous region. These CAPEX allocations would last for at least the first 5 years after the division to create new regions. On the other hand, the parent regions, which already had government infrastructure before the division, could focus more on public investments.

In development financing, the requirements for division and establishment of new regions prescribe funding assistance to be provided to new autonomous regions by both provincial administrations and the parent regions. However, such flows of assistance are not always appropriate. For example, the Palopo municipality in South Sulawesi, which split from its parent region in 2003, had previously been home to the capital of Luwu Regency, the parent region. Upon division, Luwu Regency in fact ‘lost’ resources (concentrated in Palopo) that had sustained its economy and moved its capital to Belopa. Under these circumstances, Luwu Regency, despite being the parent, should have received financial assistance for new autonomous regions in

⁴ In the Minister of Home Affairs Decree No. 29/2002, expenditures are differentiated by personnel and public expenditures. Each in turn is differentiated into General Administration (BAU), Operational and Maintenance (BOP), and Capital expenditures. The latter is used for capital expenditures in this study.

order to build a new centre of government, rather the reverse as in fact occurred.

The role of government spending in the regional economy not only involves capital expenditures for long-term investments, but also recurrent expenditures of a more consumptive nature. The consumptive 'path' consists of payrolls (personnel expenditures) and capital expenditures on construction of infrastructure and public services. During the 2001-2005 period new autonomous regions reported a higher percentage of capital expenditures to Regional GDP, compared with the parent regions. The difference was quite pronounced. This shows that regional fiscal contribution to the economy is significantly greater than in parent regions. This is not only the result of a greater focus in the new autonomous regions on meeting personnel needs and building government facilities. Even more significantly, it is due to the early stage of economic development in new autonomous regions compared to parent regions or control regions, or even to the average across all regencies.

Even so, it must also be noted that the larger government sector role in new autonomous regions has not been able to stimulate the private sector in moving the regional economy forward. In addition, budget-financed activities in new autonomous regions are not well targeted for promoting growth in centres of economic activity.

Furthermore, attention is required to a number of crucial matters in both recurrent and capital expenditures in the new autonomous regions. In recurrent expenditures, a relatively large portion is allocated to the payroll, which in normal circumstances would stimulate the economy through consumption. However, the composition of regional government personnel in new autonomous regions consists not only of regionally-based civil servants appointed by the central government following division, but also of personnel transferred from the parent region, the province, and other regions. The problem concerns the large numbers of central government-appointed civil servants that maintain their former residence (either in the capital of the parent regency, provincial capital, and other areas). This means that personal spending by officials does not fully contribute to the new autonomous regions where they 'work', but instead flows to the other regions where they live. From this perspective, the recurrent expenditures do not realise their full potential contribution to promoting consumption in the newly autonomous areas where these personnel are officially employed.

Concerning capital expenditure, government investment through CAPEX contributes to the regional economy in at least two ways. In the short-term, the contribution is through spending on materials and labor. In the longer term, this contribution comes through multiplier effects in the private sector that also have a role in the economy. The long-term impact of capital expenditure must be analysed over a period longer than five years. This means that for the time being, the impact of government capital expenditures can only be measured by short-term impacts, as described above. The problem lies in the difficulty with procurement of processed or manufactured products, which are difficult to source within new autonomous regions, such that budgets spent on materials also become outflows to other regions. A similar pattern is observed with labor employed on projects, given that contractors are usually based outside the new autonomous regions. This explains the limited benefits in contribution to the local economy from government spending in new autonomous regions, at least in the short-term.

Regional Fiscal Performance Index

The four indicators for regional fiscal performance have been synthesised into a single fiscal performance index. In the index presented in Chart 3.8, new autonomous regions consistently perform below the parent regions. Nevertheless, there are two points to note from the conditions that unfolded during 2001-2005. First, in 2001-2003, the gap in the index between new autonomous regions and parent regions narrowed. During this period, fiscal management in new autonomous regions was not fully segregated from the parent regions. Despite the varying timeframes required by individual regions to become truly independent of their

The larger government sector role in new autonomous regions has not been able to stimulate the private sector in moving the regional economy forward.

parent regions, various dynamics still meant that fiscal management in parent regions had a bearing on new autonomous regions. In other words, fiscal management in parent regions and new autonomous regions did not become fully segregated until after 2003. The second condition is that after 2003, fiscal performance improved in parent regions while in new autonomous regions it declined. During this period, new autonomous regions were truly on their own in terms of institutions, financial administration, management, and operating within the regional level regulatory framework for fiscal management in individual regions.

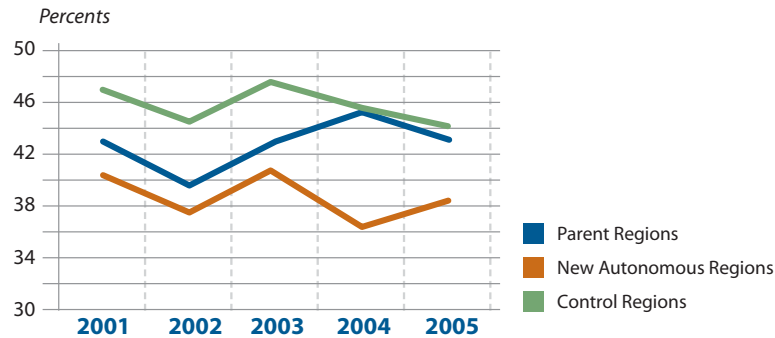


Chart 3.8. Regional Fiscal Performance Index

The law states that the financial support from parent regions shall be provided for a maximum of three years, with funding levels to be agreed between the parent region and the new autonomous region. However, in looking at progress in the regional fiscal performance index, new autonomous regions require more time to prepare the various instruments for fiscal management, including institutions, financial administration, management personnel, and a regulatory framework for matters of a more technical nature, as well as for preparing the regional budget itself. The regions chosen for this study are those formed from the division and establishment of autonomous regions in 2000. If 2003 could be called the year of 'fiscal self-sustainability,' an average of four years is required for a new autonomous region to become truly independent of its parent region.

Overall, weaker fiscal performance in the divided regions compared to control regions is explained by a number of issues in regional fiscal management:

- **Greater fiscal dependency in the divided regions,** and primarily in the new autonomous regions, due to the size of their capital expenditure allocations. Central government funding continues to play a significant role in the development of the regions formed as a result of the regulation on regional administration. In regard to fiscal decentralisation and regional autonomy, the division and establishment of regions should promote regional governments capable of implementing local development on a self-sustaining basis by optimising sources of local economic growth. Allocations of central government funds should be used to provide initial capital and incentives for governments in new autonomous regions to optimise their local revenue-generating capacity. This in turn will reduce dependence on central government funding.
- **Low revenue performance and contribution to the economy.** Here, government finances and the regional economy are caught in a vicious circle. In new autonomous regions, the regional government needs to play a major role in stimulating the economy. This involves not only the construction of infrastructure, but regional fiscal policies and management that will promote growth in centres of economic activity. The inadequate role of regional government finances in promoting local economic growth in turn impacts upon local revenue generation that would otherwise promote fiscal self-sustainability.

- **Low proportion of regional government allocations for capital expenditures**, being insufficient to boost local economic activity. This is one indicator of the lack of effective fiscal policy in divided regions, and mostly in new autonomous regions, to stimulate local consumption and investment.

The division and establishment of regions enables the government to improve equity in access to basic and advanced education.

3.3. Performance in Public Service Delivery

The third focus of the evaluation is regional government performance in the area of public service delivery. This analysis is divided into three parts: education, health, and infrastructure.

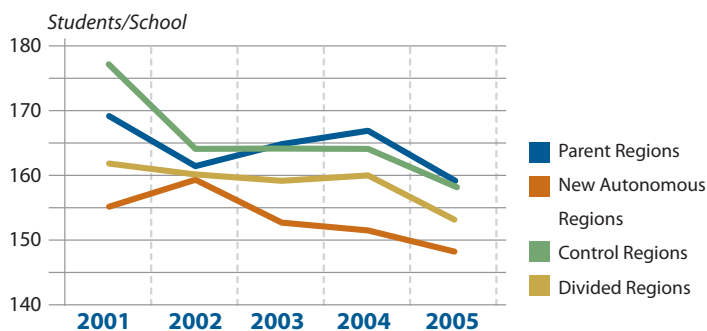
Education

The education sector is a vital part of public service delivery. The Medium-Term National Development Plan (RPJMN) for 2004-2009 states that the problems confronting education in Indonesia include disparities in provision of educational facilities, especially for lower secondary and higher levels of education. Also important is the shortage of adequately qualified teachers. The division and establishment of regions enables the government to improve equity in access to basic and advanced education and to address the shortage of qualified teaching personnel through the involvement of regional governments. With a shorter span of control and more equitable fiscal allocation, there should be adequate opportunity for improvement in the provision of education in all regions and particularly in new autonomous regions.

As a rule, it can be said that schools in new autonomous regions have less capacity for enrolment of new students compared to other samples. This applies to elementary and lower secondary education, as well as to upper secondary education. Wide disparities in enrolment capacity exist between the schools in new autonomous regions and in other regions. The trend is one of declining enrolment capacity during the 2001-2005 period. In new autonomous regions, this trend is far more pronounced than elsewhere. This becomes an even greater concern in view of the average (for all regencies), which does not show a declining trend. However, if new autonomous regions are compared with control regions, a downward trend in school enrolment capacity can also be identified in these regions.

This indicator essentially has two crucial meanings. First concerns the availability of schools and second the participation of the public. If the low indicator is explained more by the construction of new schools that cannot keep pace with the inflow of new pupils, the issue pertains to an inadequate provision of schools. In other words, what is needed are more schools. However, if this indicator is rather the result of low rates of school attendance by children reaching elementary school age in comparison to the growth in the number of schools, the issue concerns the participation or awareness of the public. Although further research is needed, it is clear that in regions formed through division this indicator is not at the desired level.

a. Elementary and Lower Secondary Education



b. Upper Secondary Education

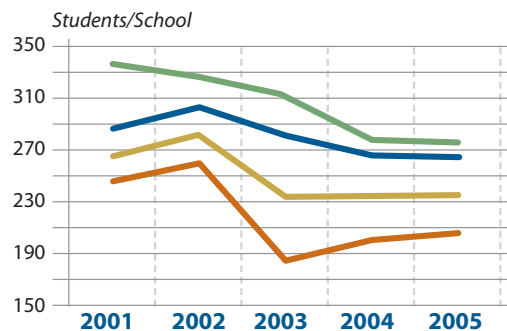


Chart 3.9. Students per School

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

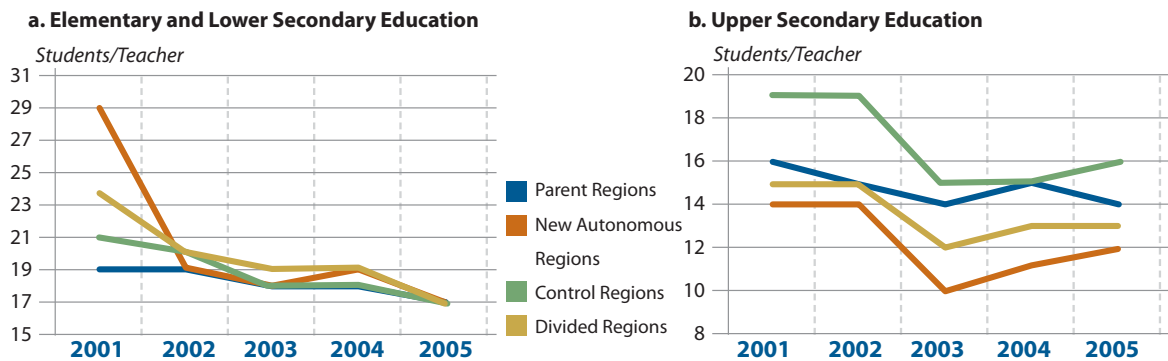


Chart 3.10. Student-Teacher Ratios

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

Deployment of teaching personnel is vital for success in the development of education. The student-teacher ratio has a bearing on the effectiveness of the learning process in schools and so too on efforts to improve the quality of human resources in the region. The trend in this indicator in new autonomous regions is similar to that of parent regions. Despite some difference between new and parent regions at the upper secondary level, the gap is not excessive.

The downward trend in the student-teacher ratio during 2001-2005 calls for attention. If the decline is attributable more to higher numbers of teachers, then classes are becoming more effective. However, if the decline is caused more by falling numbers of students, the issue concerns the role of the public. This can be examined further by comparing growth in numbers of teachers with that of students (see below).

Chart 3.11 shows a positive trend in the number of students in lower and upper secondary education in new autonomous regions alongside positive growth in teacher numbers. Increased deployment of teaching personnel has therefore been matched by higher attendance by school-aged children. However, at the elementary school level, student numbers in new autonomous regions have declined.

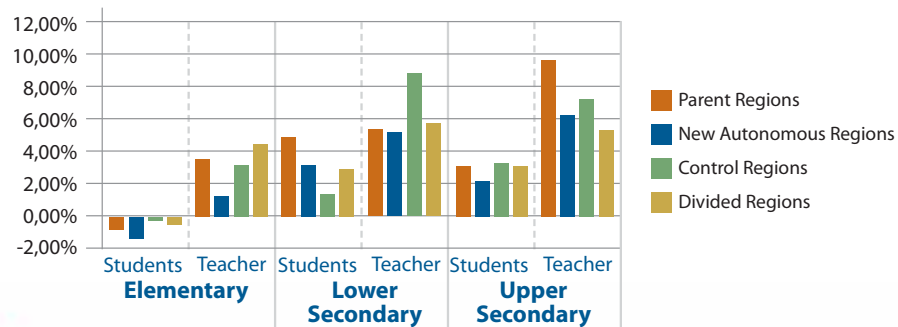


Chart 3.11. Average Growth in Students and Teachers, 2001-2005

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.



Decentralisation in the health sector is crucial to implementation of the national development plan and support for progress towards the Millennium Development Goals.

A positive trend is also visible when comparing the student-teacher ratios in divided regions with the control regions and average levels for all regencies. At the elementary level, the gap between regions formed through division and the control regions and the regency average is very narrow. However, at the upper secondary level, the new autonomous regions are less well off than their parent regions, even though the gap is closer in terms of the average for all regencies. In upper secondary education, teacher deployment is at more adequate levels for effective learning.

Nevertheless, it must be noted that cases exist of one teacher working at several schools, both within one regency and in neighbouring regencies. This could result in double counting of teachers and is an issue calling for serious attention from regional governments. Teaching in multiple locations is one means of coping with local teacher shortages, but data gathering must ensure that double counting does not occur.

Health

In the health sector, provision of healthcare is measured by the number of facilities per 10,000 of population. This number of population is used to obtain a picture more representative of healthcare provision at the sub-district level. Available data suggests that there is no major gap in healthcare provision in new autonomous regions compared to parent regions. In fact in 2005, there was a tangible increase in number of health care facilities per 10,000 of population in the new autonomous regions.

Chart 3.12 also points to a declining trend in number of healthcare facilities in the control regions. In other words, the division and establishment of regions have promoted significant improvement in equitable access to health services, especially in terms of constructed facilities. This is consistent with national development policy, which states that one of the objectives of health policies is to improve the equitable provision of primary healthcare. However, it is also important that besides the quantity of healthcare facilities, emphasis is given to quality to ensure that development objectives in the health sector will be achieved.

Decentralisation in the health sector is crucial to the implementation of the national development plan and support for progress towards the Millennium Development Goals. The division and establishment of regions fulfill this need in that it not only promotes expansion in provision of healthcare facilities and medical workers, but also promotes improvements in quality of healthcare. To achieve quality healthcare, the quality of the medical workers themselves is key.

To evaluate the deployment of medical personnel, ratios of numbers of medical personnel, including doctors, paramedics and non-paramedic staff, per 10,000 of population are used. These ratios are presented in Chart 3.13. Unlike for provision of health facilities, the numbers of medical workers in new autonomous regions lags far behind the parent regions and control regions. In 2005, parent regions recorded at least 13 medical workers per 10,000 of population, while in new autonomous regions the ratio was only eight. The difficulty of attracting medical personnel in parent regions mirrors that for teaching personnel and government officials in general.

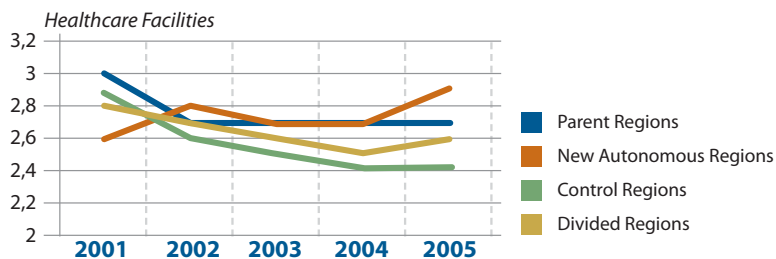


Chart 3.12. Healthcare Facilities per 10,000 of Population

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

In 2004-2005, numbers of medical personnel were up in both new autonomous regions and parent regions. This should be a trend for medical workers in new autonomous regions that will carry into the future. Deployment of medical workers is closely related to the national health policy: deployment of higher numbers of medical workers distributed with greater equity throughout Indonesia has been incorporated into the national programs of the Ministry of Health and Ministry for Administrative Reform. This means that the central government plays a vital role in increasing the deployment of medical personnel.

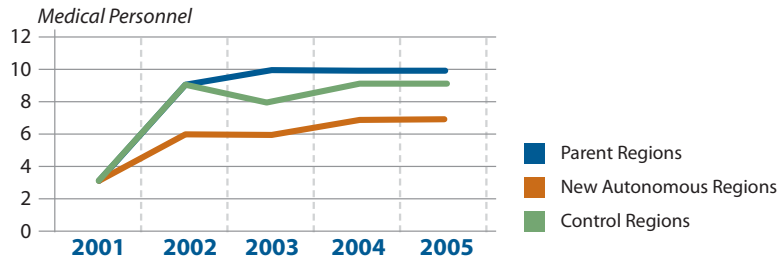


Chart 3.13. Medical Personnel per 10,000 of Population

Regional governments also play a special role in healthcare decentralisation. That role is to promote increased numbers and equity in distribution of medical workers in their regions, and most importantly in least developed areas. Some of the existing divided regions lag far behind others, with some sub-districts still receiving only a minimum level of health services.

Quality of Infrastructure

In addition to education and healthcare, infrastructure plays a crucial role in regional development. Infrastructure not only plays a role in the economy, but also in other activities that support development, including the administrative tasks of government and public services. Infrastructure is also a means for promoting information flows and other activities. The indicator used here to present infrastructure quality is the percentage of roads in good condition to the total length of roads. Roads are a basic component of infrastructure. Progress in road infrastructure is presented in Chart 3.14.

Infrastructure not only plays a role in the economy, but also in other activities that support development, including the administrative tasks of government and public services.

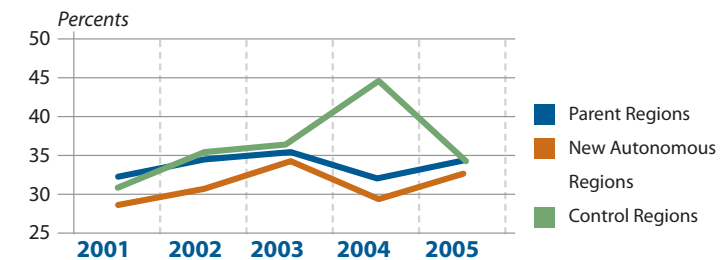


Chart 3.14. Quality of Infrastructure

The available data shows that in the initial years (2001-2003), roads in parent regions were still in superior condition compared to new autonomous regions. In the end of 2003, the average percentage of good roads was 35.61% in parent regions and 34.40% in new autonomous regions. However, this changed after 2003, when parent regions slipped slightly behind the new autonomous regions, indicating that governments in new autonomous regions have focused on road construction. Before the division and establishment of autonomous regions, these areas lacked adequate road infrastructure. The new administrative structure indeed brought repairs and construction of new roads in the new regions. However, with good quality roads accounting for only 30%-40% of total road length, there is room for further improvement in the new autonomous regions. Roads are not only crucial to public administration and service delivery, but also support the local economy.

The poor quality of roads in new autonomous regions is exemplified by comparing average road quality in divided regions with that in control regions and the regency average, as shown in Chart 3.14. However, there is also a downward trend in infrastructure quality, not only in the divided regions, but also control regions and parent regions. New autonomous regions are driven by the urgency for rapid construction of infrastructure and particularly roads because of the poorer state of their road infrastructure compared to control regions and other regions with a longer history of development. The route along which a new road will be built is also extremely important, in addition to the quality of the road itself. Infrastructure should not only support the activities of public administration, but more importantly promote the emergence of new growth centres.

Public Service Delivery Index

Public service delivery is closely intertwined with the division and establishment of regions. The expectation is that creating new autonomous regions will bring greater prosperity to society. Part of this involves improvement and greater equity in public services, including education and health. Clearly, the construction of public facilities must be matched by improvement in the quality and effectiveness of the services themselves to promote greater prosperity in the region.

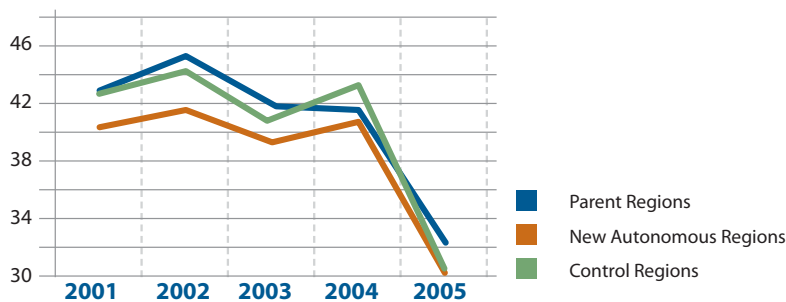


Chart 3.15. Public Service Delivery Index

Chart 3.15 shows that during 2001-2005, the Public Service Delivery Index (IKPP) in new autonomous regions was consistently below that of parent regions. This points to poorer levels of public services in new autonomous regions compared to parent regions. As described in an earlier section, shortcomings in public service delivery in new autonomous regions are related mainly to provision of school buildings, deployment of medical personnel, quality of road infrastructure and deployment of teaching personnel.

The weaker performance in divided regions is explained by several issues. Among these are:

- **Less effective use of funds.** The division and establishment of new regions has seen increased allocations of funding to regions of similar geographical area and population. Ordinarily, this should lead to improved public services, at least in terms of more schools and teachers. This is also consistent with the principle of bringing government services closer to the people. The trend in the public service delivery index points to poorer use of funds for public service delivery in new autonomous regions compared to parent regions.
- **Lack of personnel for public services.** Central government funding allocations through the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) should be invested in expansion, and more equitable provision, of education and health infrastructure. Economic constraints in new autonomous regions are an obstacle to recruiting the teaching and medical personnel needed to improve performance in local service delivery. Furthermore, the difficulty in increasing numbers of service personnel is compounded by the weak performance of existing personnel.

5 Thoha (2005) found that only 60% of Indonesia's civil servants are productively employed. The rest are not productive or are paid salaries without meaningful results.

- **Inadequate utilisation of public services.** In regard to infrastructure and especially roads, significant improvement has taken place in the new autonomous regions. However, optimum use of the infrastructure must also be considered. Under current conditions, the improvements achieved in quality of roads, and delivery of public services in education and health, have not reached levels whereby they actually promote local economic development. The extent to which improvement in the provision of public service infrastructure is able to improve the quality and standard of living of the people requires further attention.

3.4. Performance of Regional Government Personnel

One of the primary driving forces in public services is regional government personnel, the numbers and quality of which are crucial to local development. Quality is especially important given that 70% of government officials are employed in regency/municipality administrations. While quality and productivity are critical⁵, measuring the productivity of government personnel is no easy task. For this reason, the current study not only looks at numbers of personnel, but also at quality in terms of educational level and nature of their duties. Regarding their duties, the study focuses specifically on teachers and medical workers, as both reflect the potential for improvement in human capital.

Housing for Government Personnel

Personnel are reluctant to reside in new autonomous regions because of lack of housing and other facilities. This hampers the development of the new region itself.

In Lampung Timur Regency, a new autonomous region, half of the local officials reside outside the regency in Kota Metro or even in Bandar Lampung. The private expenditures of officials and their families, which would normally benefit the Lampung Timur regency, go elsewhere. Demand for goods and services are in fact created outside the Lampung Timur Regency. On the other hand, the officials must spend heavily on transport and vehicle maintenance for the long commute to their offices, about 60 km. This also disrupts working hours.

A similar situation exists in government offices in Luwu Regency moved from Kota Palopo to the Belopa sub-district. Because most officials remained living in Kota Palopo, the change in the administrative centre also had implications for the local economy and private spending by officials and their families. Indirectly, it was Kota Palopo that developed faster, because the money that should have been spent in Belopa returned to Palopo.

This underscores the need for policy on regional administration, and the division and establishment of regions in particular, to ensure adequate provision for government personnel, in this case homes and other supporting facilities. Regional governments therefore need time to make the needed preparations for their personnel. Unfortunately, more than five years since the proliferation, cases in two locations remain unresolved. For this reason, a preparatory period is necessary to help personnel to be truly ready for serving in new local government offices in new regions.

Quantity and Quality of Personnel

During the 2001-2005 period, no significant changes took place in numbers of government personnel, whether in parent regions, new autonomous regions or control regions. In the parent regions, more officials were employed on average than in the new autonomous regions. Numbers of government personnel were down slightly at the time that a civil servant verification survey was conducted in 2003. During the period of this study, parent regions employed an average of 6,388 government personnel, while the average in new autonomous regions was only 3,455⁶. This gap arose because of the typically limited number of officials recruited in the early stages of establishing a new autonomous region. The personnel automatically recruited are usually those that were previously employed locally, such as teachers, sub-district heads, village heads and their staff. There is no specific provision for the allocation of parent region personnel to new autonomous regions. Placement of personnel is guided more by personal desire for transfer of position. The two main motives for this are: (i) opportunity for a higher-ranking position in

the new autonomous region, with the implication of more rewarding pay and benefits, and (ii) close social ties between officials and the new autonomous region in terms of place of residence and origin, which relate to opportunities for developing the region.

Although these are common reasons for transfer, disparities are still apparent in the process of assigning former officials to a new autonomous region, at least in terms of numbers. Local government officials tend

⁶ Under article 2 paragraph 1 of Act No. 43 of 1999, the civil servants referred to are regional civil servants paid from the regional budget and working in various regional government institutions and agencies.

to prefer parent regions, which offer more adequate systems and supporting facilities. As a result, quality of personnel in new regions is affected. Parent regions therefore have more experienced personnel than the new autonomous regions, as indicated by the considerable numbers of high-ranking officials found there.

This situation has a number of implications. First, in new autonomous regions, the processes of setting up the systems and mechanisms take considerable time. As a result, performance is slowed during the initial phase of a new autonomous region's establishment. Second, the process of changes in ranks and positions and what appears to be hurried promotion of some officers. Some sources claim that promotions have been fast tracked to satisfy requirements for the existence and filling of certain positions. This will eventually lead to internal problems, for example, jealousy among officials and/or lack of cooperation.

As mentioned above, educational levels for government officials reflect the level of qualifications and thus ultimately exert influence on policy making and the implementation of programs adopted by regional government. The indicator used here is the percentage of officials with a minimum standard of education to university graduate level. If the number of graduate-level personnel rises, it can be assumed that the officials working for the regional government are better qualified.

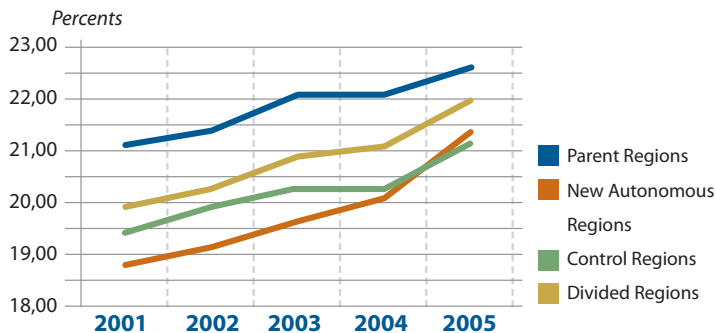


Chart 3.16. Percentage of Graduates Employed in Regional Administration

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

If lower economic prosperity of new autonomous regions is taken into account, these regions should in fact be entitled to more qualified personnel (or at least equivalent level). It is also important to note that personnel based in parent regions have better access to education. The better economy and access to educational facilities in the parent regions is a key factor enabling officials in these areas to advance in their education.

This study's results show that the sample of parent regions, new autonomous regions and also control regions all have lower percentages of university graduates to total government personnel compared to the national regency average. In 2005, the nationwide percentage was 23.5%, but for new autonomous regions, it was only 21.3%. This shows that new autonomous regions and also parent regions in this study somewhat lag behind other regions in Indonesia.

The two types of regions (parent regions and new autonomous regions) have seen stronger growth in numbers of qualified personnel, but when compared to the average for all regions within the same province, further improvement is needed. On the other hand, in comparison to the control regions, more university graduates are employed in the divided regions (new autonomous regions and control regions).

Government Personnel for Human Development

Not only is the quality and quantity of personnel important, but the composition of personnel plays a vital role. One aspect examined in this study is the composition of personnel with potential to deliver long-term impact on human development. The two groups assessed for this purpose are teachers and medical workers.

Teachers prefer to live in areas adequately provided with facilities, and these are typically found in the parent regions.

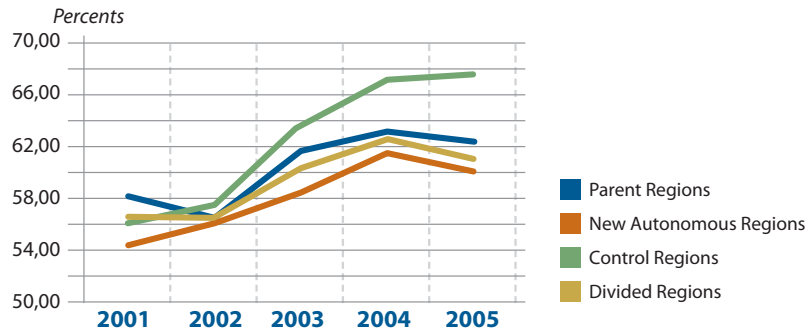


Chart 3.17. Percentage of Government Teachers

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

Chart 3.17 shows a dramatic rise in the proportion of teachers as a percentage of total civil servants in a region during the 2001-2005 period. This increase has been spurred by administration reform policies that have prioritised the recruitment of personnel in education and healthcare. There are a number of reasons explaining the higher percentage of teachers in parent regions compared to new autonomous regions. First, the parent regions have more schools and honorary staff. When new personnel are appointed to their positions, the parent regions are more dominant. Second, the very limited facilities provided for teachers in the new autonomous regions, and difficulties in transportation, pose obstacles to recruitment and deployment of teachers. These teachers prefer to live in areas adequately provided with facilities, and these are typically found in the parent regions.

Increases were also recorded in numbers of government medical personnel, i.e. doctors, nurses and midwives. The percentage of government medical personnel is very low at about 8% of total regional government personnel. Numbers have indeed improved since 2001 alongside the construction of healthcare facilities such as hospitals, community health centres and community health posts in the new autonomous regions, which all requires the deployment of more government personnel. Chart 3.18 shows that in the 2003-2005 period, parent regions recorded higher numbers of medical personnel compared to new autonomous regions. This mirrors the situation with government teaching personnel.

The problem faced in the deployment of medical personnel concerns the shortage of doctors for community health centres in sub-districts located far from regency capitals. So far, the doctors at the sub-district level have been largely non-permanent, with a very limited employment term of only two years. Since these doctors are not permanent local government staff, regional governments have been unable to retain them for longer periods. To make up the shortage of doctors, local governments have ultimately had to cover the costs for educating personnel for new autonomous regions (prospective doctors) under a contractual arrangement in which the doctor will work for the regional government for a relatively long period after completion of his or her education.

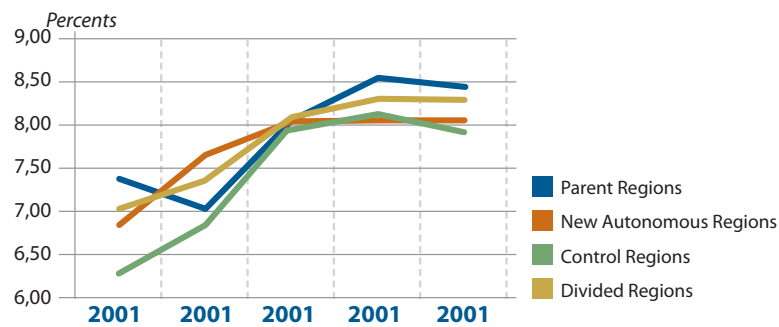


Chart 3.18. Percentage of Government Paramedics to Total Government Personnel

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

Regional Government Personnel Performance Index

The personnel performance index is designed to assess the performance of regional government personnel during the 2001-2005 period. Chart 3.19 below depicts fluctuation in the performance index in new autonomous regions and parent regions. When divided regions are compared with control regions, performance in the former has remained generally stable, while the control regions made significant gains in 2001-2004. In the 2003-2005 period, performance levels in parent regions were ahead of the new autonomous regions, despite the latter having significantly outperformed parent regions in 2002. Nevertheless, personnel in the divided regions (new autonomous and parent regions) demonstrated better performance than in the control regions. In addition, performance levels in the divided regions, which almost match the regional average, indicate that regions formed through division are on par with others in the area of personnel performance.

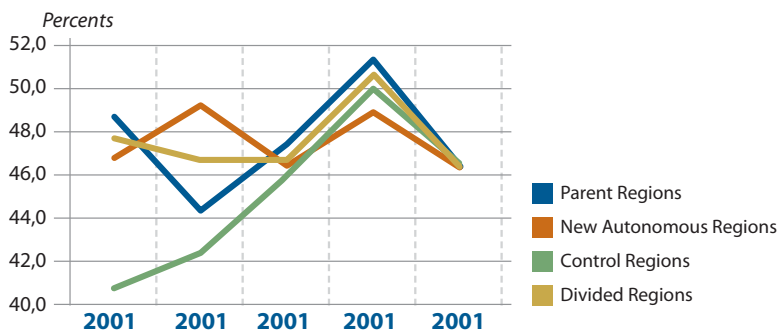


Chart 3.19. Government Personnel Performance Index

Note: 'Divided regions' refers to the combination of new autonomous regions and parent regions.

A number of issues related to local government personnel are described as follows:

- **Unsuitability of personnel available to fill needed positions.** These gaps are especially noticeable in certain areas, such as specialist doctors. Available candidates for official positions are in fact most often not interested in working in regional administrations far from modern centres offering facilities. These personnel generally prefer to live in provincial capitals.
- **Low level of qualifications.** This is explained by the current recruitment methods, which currently do not measure the capacity of candidates for performing the tasks required in their job descriptions. Selection is usually based only on educational background, but not on the actual abilities required by regional administrations.
- **Prevailing underemployment among regional government officials.** Many work fewer than eight hours per day. In reality, work is performed for only four to five hours each day. Poor enforcement, lack of good examples among unit heads and excessive numbers of personnel are the main reasons for this underemployment.

A photograph of a man with a mustache, wearing a brown batik shirt, standing in a classroom. He is surrounded by a group of children, many of whom are wearing hijabs and raising their hands. The background shows a blue door and a yellow wall. A semi-transparent yellow box is overlaid on the right side of the image, containing text.

In the 2003-2005 period, performance levels in parent regions were ahead of the new autonomous regions, despite the latter having significantly outperformed parent regions in 2002.

4 Conclusions and Recommendations

4.1. Conclusions

This study presents an evaluation of the process of division and establishment of new autonomous regions underway in Indonesia since 2000. Using the control-treatment method, the study compares performance in the development of new autonomous regions, parent regions, and control regions. The four key aspects examined are: (a) the local economy, (b) regional fiscal management, (c) public service delivery, and (d) regional government personnel.

It can generally be concluded that the central government and regional governments perceive the issue of division and establishment of new regions differently. When drafting Government Regulation No. 129/2000, the intention of the central government was to identify and establish new autonomous regions capable of operating on a self-reliant, self-sustainable basis. To this end, it prepared a set of indicators that essentially identified the capabilities of a proposed new autonomous region. Regional governments saw things differently. From their perspective, the policy was an opportunity to emerge quickly from their debilitated condition. This study confirms the existence of these differences. As a rule, new autonomous regions started in no better position compared to their parent regions or the control regions. In fact, after five years of implementation, the new autonomous regions are generally still in a weaker or poorer condition than the parent regions and others.

Concerning **economic growth**, new autonomous regions have seen more fluctuation compared to the more stable, improving growth in the parent regions. In addition, economic growth in the divided regions (new autonomous regions combined with parent regions) is stronger than for other regencies, but remain behind that of the control regions. Therefore, even though the divided regions have worked on improving their economic performance, because of the processes involved in this transition, not all economic potential has been mobilised. While agriculture is the leading sector in the new autonomous regions, it is highly susceptible to price fluctuations in commodities and other items that, on a technical level, influence the levels of value added in the agricultural sector. For this reason, economic progress in new autonomous regions relies heavily on government and public support for stimulating activity in this sector. The insignificant economic role of new autonomous regions compared to other regions in the same province indicates that, in relative terms, the new autonomous regions are not contributing to regional economic development.

Despite there being a reduction in poverty levels across all areas, the division and establishment of regions has nevertheless encouraged parent regions to offload their poor to the new autonomous regions. Data shows that the highest numbers of poor are concentrated in the new autonomous regions. In a broader context, the new autonomous regions have not been able to catch up with the prosperity levels in parent regions, despite being roughly on par with other regencies generally. In addition, indicators for economic growth have, at times, shown the divided regions (new and parent regions) enjoying higher levels than the regional average and the control regions.

The lack of economic advancement in the new autonomous regions compared to parent regions and other regions is explained by limited natural resources, limitations in human resources related to

The central government and regional governments perceive the issue of division and establishment of new regions differently.

the large numbers of poor, and inadequate government support for the economy through public investment. Issues hampering economic progress include a range of conditions that deter investment, local government spending on personnel and development that does not fully support the local economy due to problems with housing for government personnel, selection of regency capitals that are unsuitable for creating new centres of economic activity, and limited economic and government infrastructure.

As a rule, **fiscal performance** in the new autonomous regions has been lower in comparison to parent regions. During the five years examined in this study, fiscal performance in new autonomous regions remained generally constant, in contrast to the upward trend in parent regions. New autonomous regions have a higher degree of fiscal dependence compared to parent regions and this gap is widening. The division and establishment of regions has led to greater dependence in divided regions compared to the control regions and to the prevailing levels in other regencies.

New autonomous regions have not developed their sources of locally-generated revenue to the same degree as the parent regions. Also, when compared to the control regions and the regional average, the new autonomous regions showed less progress in optimizing locally-generated revenues, although the gap is small. In other words, the economic resources upon which locally-generated revenues are based in the control regions, or other regions are mostly stable.

Being newly established, the new autonomous regions have a stronger focus on investment rather than consumptive expenditures, compared to their parent regions. For this reason, government expenditure contributes more to regional GDP in the new autonomous regions than in parent regions, although still less so than in the control regions. The role of taxes and charges in promoting economic activity in the divided regions lags behind that of the control regions, even though being above the prevailing regency average nationally.

In the 2001-2005 period, fiscal performance in the new autonomous regions steadily improved in terms of reduced fiscal dependency and contribution to the economy. Nevertheless, these gains were still inadequate because of the persistently high level of fiscal dependence along with relatively low contributions to the economy. This can be expected given the hefty capital expenditure by new autonomous regions compared to other regions. It also relates to the transition still under way in new autonomous regions as regards their institutions, personnel and government infrastructure.

Public service delivery in the new autonomous regions is generally below the levels in parent regions, even though the gap is small. Public services in both the new regions and parent regions continue to suffer in performance compared to the control regions and to the regency average. Over the past 5 years, all categories of regions have been marked by deteriorating performance in delivery of public services. The issues faced include: (i) less-than-effective use of funds, with issues of disproportionate funding needs for regions of similar area and population; (ii) deployment of personnel for public service delivery, due to economic constraints and limited facilities; and (iii) limited use of the public services provided.

New autonomous regions recorded higher increases in teachers for basic education compared to parent regions and control regions, even though still below the national regency average. On the other hand, the ability of schools to absorb new students declined. This decline was more rapid in new autonomous regions than in parent regions. Access to healthcare facilities in new autonomous regions was similar to that in parent regions. The division and establishment of regions has brought tangible results in promoting equitable access to healthcare, especially in terms of constructed facilities. Concerning deployment of medical personnel, the new autonomous regions still lag considerably behind the parent regions. Regarding infrastructure, roads in parent regions are still of better quality than in new autonomous regions. Furthermore, the divided regions have poorer roads compared to the control regions and the regency average. This indicates that even though infrastructure development is ongoing, it is progressing much faster in the regions not affected by division.

The **overall performance of local government officials** in the new autonomous and parent regions has fluctuated significantly, despite better performance in the parent regions during the past two years. The past five years since the Regional Administration Policy have seen an escalating trend in numbers of local

government personnel. The qualifications and capacity of the personnel in new autonomous regions remain very low, although data indicates an increased percentage of graduates' higher-qualified personnel.

The disappointing performance of local government personnel in autonomous regions may be explained by the inadequate transition period for deployment of properly qualified local government personnel. Furthermore, the availability of local government personnel has also been affected by recruitment constraints imposed by the central government.

Problems discovered in personnel management include: unsuitability of existing personnel to fill needed positions, low level of qualifications, and officials working under conditions of under-employment, i.e., occupied for fewer than the prescribed standard working hours.

4.2. Recommendations

Greater care must be taken in the division and establishment of regions. It is critical that regions envisaging autonomy be adequately prepared. The time required for preparations must take account of realities on the ground. **Nevertheless, provision should be made for a lead time of up to ten years for preparations that include the following: transfer of officials to positions appropriate to their capacity, preparation of economic infrastructure and government facilities and supporting infrastructure for regional government personnel.** If, after the completion and an evaluation of the preparations, the region is indeed deemed ready, the process should be taken forward. Likewise, if not ready, the process should not proceed.

Proper arrangements are needed for allocation of resources between the parent region and new autonomous region. These resources include: natural resources, human resources and other supporting infrastructure. The consequence of inequitable allocation or excessive disparities will be the absence of significant change in new autonomous regions. For this reason, **the central government role in the division of regions must be clarified within the existing law.**

Government programs in new autonomous regions should be directed towards support in the broad sense for the most vital sector, namely agriculture. This support should entail the provision of infrastructure, field extension workers, and other support. Development in other sectors should be directed towards support for the leading sector in order to accelerate progress in the new autonomous regions. In the education sector, further research is needed to investigate the issue of falling student enrollment and attendance in the newly formed regions.

In practical terms, **changes are needed in personnel and development expenditures in local regions** so that, in the short-term, they generate an increase on demand for goods and services and thereby support the creation of new economic growth centres. Personnel expenditures should also focus directly on improvements in the delivery of physical and non-physical public services. In this way, the government's financial resources will contribute to increased revenues and fiscal sustainability over the long-term. Personnel management must focus more on improving the qualifications and capacity of local government personnel to satisfy the competencies required by the regional administration. Such improvements must begin with recruitment and include the system for handling promotions and transfers. In addition, there needs to be a structuring of local government personnel in regions undergoing transition. At the national level, this calls for a 'grand design' for deployment of personnel at the regional government level.

In other words, there is a need for stronger central government support to parent regions preparing to divide, and for those that are newly formed. This does not amount to re-centralisation per se, but acknowledges the role of central government in ensuring quality development rather than simply a proliferation of new administrative areas. This is not only a tenet of responsible and sustainable development, but reflects national

It is critical that regions envisaging autonomy be adequately prepared.

priorities related to the decentralisation process in the government's Medium-Term National Development Plan 2004-2009 ('RPJMN'). **A chapter outlining a process of evaluation should be included in future Government Regulation concerning Proliferation of the Regions.** This should address the status, position and mechanisms for carrying out the evaluation. Such an evaluation should be in-depth, and is required to determine if a region formed through division -new or parent - can be deemed successful or failed, or to assess if the regions are ready and adequately prepared to proceed. This evaluation is vital to determining policy for different regions, including the possibility of merger. This is consistent with the mandate in Article 6 paragraph (1) and paragraph (2) of Act No. 32/2004 concerning Regional Administration, which states that a region may merge with another region if unable to implement regional autonomy. Using evaluation to determine if mergers take place should be a provision in the law, however as there are many ramifications of such a process, **the scope of the evaluation should be to provide tailored guidance to specific regions, in order to support and assist them in successfully achieving local and national development objectives.**

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