

Sutiyo  
Keshav Lall Maharjan

# Decentralization and Rural Development in Indonesia

 Springer

# Decentralization and Rural Development in Indonesia

Sutiyo · Keshav Lall Maharjan

# Decentralization and Rural Development in Indonesia

 Springer

Sutiyo  
Institute of Local Government (IPDN)  
Sumedang, Jawa Barat  
Indonesia

Keshav Lall Maharjan  
Graduate School for International  
Development and Cooperation  
Hiroshima University  
Higashihiroshima, Hiroshima  
Japan

ISBN 978-981-10-3207-3                      ISBN 978-981-10-3208-0 (eBook)  
DOI 10.1007/978-981-10-3208-0

Library of Congress Control Number: 2016957492

© Springer Nature Singapore Pte Ltd. 2017

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

This Springer imprint is published by Springer Nature

The registered company is Springer Nature Singapore Pte Ltd.

The registered company address is: 152 Beach Road, #22-06/08 Gateway East, Singapore 189721, Singapore

# Preface

In Indonesia, the policy of decentralization implemented in 2001 has become a key policy aimed at facilitating democratization at the local level. Through Law 22/1999 on Regional Governance, the central government transferred power and financial resources as well as personnel to local governments. Within decentralization, local governments had rights to manage locally formulated development programs. The law mandated that development programs to be executed based on principles of diversity, participation, genuine autonomy, and community empowerment. Decentralization is expected to improve community participation, local capacity, transparency, accountability, responsiveness, and the targeting accuracy of government programs.

Nevertheless, it is imperative to note that decentralization is not an end in itself, but only a way to pursue balanced economic development. Wider public involvement in local decision-making should not only increase legitimacy and grassroots support, but also accelerate economic growth and poverty alleviation throughout the country. In this regard, several macroeconomic indicators present that Indonesian governmental decentralization has not been completely successful in the above-mentioned economic development. Economic growth and the decline in the poverty rate have slowed after decentralization. Some indicators, like the primary school enrollment rate, improved, but many others like infant (children under 5 years old) and maternal mortality rates, access to water, energy and sanitation services were improved only slightly or not at all.

Conceptually, there are more theories and reasons to explain why decentralization creates successful development. Many failures are due to problems of implementation rather than problems with the concept itself. Analyzing the nature of implementing decentralization is therefore very important to understanding why the problems exist and how to solve them. Many researchers have highlighted the regulations, intergovernmental relationship, and many other aspects of Indonesia's political, fiscal, and administrative decentralization, especially concerning what is happening at the national level. One of their limitations is that the problems and policy implications of decentralization are mostly analyzed from the perspective of the central government, which focuses on macro design, institutional

arrangements, and the impact of decentralization on national macroeconomics and politics. Using the perspective of central government to analyze decentralization, many existing studies do not focus on local dynamics where the process of local governance is taking place.

This book uses quite a different approach. It is written based on the idea that people have to look at local realities in order to understand decentralization. Grassroots realities, especially concerning the implementation gaps in villages, will be the main substance here. It will discuss composite issues including participatory budgeting, social capital, local capacity, rural leadership, community participation, livelihood problems, and poverty alleviation. These are the issues in which political, administrative and fiscal aspects of decentralization meet together in implementation and form the dynamics of policy implementation. An interdisciplinary approach toward local politics, public administration, and rural economy is used to discuss the issues and to formulate policy options.

Chapter 1, as the introductory chapter of the book, briefly discusses the historical background of Indonesian decentralization. A glance at Suharto's rural development policies along with their consequences affecting rural livelihood, local institutions and bureaucracy, and the coming of Asian monetary crisis in 1998, provides the background to the decentralization policy. This chapter makes the important claim that Indonesia's decentralization is identical to its process of democratization, and thus it should be analyzed as not only a phenomenon of public administration or development management, but also as an outcome of local politics.

Chapter 2 discusses the framework needed to analyze decentralization and rural development. This chapter reviews theories of decentralization, why decentralization is important for rural development, and why in some areas it is successful while in other areas it has failed. This chapter aims to provide a general understanding of decentralization theories and analysis in the context of rural development. Since decentralization is country specific, Chap. 3 discusses the designs of political, fiscal, and administrative decentralization in Indonesia, underlining in particular those related to village government and rural development.

Chapter 4 discusses rural development policies in Indonesia, and the changes in program approaches before and after the decentralization. This chapter reviews several studies on land reform policy, the Green Revolution, community-driven development, and social protection programs in Indonesia. The implementation and impacts of these programs on the rural economy are discussed briefly. Lessons learned from those programs are presented in the last part of the chapter.

Generally, budgeting is the most effective tool to achieve government policies. Whether local governments prioritize rural development or not can be seen from the budget allocation for related sectors. Issues on local budgeting are discussed in Chaps. 5 and 6. Chapter 5 discusses expenditures on rural development before and after decentralization. It presents how the spending for recurrent activities, agriculture, rural infrastructure, education and health has changed over the years. Chapter 6 discusses the dynamics of local participatory budgeting, specifically interactions between local communities, officials, and councils in the budgetary decision-making.

In the case of rural areas, communities have built a complex relationship between households, institutions, and community leaders. Villagers have extended their social capital through membership in institutions. Theoretically, development policies will be more successful if the government optimally utilizes existing social capital. Chapter 7 discusses institutions existing in rural areas, institutional membership and the utilization of social capital in decentralization. Chapter 8 discusses rural community leaders, their capacities, and the roles they have played in decentralization. The capacity of village's head and other neighborhood leaders will be measured through a set of indicators, which is a combination between general and traditional Javanese leadership. Chapter 9 discusses the capacity of village government in implementing decentralization. It focuses on the capacity of village's officers, council and development committee. This chapter also discusses the ways in which villagers and rural institutions work together to solve local livelihood problems.

Chapter 10 discusses community participation in rural development, especially about the mechanism and substance of involvement in planning, execution, and evaluation of rural development. Substantially, Chaps. 7–10 aim to discuss how decentralization facilitates democratization at the village level. Some part of the discussion uses a participatory approach, especially from the Javanese cultural perspective to understand rural leadership, interactions between communities and their leaders, and how that perspective influences the ways in which communities participate in rural development.

The impact of decentralization on rural development should be analyzed from the perspective of the rural economy, especially in terms of poverty alleviation. Thus, Chap. 11 discusses the implementation of poverty alleviation programs along with decentralization. The targeting accuracy of these programs, whether or not decentralization has an impact on improving program distribution, and most importantly, the changes in the socioeconomic condition of households before and after decentralization are assessed in Chap. 11.

The final Chap. 12, provides policy options to improve implementation of decentralization in order to optimally develop the rural community. Based on the findings and discussion from the previous chapters, it presents several potentials of decentralization in Indonesia, which include robust rural institutional membership, rare cases of elite capture in the distribution of poverty alleviation programs, good individual village officer capacity, and functioning rural community leaders. At the same time, there are also several challenges of decentralization, which include limited budget allocation for rural development, problematic local capacity realization, pseudoparticipation of rural communities, and limited impacts on the rural economy and poverty alleviation. The implementation of decentralization should be improved by strengthening legislation on decentralization, delivering capacity development for rural institution, and institutionalizing decentralization through rural development programs.

Overall, decentralization and rural development are crosscutting issues, therefore problems may arise anywhere during implementation. This book discusses related theories to help the readers understand how each of them contributes to solving the

implementation gaps. The arrangement of book chapters is based on policy phases, which start from formulation, implementation, and measuring the impact of decentralization. Hence, it will be easy for readers to follow. This book expects to fulfill the needs of people seeking to understand the issues of decentralization and rural development in both Indonesia and other developing countries. Readers are highly valued and will be appreciated for any comments and advice they provide to improve the contents of the book.

We would like to thank Prof. Muchlis Hamdi from Institute of Local Government (IPDN) Indonesia for his tremendously useful comments on an earlier draft. We also would like to thank Masngud and Subhan for their contribution in data collection process. We are indebted to the numerous scholars, practitioners, local officers, and rural residents in the study sites who shared their insights with us in informal conversations and interviews.

Bandung, Indonesia  
Hiroshima, Japan

Sutiyo  
Keshav Lall Maharjan



# Contents

<b>1</b>	<b>Historical Background of Decentralization in Indonesia</b> . . . . .	1
1.1	Introduction . . . . .	1
1.2	Theoretical Debates of Decentralization, Democratization and Development . . . . .	2
1.3	Suharto Regime . . . . .	3
1.4	Monetary Crisis and Reform . . . . .	5
1.5	Decentralization Performance at Glance . . . . .	6
1.6	Conclusion . . . . .	9
	References . . . . .	10
<b>2</b>	<b>Decentralization: Potential and Challenges for Rural Development</b> . . . . .	13
2.1	Introduction . . . . .	13
2.2	Conceptual Terrain . . . . .	15
2.2.1	The Concept of Decentralization . . . . .	15
2.2.2	The Concept of Rural Development . . . . .	16
2.3	The Link Between Decentralization and Rural Development . . . . .	18
2.3.1	Potential for Decentralization in Rural Development . . . . .	18
2.3.2	Challenges for Decentralization . . . . .	21
2.4	Conclusion . . . . .	23
	References . . . . .	24
<b>3</b>	<b>Design of Decentralization in Indonesia</b> . . . . .	27
3.1	Introduction . . . . .	27
3.2	History of Decentralization in Indonesia . . . . .	28
3.2.1	1945–1974 . . . . .	28
3.2.2	1974–2000 . . . . .	28
3.2.3	2001–2016 . . . . .	29

3.3	The Current Design of Decentralization . . . . .	30
3.3.1	Political Decentralization . . . . .	30
3.3.2	Administrative Decentralization . . . . .	32
3.3.3	Fiscal Decentralization . . . . .	32
3.4	Implications for Village Government and Rural Development. . . . .	35
3.5	Conclusion . . . . .	39
	References. . . . .	39
<b>4</b>	<b>Rural Development Policy in Indonesia . . . . .</b>	<b>41</b>
4.1	Introduction . . . . .	41
4.2	Land Reform . . . . .	42
4.3	The Green Revolution . . . . .	43
4.4	Backward Village Program . . . . .	46
4.5	<i>Kecamatan</i> Development Program . . . . .	47
4.6	Social Safety Nets . . . . .	48
4.7	Unconditional Cash Transfer Program . . . . .	50
4.8	Lessons Learned . . . . .	52
	References. . . . .	53
<b>5</b>	<b>District Budgeting for Rural Development . . . . .</b>	<b>55</b>
5.1	Introduction . . . . .	55
5.2	Case of Purbalingga District . . . . .	56
5.2.1	Profile of Purbalingga District . . . . .	56
5.2.2	Budget Allocation in Purbalingga District . . . . .	58
5.2.3	Development Progress in Some Selected Sectors. . . . .	63
5.3	Comparison with Other Districts. . . . .	65
5.4	Discussion . . . . .	74
5.5	Conclusion . . . . .	75
	References. . . . .	76
<b>6</b>	<b>Participatory Budgeting: Between Procedures and Realities . . . . .</b>	<b>77</b>
6.1	Introduction . . . . .	77
6.2	Procedure of Participatory Budgeting . . . . .	78
6.3	The Case of Purbalingga District . . . . .	79
6.3.1	The Proceedings of 2010 Budgeting Process. . . . .	79
6.3.2	Evaluation of Budgeting Process. . . . .	82
6.4	Discussion . . . . .	85
6.5	Conclusion . . . . .	86
	References. . . . .	87
<b>7</b>	<b>Social Capital for Decentralized Rural Development . . . . .</b>	<b>89</b>
7.1	Introduction . . . . .	89
7.2	The Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District . . . . .	90

7.2.1	Socio-economic Condition of Study Sites . . . . .	90
7.2.2	Institutional Membership of Rural Communities . . . . .	92
7.2.3	Utilization of Social Capital . . . . .	94
7.3	Discussion . . . . .	96
7.4	Conclusion . . . . .	97
	References. . . . .	97
<b>8</b>	<b>Rural Community Leadership in Decentralization . . . . .</b>	<b>99</b>
8.1	Introduction . . . . .	99
8.2	Literature Reviews . . . . .	101
8.3	Case Study of Serang, Kedarpan and Sumilir Villages in Purbalingga District . . . . .	102
8.3.1	Profile of Rural Leadership . . . . .	102
8.3.2	Capacity Assessment of Rural Leadership . . . . .	103
8.4	Discussion . . . . .	107
8.5	Conclusion . . . . .	109
	References. . . . .	109
<b>9</b>	<b>Institutional Capacity of Village Government . . . . .</b>	<b>111</b>
9.1	Introduction . . . . .	111
9.2	Literature Reviews . . . . .	113
9.3	Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District . . . . .	114
9.3.1	Profile of Village Government. . . . .	114
9.3.2	Capacity Assessment of Village Government . . . . .	115
9.3.3	Actualization of Capacity . . . . .	119
9.4	Discussion . . . . .	121
9.5	Conclusion . . . . .	122
	References. . . . .	122
<b>10</b>	<b>Community Participation in Rural Development . . . . .</b>	<b>125</b>
10.1	Introduction . . . . .	125
10.2	Regulation of Community Participation . . . . .	127
10.3	Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District . . . . .	128
10.3.1	Community Involvement in Planning . . . . .	128
10.3.2	Community Involvement in Implementation . . . . .	130
10.3.3	Community Involvement in Evaluation . . . . .	132
10.4	Discussion . . . . .	135
10.5	Conclusion . . . . .	136
	References. . . . .	137
<b>11</b>	<b>Does Decentralization Matter in Rural Poverty Alleviation? . . . . .</b>	<b>139</b>
11.1	Introduction . . . . .	139
11.2	Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District . . . . .	141

- 11.2.1 Targeting Effectiveness of the Poverty Alleviation Program. . . . . 141
- 11.2.2 Changes in Socio-economic Condition of Respondents . . . . . 143
- 11.2.3 Cases of Some Selected Respondents . . . . . 145
- 11.3 Discussion . . . . . 148
- 11.4 Conclusion . . . . . 149
- References. . . . . 149
- 12 Policy Options for Decentralization and Rural Development in Indonesia . . . . . 151**
  - 12.1 Introduction . . . . . 151
  - 12.2 Potential of Indonesian Decentralization . . . . . 152
  - 12.3 Challenges of Indonesian Decentralization . . . . . 154
  - 12.4 Some Policy Options . . . . . 155
- Index . . . . . 159**

## About the Authors



**Sutiyo, Ph.D.** is currently a lecturer in Institute of Local Government (IPDN), Indonesia, which is a university specially established to educate the cadres of local government heads in Indonesia. He has worked in the institute since 2015 where he gave lectures on subjects including public policy, community empowerment, development planning, and rural development. He is also actively involved as a trainer in various trainings aiming at improving the capacity of local government in managing local development, empowering community, and alleviating poverty.

Previously, he worked as local civil service in Purbalingga District of Central Java Province for 10 years, with the main tasks to formulate and implement local policies in rural development and poverty alleviation. He got a degree of Bachelor of Governance Science from IPDN in 2003 and Master of Public Administration from University of Jenderal Soedirman in 2006. In 2010, he continued his academic journey to Graduate School for International Development and Cooperation, Hiroshima University, Japan, where he successfully got Ph.D. in 2013.

He argues that to understand national problems, one should go to local level and dig the grassroots realities from rural residents, local institutions, and local officers. Local perspective is very important to analyze implementation gaps of many government programs and the missing link of development theories, especially in the context of decentralization. These motivate him to always make close relation with local institutions, listen the voices of villagers and local officers, conduct fieldwork to collect data and learn from local ways to solve livelihood problems.

In order to share ideas and disseminate research findings, he has published several articles in academic journals and newspapers, and participated as speaker in international and local academic conferences. His academic papers, which mainly include the theme of decentralization, participatory budgeting, community empowerment, local institutions and poverty alleviation, can be found in many scientific journals. He is interested in discussions about decentralization and rural development, especially in Indonesian context. He can be reached in [sutyobanyumasan@yahoo.com](mailto:sutyobanyumasan@yahoo.com). Constructive critiques and suggestions to his publication are always welcomed.



**Keshav Lall Maharjan** (Dr. of Agriculture in Agricultural Economics, Kyoto University, Japan) is currently a Professor at the Graduate School for International Development and Cooperation (IDEC), Hiroshima University, Japan, where he has been teaching, conducting research and chairing various steering and decision-making committees since its foundation in 1994. He gives lectures for graduate students on subjects including Rural Economics, South Asian Studies, International Development and Cooperation Studies. He conducts weekly seminars at the graduate school that address pertinent issues in

Agricultural Economics, Rural Development, Sustainable Development, Cultural Dynamics, Climate Change, and Rural Livelihood Strategies in developing countries. At IDEC, he is also in charge of planning, execution and monitoring of International Explorers to Cross Borders (i-ECBO) program, an unique sandwich type internship program, in which students after competitive selection process are sent to various institutions such as universities, international organizations, government agencies, INGOs, local NGOs and developing agencies, including private companies around the world. He offers support for graduate students writing their Master's theses and doctoral dissertations on the related topics of Development Sciences, Educational Development and Cultural and Regional Studies, and at Cultural Creation Course of Taoyaka Program, a special Ph.D. program for leading graduate schools at Hiroshima University, aiming to nurture the graduates who can contribute to flexible, enduring, and peaceful society of coexistence among the mankind and the nature, with special attention to disadvantaged regions. The issues concerning natural resource management, food security, poverty dynamics, local governance, rural society, and community dynamics are some of the main topics of his expertise. In doing so he considers agriculture and rural regions as not only the source of cheap labor, cheap food and cheaper intermediate inputs, and subordinate to urbans and centers as marginal sector and peripheral region but also as a dignified way of life for people who are guardians of nature and are more conscious about the earth, humans and their interaction, so as to sustain this culture and civilization for generations hereafter. Rural regions are such places that make these things happen. Hence, fieldwork to grasp the diverse realities of rural regions location specifically before generalizing the research is given importance in his research, lectures, and in educating the graduate students in terms of their research, writing journal articles, and dissertations. Some 25 students have received their Ph.D. from Hiroshima University under his guidance.

In order to disseminate research findings, consolidate ideas and concepts, and share knowledge with other professionals, he regularly participates in local, national and international seminars and conferences organized by academic societies, research institutions, various organizations and like-minded individuals,

including agricultural economists, ruralogists, sociologists, environmentalists, anthropologists, educationalists, policymakers, development practitioners, farmers, social activists, local leaders, and opinion shapers.

Some of his earlier books in English include *Community Seed Production Sustainability in Rice-Wheat Farming*. Tokyo: Springer Japan, 2015, *Communities and Livelihood Strategies in Developing Countries*. Tokyo: Springer Japan, 2014, *Climate Change, Agriculture and Rural Livelihoods in Developing Countries*, Tokyo: Springer Japan, 2013, *Understanding Maoist Conflict in Nepal: Initiatives of Civil Societies on Social Capital Development for Peacebuilding in Hills*, Germany: Lambert Academic Publishing, 2013, *Peasantry in Nepal: A Study on Subsistence Farmers and Their Activities Pertaining to Food Security*, Hiroshima: Research Center for Regional Geography, Hiroshima University, 2003 and *Impacts of Irrigation and Drainage Schemes on Rural Economic Activities in Bangladesh*, Hiroshima: Research Center for Regional Geography, Hiroshima University, 1997. He has also contributed chapters to publications including *Microfinance, Risk-taking Behaviour and Rural Livelihood*, New Delhi: Springer India, 2014, *Geography of governance: Dynamics for local development*. International Geography Union Commission on Geography of Governance, Slovakia, 2013, *Climate Change: Asian Perspective*, Jaipur: Rawat Publication, 2012; *Globalization and Cultural Practices in Mountain Areas: Dynamics and Implication*. Sikkim: INDUS, 2012, *Public Policy and Local Development - opportunities and constraints*, International Geographical Union Commission on Geography and Public Policy, 2008; *Political and Social Transformation in North India and Nepal*, New Delhi: Manohar Publishers, 2007; *Contentious Politics and Democratization in Nepal*. New Delhi: Sage Publications, 2007, *Small-Scale Livelihoods and Natural Resource Management in Marginal Areas of Monsoon Asia*, Dehra Dun: Bishen Singh Mahendra Pal Singh, 2006; *New Challenges Facing Asian Agriculture under Globalization*. Selangor: Malaysian Agricultural Economics Association, 2005; *Translating Development: The Case of Nepal*, New Delhi: Social Science Press, 2003; and *Sustainable Agriculture, Poverty and Food Security*, Jaipur: Rawat Publications, 2002. He contributes to various related academic journals including SCI, SSCI journals and has more than 150 blind reviewed articles to his credit. He has also produced numerous books and journal articles in Japanese.

# Abbreviations

ADD	<i>Alokasi Dana Desa</i>
<i>Askeskin</i>	<i>Asuransi Kesehatan Warga Miskin</i>
BPD	<i>Badan Permusyawaratan Desa</i>
BPS	<i>Badan Pusat Statistik</i>
CDD	Community Driven Development
GRDP	Gross Regional Domestic Product
<i>Hansip</i>	<i>Pertahanan Sipil</i>
HDI	Human Development Index
IDR	Indonesian Rupiah
IDT	<i>Impres Desa Tertinggal</i>
INMAS	<i>Intensifikasi Masal</i>
JICA	Japanese International Cooperation Agency
KDP	<i>Kecamatan Development Program</i>
LKMD	<i>Lembaga Ketahanan Masyarakat Desa</i>
MoHA	Ministry of Home Affairs
NER	Net Enrollment Ratio
NGO	Non-Governmental Organization
NPCE	National Program for Community Empowerment
PKK	<i>Pemberdayaan Kesejahteraan Keluarga</i>
PKP	<i>Padat Karya Pangan</i>
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i>
<i>Posyandu</i>	<i>Pos Pelayanan Terpadu</i>
PPHR	Program of Poor House Renovation
PPP	Purchasing Power Parity
PVAF	Program of Village Allocation Fund
PWSG	Program of Women Saving Group
<i>Raskin</i>	<i>Beras Miskin</i>
RT	<i>Rukun Tetangga</i>



RW	<i>Rukun Warga</i>
SSN	Social Safety Net
UCT	Unconditional Cash Transfer
UNDP	United Nations Development Program

# Chapter 1

## Historical Background of Decentralization in Indonesia

**Abstract** The post Suharto administration launched Indonesia's decentralization policy to facilitate democratization at the local level. Disappointment in the centralized regime that suppressed civil society, liquidated traditional institution, homogenized local governments, and famously abused power formed the background of decentralization. This background is very important to understanding the institutional choices, implementation gaps and political and economic challenges of decentralization. While the expectations for decentralization are quite high, which are to develop local democracy and pursue successful development at the same time, decentralization in Indonesia faces great challenges because the long tenure of the previous regime has left many negative consequences.

**Keywords** Decentralization · Democratization · Reform · Suharto regime

### 1.1 Introduction

Indonesia is an archipelagic country of about 17,000 islands. It is divided into 33 provinces, 501 districts, 6,694 sub-districts and 77,468 villages (BPS 2012). Its vast lands, 1.9 million km<sup>2</sup>, are inhabited by about three hundred ethnicities. The country is well known for its distinctive culture and religious pluralism. The total population is about 230 million, which ranks as the fourth largest in the world (BPS 2014). Indonesia is also known to have large demographic and economic gaps, especially between Java and the outer islands. For example, the population of Tambrau district in Papua Island is only six thousand people, while Bogor district in West Java has five million people. The territory of Klungkung district on the Island of Bali is only 315 km<sup>2</sup>, while Merauke district on Papua Island covers areas of 44,000 km<sup>2</sup>. About 60% of the population lives on the Island of Java with only 8% of all land in the country. Most economic activities are concentrated in Java and the western islands that have better social and physical infrastructures.

Such diversities in geography, demography, culture and economic conditions need various types of public services that are very difficult to manage by the central government alone. This is why the founding fathers of Indonesia oriented the country toward decentralization. Article 18 of the constitution states: “The division of Indonesian territory into large and small regions with their form and governmental structure is made by acknowledging the national governmental system and the rights of originality and specialness of the regions”. Based on this article, which highlights “the rights of originality and specialness of the regions”, many interpret that the constitution mandates decentralization.

However, post-independence wars and persistent political unrest until the 1960s did not create an environment for executing decentralization completely. Although the government established several regulations for decentralization, they never became effective. In the name of national character building and maintaining the unity of Indonesia, the first president of Indonesia, Sukarno, preferred centralization. His successor, President Suharto, had relatively similar views regarding decentralization more as a threat to political stability and efficient development. In the following decades, it was proven that, whether decentralization was executed or not, the decisions made were more for political reasons rather than economic reasons.

Thus, the issues of decentralization, democratization and development have been inseparable in public discourse, especially in the post-Suharto regime. The long governance of the Suharto regime, as well as the political dynamics surrounding its end, has shaped the historical and contextual factors of Indonesian decentralization. To understand decentralization policy in Indonesia, especially its institutional choices, implementation gaps and economic challenges, one should start from the historical background of decentralization.

## **1.2 Theoretical Debates of Decentralization, Democratization and Development**

Decentralization and democratization are often regarded as prerequisites for successful development. However, the theoretical benefits of decentralization are vague in practice. While there have been many reports presenting success stories of decentralized programs at the local level, at the national level, its impact is not clear.

It is generally agreed that democratic governance includes the main principles of power separation, general elections, representation, public participation, transparency and accountability. Decentralization provides the institutional framework for these principles. In decentralization, local leaders are elected instead of appointed, thus it provides the opportunity for communities and their representatives to vote. It enables communities, marginal groups, and opposition groups to organize themselves to participate in local decision making. It also creates checks and balances between community, local and central governments to improve

transparency and accountability in public institutions. However, decentralization only creates a democratic institutional framework, but it does not guarantee that the framework will function democratically. For example, within decentralization, the government establishes regular local elections and popular participation in policy formulation. However, the free and fair process, its qualities and community's understanding of discourses in which they are involved, are beyond the control of decentralization.

The Philippines are an example of this. In the Philippines, decentralization has become a correction of the centralized and authoritarian character of Marcos regime. After several decades, it had improved popular participation in decision making and had enabled the local powers of initiative, referendum and recall to local bills. However, it did not improve accountability. In some areas, decentralization even contributed to the development of predatory networks and patronage among local elites (Carino 2007). Whether or not decentralization creates successful development is not clear. Whereas centralization created impressive development in many East Asian countries, notably the "Asian Tigers" (Pempel 1999), decentralization in Mozambique, Malawi, Guinea and the province of Andhra Pradesh and Madhya Pradesh of India did not reduce poverty well (Jutting et al. 2005). This does not mean decentralization has totally failed, as some decentralized countries like Bolivia and West Bengal (India) have begun to reduce poverty (Jutting et al. 2005).

It is important to note that decentralization has both successes and failures, meaning that it does not guarantee successful development. Decentralization serves the poor only under specific conditions. These conditions should be identified within the frameworks of political, fiscal and administrative decentralization in a country specific context of various policies undertaken. There is a need to trace the conceptual terrain of decentralization, democratization and development more systematically, and review the practices of decentralization in any countries to learn about its successes and failures. Only in this way, can the potential and challenges of decentralization to development be understood, and a systematic guide to optimize its overall benefits is made.

### 1.3 Suharto Regime

In 1968, General Suharto became the second president of Indonesia and established what he called the New Order. At the beginning of his presidency, Indonesia faced severe poverty where its per capita income was only USD 50, the illiterate rate was 60%, the absolute poverty rate was 65%, and the inflation rate 650% per year. Indonesia also suffered from a food scarcity that forced it to import 1.5 million tons of rice per year (BPS et al. 2001).

Influenced very much by Rostow's theory on stages of development, the regime believed that only through modernization and capital-intensive-programs could it accelerate development. Since modernization required huge financial capital, the central government monopolized the extraction of natural resources. Since political

stability was a prerequisite to foreign investment, the regime suppressed civil society. Any protests were regarded as subversive, or communist, therefore demonstrators had to go to jail. Top-down planning was applied by the central government to implement all development policies and formulate technical guides for all local governments.

To improve efficiency, Law 5/1974 on Fundamentals of Governance in the Region designed the intergovernmental system in such a way that the government could centrally implement development programs. All levels of government were connected by a chain of command where each lower level was directly accountable to the higher level. To maintain loyalty, local leaders were intensively vetted before running for election. For the regime, localism was a threat to national unity and a cause of development inefficiency. Traditional structures of village government were forcefully incorporated into the new village bureaucracy or were liquidated if they did not fit. The state established various community groups. Not only did they exist throughout villages with the same structure and statutes, but they were also the only organizations to channel community voices and deliver development programs. The village head was the ex-officio supervisor of all such groups.

Once the village structure was standardized, the central government was able to easily design programs, arrange teams and estimate the budget. The prime rural development policy during the first two decades of the Suharto administration was Green Revolution aimed at improving rice production through introducing modern farming techniques. Financed by increasing state revenues from booming oil price and foreign aid programs, the government was able to allocate 9.3% of the state budget to agriculture. This figure was much higher than the 7.5% average budget allocation in other developing countries (Asian Development Bank 2006). The government also executed many programs like rural electrification, transmigration, family planning and infrastructure projects (Barbier 1989; Manning 1988; Rock 2003). These programs were successful in improving the livelihood of rural residents, achieving self-sufficiency in rice production and providing basic rural infrastructure. In addition, a poverty reduction program called the Backward Village Program (*Inpres Desa Tertinggal*) was launched in 1994 to improve income-generating capacity by providing the poor a grant of US\$8,700 per year. The program had improved development equality and self-employment activities (Akita and Szeto 2000; Yamauchi 2007).

At the macro level, the impact of Suharto's programs was enormous, making his regime not only an authoritarian but also developmental regime. From 1968 to 1997, GDP grew 7.1% annually and per capita income quadrupled. Agricultural GDP itself grew by more than 3% annually, which was higher than the population growth of 2.2%. The value of agricultural exports grew by 11% annually, accounting for 23% of total Indonesian exports. Life expectancy increased from 41 to 64 years, the infant mortality rate decreased from 159 to 49, and illiteracy rate decreased from 61 to 14%. The reduction of the poverty rate from 60 to 11.3% during this period might be its most impressive achievement (BPS et al. 2001; Asian Development Bank 2006).

## 1.4 Monetary Crisis and Reform

Initially, there seemed to be nothing wrong with centralization. However, after being applied for too long without sufficient public control, it created many negative consequences. The extraction and monopolization of revenues from natural resources by the central government raised concern of neglect by local people (Anderson 1983; Matsui 2003; Erawan 1999). Top-down planning and centralized development programs diminished public participation, underestimated local capacity and created high dependency for local governments (Ranis and Stewart 1994; Smoke and Lewis 1996; Evers 2000; Antlöv 2000). In turn, centralization of power also induced a culture of “as long as the boss is happy” within bureaucracy, which provided a suitable environment for corruption, collusion, and nepotism (Antlöv 2000; Rock 2003; Mcleod 2000; Shah and Thompson 2004).

The consequences of centralization became very destructive when the Asian monetary crisis hit countries in South East Asia in 1997. Initially, when the crisis began in Thailand, the Indonesian government was very optimistic that the economy was strong enough to withstand the crisis. However, it would be proven later that the government was too awkward in responding to global economic challenges. It lost the capacity to deal with global issues, as there were too many domestic affairs that needed prompt action. Local bureaucracies lost initiatives since they had been accustomed to all policies being centrally decided. They could not perform many simple tasks because they had no authority to implement them or could not do so due to lack of experience. In the end, Indonesia became seriously affected by the crisis. The economic miracles built by the regime were lost in a very short time when the currency rate contracted by 400%, GDP decreased by 13.7%, prices skyrocketed by 118%, and poverty rate increased by 152%. There was massive termination of employment, in which six million people lost their jobs (Mangkuprawira 2001).

In turn, the economic crisis created a political crisis in Indonesia. Public discontent over the government’s performance as well as its corrupt behavior fueled a massive movement demanding total reform. President Suharto was ousted from power, and the regime collapsed. Demands for decentralization arose from many regions, especially those rich in natural resources but neglected in development. The transitional government of President Habibie had no choice but to launch several policies facilitating democratization. These included law enforcement, eradicating corruption, revising the constitution, abolishing the army’s political roles, and implementing decentralization. Decentralization was seen as a key policy for facilitating democratization at the local level because all democratization agendas at the national level could be locally institutionalized only if local governments were given discretion to manage their own affairs and if local people participated in local policymaking.

Law 5/1974 was revoked by Law 22/1999 on Regional Governance, through which the central government transferred most of its power to local governments. The law was quite radical compared to the previous centralization policies as well

as the design of decentralization in other countries. It had a good legal framework for democratization, such as acknowledging local conditions, strengthening local governments, maintaining democratic control of local leaders, and increasing local self-determination. It guaranteed a large share of national revenues and transferred millions of civil servants to local governments. The law mandated that decentralization start in 2001. Hence, within two years, 200 new regulations were enacted, and about two million civil servants, 4,172 field offices and 160,000 service facilities were transferred to local governments (Hofman and Kaiser 2002). Decentralization in Indonesia was anecdotally named “Big Bang” since such a substantial transformation occurred following a very short period of preparation.

Decentralization changed the development approach from a top-down system to a bottom-up system. Rural development programs were executed in a new strategy named Community Driven Development (CDD). This is basically a policy giving control of decisions and resources to community groups (Narayan 2002). In this policy, grants were transferred to village governments to utilize based on local needs. The programs arose to answer the issues of participation, decentralization and bottom-up development. There were many CDD programs servicing rural areas, such as the *Kecamatan* Development Program (*Program Pengembangan Kecamatan*), Support for Poor and Disadvantaged Areas (*Program Percepatan Pembangunan Daerah Tertinggal dan Khusus*), Economic Empowerment Program for Coastal Areas (*Program Pemberdayaan Ekonomi Masyarakat Pesisir*) and Poor Farmer Income Improvement through Innovation Project (*Program Peningkatan Pendapatan Petani Melalui Proyek Inovasi*).

As it was much harder to alleviate poverty through the increase in agricultural productivity alone, the government enacted many social protection programs to provide for basic needs. These included the Rice for the Poor program (*Raskin*), Health Insurance for the Poor (*Askeskin*), Scholarship for Poor Student (*Bantuan Siswa Miskin*), Conditional Cash Transfer (*Program Keluarga Harapan*) and Unconditional Cash Transfer (*Bantuan Langsung Tunai*). There were about 53 national poverty alleviation programs coordinated by various ministries in Indonesia. The budget for the programs was increased from IDR 0.43 Trillion in 1994 to IDR 120 Trillion in 2011 (Sutiyo and Maharjan 2011).

## 1.5 Decentralization Performance at Glance

The hasty preparation for decentralization, the absence of a detailed transition plan and the lack of supporting regulations created many implementation problems for decentralization. World Bank (2003) identified several major limitations including unclear task distribution, unequal fiscal transfers and low skills and accountability in local governments. Regarding to the task distribution, Rasyid (2002), the Minister of Regional Autonomy, admits that the technical regulations could not be enacted on time due to the reluctance of some ministries to transfer their power. Brodjonegoro and Asanuma (2000) analyze district expenditure and find serious

imbalances of fiscal capacities among local governments. Kimura (2001) and SMERU (2001) identify a lack of local capacity due to the mediocre management of civil servants. Wilson et al. (2009) note low local accountability, while SMERU (2001) concludes that the capacities of local governments were weak. Hadiz (2004) finds that many district governments were hijacked by political interests accompanying local elections. Decentralization led to an increase of local governments, which increased spending in administrations and personnel (Firman 2009).

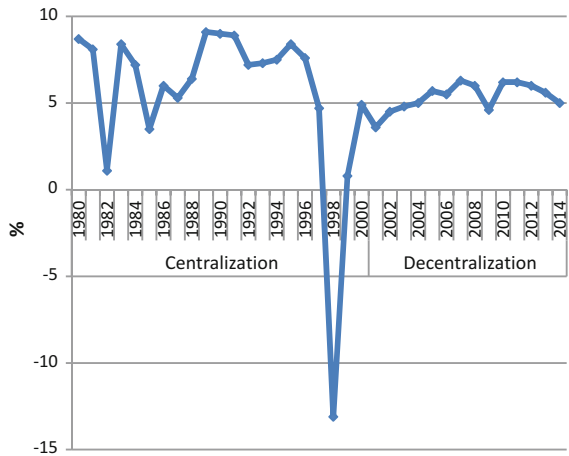
Indonesian decentralization established a mechanism called “*Musrenbang*”, whereby rural residents can participate in annual planning and budgetary decision making. It is a process consisting of systematic meetings from each neighborhood, village, sub-district and district where villagers or their representatives proposed programs to be financed by district governments. In many areas, *Musrenbang* became a mere formality due to the low enthusiasm of district governments to share budget information with the public. There were no clear procedures to review the proposals, and district councils lacked the requisite capacity to review the budgets as well as sensitivity to local problems (Sutiyo and Maharjan 2012b; Usui and Alisjahbana 2005). The budget financial resources transferred from the central government were spent primarily on recurrent expenditures due to the enlargement of civil service and the inefficiency of district governments. Agriculture, the main sector of rural areas, did not receive a substantial portion of the budget. Most of the poverty alleviation programs were insufficiently funded (Sutiyo and Maharjan 2011, 2012b; Mahi 2010).

On the village level, the sociology of Indonesian rural communities is quite complex. There are many popular institutions in rural areas, such as neighborhood groups, farmer groups, Quran recitation groups, et cetera. However, the bureaucratization of villages during the Suharto administration created a practice in which matters of governance were managed only by formal institutions like village development committee. Other than these formal institutions, only prominent community figures were involved in decision making. The poor villagers involved in informal institutions were left out of the decision making process. These indicated the weakness of efforts to bridge social capital in rural areas. Combined with the patrimonial culture, they posed significant sociological challenges to creating participatory rural development (Sutiyo and Maharjan 2012a, 2014). However, village governments are very influential in villager’s daily lives. Therefore, the implementation of decentralization on the village level should include a wider circle of participants outside the boundaries of bureaucracy formalities.

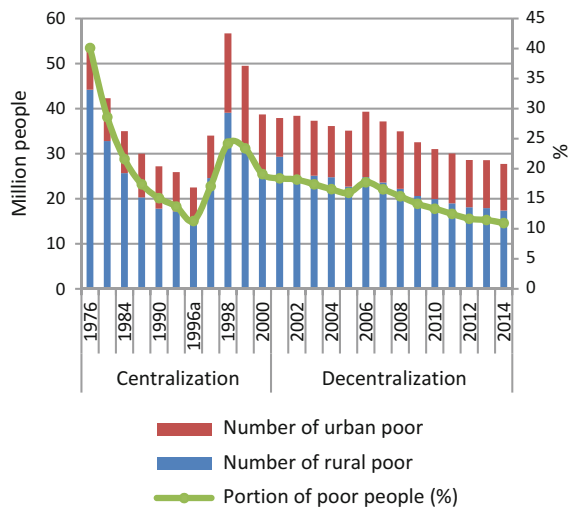
Some macro-economic indicators show that decentralization has not completely accelerated rural development. There has been great variation in poverty alleviation and economic growth at the local level, which indicates capacity gaps across regions (Mahi 2010; Balisacan et al. 2003). Mahi (2010) find that the Human Development Index did not significantly improve, as most district government only experienced a 10% increase. GDP per capita grew by 4% averagely, a figure that was lower than during centralization when it might grow by 7.1% annually



**Fig. 1.1** Indonesian GDP per capita growth, 1980–2014. Source BPS et al. (2001), BPS (2013, 2014, 2015), World Bank (2007, 2010)



**Fig. 1.2** Poverty rate in Indonesia, 1976–2014. Source BPS et al. (2001), BPS (2012, 2014, 2015)



(Fig. 1.1). The poverty rate fluctuated, indicating the fragility of Indonesian economy. While the poverty rate decreased on average by 1.4% per year during centralization, it decreased by only 0.58% per year after decentralization (Fig. 1.2).

The World Bank (2007) concludes that the impact of decentralization on development is still not clear. Some indicators, like the primary school enrollment rate, improved, but many others like infant and under-five mortality rates, maternal mortality rates, access to water, energy and sanitation services only improved slightly or not at all. In addition, missed targeting still persists in the distribution of social protection programs (Hastuti et al. 2008; Sumarto and Widyanti 2008; Suryahadi et al. 2010).

## 1.6 Conclusion

The 32 years of the Suharto regime had shaped Indonesia into an authoritarian but developmental country. Most of the time, the regime successfully managed economic development but failed to build democracy, accountability and transparency. This historical background is essential to understanding the motivation for and challenges of decentralization in Indonesia. Simply speaking, decentralization in Indonesia is identical to its process of democratization, and it is motivated more politically than economically. Historically speaking, decentralization will be a complicated process because it has to accommodate various interests within governmental and sociological environments that do not always support democratic principles. To be understood well, it should be analyzed not only as a phenomenon of public administration or development management, but more importantly, as an instrument and outcome of local politics.

Decentralization in Indonesia faces great challenges because it has to fulfill two main expectations: to develop local democracy, and at the same time be successful in managing local development. So far, the performance of decentralization has not met public expectation. The portion of local expenditures for rural development did not substantially increase after decentralization. Community participation in rural development is still only pseudo in nature due to the patrimonial culture and its formalities, which cause a weak and problematic use of local capacity and create implementation gaps in poverty alleviation programs.

Decentralization in Indonesia is more likely to have a positive impact on rural development if there is political commitment from local government and politicians to ensure high priority is given to allocating resources for the rural economy, especially agriculture and social protection programs. A steady and reliable flow of budgetary resources to these sectors is one of the most important contributors to the success of rural development. In real economic terms, the budget is expected to stimulate local economic growth and increase per capita income. Furthermore, to implement participatory programs in these sectors, the government needs to do more than establish formal procedures for participation and deliver capacity development, but more importantly, it needs to improve community awareness so that local people become active citizens in local decision making. Improving decentralization in Indonesia therefore calls for the institutionalization of policy structures in regulations, local governments and rural institutions. This mainly includes establishing regulations, prioritizing rural development in local budget, improving the quality of local participatory process, and guaranteeing the rights of informal institutions and marginal groups in local decision making. Such capacity development is urgently needed for local government agencies and rural institutions so that they can implement decentralization, manage and prioritize local budget for development, conduct constructive public hearings for local planning, and improve the targeting effectiveness of rural poverty alleviation programs.

## References

- Akita T, Szeto JK (2000) Inpres Desa Tertinggal (IDT) program and Indonesian regional inequality. *Asian Econ J* 14(2):167–186
- Anderson BR (1983) Old State, new society: Indonesia's new order in comparative historical perspective. *J Asian Stud* 42(3):477–496
- Antlöv H (2000) Village governance in Indonesia: past, present and future challenges. Paper presented at the Conference on Dynamic of Local Politic in Indonesia, Yogyakarta, 3–7 July 2000
- Asian Development Bank (2006) Indonesia, strategic vision for agriculture and rural development. ADB, Philippines
- Balisacan SM, Pernia EM, Asra A (2003) Revisiting growth and poverty reduction in Indonesia: what do sub national data show? *Bull Indones Econ Stud* 39(3):329–351
- Barbier EB (1989) Cash crops, food crops, and sustainability: the case of Indonesia. *World Dev* 17(6):879–895
- BPS (2012) Trend of selected socio-economic indicators of Indonesia 2011. BPS, Jakarta
- BPS (2013) Trend of selected socio-economic indicators of Indonesia 2013. BPS, Jakarta
- BPS (2014) Trend of selected socio-economic indicators of Indonesia 2014. BPS, Jakarta
- BPS (2015) Trend of selected socio-economic indicators of Indonesia 2015. BPS, Jakarta
- BPS, Bappenas, UNDP (2001) Indonesia human development report 2001. BPS, Jakarta
- Brodjonegoro B, Asanuma S (2000) Regional autonomy and fiscal decentralization in democratic Indonesia. *Hitotsub J Econ* 41(2):111–122
- Carino LV (2007) Devolution toward democracy: lessons for theory and practice from the Philippines. In: Cheema GS, Rondinelli DA (eds) *Decentralizing governance, emerging concept and practices*. Brookings Institution Press, Washington D.C., pp 92–114
- Erawan IKP (1999) Political reform and regional politics in Indonesia. *Asian Surv* 39(4):588–612
- Evers PJ (2000) Resourceful villagers, powerless communities (rural village government in Indonesia). The World Bank Indonesia, Jakarta
- Firman T (2009) Decentralization reform and local-government proliferation in Indonesia: towards a fragmentation of regional development. *Rev Urban Reg Dev Stud* 21(2/3):143–157
- Hadiz VR (2004) Decentralization and democracy in Indonesia: a critique of neo-institutionalist perspectives. *Dev Change* 35(4):697–718
- Hastuti SM, Sulaksono B, Akhmadi SD, Artha RP (2008) The effectiveness of the Raskin program. The SMERU Research Institute, Jakarta
- Hofman B, Kaiser K (2002) The making of the big bang and its aftermath: a political economy perspective. Paper presented at the Conference on Can Decentralization Help Rebuild Indonesia, Georgia, 1–3 May 2002
- Jutting J, Corsi E, Kauffmann C, McDonnell I, Osterrieder H, Pinaud N, Wegner L (2005) What makes decentralisation in developing countries pro-poor? *Eur J Dev Res* 17(4):626–648
- Kimura H (2001) The capacity building for democratic developmental local governance. Paper presented at the International Seminar on Local Government Capacity Building and Poverty Alleviation Policies within the Framework of Decentralization: The Case of Philippines and Indonesia, Nagoya, Japan
- Mahi RB (2010) Intergovernmental relations and decentralization in Indonesia: new arrangements and their impacts on local welfare. In: *The 4th symposium of the institute for comparative studies in local governance*, Tokyo, 2010. National Graduate Institute for Policy Studies (GRIPS), pp 187–197
- Mangkuprawira S (2001) The crisis of manpower. *J Agrimedia* 4(2):30–35
- Manning C (1988) Rural employment creation in Java: lessons from the green revolution and oil boom. *Popul Dev Rev* 14(1):47–80
- Matsui K (2003) Decentralization in nation state building of Indonesia. Institute of Developing Economies, JETRO
- McLeod RH (2000) Soeharto's Indonesia: a better class corruption. *Agenda* 7(2):99–112

- Narayan D (2002) Empowerment and poverty reduction: a sourcebook. World Bank, Washington D.C.
- Pempel TJ (1999) The developmental regime in a changing world economy. In: Cumings MW (ed) *The developmental state*. Cornell University Press, Ithaca, pp 137–181
- Ranis G, Stewart F (1994) Decentralization in Indonesia. *Bull Indones Econ Stud* 30(3):41–72
- Rasyid MR (2002) Otonomi daerah: Latar belakang dan permasalahannya. In: Harris S (ed) *Desentralisasi dan otonomi daerah: Desentralisasi, demokratisasi dan akuntabilitas pemerintah daerah*. LIPI, Jakarta, pp 13–30
- Rock MT (2003) The politics of development policy and development policy reform in New Order Indonesia. William Davidson Institute, Michigan
- Shah A, Thompson T (2004) Implementing decentralized local governance: a treacherous road with potholes, detours and road closures. World Bank Policy Research Working Paper 3353. World Bank, Washington D.C.
- SMERU (2001) Indonesia's decentralization policy: initial experience and emerging problem. The SMERU Research Institute, Jakarta
- Smoke P, Lewis BD (1996) Fiscal decentralization in Indonesia: a new approach to an old idea. *World Dev* 24(8):1281–1299
- Sumarto S, Widyanti W (2008) Multidimensional poverty in Indonesia: trends, interventions and lesson learned. Paper presented at the 1st International Symposium of “Asian Cooperation, Integration and Human Resources” for Waseda University Global COE Program: Global Institute for Asia Regional Institute (GIARI), Tokyo, 17–18 January 2008
- Suryahadi A, Yumna A, Raya UR, Marbun D (2010) Review of government's poverty reduction: strategies, policies and programs in Indonesia. SMERU Research Institute, Jakarta
- Sutiyo, Maharjan KL (2011) Rural poverty alleviation in Indonesia: programs and the implementation gap. *J Int Dev Cooperation* 18(1):13–22
- Sutiyo, Maharjan KL (2012a) Community participation in decentralized rural development: a case study of three villages in Purbalingga district, Indonesia. *J Int Dev Cooperation* 18(3):99–110
- Sutiyo, Maharjan KL (2012b) Decentralized system and budget allocation for rural development in Indonesia: a case study of Purbalingga district, Central Java province. *J Rural Econ* 2012: 403–409
- Sutiyo, Maharjan KL (2014) Capacity of rural institutions in implementing decentralized development in Indonesia. In: Maharjan KL (ed) *Communities and livelihood strategies in developing countries*. Springer, Tokyo, pp 147–163
- Usui N, Alisjhabana AS (2005) Local development planning and budgeting in Indonesia: missing link in the bottom-up approach. *Kansai Univ Rev Econ* 7:71–97
- Wilson I, Djani L, Masduki T (2009) Governing favours: an investigation of accountability mechanisms in local government budget allocation in Indonesia. Australia Indonesia Governance Partnership, Australia
- World Bank (2003) *Decentralizing Indonesia, a regional public expenditure review*. East Asia Poverty Reduction and Economic Management Unit, Jakarta
- World Bank (2007) *Spending for development: making the most of Indonesia's new opportunities*. World Bank, Washington, D.C.
- World Bank (2010) *World Development Report 2010: development and climate change*. World Bank, Washington, D.C.
- Yamauchi C (2007) Effects of grants for productive investment on employment and poverty: lessons from Indonesia's left-behind village program. The Australian National University, Canberra

## Chapter 2

# Decentralization: Potential and Challenges for Rural Development

**Abstract** Despite arguments that decentralization creates successful rural development, studies in many countries find that the adoption of decentralization does not always make rural development more effective. While decentralization theoretically offers substantial opportunities for successful rural development, all too often the implementation is hampered by various challenges depending on the specific characteristic of a country and locality. This chapter deals with this challenging issue, which is to identify the potentialities and challenges brought by decentralization for rural development. Through literature reviews, this chapter suggests that countries applying decentralization and expecting the benefits in rural development pay attention to several factors: formulation of the local budget, social capital, local capacity and community participation.

**Keywords** Decentralization • Political decentralization • Fiscal decentralization • Administrative decentralization • Potentiality • Challenge • Rural development

## 2.1 Introduction

Many countries are now adopting decentralization, in various forms, to develop rural areas. By the early 1990s, 84% of the countries with populations over than 5 million adopted decentralization (Dillinger 1994). This caused Conyers (1983) to call decentralization the latest fashion in development administration. The World Bank, the main international donor for community development and poverty alleviation, has become one of the most active institutions promoting decentralization in term of development administration or intergovernmental relation within developing countries. While decentralization has gained wide attention from academics, development practitioners, international donors and governments, there is

---

Part of this chapter has been published as academic article in Sutiyo (2013), Decentralization: Potentiality and Challenge for Rural Development, *Journal of International Development and Cooperation*, Vol. 20(3), pp. 1–8. This is a thoroughly revised and rewritten version of the earlier article.

no single universal design for decentralization. The designs vary across the countries depending upon their political and administrative arrangements.

There are usually two main motivations for applying decentralization in a country. Firstly, the implementation of decentralization may be economically motivated, usually due to the failure of the central government in managing community development. A central government is often perceived to lack the knowledge to deliver programs that meet the preferences of people in living areas. On the other hand, a local government is regarded to have a better understanding of local problems and preferences. Thus, the most common economic motivation for decentralization is to create allocative efficiency in government spending, distribution equity and targeting effectiveness. Secondly, decentralization may also be politically motivated from the desire to patch up the failures of the central government in promoting democratic values in rural development and from the fear that the centralized system will result in unchecked power. Thus, the decentralization from a political perspective aims to shift the center of decision making to the local level in order to promote participation, accountability and transparency. There are also many examples showing that decentralization is implemented to accommodate pressure from separatism and to maintain the unity of heterogeneous national states. Hypothetically, decentralization will result in better allocation of development funds, more precise targeting mechanisms and more suitable development outputs for the needs of rural residents and improved governance.

The increasing popularity of decentralization has often led to a misunderstanding that it automatically results in successful development. However, there has been increasing evidence that decentralization does not automatically create successful rural development. Jutting et al. (2005) make a review of implementation of decentralization in nine regionally dispersed countries. They find that only in the province of West Bengal and Kerala in India and Bolivia did decentralization positively impact poverty alleviation. It had a somewhat positive impact in South Africa, Philippines, and Ghana, a mixed impact in Uganda and a negative impact in Guinea and the province of Madhya Pradesh in India. Their review finds a lack of evidences showing that decentralization directly increases efficiency and improves the governance of more demand-oriented social services. Overall, the connection between decentralization and development is not clear. While central government domination seemed to result in impressive development in many Asian countries like Singapore, Taiwan, South Korea, and Indonesia until the 1990s (Pempel 1999), some countries applying decentralization like Mozambique, Malawi, Guinea and the province of Andhra Pradesh and Madhya Pradesh of India did not perform well in development (Jutting et al. 2005).

According to Cheema and Rondinelli (2007), decentralization is not a panacea for all government ills and development problems. The success of decentralization in community development depends on complex factors ranging from the design to the country specific context of implementation. Cheema and Rondinelli (2007) argue that the failures of decentralization are due more to government ineffectiveness in implementation than to the weaknesses in the concept itself. Formulating a proper design is only the first half of the puzzle in executing successful

decentralization. All too often, a good design fails because governments pay less attention to the implementation stage. Thus, the more challenging and important part is ensuring that the design is properly implemented.

Parker (1995) once proposed what he calls as the soufflé theory of decentralization. As with preparing a delicious soufflé, successful decentralization needs precise ingredients combining various social, political and institutional factors that are country specific. Parker's theory implies not only the impossibility of standardizing the design of decentralization, but also that the art of implementing it will vary from country to country.

This chapter aims to explore the link between decentralization and rural development by focusing on the implementation stage. To do so, it will focus on policy stages. A policy generally consists of three stages, which are formulation, implementation and reaping the benefits. The policy formulation is translated into budgeting decision. The implementation of a policy is influenced not only by the skills of the implementers, but also by the socio-political and cultural conditions of a community. The benefits of development policy can be seen from its impact on poverty alleviation. Using these stages, this chapter will systematically identify the advantages and challenges brought by decentralization in rural development.

## 2.2 Conceptual Terrain

### 2.2.1 *The Concept of Decentralization*

The term decentralization has been extensively used in literature, through which its meaning had evolved from time to time. Most books principally refer to the definition and typology of decentralization developed by Rondinelli and Cheema. Their early concept was developed in the 1980s when decentralization was defined as “transfer of planning, decision making, or administrative authority from the central government to its field organizations, local administrative units, semi-autonomous and parastatal organizations, local government or nongovernmental organization” (Rondinelli and Cheema 1983). They divide decentralization into three categories, which are:

1. Deconcentration, which is a distribution of tasks from central ministries to their field offices. Although the field offices are located far from the headquarters, they are formally institutions of the central government. In deconcentration, the central ministries retain decision making while the field offices are only implementer agents;
2. Delegation, which is a transfer of tasks from the central government to organizations, public enterprises or specific groups outside the government bureaucracy;
3. Devolution, which is a transfer of decision making from central to the local government. In devolution, a local government is autonomous and not a part of the central bureaucracy

The earlier concept of decentralization basically emphasizes the transfer of tasks within the government bureaucracy. This is because it came from a period and circumstances where the government was the only institution formulating and implementing public policy. Along with the spread of democratization, however, the government lost its monopoly on public policy. There are many other actors like civil society, communities and markets, which should be involved in public decision making. Thus, in recent times, Cheema and Rondinelli (2007) note that the typology of decentralization has been evolved into:

1. Political decentralization, which includes the establishment of procedures to increase participation in the local political process. Devolution of power to local governments is equal to political decentralization;
2. Administrative decentralization, which includes the deconcentration of the central bureaucracy and the delegation of government tasks;
3. Fiscal decentralization, which includes the transfer of revenue sharing and expenditure discretion to local governments;
4. Market or economic decentralization, which includes liberalization, deregulation and privatization.

In literatures, a clear categorization of decentralization rarely takes place since there is clearly an overlap in its typology. Decentralization is always a combination of various types ranging from deconcentration to devolution. In any country, decentralization at least consists of an arrangement among political, fiscal and administration functionaries. There is often a bias in interpreting decentralization, especially from the viewpoint of democracy. Many people often emotionally claim that decentralization is the most democratic form of intergovernmental relationship, thus better than a centralized system. In order to have a comprehensive understanding of decentralization, multi disciplinary approaches are needed to analyze it.

### ***2.2.2 The Concept of Rural Development***

Rural areas can be defined from perspectives of ecology, economy, or political administration (Wiggins and Proctor 2001; Hoggart 1990). Ecologically, rural landscapes primarily consist of fields, pastures, forests, rivers or mountains where settlements are scattered with minimal physical infrastructure. Economically, most rural residents work in farming, raising livestock, forestry and fishing, implying a high incidence of poverty. While rural areas are relatively easier to recognize from ecological and economic perspectives, it is ambiguously defined from a political administrative perspective. The definition of a rural administration in many countries does not refer to its ecological character. Efforts to make a clear distinction between rural and urban areas have become more complex because economic transformation has created sub-urban areas where rural and urban characteristics are mixed.



Rural development is broadly defined as a general development program conducted in rural areas. Ellis and Biggs (2001) note that until the 1970s, rural development was mainly regarded as agricultural development with the aim to increase crop production. Theories of modernization and economic growth, which emphasized the meaning of development as the effort to increase productivity and economic surpluses, were seen to heavily influence the conceptualization of rural development. With a focus on increasing agricultural production, rural development occurred mostly through the Green Revolution (Fernando 2008).

The emergence of more diversified rural livelihoods led to a change in the concept of rural development. When the concept of development started to accommodate not only economic but also non-economic dimensions, rural development in the 1980s began to adopt an empowerment approach targeting to a specific group of disadvantaged and rural poor (Ellis and Biggs 2001). This approach explicitly introduced two new factors, which were people consideration of non-economic well-being and a focus on targeting the rural poor. Rural development did not only intend to improve income and productivity, but also the quality of life, specifically health, education, physical infrastructure, environment and gender. Fernando (2008) categorizes the dimensions of rural development as economic, social, and political. The economic dimension includes efforts to provide the capacity for the poor to gain benefits from economic growth. The social dimension includes efforts to eliminate social inequalities within the rural community. The political dimension includes effort to provide the space for the poor to participate equally in public decision making.

Currently, there are at least three main elements found in academia aiming to elaborate a concept of rural development, as follows:

1. Multi-sectoral programs covering not only agriculture, but also infrastructure, micro finance, environment, human resources and so on.
2. The objective of rural development is to improve the quality of life of villagers, which includes income, housing, education, health and access to other public services.
3. Although rural development targets the rural community as a whole, most books agree that it should give priority to the poorest group

Alleviating poverty is the final objective of rural development. The literature broadly defines poverty as a lack of basic necessities required to maintain a sufficient standard of living (Haughton and Khandker 2009). In most countries, poverty is measured through the establishment of poverty line, which is a minimum level of income needed by a person to obtain the minimum calorie intake and other services needed to live properly. The World Bank set a poverty line at US\$2 per day for moderate poverty and US\$1 per day for extreme poverty. Many countries have set their respective poverty lines to suit the conditions and needs of the people within the country.

Poverty is a multidimensional issue (Haughton and Khandker 2009; Ravallion 1996). Therefore, a simplified measure based on income alone may not comprehensively describe the nature of poverty. Many books have proposed methods to measure the multidimensionality of poverty, yet according to Ravallion (1996), most of them face both methodological and conceptual challenges. Henry et al. (2001) argue that a relative poverty condition can be identified from food consumption, living conditions, assets, education and expenditure. Although this method is still not able to measure the multidimensionality of poverty, it provides a relatively easier way to identify the poor in a community.

## **2.3 The Link Between Decentralization and Rural Development**

In the context of rural development, Parker (1995) explains that decentralization has the potential to enhance participation, mobilize resources efficiently, build institutional capacity and increase accountability. These appear as not only the impact of a decentralized system, but also as prerequisite factors to achieve the final expected impact. The results of a decentralized system in rural development are effectiveness, responsiveness and sustainability. Effectiveness is achieved by providing public service cost-effectively and targeting the poor precisely. Responsiveness is achieved by better meeting the demands of local communities. Sustainability is achieved by creating political stability, fiscal adequacy and institutional flexibility.

Parker's conceptual framework assumes that a decentralized system is well managed. Yet, Parker does not elaborate on the results of poor management. Johnson (2001) notes that, unless it is well managed, decentralization has a potential to exacerbate rural poverty in several ways. Firstly, the power to collect local government revenues may trigger increasing prices for public services, thus becoming a financial burden on the poor. Secondly, the poor's low literacy rate may hamper their ability to engage in the local political process. Thirdly, the expected costs of engaging in local political activities may discourage the poor from joining. Fourthly, there is a potential for local corruption, where the benefits of decentralization are enjoyed by a small elite group within a rural community.

### ***2.3.1 Potential for Decentralization in Rural Development***

#### **Fiscal Decentralization and Pro-poor Budget**

Those advocating fiscal decentralization argue that it will provide local governments more discretion regarding expenditures. This would, in turn, provide space to promote a participatory budgeting system by which rural residents can channel their voices and propose their development programs. Assuming that a local government

knows local problems better than the central government does, decentralization is expected to result in a better allocation of development funding (Braun and Groat 2009; Ebdon and Franklin 2006). Decentralization will also improve the targeting effectiveness and compatibility of development outputs and local needs.

Historically, the first local government to apply participatory budgeting was Porto Alegre, Brazil, a city with about 1.5 million people, one third of which live in areas lacking clean water, sanitation, schools and medical facilities. For a long time, Porto Alegre invested less on public spending. In 1986, however, a policy reform was initiated to involve the community, guaranteeing mainly representations from the poor, in expenditure decision making. This reform was aided by the willingness of local government to share budgetary information publicly and the political commitment of the district mayor to prioritize to the poor's proposals. As a result, the overall process empowered the poor to be more active citizens and decreased the bureaucratic domination in budgetary decision making (Bhatnagar et al. 2003).

In case of Porto Alegre, the participatory budgeting system substantially improved spending for public services. The representatives from relatively poorer areas could push local government to prioritize their needs so that they could obtain access to facilities that other areas already had. Thus, it also led to equal development across the regions. Bhatnagar et al. (2003) note that in Porto Alegre from 1986 to 1996, clean water coverage increased from 75 to 98% of households, the number of schools quadrupled and spending on health and education increased from 13 to 40% of the total budget.

The success of Porto Alegre has inspired many governments to utilize participatory budgeting system. Although earlier participatory budgeting was applied only in the cities of Latin America, now it is also applied in many rural local governments throughout the world. Currently, there are many forms of participatory budgeting, including from public hearings, focused group discussions, public committees and surveys identifying public preferences.

### **Political Decentralization and Local Participation**

Community participation is essential to successful rural development. Uphoff et al. (1998) reviewing about 30 rural development programs assisted by international donors in various countries, found that the participation of local people is the main factor contributing to the success of government programs, such as infrastructure development, microfinance, capacity development, agriculture extension, education and health improvement. Community involvement contributes to the program's success by increasing resource mobilization, providing checks and balances and improving the compatibility of development outputs and the needs of the rural residents.

Decentralization, especially through the devolution of decision making to local governments, is expected to provide the maximum feasible space for villager's participation. The local government is closer to the people than the central government, so devolution minimizes the amount of time and distance to interact with the government. Cheema and Rondinelli (2007) argue that decentralization does not only provide more space for people to participate in the electing of local leaders, but

also gives them a chance to be the part of broader context through being involved in every stage of the development program.

A country is politically decentralized if the local leaders are elected instead of appointed. Political decentralization provides a mechanism for the people to elect local representatives and leaders, either directly through elections or indirectly through local council. A review by Blair (2000) in six countries (Bolivia, Honduras, India, Mali, Philippines and Ukraine) finds that although decentralization still has limitations in promoting participation, it at least provides the opportunity for minorities and marginalized groups to enter into local politics. When minorities are allocated some seats on local councils, they can work for the interest of their groups. Blair also finds that increased representation provides benefits in it, for example, by empowering its members in local decision making. In many countries where government accountability is not well established, the local election process can at least be a crude instrument to make government more accountable. When people perceive a candidate running for election is not transparent or accountable, and then they can switch their vote to a different candidate.

### **Administrative Decentralization and Institutional Approach in Poverty Alleviation**

Administrative decentralization occurs when the central government transfers public sector tasks to local governments or other institutions outside its bureaucracy. Administrative decentralization is expected to increase government accountability since it enables people to monitor their local officers (Braun and Groat 2009). Further, administrative decentralization also aims to reduce monopoly of central government in public service provisions. Cohen and Peterson (1997) argued that by increasing the number and diversity of institutions providing services, not only will accountability be increased, but service delivery will also be better managed and tailored to local needs.

Administrative decentralization offers opportunity to apply institutional approaches in alleviating poverty, especially by involving local community institutions in executing government programs (Braun and Groat 2009; Cohen and Peterson 1997). Local informal institutions, which are usually neglected when poverty alleviation programs are solely delivered by the central bureaucracy, can be involved in administrative decentralization. These institutions generally have stronger roots within their communities and can organize the poor better than the central government. They should be empowered through financial and technical assistance, enabling them to enhance their delivery of service to the community.

Various development programs have been implemented in many countries by emphasizing the role of local institutions. A rural forest community in Nepal is a success story of the institutional approach to local resource management. In this country, the government delegates tasks to local community institutions to conserve forest. Local community, which knows the situation of forest better and is heavily dependent on it for its livelihood source, is able to utilize the forest in sustainable way. As Chetri et al. (2007) and Joshi and Maharjan (2007) find, local institutions in rural Nepal can successfully manage forest resources, making forest conservation

go hand in hand with rural poverty alleviation. In many other areas of the world, even within programs that have failed at the national level due to their improper design, there are still some areas at local level where the program can be successful. Such success is usually attributable to the local institutions that modify the designs to match the local conditions.

### ***2.3.2 Challenges for Decentralization***

#### **Inadequate Revenue and Culture of Budget Secrecy**

Decentralization requires the strong fiscal capacity of the local government in order to finance the increasing operational costs of bulky local government tasks and the increasing need for local development. In many countries, the central government usually transfers money to local governments to implement delegated tasks. Yet, besides receiving fiscal transfer from central government, local governments are expected to have their own capacity for generating local revenues.

Sources suggest several options to generate local revenue namely establishing locally-managed enterprises, extracting natural resources and collecting local taxes (Livingston and Charlton 2001; Lewis 2003). Yet, local governments are well known for having a smaller capacity for managing business. The easiest options for generating revenue usually lie between a continuous extraction of natural resources and a progressive increase in local taxes. Consequently, fiscal decentralization may create environmental degradation due to the over-extraction of natural resources or an increase in the costs of economic activities. Such efforts to generate local revenue can be counter-productive for development, as could be seen in Indonesia during the initial years of decentralization. Casson and Obidzinski (2002) discover that deforestation increased in many localities after decentralization due to the desire to collect more local revenues. Another study conducted by Lewis (2003) finds that the amount and types of local taxes in Indonesia increased after decentralization, presumably because local governments did not know how to increase local revenues. His study finds that the increase in the amount and types of local taxes raised operational costs for economic activities, which in turn negatively affected investment and local economic growth.

Decentralization may create fiscal imbalances, and participatory budgeting sometimes fails to improve public spending and fiscal imbalances. For example, Sutiyo and Maharjan (2012b), in their study in Purbalingga district of Indonesia, find that after about ten years of decentralization in the country, the district was still heavily dependent on revenue transfer from the central government. Local revenues constitute only about 10% of the total budget, most coming from local taxes. Furthermore, rural residents are still not satisfied with the spending allocation since less than 10% of their proposals were accepted by the district government. Expenditure on agriculture, infrastructure, health, education constitutes only about 29% of total budget. Most of the local budget is spent on salaries and other bureaucratic operational costs. Their study finds that low willingness of the district

government to share information and low political commitment to prioritize community proposals have hindered the effectiveness of public participation.

Comparing the case of Purbalingga District in Indonesia (Sutiyo and Maharjan 2012b) and Porto Alegre (Bhatnagar et al. 2003), it can be seen that transparency and political commitment are very influential. To be successful, participatory budgeting requires the willingness of local authorities to share the budgetary information and to give high priority to community voices (Bhatnagar et al. 2003). Local authorities should share budgetary information openly in simple language so that the poor know what is feasible when proposed. In principle, participatory budgeting requires a shift from the culture of secrecy in budgeting to open information.

The implementation of participatory budgeting still faces significant challenges because studies have found that the budgeting process in many developing countries is not community friendly (Andrews and Shah 2005). Information gaps and secret documents are still major obstacles to make a suitable budget (PRIA Global Partnership 2010; Andrews and Shah 2005; Wampler 2008).

### **Insufficient Social Capital**

Certain local social conditions are needed for the success of decentralization. Supportive local conditions are reflected in social capital, which is generally defined as the features of social organization that facilitate community cooperation for mutual benefit (Putnam 1993). In his study on twenty local governments in Italy, Putnam finds that development programs were more successful and economic growth was higher in northern Italy than in the south. One factor contributing to the success of northern Italy in community development is the robustness of its social organization. Active community participation in social organizations in north Italy has made relation between community and government closer, which in turn improved governance. This contrasts with southern Italy where institutional membership is less active. Putnam also notes that social capital can make the pattern of relation between government and community more flexible, where voices, critiques and ideas can be communicated without significant obstacles.

A study by Putnam (1993) has established an understanding that social capital will significantly influence the success of decentralization. Strong social capital is needed to foster successful community development, and vice versa. Robust social capital will produce a dense civil society, which is a necessary condition for modern democracy and well-functioning political institutions (Fukuyama 1999).

To be successful, decentralization should be rooted in functioning local and participatory self-governing institutions (Hadiz 2010). The main challenge of implementing decentralization in many developing countries is that social capital cannot be created immediately. Rather, it is a product of long interactions entrenched in the history of a community. In this regard, it is worth seeing the sociological nature of rural community. According to Uphoff (2004), a rural community is not a cohesive and harmonious social entity but segmented by various clans and families. In many traditional rural areas, power at the local level is more concentrated and more elitist than at the national level (Rondinelli and Cheema 1983). The

concentration of power will inevitably be translated into political influence in local decision making, and the elite within a rural community may benefit from decentralization.

### **Low Capacity of Local Institutions**

To be successful in promoting the institutional approach to poverty alleviation, decentralized programs should be executed by institutions with enough capacity. Yet, there are many concerns that local institutions may have not enough capacity. UNDP (2002), in the report on capacity development programs conducted across the world, concludes that successful and sustainable capacity development still cannot be achieved, and despite training thousands of people, a lack of skills and weak institutions are still major problems.

In addition, Johnson (2001) states that local capacity has eroded possibly due to a lengthy application of top-down development. He also raises the concern that poverty in rural areas may debilitate the ability of local people to participate in decentralization. The low education level of rural residents may hamper their ability to understand government policies. The costs of travel and absence from work hours to engage in local politics may discourage the poor from participating. If the poor do not participate in decision making, they will probably not benefit from decentralization.

Although some capacity exists, Bebbington (1999) argues that the likelihood that it can achieve good performance depends on the capacity of other actors and social structures that determine relationship patterns among the actors. Therefore, one should not assume that good capacity would always result in good performance. The possibility of success in tackling rural problems depends not only on the capacity of each rural institution as a stand-alone group, but also on their ability to work together in a synergetic way. For example, Sutiyo and Maharjan (2012a), in their study in some rural areas in Indonesia, find that although local capacity existed, some cultural factors hampered its utilization to execute decentralization. Village head, culturally the highest patron in Indonesian rural areas, are still too dominant, and hinder other institutions from performing their tasks.

## **2.4 Conclusion**

It is always important that political, administrative and fiscal decentralization becomes a holistic design in the pattern of relationships between central and local governments. Political decentralization should ensure the improvement of community participation in politics and development activities, and discretion to manage domestic affairs based on local initiatives. Fiscal decentralization should ensure the sufficiency of grants transferred to local governments, the capacity to earn local revenue and the discretion to spend the budget based on local preferences. Administrative decentralization should be followed with a clear distribution of tasks, coordination among government level, and supported with sufficient local institutional capacity.

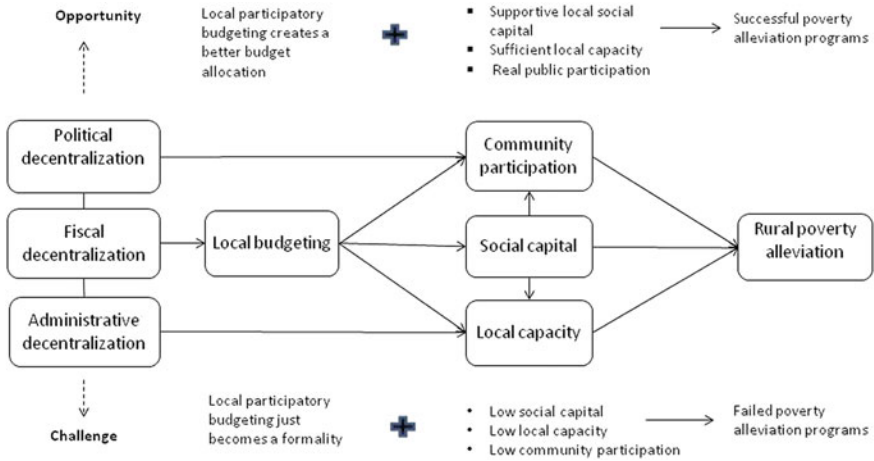


Fig. 2.1 Conceptual framework between decentralization and rural development

The practices of decentralization in many countries have shown mixed results. The cases in some countries have previously demonstrated that decentralization is a double-edged sword for rural development. It has several possibilities for creating successful development, and at the same time, each possibility risks hampering the development programs (Fig. 2.1). Conceptually, it is argued here that only if the local budget is spent to address the needs of rural residents, social capital is strong, the rural poor actively participate in the decision making process, and local institutions have enough capacity to execute the plans, then decentralization will result in successful rural development. On the other hand, if local budgeting becomes just a formality, social capital does not exist, the rural poor cannot participate in the decision making process and local institutions do not have enough capacity to execute their plans, then the decentralization will fail. It is recommended that the application of a decentralized system should be followed by the political commitment of local authorities to seek and prioritize community input, institutional arrangement that promotes people’s participation in decision making, procedures guaranteeing the rights of marginal groups in the local political process, the empowerment of rural residents and capacity development for local institutions to better execute the plans.

## References

Andrews M, Shah A (2005) Citizen-centered governance: a new approach to public sector reform. In: Shah A (ed) Public expenditure analysis. vol Public sector governance and accountability series. World Bank, Washington D.C., pp 153–175

Bebbington A (1999) Capitals and capabilities: a framework for analyzing peasant viability, rural livelihoods and poverty. World Dev 27(12):2021–2044



- Bhatnagar D, Rathore A, Torres MM, Kanungo P (2003) Participatory budgeting in Brazil: empowerment case studies. The World Bank, Washington D.C
- Blair H (2000) Participation and accountability at the periphery: democratic local governance in six countries. *World Dev* 28(1):21–39
- Braun FV, Groat U (2009) Does decentralization serve the poor? In: Ahmad E, Tanzi V (eds) *Managing fiscal decentralization*. Routledge, New York
- Casson A, Obidzinski K (2002) From new order to regional autonomy: shifting dynamics of “illegal” logging in Kalimantan, Indonesia. *World Dev* 30(12):2133–2151
- Cheema GS, Rondinelli DA (2007) From government decentralization to decentralized government. In: Cheema GS, Rondinelli DA (eds) *Decentralizing governance: emerging concepts and practices*. Brookings Institution Press, Washington, D.C., pp 1–20
- Chetri AK, Joshi NM, Maharjan KL (2007) Intervention on livelihood management through community based organization: case of rural Nepal. *J Int Dev Cooper* 13(1):187–206
- Cohen JM, Peterson SB (1997) *Administrative decentralization: a new framework for improved governance, accountability, and performance*. Harvard Institute for International Development, Cambridge
- Conyers D (1983) Decentralization, the latest fashion in development administration. *Public Adm Dev* 3(2):97–109
- Dillinger W (1994) *Decentralization and its implications for urban service delivery*. World Bank, Washington D.C., Urban Management Program
- Ebdon C, Franklin A (2006) Citizen participation in budgeting theory. *Public Adm Rev* 66:437–447
- Ellis F, Biggs S (2001) Evolving themes in rural development 1950s–2000s. *Dev Policy Rev* 19(4):437–448
- Fernando NA (2008) *Rural development outcomes and drivers: an overview and some lesson*. Asian Development Bank, Philippines
- Fukuyama F (1999) *Social capital and civil society*. Paper presented at the conference on second generation reforms, IMF Headquarters, Washington, D.C., 8–9 Nov 1999
- Hadiz VR (2010) *Localising power in post-authoritarian Indonesia: A South East Asia perspective*. Stanford University Press, Stanford
- Haughton J, Khandker SR (2009) *Handbook on poverty and inequality*. World Bank, Washington, D.C.
- Henry C, Sharma N, Lapenu C, Zeller M (2001) *Assesing the relative poverty of microfinance clients*. CGAP, Washington, D.C.
- Hoggart K (1990) Let’s do away with rural. *J Rural Stud* 6(3):245–257
- Johnson C (2001) Local democracy, democratic decentralization and rural development: theories, challenges and options for policy. *Dev Policy Rev* 19(4):521–532
- Joshi NM, Maharjan KL (2007) Institutional changes in forest resource management and change in forest coverage in Nepal. *J Int Dev Cooper* 13(1):231–252
- Jutting J, Corsi E, Kauffmann C, McDonnell I, Osterrieder H, Pinaud N, Wegner L (2005) What makes decentralisation in developing countries pro-poor? *Eur J Dev Res* 17(4):626–648
- Lewis BD (2003) Tax and charge creation by regional governments under fiscal decentralization: estimates and explanation. *Bull Indones Econ Stud* 39(2):177–192
- Livingston I, Charlton R (2001) Financing decentralized development in a low-income country: raising revenue for local government in Uganda. *Dev Change* 32:77–100
- Parker AN (1995) *Decentralization: the way forward for rural development?*. World Bank, Washington, D.C.
- PRIA Global Partnership (2010) *Participatory planning in East Asia*. PRIA Global Partnership
- Pempel TJ (1999) The developmental regime in a changing world economy. In: Cumings MW (ed) *The developmental state*. Cornell University Press, Itacha, pp 137–181
- Putnam R (1993) *Making democracy work: civic traditions in modern Italy*. Princeton University Press, Princeton
- Ravallion M (1996) Issues in measuring and modeling poverty. *Econ J* 106(438):1328–1343

- Rondinelli DA, Cheema GS (1983) Implementing decentralization policy: an introduction. In: Cheema GS, Rondinelli DA (eds) *Decentralization and development: policy implementation in developing countries*. Sage Publication Inc, Beverly Hills, pp 9–34
- Sutiyo, Maharjan KL (2012a) Capacity of rural institutions in implementing decentralized development in Indonesia: case of three villages in Purbalingga district, Central Java. *J Int Dev Cooper* 19(4):51–68
- Sutiyo, Maharjan KL (2012b) Decentralized system and budget allocation for rural development in Indonesia: a case study of Purbalingga district, Central Java province. *J Rural Econ* 2012:403–409
- UNDP (2002) *Capacity for development, new solution to old problems*. Earthscan Publications Ltd, New York
- Uphoff N (2004) Local communities and institutions: realizing their potential for integrated rural development. In: Wijayaratna CM (ed) *Role of local communities and institutions in integrated rural development*. Asian Productivity Organization, Auckland, pp 63–84
- Uphoff N, Esmen MJ, Krishna A (1998) *Reasons for success: learning from instructive experiences in rural development*. Vistaar Publications, New Delhi
- Wampler B (2008) When does participatory democracy deepen the quality of democracy? Lessons from Brazil. *Comp Politics* 41(1)
- Wiggins S, Proctor S (2001) How special are rural areas? The economic implication of location for rural development. *Dev Policy Rev* 19(4):427–436

# Chapter 3

## Design of Decentralization in Indonesia

**Abstract** The design of decentralization in Indonesia includes the transfer of political, fiscal and administrative power from central to local governments, mainly to district governments. Politically, decentralization creates power separation between a local executive and the local council, empowers the local council and gives them discretion to manage domestic affairs based on local initiatives. Fiscally, it guarantees larger shares of the budget to local governments and discretion to spend them based on local needs. Administratively, decentralization transfers most civil servants and public services to local governments. The implications of decentralization for village governments and rural development are great because it aims to democratize village governments, empower communities and change rural development from a top-down to a bottom-up approach.

**Keywords** Political decentralization • Fiscal decentralization • Administrative decentralization • Village government • Rural development

### 3.1 Introduction

The Indonesian government is currently divided into several tiers, which consist of provinces, district or city, sub-district, village or ward, community groups (*Rukun Warga*), and neighbourhood groups (*Rukun Tetangga*) in order. Among all of these tiers, only province, district or city and village are local governments. This is based on a consensus that a local government should at least have a leader elected by the community or council, have a legislative body, and can create laws binding on the community in its jurisdiction.

Decentralization is always a political choice. Applying decentralization has been a central focus of each regime, and the history of Indonesia has shown that the country is very dynamic. After independence in 1945, various changes have been

implemented in the constitution, politics and governance. The changes became more rapid after the fall of the Suharto regime in 1998. Looking at these facts, it can be assumed that there will be no persistent fixed design for decentralization over time.

This chapter will briefly discuss the history of decentralization in Indonesia, the current political, fiscal and administrative design of decentralization, and the implication of decentralization for village governments and rural development.

## **3.2 History of Decentralization in Indonesia**

### **3.2.1 1945–1974**

1945–1974 was the earliest period of Indonesia as a modern country, which had to defend its independence during five years of war against the Dutch and a decade of separatism and internal conflict afterward. This period was marked by the establishment of several regulations applying decentralization in Indonesia (Law 22/1948, 01/1957 and 18/1965). Generally, the laws aimed to establish the legal framework of local governments and their hierarchies. They aimed to create a grand design of decentralization in Indonesia that included task distribution among government levels, the roles and legal position of local government leaders and the central government control mechanism.

Due to unstable political and social dynamics at that time, the laws were never completely effective. Although the law stipulated that a local government leader should be elected by the people, in reality, he was elected by the local council. At that time, the government paid more attention to maintaining the unity of Indonesia through nation-state development. As a young country, it was argued that the process of nation-state development could only be done in the hands of the central government, implying that centralization of power was more appropriate in Indonesia than decentralization.

### **3.2.2 1974–2000**

In the period from 1974 to 2000, the administration of Indonesia was under General Suharto, who held power since 1968. The bad experience of local rebellions in previous decades had made him perceive decentralization to pose a threat to national integrity. The period from 1974 to 2000 was marked by strong centralization in Indonesia. Law 05/1974 on the Fundamentals of Governance in the Regions, which was the main legal framework of local governance at that time, implicitly presented the regime's way of thinking as preferring centralization. Article 1.e clearly stipulated "the principality of as extensive autonomy as possible cannot be

applied because based on our experience, it has induced an idea threatening the integrity of a unitary state...”.

Further, having no intention to strengthen local governments, but at the same time realizing that the central government alone could not manage its territory, made the regime apply deconcentration rather than devolution of power (Ranis and Stewart 1994; Tinker and Walker 1973; Smoke and Lewis 1996). Applying deconcentration, Indonesia during 1974–2000 was practically a centralized state. This was because deconcentration was just a task transfer from the central ministries to their branch offices. In every district, all central ministries established branch offices with a uniform structure. These branch offices were formally an organization of the central government that was still under the direct control of the central ministries. Most government tasks and public services were delivered through the branch offices of central ministries, leaving few tasks to local governments. The centralized leadership style was applied to nearly all development policies formulated by the central government. The intergovernmental relationship was designed to create tight political control over the regions. Government tiers were strictly hierarchical, where the lower level was directly accountable to the higher one, and at the same time, the latter controlled the appointment of the leader of the lower one.

### **3.2.3 2001–2016**

The year 2001 became the starting point at which decentralization was applied in Indonesia. Decentralization became a national policy for facilitating democratization after the fall of the Suharto administration in 1998. Law 22/1999 changed the pattern of relationships between central and local governments. The central government transferred most responsibilities for public services to districts and cities, shifting Indonesia from a centralized country to a decentralized one.

There may be several reasons for the selection of districts and cities as the focus of decentralization. Firstly, focusing decentralization at the provincial level meant a virtually federal system, which would deviate from the constitutional mandate to keep Indonesia a unitary state. Secondly, in the history of Indonesia, provinces had often been the centers of rebellion and separatism. The military agreed with decentralization only if it would not risk political unrest. From the perspective of the military, district governments were easier to control than the provinces. Thirdly, district had become autonomous traditional governments since the Dutch colonial era, thus they had been political entities ready enough to be an autonomous level of government. Fourthly, although the principle of subsidiaries argued that public services should be transferred to the lowest level of government possible, the scope and capacity of village government was too small to be the main tier of decentralization.

Indonesia is still looking for the most suitable design of decentralization. From 2001 to 2015, decentralization policy was modified twice. Law 22/1999, which was the main legal framework of decentralization after the reform, was revised by Law 32/2004 in 2004. In 2014, Law 32/2004 was revised by Law 23/2014. Despite some revisions, there was a general design of Indonesian decentralization that can be traced politically, administratively or fiscally. The World Bank (2007) has concluded that Indonesia after 2001 has been one of the most decentralized countries in the world.

### **3.3 The Current Design of Decentralization**

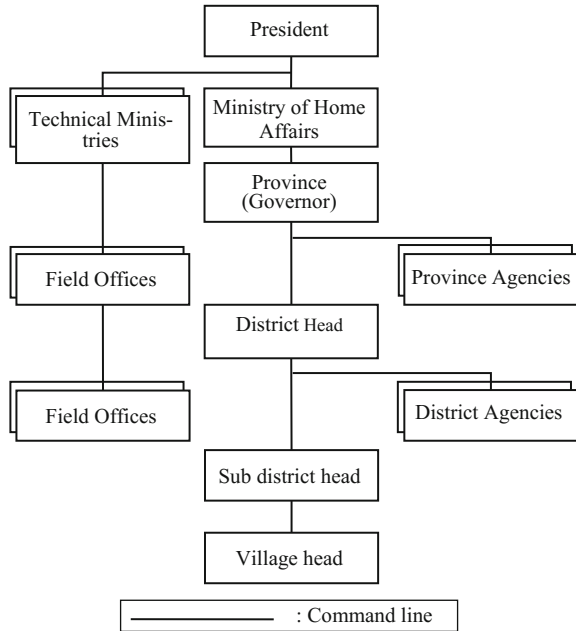
#### **3.3.1 Political Decentralization**

Decentralization creates a separation of power between local executives and local councils (*Dewan Perwakilan Rakyat Daerah/DPRD*). Decentralization aims to empower local councils by giving the power to monitor local government leaders and to be the institution to which a local government leader is accountable. It has the power to dismiss a regional leader as well if he deviates from some regulations. With this power, a local council is supposed to be an effective legislative body rather than just a rubber-stamp institution. To make clear that local government leaders are politically accountable only to the people through local councils, the hierarchical relationship among the levels of government was abolished (Figs. 3.1 and 3.2). The relationship between levels of government is more about coordination and supervision.

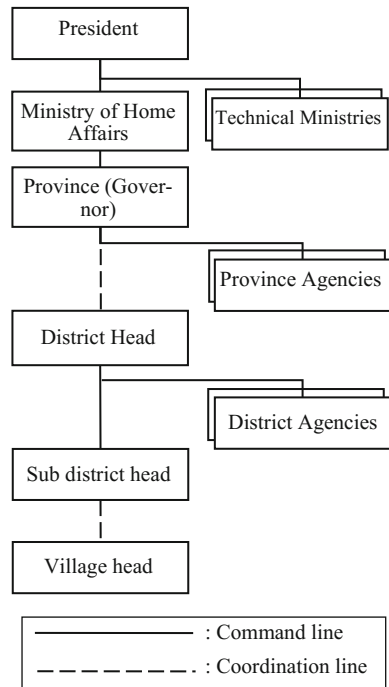
Local government leaders are elected by the people every five years. To ensure the political rights of candidates, no intensive screening of the candidates is conducted before running for election, except some administrative requirements submitted to the local election committee. The lower local government leader is not the subordinate of the higher one, which means that he is politically only accountable to the people within his district. Some financial audits are conducted by central government inspectors every year.

To manage their domestic affairs independently, local governments are given discretion to create local policies representing the preferences of the community. Development planning procedurally requires a public hearing before enacted in local laws and budgeting. Local councils play a decisive role in formulating and legalizing these policies. If local law conflicts with national laws, then the central government may annul it. At the same time, a local government may appeal the annulment through the Supreme Court.

**Fig. 3.1** Intergovernmental structure before decentralization



**Fig. 3.2** Intergovernmental structure after decentralization



### ***3.3.2 Administrative Decentralization***

Indonesian decentralization distributes the tasks of public services to local government. Government tasks are classified into absolute and concurrent tasks. It is only the central government that manages absolute tasks, which include foreign policy, defence, security, the monetary system, the judiciary, and religion. The central, provincial and district governments concurrently manage the other tasks, which include public works, health, education, culture, agriculture, communication, industry, trade, investment, environment, land, cooperation and labor. The role of the central government in these concurrent tasks is to formulate national policy and to establish standardization. The role of the province is minor, mainly to supervise, coordinate and cover for the districts not able to perform their tasks. In the overall distribution of tasks, the role of district government is to conduct the most needed public services, which usually include education, health, and basic physical infrastructure (Table 3.1). In addition, there is a principle of “money follows function”, which means that the transfer of tasks to local governments is then followed with a transfer of financial resources needed to execute them.

To execute the transferred tasks, civil services were transferred to local government in 2001 by merging the branches of technical ministries with local agencies. Currently, local government civil servants account for about two-third of the total state apparatus in Indonesia. Most of them are teachers, nurses and midwives, who work in education and health sectors. Their salaries come from the local government’s funds, at least according to the minimum salary established by the central government.

Administrative decentralization means that the central government cannot reinstitute an agency, or a branch office of a central ministry, at the local level except for conducting absolute tasks. Thus, at the district level, the central government only directly controls the offices of the local military, police, attorneys and tax services. Decentralization enables local governments to develop their structures based on local needs and conditions since there is no longer any uniformed structure imposed by the central government. The creation of local agencies is decided together by the local government leader and local council.

### ***3.3.3 Fiscal Decentralization***

In order to support local governments in conducting their new tasks, the central government significantly increased fiscal transfers to them. The fiscal transfers consist of a general grant distributed based on population and area, revenue sharing from natural and tax resources, and special grants to perform the programs of central government. Fiscal decentralization also establishes revenue sharing between the central and local governments. For example, the central government shares 15% of oil revenues, 30% of natural gas revenues, and 80% of other mining,



**Table 3.1** Distribution of tasks among government levels in agriculture, infrastructure, health and education sectors

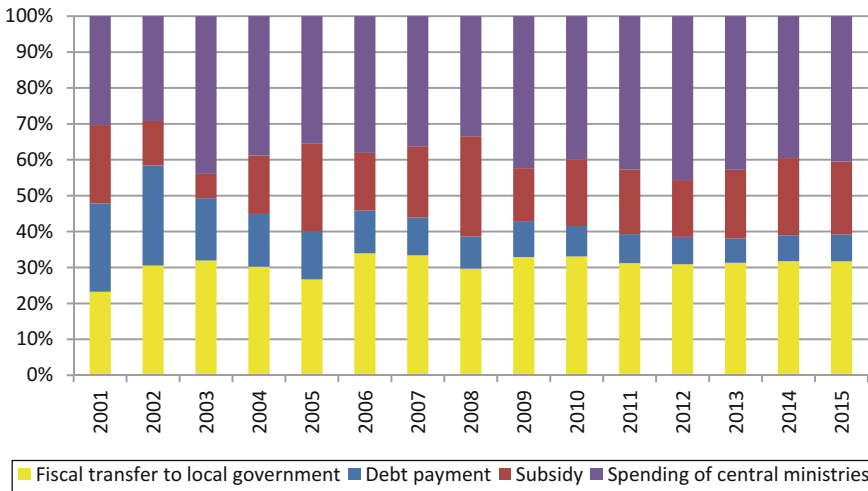
No	Sector	Government level			
		Centre	Province	District	Village
1	2	3	4	5	6
1	Agriculture	<ul style="list-style-type: none"> <li>- Building dams covering areas more than 3,000 ha and the primary irrigation network</li> <li>- Overcoming plant and animal disease on a national scale</li> </ul>	<ul style="list-style-type: none"> <li>- Building dams covering areas between 1,000 and 3,000 ha</li> <li>- Overcoming plant and animal diseases on a provincial scale</li> </ul>	<ul style="list-style-type: none"> <li>- Distribution of agricultural inputs</li> <li>- Extension of services, training and empowerment of farmer groups</li> <li>- Building dams covering areas less than 1,000 ha and secondary and tertiary irrigation networks</li> <li>- Overcoming plant and animal diseases on a district scale</li> <li>- Management of extension workers</li> </ul>	<ul style="list-style-type: none"> <li>- Building small rural irrigation</li> <li>- Developing agribusiness facilities at the village level</li> </ul>
2	Infrastructure	<ul style="list-style-type: none"> <li>- Building strategic and national scale infrastructures and those in metropolitan areas</li> <li>- Building trans province road network</li> </ul>	<ul style="list-style-type: none"> <li>- Building trans district infrastructure and trans district road network</li> </ul>	<ul style="list-style-type: none"> <li>- Building interior and trans-village road networks, rural sanitation, clean water, the housing sector and other rural infrastructures</li> </ul>	<ul style="list-style-type: none"> <li>- Building rural roads, sanitation and other rural small scale infrastructure</li> </ul>
3	Health	<ul style="list-style-type: none"> <li>- Providing drugs, vaccine and medical instruments</li> <li>- Financing free health services for the poor</li> <li>- Overcoming national scale disease</li> </ul>	<ul style="list-style-type: none"> <li>- Supervisory function and trans district coordination</li> <li>- Overcoming provincial scale disease</li> </ul>	<ul style="list-style-type: none"> <li>- Management and financing of district health service providers</li> <li>- Building sub-district polyclinic and district hospital</li> <li>- Overcoming district scale disease, vaccination and the improvement of child nutrition</li> <li>- Management of health workers</li> </ul>	<ul style="list-style-type: none"> <li>- Building and rehabilitation of village polyclinic</li> <li>- Identifying the recipient of free health services for the poor</li> </ul>

(continued)

Table 3.1 (continued)

No	Sector	Government level			
		Centre	Province	District	
4	Education	<ul style="list-style-type: none"> <li>- Standardizing curricula and national examinations</li> <li>- Financing student education costs</li> <li>- Exclusive responsibilities for university level and religious education</li> </ul>	<ul style="list-style-type: none"> <li>- Supervisory functions and trans district coordination</li> </ul>	<ul style="list-style-type: none"> <li>- Building and managing pre elementary, elementary, low and high secondary schools and non formal education</li> <li>- Distribution of books and educational tools</li> <li>- Management of teacher</li> </ul>	<ul style="list-style-type: none"> <li>- Building and renovation of pre-elementary schools</li> </ul>

Source Adopted from Law 23/2014 and Purbalingga District Regulation 21/2007



**Fig. 3.3** Composition of state expenditure after decentralization. *Source* Ministry of Finance (2010, 2012, 2013, 2014, 2015)

fishery and forestry revenues with local governments. In taxation-based revenues, 90% of property taxes and 80% of land acquisition taxes are shared with local governments. Article 27 Law 33/2004 guaranteed the transfer of at least 26% of total state revenues to local governments.

Compared to the portion of fiscal transfers under the centralized system, which constituted only about 17% of state expenditures, fiscal transfers have since 2001 been the largest part of state expenditures, amounting to about 32% in 2011 (Fig. 3.3). About 90% of them are given to districts rather than to the provinces. More important than the increase in quantity is changes in the nature of fiscal transfer itself. Previously, fiscal transfers were scattered from various ministries' earmarked funds, but it is now unified and transferred through a grant from the Ministry of Finance.

### 3.4 Implications for Village Government and Rural Development

The 1945 constitution acknowledges the rights of village governments to manage their internal affairs based on principles of originality and specialness. These principles mean that village institutional arrangement, customary laws and community consensus derived from the past time are acknowledged as long as they are still existing within the village, implemented by the community, and not in conflict with the principle of unitary state.

However, the regulations made by the government before 1999 were not in line with the mandate of constitution. Through Law 5/1979 on Village, the government liquidated customary institutions, homogenized the structure of village government and centrally formulated rural development programs. Consequently, village just became the lowest administrative institution without discretion and the power of decision making. It was only after the reform in which the government launched Law 22/1999 aiming to reinstate the rights of originality and specialness of village government. The most recent efforts to strengthen village government is the establishment of Law 06/2014 on Village, in which the government acknowledges the diversity of customary laws existing in rural areas and guarantees larger share of state and district budget for village government.

According to Law 06/2014, village is classified into two categories, which are Customary Village (*Desa Adat*) and ordinary Village (*Desa*). Customary Village means the villages that are still strictly maintaining and implementing customary laws derived from the past time. The government will regulate them to be a kind of self-governing communities, in which they manage their local affairs through traditional institutions, customary mechanism and laws beyond the state intervention. There will be no longer administrative tasks from the government to Customary Villages.

However, for many villages, identifying customary laws is very difficult since most of them have disappeared due to modernization and state intervention from the Dutch colonial era to the Suharto administration. Thus, most villages prefer to be the second type, ordinary Village, or simply called village (*Desa*) governments. The government will regulate them to be a kind of local self-government. As a local self-government, the institutional arrangement, mechanism of decision making, system of accountability and budget reporting are similar as the other level of local government. For example, there will be a principle of power separation between village head and village council. There will be also distribution of tasks to village from district, province and national level. Village will be given a share of budget from district and national level to manage based on local initiatives. On the paper, village will be governed based on principles of diversity, participation, real autonomy, democratization and people empowerment.

In term of institutional arrangement, to democratize village governance, decentralization created power separation by introducing the village council (*Badan Perwakilan Desa/BPD*). It has the power to monitor the village head, to formulate village decrees and to approve or reject drafts of the village budget. This means that decentralization shifted the accountability of the village head, from the district leader to the villagers. Previously accountable to the sub-district leader, the village head is now accountable to the village council. Candidates for village head and the village council can now run for election without screening from the government, although they still must meet some administrative requirement such as an educational degree and age.

In the past, the village head was directly put under the command of sub-district head where accountability and loyalty were oriented. At that time, a higher government level could intervene in the village as it wanted, and the village

government could not protest. Decentralization has abolished the chain of command line between the village head and sub-district head, which means that the village head is no longer subordinate to the sub-district head. The relationship between sub-district head and village head consists of coordination and supervision. Still, the village head may reject programs from higher level of government if they are not accompanied with the proper resources.

A village government has tasks to build various rural infrastructures, to identify the beneficiaries of poverty alleviation programs, to provide letter of reference, to conduct demographic registration and to do various tasks given by the district government. To conduct these tasks, a village has a budget transferred from the district government. Some are automatically given based on population and area size, some are bound to development programs proposed in that area, and some should be requested from the district through the submission of a proposal. Besides these transfers, a village government has the power to raise internal revenues and to collect some contribution from the community. The most recent bill, Law 6/2014 on Village, mandates that district governments share 10% of their fiscal transfers with village governments. A transfer of funds to the village government does not impose strict rules on the utilization, but gives the village government discretion to use it for various purposes according to local priorities. Then, decentralization provides villagers the opportunity to be involved not only in the project execution but also in decision making.

Decentralization liberates village government from domination by the district and central government. Village governments no longer need approval from district governments to formulate a village budget. Through this system, it is expected that rural development will become demand driven. Not only the authority to implement, but also to plan and to evaluate the projects is devolved to village government. Table 3.2 shows that the differences between rural development during centralization and decentralization are in planning, evaluation and institutional arrangements. The central government devolved the power of decision making to village governments, and increased community control over the development projects. There is almost no difference in terms of program execution, especially concerning resource mobilization within a village. As it is argued that community participation in development stages is interconnected and the increase in the participation in one step has potential to increase participation in other steps (Cohen and Uphoff 1980), it is expected that the nature of project execution during decentralization will become more participatory. Overall, decentralization provides more opportunities for applying a participatory approach to rural development. Through the new institutional arrangement of village governance that is more democratic, the input and control of villagers over the village budget should be more effective.

Decentralization implies that there will be fewer uniform programs of rural development made by the central government. Considering the budget limitations of the state, it is almost impossible for the central government to enact a large-scale rural development program like the Green Revolution in 1970s. The effort to develop rural areas depends on the policy of each district government. Programs of rural

**Table 3.2** Rural development mechanism before and after decentralization

No.	The difference in	Centralization	Decentralization
1	Type of infrastructures will be built	Decided by district government	Decided at village level
2	Utilization of budget	Strictly marked by the central government	Can be utilized as according to local needs
3	Formulation of budget	Drafted by village head, approved by district head	Drafted and approved by village head together with village council
4	Project execution	By village government	By village government
5	Mobilization of resources	By village government	By village government
6	Evaluation of project	By district government	By both district government and community
7	Accountability of village head	To district head	To community through village council
8	Legislative body	Did not exist	Exist

Source Regulation of MoHA 9/1982, Government Regulation 72/2005 and Regulation of MoHA 37/2007

development will shift more to small-scale development managed by the community through the approach of Community Driven Development and social protection programs. Village governments are granted discretion to plan, execute and evaluate development projects based on local initiatives. There are many programs delivered to rural areas, among others are the *Kecamatan* Development Program (*Program Pengembangan Kecamatan*), Support for Poor and Disadvantaged Areas (*Program Percepatan Pembangunan Daerah Tertinggal dan Khusus*), the Economic Empowerment Program for Coastal Area (*Program Pemberdayaan Ekonomi Masyarakat Pesisir*), Poor Farmers Income Improvement through Innovation Project (*Program Peningkatan Pendapatan Petani Melalui Proyek Inovasi*) and so on. In addition, the government executed many social protection programs to provide for basic needs. These included Rice for the Poor Program (*Raskin*), Health Insurance for the Poor (*Askeskin*), Scholarship for Poor Student (*Bantuan Siswa Miskin*), Conditional Cash Transfer (*Program Keluarga Harapan*) and Unconditional Cash Transfer (*Bantuan Langsung Tunai*).

With the increase in power, budget and discretion of village government in rural development programs, village government is supposed to improve their knowledge to identify priority of development programs needed by the community. Village apparatus should have administrative capacity to manage development funds like proposal writing, budget drafting and reporting and technical drawing of physical infrastructure. The quality of village development plan should be improved, so that every village government should formulate long term, medium term and short (annual) term of development plan documents. The documents should be made through a village meeting involving the village apparatus, village council and community representatives. To create transparency, it is mandatory for

a village head to present the development plan and fund utilization to the community at least once a year.

### 3.5 Conclusion

The degree of decentralization is a characteristic of a system, which assembles the institutional setting of the political, administrative and fiscal areas, to form a complex design of decentralization in a country. Looking at the current design of decentralization, Indonesia has adopted a devolution system, which is the highest degree of decentralization. It is said that district governments have full decentralization, provinces have limited decentralization, and villages have traditional decentralization. Although it is impossible to create a perfect design, the current government design has been supportive enough to promote participatory rural development in Indonesia.

### References

- Cohen JM, Uphoff NT (1980) Participation's place in rural development: seeking clarity through specificity. *World Dev* 8:213–235
- Ministry of Finance (2010) Financial note of the Indonesian government 2005–2010. Ministry of Finance, Jakarta
- Ministry of Finance (2012) Financial note of the Indonesian government 2006–2011. Ministry of Finance, Jakarta
- Ministry of Finance (2013) Financial note of the Indonesian government 2013. Ministry of Finance, Jakarta
- Ministry of Finance (2014) Financial note of the Indonesian government 2014. Ministry of Finance, Jakarta
- Ministry of Finance (2015) Financial note of the Indonesian government 2015. Ministry of Finance, Jakarta
- Ranis G, Stewart F (1994) Decentralization in Indonesia. *B Indones Econ Stud* 30(3):41–72
- Smoke P, Lewis BD (1996) Fiscal decentralization in Indonesia: a new approach to an old idea. *World Dev* 24(8):1281–1299
- Tinker I, Walker M (1973) Planning for regional development in Indonesia. *Asian Surv* 13(12):1102–1120
- World Bank (2007) Spending for development: making the most of Indonesia's new opportunities. World Bank, Washington, D.C.

# Chapter 4

## Rural Development Policy in Indonesia

**Abstract** Policies of rural development in Indonesia have evolved over time. It began with the land reform policy implemented in the 1960s, then the Green Revolution was implemented in the 1970s and 1980s, the Backward Village Program was implemented in 1990s, the *Kecamatan* Development Program was implemented in 2000s, and Social Protection Programs were implemented thereafter. The programs have had positive impacts on rural livelihood, but most of them have not been completely successful. Various implementation gaps can be identified from the programs, which mostly lie in the weak capacity of the bureaucracy to implement the programs, insufficient funding, and the weak management of the poverty database. Therefore, the future of rural development in Indonesia will depend on the government's capacity to manage the programs, the political commitment of national and local leaders to create pro-rural development budgeting, and support from local institutions through decentralization to improve the targeting of poverty alleviation programs.

**Keywords** Land reform • Green revolution • Backward village program • *Kecamatan* development program • Unconditional cash transfer • Social safety nets • Rural development

### 4.1 Introduction

Since Indonesia became independent, there have been many rural development policies implemented by the government. Each regime has formulated policies based on its political views. For example, during the Sukarno administration that was influenced very much by a leftist ideology, the policy of rural development was land reform aimed at decreasing the landholding inequality in rural areas. When the Suharto administration took over, influenced very much by modernization and capitalism, the rural development policies were dominated with programs aiming to improve productivity and bring advanced technology to rural areas, including the Green Revolution and other infrastructure and capital-intensive programs.



Thereafter, when Suharto regime collapsed and was replaced by a democratic regime, policies of rural development evolved to include community empowerment and social protection programs.

This chapter aims to review several main policies of rural development in Indonesia, underlining in particular their implementation and impact on rural residents. Chronological perspective will be applied to analyze these programs. In addition, lessons learned from the implementation of rural development policies in Indonesia will be discussed in the last part.

## 4.2 Land Reform

The most significant rural development policy created by the Sukarno administration was Law 5/1960 on the Basic Rule of the Agrarian System. The law was the basis of land reform in Indonesia, aiming to distribute agricultural land occupied by property owners to landless farmers. It was the main socialist legislation enacted as part of President Sukarno's ideology on Indonesian socialism. During this time, he was aware that landholding inequality was a serious problem in rural areas that would impede many peasants from escaping from poverty. Overpopulation in the Island of Java, with only 6.8% of total Indonesian land but inhabited by about 60% of the total Indonesian population, implied agricultural land scarcity in the island. The traditional land system before independence that gave local traditional leaders a monopoly on land ownership had exacerbated landholding inequality within the rural community.

The law itself intended to create more equal land distribution. It set a minimum size of landholding at two hectares of either irrigated or dry land per farm household. It also set the maximum size of landholding to prevent excessively large landholdings. The maximum size of landholding varied according to the degree of population density in each area. In Java, the maximum landholding was set at 7.5 ha of irrigated land or nine ha of non-irrigated land.

Although the program was conceptually very good for rural development, it received little support. At that time, the Indonesian political configuration was influenced by the three main ideologies of nationalism, religiosity and communism. Support for the program came from the Indonesian Communist Party, which initiated the law and fully backed the peasant movement. The two other groups, religious and nationalist, did not support and even resisted the program. They resisted the program because their constituents were mostly people with larger endowments and farmers with relatively large areas of land. The implementation of land reform program often created riots in rural areas. Land distribution was executed through the one-sided action of peasants claiming land from property owners. The riots generally occurred as conflicts between the peasants, who were organized by the Indonesian Communist Party, and the property owners, who were backed by the local religious leaders and army. The government itself could not handle the problem due to serious division within the government. In short, land reform could

**Table 4.1** Inequality of landholdings in Indonesia, 1963–2003

No	Year	Java		Indonesia (excluding Java)		Indonesia	
		Average land holding (Ha)	Land Gini	Average land holding (Ha)	Land Gini	Average land holding (Ha)	Land Gini
1.	1963	0.70	–	1.90	–	1.10	–
2.	1973	0.60	0.45	1.50	–	1.00	0.55
3.	1983	0.58	0.49	1.38	0.48	0.98	0.50
4.	1993	0.47	0.56	1.19	0.48	0.83	0.64
5.	2003	0.30	0.72	0.80	0.64	0.70	0.72

Source Mishra (2009)

not be implemented smoothly and even triggered a horizontal conflict within rural communities (Wertheim 1966; Anderson 1983).

The land reform programs could only be implemented until 1965. As a result of the aborted coup of the Indonesian Communist Party in 1965, the Indonesian government banned communist ideology and its related activities. Having no political support, the land reform program was subsequently terminated. President Suharto, who governed Indonesia after 1966, did not want to risk social unrest potentially caused by land reform. There was no effort to execute land reform in Indonesia after 1966. The program only distributed land to 1,292,851 farm households, which included 816,849 households in Java, with farmers receiving about 0.42 ha per household on average (Prosterman and Mitchell 2002). The failure of the land reform program perpetuated landholding inequality in rural areas, a condition that would in turn affect rural poverty in Indonesia. The landholding inequality could be seen, as the majority of the poorest people in Indonesian rural areas are farm laborers working on other people's land and smallholders farming on extremely small plots of land, less than 0.5 ha (Mishra 2009) (Table 4.1).

### 4.3 The Green Revolution

The rise of General Suharto to become the second president of Indonesia marked a period during which economic development became the major national agenda. He called his administration the New Order, a regime in which development was given the highest priority in the national agenda. The term was used to differentiate his regime from his predecessor's, what he called the Old Order, in which politics was the main concern of the government. The short-term priority of the new regime was to create political stability and to overcome rampant inflation. In the long term, economic policy consisted of efforts to pursue economic growth. It was believed that without economic growth, nothing could be shared with people except poverty itself. Hence, economic development should be grown first and only then, equity could be created. As political stability was the compulsory condition for economic

growth, the government strictly prohibited every activity with the potential to underpin political stability.

The prime rural development policy in the first two decades of the Suharto administration was the Green Revolution program. In Indonesia, the program was better known by the name Mass Intensification Program (INMAS). The program intended to increase farming productivity, mainly rice, through introduction of modern farming techniques. Rice production became the most important issue in rural development in the 1970s and 1980s, and the main goal of the government at that time was to achieve rice self-sufficiency in Indonesia. Supported by increasing state revenues from booming oil prices in the 1970s and foreign aid programs, the Indonesian government was able to finance the Green Revolution program. Wood (2005) notes that state income was massively boosted by oil revenues, from only US\$0.6 billion in 1973 to US\$10.6 billion in 1980. Foreign aid flowing to Indonesia reached US\$25.4 billion by the end of 1982, a figure that led to a 28% national debt-service ratio (Wood 2005). Irrigation canals, fertilizers, pesticides and high yielding varieties of rice seeds were provided in order to implement the Green Revolution. Between 1970 and 1984, the total irrigated land increased from 3.7 million hectares to 4.9 million hectares. Furthermore, the area of high yielding varieties expanded from 0.8 to 6.8 million hectares. It was reported that the use of subsidized fertilizers increased from 0.2 million tons to 4.1 million tons per year while the use of subsidized pesticides increased from 1,080 ton to 14,210 tons per year. Until 1985, the government subsidized the prices of pesticides and fertilizers at 82, and 68% of the market prices, respectively (Panayotou 1993; Barbier 1989).

To make the Green Revolution a successful program, the Indonesian government totally controlled the distribution of farming production inputs. Through Presidential Instruction 4/1973, the Indonesian government established Village Unit Cooperatives in each sub-district to channel farming production inputs such as fertilizers, pesticides and seeds and to facilitate the marketing of products by the farmers. In 1976, the number of cooperatives were 8,878 units all over Indonesia (Baswir 2003). Through this monopoly, the government faced almost no difficulty in distributing farming production inputs.

The results of the Green Revolution program were very amazing in increasing rice production. Within 15 years, rice production increased by 127%, from 11.6 million tons in 1969 to 26.3 million tons in 1984 (Axelsson 2008). The program lifted Indonesia from a rice importer in the beginning of 1970s to a rice self-sufficient country in 1984. Indonesia was able to export 1.5 million tons of rice in 1985. It also significantly reduced the number of poor people in rural areas and enhanced the economic welfare of many farmers. Between 1968 and 1984, the number of people in absolute poverty decreased from 65 to 21.6% of the total population.

Despite the success of the Green Revolution in increasing rice production, the Green Revolution had substantial problems in the sustainability, equity and stability of production. The varieties of rice would produce high yield only if they were planted with the intensive use of fertilizers and pesticides. Given high subsidies from the government, fertilizers and pesticides were available in the market at

affordable prices, by which farmers faced almost no difficulties in obtaining them. This, in turn, triggered inappropriate uses of fertilizers and pesticides. For example, in some areas, the use of urea reached 400 kg per hectare, much higher than its recommended use of 200 kg. The inappropriate use of pesticides and fertilizers led to contamination and the degradation of the soil and triggered the emergence of stronger pests resistant to the pesticides used. In 1986 and 1987, an estimated 50,000 to 60,000 hectares of cultivated rice were lost due to an outbreak of brown plant hoppers resistant to pesticides (Barbier 1989). The more frequent harvest failures would affect the incomes of small farmers more seriously than the large farmers would.

In a traditional farming system, landless farmers usually earn a living from working on the others' land either as daily workers or as sharecroppers. The utilization of farming machines introduced by the Green Revolution in rural areas reduced the use of worker in the farming sector. In case of landless farmers, the Green Revolution might have made their lives more difficult due to reduced job opportunities. There have been few economic benefits for them in modernization because rice production increased but labor productivity did not (Axelsson 2008). A study conducted by Keyfitz (1985) concluded that villagers with large cropland were the ones most benefited by the program. The villagers with no land or only small land still lived in poverty. In 1985, the period when the Green Revolution program reached its success in increasing rice production, it illustrated how development inequality occurred in village areas. "Villagers having large land could do pilgrim to Mecca three times, to cite the extremes of village social status while villagers having no land could only hope income US\$1 per day only when they could get work" (Keyfitz 1985). Amidst the success of the Green Revolution program, it was clear that not every farmer enjoyed its benefits. This condition probably would not have occurred if the land reform program was successfully implemented by the previous regime to overcome landholding inequality earlier.

The success of the Green Revolution in increasing rice production was not sustainable over time. Support for the farming sector has since 1984 been decreased. The tighter budget due to declining state oil revenues since 1982 resulted in scarcity of funding to maintain agriculture infrastructures. Decreased financial support damaged 22% of total irrigated land and 7% of existing dams, a condition resulting in the loss of 1.5 million hectares of potential annual planting. The subsidies for fertilizers and pesticides gradually decreased, even disappeared by 1999. After 1984, rice production could only increase around 1% per year, and in 1994, rice production decreased by 3.69% (Simatupang 2004). In 1995, Indonesia became a rice importer again, when the government had to import 3 million tons of rice. The declining obsession with increasing farm production after the government achieved rice self-sufficiency removed farming sector as a priority of the government's development policy. Slowly but surely, the Indonesian government shifted the focus of development policy from the agricultural sector to the industrial sector.

## 4.4 Backward Village Program

The government in 1994 launched the Backward Village Program or *Inpres Desa Tertinggal* (IDT). It was a program aiming to improve the income of the poor by channeling financial capital to them to begin small-scale enterprises. It channeled each targeted village a fund worth IDR 20 million, equivalent to US\$8,700 at that time, per year from 1994 to 1996. The type of fund was a block grant by which communities had full discretion to use as long as they followed the general guidelines set by the government. The fund would then belong to a community group, through which the poor could borrow the money. The borrowers had to repay their loans to the group so that other households could borrow again. This mechanism intended to create a continuous revolving fund. To manage the fund, the poor were organized into community groups consisting of 10 to 30 poor households per group (Bappenas 1994).

The beneficiaries of the program were the poor living in 20,633 villages deemed to be left behind during the rapid economic growth in 1970s and 1980s. This number constituted about one third of all Indonesian villages. The government selected the villages based on various indicators of economic and social infrastructure. The villages that had low scores of economic and social indicators were categorized as backward and then became targets of the program. After a village received the fund, the village government determined the eligible households as well as a repayment plan and its interest rate. The government intentionally did not impose any specific criteria on the eligible households. The purpose of this discretion was to encourage local discretion in managing the development fund.

Many problems occurred in the selection of the eligible households within the villages. The deviations in selecting the eligible households were unavoidable since there were no specific criteria set by the government. In many places, the funds were corrupted. Village heads preferred to give the money to the villagers with good reputations for using money effectively rather than to the poor who were not able to pay it back (Guggenheim 2006). The repayment rate was only about 22% of all loans due to business failures (Yamauchi 2007). The participation of the poor declined from 25% in 1994 to 11% in 1997. A lack of agricultural infrastructure and market information were the main barriers to developing businesses. Limited knowledge of how to organize groups and how to collaborate with businesses hampered the expansion of enterprises. In many locations, village heads were too dominant, and the program did not trickle down the power of decision making to the poor. In many places, the groups were formed only for project formality, and when the government terminated the program in 1996, they also dispersed (Sujono 1998; Safitri and Rafael 2002).

The low repayment rate of the fund and the decrease in the poor's participation in the groups caused the program to not perform well. The government failed to create a sustainable revolving fund since it functioned more as a grant than as pure credit. The program actually still increased employment opportunities and improved the income of the poor (Yamauchi 2007), in addition to reducing the

economic inequality both within the communities and among different regions (Akita and Szeto 2000). As long as the poor received the fund, they would invest in productive activities. About 80% of the recipients invested the fund in agricultural activities such as animal husbandry, crop cultivation and fishery while the rest engaged in trading, small-scale manufacturing and services (Yamauchi 2007). However, by investigating program impacts in 1998, it was concluded that the impact was relatively small and sustained only in the short run (Yamauchi 2007).

The lessons from the program are substantial. Firstly, decentralizing the poverty alleviation program does not mean to give the communities full discretion in managing every aspect of the program. There should still be general criteria for selecting the poor. Secondly, not only are the lack of opportunity and lack of capital factors impeding many poor people from escaping poverty, but also the lack of capacity for managing businesses. The program tried to remove these obstacles by providing capital assistance for the poor. However, to escape poverty, the poor do not only need business capital, but also assistance to manage the fund and an environment supportive of their business. The government failed to provide the latter two, and the program in general had been a failure.

## 4.5 *Kecamatan* Development Program

In 1999, Indonesia had a more democratic regime after the fall of the Suharto administration. The government promoted Community Driven Development (CDD) projects as a development model for alleviating poverty in rural areas. There were many CDD projects, and the *Kecamatan* Development Program (KDP) was the largest CDD program in terms of its coverage and funding. In 2006, KDP covered about 34,000 villages or half of all Indonesian villages. KDP channeled fund continually every year, with the amount ranging from US\$50,000 to US\$100,000 per sub-district. 30% of funds were designated for a community's revolving credit and 70% of funds for infrastructure improvement.

The government designed KDP to have participation and transparency. It was started from planning meetings held at the hamlet and village levels, in which a community submitted up to three proposals to the inter-village meeting at the sub-district level. A verification team at the sub-district level that consisted of government staff and private consultant would review the proposals. Verification reports were presented to the inter-village meeting attended by village delegations. Village delegations then selected the proposals through consensus. To assist villagers, the government assigned a private consultant in each sub-district (McLaughlin et al. 2007). In the initial period of KDP implementation, local bureaucracies dominated the meetings and hindered the active participation of villagers. KDP suffered from lack of transparency due to insufficient information distribution (Safitri and Rafael 2002; Sumarto and Widyanti 2008). There was elite intervention in decision making, implying low community participation for maintaining the project. During the first two years of the KDP projects, the infrastructure

built was rural roads (62%), small bridges (10%), irrigation canals (8%) and clean water facilities (7%) (Narayan 2002). On average, the infrastructures were 55% more cost effective than the government and private constructor sponsored projects.

Repayment rates were about 50–60%. The credit significantly provided an alternative funding source for the poor to generate small-scale employment and trade. The credit was extremely popular in villages that already had basic infrastructure, particularly road access. The fund was used to increase agricultural, food processing, and trading activities (Edstrom 2002). KDP was relatively more successful than the previously implemented Backward Village Program due to the discipline of the borrowers in paying back the money. KDP was well implemented in many locations due to village teams actively encouraging participation. Moreover, the team would consistently perform well if it was democratically elected by villagers.

The portion of households moving out of poverty was 9.2% higher in KDP areas than non-KDP areas (Voss 2008). KDP reduction of poverty was not achieved through targeting the poor within communities but through targeting all villagers (McLaughlin et al. 2007). Within a community, the poor were still not the main priority. An explanation given is about the development of irrigation canal through KDP fund. This irrigation canal development benefited the villagers with large cropland rather than the poor that usually had small cropland. Only once the main infrastructure within a village had been built, would the community prioritize the poor. Voting to determine the use of funds was the reason why the poor became non-priority in KDP implementation.

## 4.6 Social Safety Nets

Responding to the massively increasing number of poor people during the monetary crisis, the government launched a fast reaction program in July 1998 called the Social Safety Net (SSN). SSN intended to help the poor cope with the negative impact of the monetary crisis. It was designed to include quick disbursement, direct financing to beneficiaries, transparency, accountability and participation in monitoring its implementation. SSN included labor intensive projects, rice for the poor, scholarships for the poor, and health insurance for the poor (Sumarto and Widyanti 2008).

As the program was hastily formulated, the government was not well prepared to implement it. Among the troubles of SSN implementation, it seems that targeting was most dominant (Sumarto and Widyanti 2008; Suryahadi et al. 2008; Hastuti et al. 2008). The program suffered from two main problems, which were leakage and under-coverage. While leakage meant that many non-poor people originally not program targets became recipients, under-coverage meant that the program could not cover all poor people. At the time, the available database of the poor was only the data from the National Family Planning Agency, which classified each household as a Pre-Prosperous Family, Prosperous I Family, or Prosperous II

Family. Although this categorization was vague, the government had no other choices. As a result, 35% of SSN recipients were non-poor. The biggest leakage, in Rice for the Poor, reached 70%. Mistargeting was due to weak socialization, unclear guidelines, problematic methodology and a lack of a complaint mechanism (Sumarto and Widyanti 2008).

In labor-intensive projects, there was no standard wage set by the government. In some regions, the wages from the program were higher than local wages, inducing those already employed to become its workers. Many of the infrastructures built by the program only slightly benefited the poor because they were not involved in decision making (Sumarto and Widyanti 2008).

In the Rice for the Poor program, many households deserving the rice but not on the recipient list openly protested the village government. Pressed by the masses, many village governments distributed the rice equally to all villagers to prevent jealousy. There were cases in which the poor could not provide IDR 20,000 to buy the allocated 20 kg of rice, and the village government sold the rice to other people who could afford it (Hastuti et al. 2008).

In the Scholarship for the Poor program, since children enrolling in the secondary level were usually from non-poor households, the program could not cover children from poor households who never enrolled in school (Sumarto and Widyanti 2008).

The same as the other programs, Health Insurance for the Poor also suffered from leakage targeting. About 69.42% of the health cards were allocated to the two poorest quintiles, while 20.51% were allocated to the two highest quintiles within community (Suryahadi et al. 2008).

The coverage by SSN of the poor households ranged from about 53% in subsidized rice to only about 5% in the scholarships for high secondary school students (Sumarto and Widyanti 2008). Nevertheless, they concluded that SSN still benefited the poor to some degree. Households with at least one member working in the labor incentive projects experienced a 4% higher increase in their income than those who did not become workers. About 13% of scholarship recipients would have dropped out from the school during the period of monetary crisis if they have not received SSN scholarships. The recipients of health cards experienced a 4% increase in consumption compared to the non-recipient households. The total benefit of Rice for the Poor was about IDR 15,000–20,000 per month per household, or about 5% of the minimum expenditure of a household with four members at the official poverty line (Sumarto and Widyanti 2008).

Social protection formally did not exist in Indonesia before the monetary crisis. The crisis had introduced the ideal concept to the government that social protection for the people was the responsibility of the state. Although the government initially launched SSN as a program to help the poor cope with the economic shock, it has continued Rice for the Poor, Health Insurance for the Poor and Scholarship for the Poor through the present. However, the same problem of targeting remains unsolved. A study by Hastuti et al. (2008) on the Rice for the Poor program between 2005 and 2008 find that there were still many cases of targeting inaccuracy as well as the practice of distributing the rice equally to all villagers. This persistent



implementation gap means the government has not learned how to improve SSN effectiveness, and in the future, the program may always suffer from the same problems.

If managed well, social protection can play a key role in the poverty alleviation effort. It will ensure the poor have access to basic necessities including staple food, education and health services. Especially for Scholarship for the Poor, this program actually has the potential to be a means of cutting the poverty chain by giving the poor children access to education. In this connection, the government should improve the management of SSN so that it can function not only as a temporary program to cope with the economic shock, but also as a sustainable program with the clear purpose of helping the poor escape poverty. The most crucial action the government should take is to improve the targeting mechanism so that the program will not suffer from under-coverage and leakage. The ideal concept of the social protection program, especially in the education and health sectors, is to cover all Indonesian people or at least all poor people. However, as long as the government lacks the budgets for universal social protection, and has no capacity to manage the database of poor people accurately, it can improve the targeting accuracy by directly involving the communities in selecting eligible households. This mechanism will result a more accurate list of eligible recipients that does not only refer to the government criteria but also accommodates local flexibility. There also should be free information dissemination and an open decision making process through the publication of the recipient list as well as the clear complaint filling mechanism for people not receiving the program.

## **4.7 Unconditional Cash Transfer Program**

Economic shock struck Indonesia again in 2005 and 2008 when the government decided to cut fuel subsidies. The government increased the price of fuel in October 2005 by 128% and in March 2008 by 29% respectively. The increase in fuel prices triggered inflation by 17.75% in 2005 and by 14.75% in 2008. The increase in fuel prices, especially in 2005, negatively affected the number of poor people in Indonesia, which increased by 12% from 35.1 million in 2005 to 39.3 million in 2006 (BPS 2010).

Supplementing the existing programs, in October 2005, the government launched the Unconditional Cash Transfer (UCT) program for one year. The program aimed to prevent an increasing in the number of poor people by strengthening the purchase power of the poor. It transferred cash assistance amounting to IDR 100,000 (about US\$10 at the time) for about 19.2 million poor households per month for a year. After increasing the fuel price again in March 2008, the government implemented UCT afresh for a year. The eligible households were determined through an observation by statistical agency's staff of 14 indicators of poverty set by the government. The indicators included, among others, asset holding, housing characteristics, the education level of the household head and

household consumption patterns. The enumerators often did not observe the whole village but only visited the households as directed by village governments, a practice that resulted in many cases of targeting inaccuracy. The same as with the Rice for the Poor program, many people deserving the money but left off the list pressed the village governments to distribute the UCT money equally to all villagers (Satriana 2009).

Although in most areas UCT was free of corruption, there were still many informal levies after the money reached the recipients. The reasons behind the levies varied, including distributing the levied money to non-recipients in order to prevent social jealousy, funding for religious events, national independence celebrations, roads and other infrastructure development and incentives for village government officials. The UCT fund constituted 24% of total monthly expenditures for the poorest households in rural areas. The recipients generally spent the money on food consumption, mainly rice. About 95% of the recipients had food consumption on their expenditure lists from the UCT fund, and on average, it constituted 43% of the total UCT fund (Satriana 2009). However, this program failed to prevent the increase in poor people in Indonesia. As the effect of raising fuel prices, the number of poor people increased by 12% in 2006 (Figs. 4.1 and 4.2).

The same as SSN, a weak targeting mechanism and the government's lack of preparation to deliver the program were among the factors causing troubles on UCT implementation. Moreover, UCT was a curative program in its nature. Even though it could protect the poor to some degree, it could not increase their capacity to be autonomous. When the government stopped it, the poor would remain poor. This program also would potentially be destructive to the empowerment efforts developed by many institutions. While the empowerment approach through many



**Fig. 4.1** Distribution of cash from UCT Program. *Source* <http://www.bandungekspres.co.id>



**Fig. 4.2** The recipient presents cash received from UCT program. *Source* [www.republika.co.id](http://www.republika.co.id)

CDD based programs tried to build the poor's capacity in developing business, UCT might result in the dependency of the poor on the government donation. UCT by design cannot be applied as a long-term poverty alleviation program.

## 4.8 Lessons Learned

The change in the Indonesian development system was fast and radical. After experiencing the long application of a top-down development model, the government suddenly implemented development programs that were decentralized and emphasized local participation. While in 1994 the program was only IDT, after the monetary crisis the number and type of programs increased significantly. The central government pushed the local bureaucrats too aggressively to implement many poverty alleviation programs. The difficulty in adapting the substance of many new programs as well as the weak preparation for implementation made the programs vulnerable to failure. For better implementation, it may be worth if the government always does well preparation for the programs including informing to both the street-level bureaucrats and community well about the detailed programs. In the long-term, reform within bureaucracy has to be an integral part of development strategy. The short-term agenda that the government should conduct include training program implementers and strengthening institutions for rural development programs.

Another issue of the current decentralized programs is the local elite domination. The nature of IDT, KDP and other CDD based programs are to give community discretion to manage the development fund. As long as the local elites are still too dominant in the planning process, the programs will only benefit the local elite

rather than the poor. For strengthening the poor in local development process, it is important to give assistance to the poor so that they can have a position equal to the non-poor. The government can strengthen the position of the poor in the local development process and the implementation of programs by involving civil society organizations to assist the poor during the program implementation. This step is important since without equal position of the poor, rural development programs will only benefit the local elites.

There is evidence that the government is still not able to make an accurate targeting system. Many programs in Indonesia suffered from serious under coverage and leakage. More importantly, the problem of targeting struck the programs on social protection that were very important in sustaining the poor's life. The government does not seem to learn much since every time it launches a social protection program, troubles in targeting always emerge. Considering the fact that the government capacity in managing database of the poor is still weak, it may be worth the government involving communities in selecting the people eligible for the programs, especially for the social protection programs. As Indonesia is a diverse country, the government should not impose any national standard on determining the eligible households within communities. Involving the community in selecting the people eligible for the programs will provide the opportunity to develop local flexibility in defining who the poor are. Despite that, program preparation such as the publication of recipient lists and clear complaint filling process is very important to the success of social protection programs.

## References

- Akita T, Szeto JK (2000) Inpres Desa Tertinggal (IDT) program and Indonesian regional inequality. *Asian Econ J* 14(2):167–186
- Anderson BR (1983) Old state, new society: Indonesia's new order in comparative historical perspective. *J Asian Stud* 42(3):477–496
- Axelsson T (2008) Peasants and policymakers: agricultural transformation in Java under Suharto. Holmbergs, Sweden
- Bappenas (1994) Pedoman Pelaksanaan Program IDT (IDT program implementation guidance). Bappenas, Jakarta
- Barbier EB (1989) Cash crops, food crops, and sustainability: the case of Indonesia. *World Dev* 17(6):879–895
- Baswir R (2003) Koperasi dan kekuasaan dalam era orde baru (cooperatives under new order administration). *Jurnal Universitas Paramadina* 2(3):247–263
- BPS (2010) Trend of selected socio-economic indicators of Indonesia 2010. BPS, Jakarta
- Edstrom J (2002) Indonesia's *Kecamatan* Development Project, is it replicable? Design considerations in community driven development. World Bank, Washington D.C.
- Guggenheim S (2006) Crises and contradictions: understanding the origins of community development project in Indonesia., In: Bebington AJ (ed) *The search of empowerment: social capital as idea and practice at the World Bank*. Kumarian Press, USA, pp 111–144
- Hastuti MS, Sulaksono B, Akhmadi DS, Artha RP (2008) The effectiveness of the *Raskin* program. The SMERU Research Institute, Jakarta

- Keyfitz N (1985) An East Javanese village in 1953 and 1985: observations on development. *Popul Dev Rev* 11(4):695–719
- McLaughlin K, Satu A, Hoppe M (2007) *Kecamatan* Development Program qualitative impact evaluation. World Bank, Washington D.C.
- Mishra SC (2009) Economic inequality in Indonesia: trends, causes and policy response. SMERU Research Institute, Jakarta
- Narayan D (2002) Empowerment and poverty reduction: a sourcebook. World Bank, Washington D. C.
- Panayotou T (1993) Green market: the economic of sustainable development. Institute for Contemporary Studies Press, San Fransisco
- Prosterman R, Mitchell R (2002) Concept for land reform on Java. Rural Development Institute, Washington D.C.
- Safitri MA, Rafael EB (2002) Indigenous peoples/ethnic minorities and poverty reduction in Indonesia. Asian Development Bank, Philippines
- Satriana S (2009) Impact assessment of the 2008 Unconditional Cash Transfer Programme (BLT) in Indonesia: unpublished master thesis Netherlands. Maastricht Graduate School of Governance, Netherlands
- Simatupang P (2004) How to solve supply bottleneck in agriculture sector. Paper presented at the agriculture policy for the future held in Jakarta, 12–13 Feb 2004
- Sujono RA (1998) Opportunity, challenge and strategy to develop business through microfinance program: a study at IDT villages. LIPI, Jakarta
- Sumarto S, Widyanti W (2008) Multidimensional poverty in Indonesia: Trends, interventions and lesson learned. Paper presented at the 1st international symposium of “Asian cooperation, integration and human resources” for Waseda University Global COE Program: Global Institute for Asia Regional Institute (GIARI), Tokyo, 17–18 Jan 2008
- Suryahadi A, Yumna A, Raya UR, Marbun D (2008) Review of government’s poverty reduction strategies, policies, and programs in Indonesia. SMERU Research Institute, Jakarta
- Voss J (2008) Impact evaluation of the second phase of the Kecamatan Development Program in Indonesia. World Bank Indonesia, Jakarta
- Wertheim WF (1966) Indonesia before and after the Untung coup. *Pacific Aff* 39(1.2):115–217
- Wood RS (2005) Strategies of development: Indonesia and Malaysia 1960—Present.
- Yamauchi C (2007) Effects of grants for productive investment on employment and poverty: lessons from Indonesia’s Left-Behind Village Program. The Australian National University, Canberra

# Chapter 5

## District Budgeting for Rural Development

**Abstract** Budget allocation is a reliable proxy for evaluating the prioritization of government policies. While decentralization has significantly increased fiscal transfers to local governments, rural development is still not prioritized in district spending. Most of the local budget is spent on recurrent expenditures consisting mainly of salaries and operational costs. Through some interventions from the central government, spending on education and health care has increased. However, spending on agriculture and infrastructure has been relatively stagnant over the years. The implications of local budgeting on rural development can be seen from the progress of several socio-economic indicators. Indicators in the education and health sectors have improved to some extent, while agriculture and infrastructure have remained relatively stagnant after decentralization. Reforming district organization to be more efficient is a solution to decrease recurrent expenditures. In the mean time, the central government should improve its monitoring of the utilization of district budgets.

**Keywords** Local budgeting · Development expenditure · Fiscal decentralization · Rural development

### 5.1 Introduction

It is often argued that a budget is the most effective tool to realize public policies. Analyzing the budget allocation of government will provide tangible evidence of the prioritization of public policies. Without underestimating the roles of other sectors, several sectors of development should be the priority of government spending in rural development. For example, agriculture is still the main livelihood of rural residents, hence the development of agriculture sectors will directly contribute to the growth of the rural economy. Rural areas tend to have a low Human Development Index (HDI), and as it is often argued, development in education and health sectors are important for improving HDI. Rural areas are poorly endowed with infrastructure like roads, sanitation and clean water, thus the development of

physical infrastructures is strongly needed. Based on these arguments, spending on agriculture, education, health and infrastructure is considered very important for rural development.

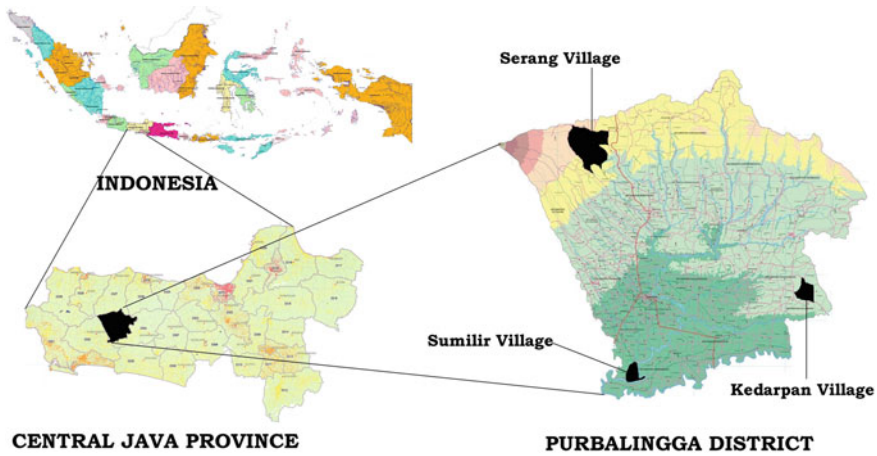
As budgets are currently decentralized in district governments, this chapter will discuss a case study at the district level, in Purbalingga District in Central Java Province. Central Java province was purposively selected because it was one of provinces with the highest poverty rates. It is home to 5,369,160 poor people, from which about 58% live in rural areas (BPS 2010). Furthermore, within Central Java, the Purbalingga district was selected due to its great distance from urban areas, therefore rural area characteristics are still dominant. The implication of budget allocation on some economic indicators will also be discussed to give a general understanding of how much decentralization has impacted on rural development. The method used in this chapter is a documentary study. This chapter is a comparative study before and after decentralization in one district, which aims to trace the comparison of budgeting for rural development before and after decentralization.

## 5.2 Case of Purbalingga District

### 5.2.1 Profile of Purbalingga District

Purbalingga district is located at longitude  $7^{\circ}10' - 7^{\circ}29'$  South and latitude  $101^{\circ}11' - 109^{\circ}35'$  East. Administratively, it borders Pemalang district in the north, Banjarnegara district in the east, and Banyumas district in the south and west (Fig. 5.1). The district covers  $777.6 \text{ km}^2$  of land, which mostly consists of wet cropland (28%), followed by settlements (24%), dry cropland (22%), forest (15%) and other (11%) (BPS Purbalingga 2015). The northern part of the district is located in the mount foot of Slamet Mountain while in the eastern part are part of the Dieng plateau range. The western and southern parts of the district are relatively low elevation areas in the streamline of Klawing and Serayu rivers. Agriculture is the backbone of the local economy. It has annually contributed one third of the district's Gross Regional Domestic Product (GRDP) in the last ten years. The total population in 2015 was about 900,000 people. About 43% work in agriculture sector, followed by trading (20%), industry (17%), services (10%), construction (6%) and other work (6%).

The district is, unfortunately, not located along the main route of trans-province roads and far away from the sea and airport, making it difficult to develop trading, industry and tourism. When most districts in the north coastal areas of Java experienced the rapid development of industries and trading from 1970s to 1990s, the economy of Purbalingga district only grew slowly. In terms of HDI, among the total 35 districts in Central Java province, Purbalingga district always ranked below 30th. The district was called as a retirement district due to its desolate location.



**Fig. 5.1** Map of Purbalingga district (not for scaling)

Historically, some development programs have been executed in the district. During the 1970s and 1980s, the central government launched many rural development programs. Through the Green Revolution, the central government built about 159 dams and around 296 km of technical irrigation networks. In the education sector, elementary schools were built in each village while lower secondary schools were provided in each sub-district. In the health sector, polyclinics were built in each sub-district, accompanying health posts that were made available in each village. In terms of infrastructure, an electricity network was provided in all villages in the 1990s. Asphalt roads and clean water facilities were built only in a few selected villages. Furthermore, each village received a development fund, locally named *Dana Banded*, amounting to about IDR 100 thousand per year in the 1970s and gradually increasing to about IDR 10 million in the 1990s. All of these programs contributed to the economic growth of the district as well as the improvement in the quality of life, although it was not as fast as the other districts.

In 2001, along with the implementation of decentralization, a district government was responsible not only for executing the central government programs, but also for planning and for financing locally made ones. Responding to the transfer of tasks from the central government, the Purbalingga district government in 2005 issued both medium and long-term strategic plans with the minimum standard of services and targets expected. On paper, in order to achieve a vision of “an autonomous, competitive and noble Purbalingga”, rural areas are the main target of development programs. According to the documents, development programs will focus on the improvement of infrastructure facilities, fulfillment of basic needs and empowerment of rural residents. By 2015, the structure of the district consisted of 29 agencies including one district secretariat, one council secretariat, and 27 offices.



The district was administratively divided into 18 sub-districts and 239 villages. Furthermore, the local council consisted of 45 members. The number of civil servants was about 10,217 people (BPS Purbalingga 2015).

The district is still dealing with the poverty problem, in terms of income, education, healthcare and infrastructure. By 2014, about 20% of the population had an income of less than US\$1.54 PPP per day. Moreover, the education sector strongly needed improvement. The enrolment rate of primary, lower and upper secondary school was 92, 73 and 36%, respectively. In health sector, 95% of births were assisted by medical personnel, life expectancy was 70 years, and 80% households were covered by health insurance. Further, in rural infrastructure, 63% households had access to clean water facilities, and 99% household has electricity network (BPS Purbalingga 2015). The district government is the main provider of rural education and health service. In the education sector, about 75% of schools are government schools. There are about 230 kindergartens, 645 elementary schools, 112 lower secondary schools and 73 higher secondary schools in this district. In the health sector, in addition to two private and one government hospital available in the district center, rural residents rely on the 161 village polyclinics and 22 sub-district health centers to obtain primary medical treatment (BPS Purbalingga 2015).

## 5.2.2 Budget Allocation in Purbalingga District

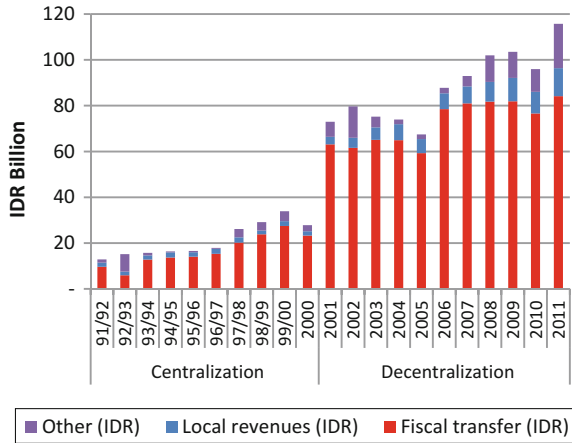
### Structure of District Budget

The Indonesian government budget system has historically been complex and with the rapid changes in the regulations as well as the format recently, it will be very difficult to construct the annual budgets with a single terminology. Generally, the structure of the district budget consists of two components, revenue and expenditure. District revenues come from three sources, which are local revenues, fiscal transfer, and the other sources including the rest of previous year's budget, adjustment and emergency transfers and donations from third parties. The district expenditure consists of two main components, which are recurrent expenditures that includes salary and operational costs, and development expenditure that includes all spending for development projects.

### District Revenue

Before 2001, fiscal transfers from the central government mainly consisted of Subsidies for Autonomous Regions (*Subsidi Daerah Otonom*/SDO) that were earmarked for recurrent expenditure and Presidential Instruction Funds (*Dana Inpres*) that were earmarked for development expenditures. The budgeting system at that time was designed in such way that district government spending was determined by the central government. The implementation of decentralization changed the budgeting system of local governments. As the central government needed to make sure that all local governments had the fiscal capacity to conduct

**Fig. 5.2** Revenue of Purbalingga district Government, 1991–2011. *Source* Author’s calculation from BPS Purbalingga (1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005), <http://www.djpk.depkeu.go.id/datadjpk/105/>, <http://www.djpk.depkeu.go.id/datadjpk/131/>. *Note* The value of money is converted into real values of 1991



their new tasks, it increased fiscal transfers to local governments. After decentralization, local government received fiscal transfer disbursed in form of shared tax and natural resource revenues, General Allocation Funds (*Dana Alokasi Umum/DAU*) and Special Allocation Funds (*Dana Alokasi Khusus/DAK*). Except the Special Allocation Fund that is earmarked for central government priority programs, the utilization of the other fiscal transfers was fully determined by local governments.

When decentralization began in 2001, district revenues increased by more than 200%, thanks to the increase in fiscal transfers. This means that after decentralization, the central government transferred substantial resources to the district. Looking at the type of revenues, it can be seen that most revenues are from fiscal transfers. The portion of local revenues, which represent the district government’s fiscal capability of, is only about 10% of total revenue (Fig. 5.2)

**Recurrent Expenditure**

Having received more funds from the central government, it is expected that the district will utilize the budget judiciously so that it can reach the people. As it is often argued that local government better understands local problems than the central government, decentralization is expected to result in a more responsive government. In connection with rural development, the district government is expected to allocate more funds for agriculture, education, health care and infrastructure programs. However, what happened in Purbalingga district was contrary to the expectation of many. A larger portion of the budget was spent for recurrent expenditures, which mostly consisted of the salaries of civil servants. On average, the proportion of recurrent expenditures increased from 56% before decentralization to 68 % thereafter. This increase automatically decreased the portion of development expenditure, from 44 to 32% (Table 5.1).

Actually, it is not only in Purbalingga but also in other areas that the local government spent most of the budget for routine expenditures. According to Mahi (2010), local governments in Indonesia averagely spend about 70% of their

**Table 5.1** Portion of annual spending in Purbalingga district, 1991–2011

No.	Expenditure	1991–2000 (%)	2001–2011 (%)
1.	Recurrent expenditure	56	68
	• Salary	40	54
	• Operational costs	16	14
2.	Development expenditure	44	32
	• Agriculture	1	3
	• Infrastructure	12	7
	• Health	2	4
	• Education	11	6
	• Grant for village	0	3
	• Other sectors	18	13

Source Calculated from BPS Purbalingga (1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012)

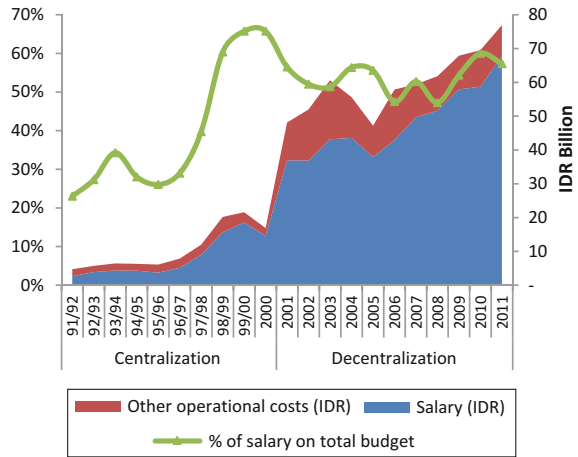
budget to finance the bureaucracy. The increase in recurrent expenditures began in 1998, the year Indonesia was hit by the monetary crisis. With a drastic decline in the exchange rate of the Indonesian Rupiah at the time, the government had no option but to increase the salaries of civil servants to meet living costs. Moreover, the merging of central ministry field offices with the district government as a result of decentralization in 2001 increased the number of civil services from 1,743 to 8,907 persons (BPS Purbalingga 2002). Thus, the increases in recurrent expenditures before 2001 were unavoidable due to these causes. Some national policies have also exacerbated such conditions. For example, in 2008, the central government launched a policy to appoint all outsourcing workers in government institutions as civil servants, increasing the civil servants in Purbalingga to 10,217 by 2010. However, despite these unavoidable reasons, the poor recruitment of civil servants contributed to a further increase in recurrent expenditures. There was no workload analysis to identify the number and qualifications of civil servant needed by the district.

Some indication of organizational inefficiency was found, related to the establishment of agencies to manage agriculture. Tasks in agriculture matters, which might be more efficiently to handle by a single agency, were managed by four agencies: the Forestry and Farming Agency, Poultry Agency, Agriculture Extension Agency, and Food Security Agency. Thus, it is not surprising that after decentralization, a larger portion of district budgets was allocated for recurrent expenditures. This is because the greater the district agencies and civil services, the higher the expenses of salaries and operational costs are (Fig. 5.3).

### Development Expenditure

Although all spending may directly or indirectly impact rural development, it is argued that there are several sectors very important for rural life, hence district governments are supposed to give priority on these sectors. This chapter will focus on the spending for agriculture, education, health, infrastructure and village block

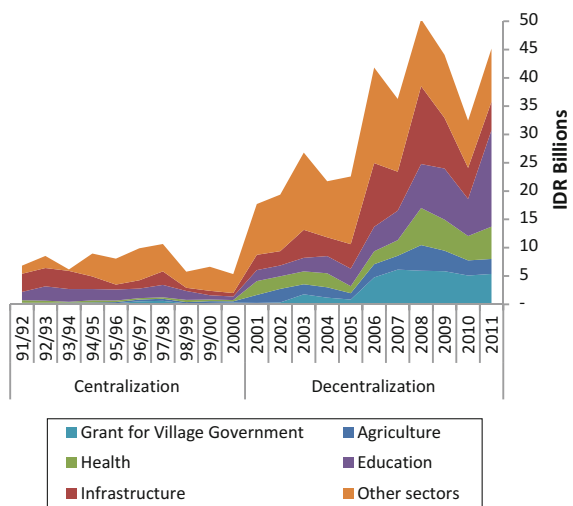
**Fig. 5.3** Recurrent expenditure in Purbalingga district, 1991–2011. *Source* Author’s calculation from BPS Purbalingga (1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005), <http://www.djpk.depkeu.go.id/datadjpk/105/>, <http://www.djpk.depkeu.go.id/datadjpk/131/>. *Note* The value of money is converted into the real values of 1991



grants. Observing the development expenditures, some increases were identified in some years. For example, spending for village grants substantially increased in 2006. Spending for health increased in 2008. Spending for education increased in 2008. Spending for infrastructure fluctuated, while spending for agriculture was stagnant over the years (Fig. 5.4)

The amount of budget for agriculture sector is relatively same over years. In the agricultural sector, most spending was utilized for improving and maintaining agricultural infrastructure in order to increase agricultural productivity. Such a concern should be directed to the development of dams and irrigation networks. With a limited budget in the agriculture sector, efforts to enlarge coverage of irrigation relied only on the development of non-technical irrigation canals done by

**Fig. 5.4** Development expenditure of Purbalingga District, 1991–2011. *Source* Author’s calculation from BPS Purbalingga (1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005), <http://www.djpk.depkeu.go.id/datadjpk/105/>, <http://www.djpk.depkeu.go.id/datadjpk/131/>. *Note* The value of money is converted into real values of 1991



village governments by utilizing village grants. By reviewing annual budgets, it is found that in non-physical aspects of the agriculture sector, most of the spending was utilized for programs on production increase like agriculture illumination, pest eradication as well as seed distribution and programs on developing farmer institutions like capital assistance and training for farmer groups. Among four sub-sectors of agriculture, farming is still the priority, followed by husbandry, fishery and forestry. Above all, the type of projects in the agriculture sector was almost the same across years, indicating that there was no innovation in this sector. In 2007, the amount of the budget for the agriculture sector increased due to a special program from the central government to rehabilitate cropland. This program was executed mainly through the development of absorbing wells and the reforestation of drainage basins.

The education budget consistently increased after decentralization, even it constituted the largest part of development expenditure. Most of it was spent on improving educational facilities and decreasing the educational costs of students. Moreover, free education costs for elementary school and considerably reduced costs for the lower secondary level had been started in 2005. The increasing educational budget was not only due to local government initiatives but also due to the intervention of national policy that made education sector the priority of local development. As stipulated in Law 20/2003 on the National Education System, the government should allocate at least 20% of development expenditures on the education sector. The law forcefully made the governments, including Purbalingga district, allocate a larger portion of local budgets to educational development.

In the health sector, the main responsibility of a district government was to manage primary health services. The districts spent their health budget mainly on upgrading several clinics to mini-hospitals and building village polyclinics. The development of village polyclinics was considered important, as it was the closest health service provider to communities. Most of the spending was utilized for improving health facilities, providing medicine and giving social health insurance to the poor. The spending for the health sector in 2007 increased sharply compared to that of 2006. The district government utilized the increase in spending of this sector mainly for upgrading several sub-district clinics to mini-hospitals by adding the number of nursing rooms, treatment tools and doctors. Local innovation existed in the form of social health insurance, which was a program to cover health treatment costs for community. This program was categorized as local innovation as it did not exist at the national level, and the local government had paved the way for this program since 2002.

With regard to the infrastructure budget, physical infrastructure was considered a high cost investment, either in development or in maintenance. Most of the district budget was spent only for maintaining the existing roads and bridges that became its responsibility. For sanitation and clean water facilities, the district government simply built the infrastructure and then transferred the responsibility for maintenance to village governments to raise self-supporting funds from the community. Such local innovation existed in the form of housing program, which was implemented by distributing stimulant funds to the poor to repair their homes.

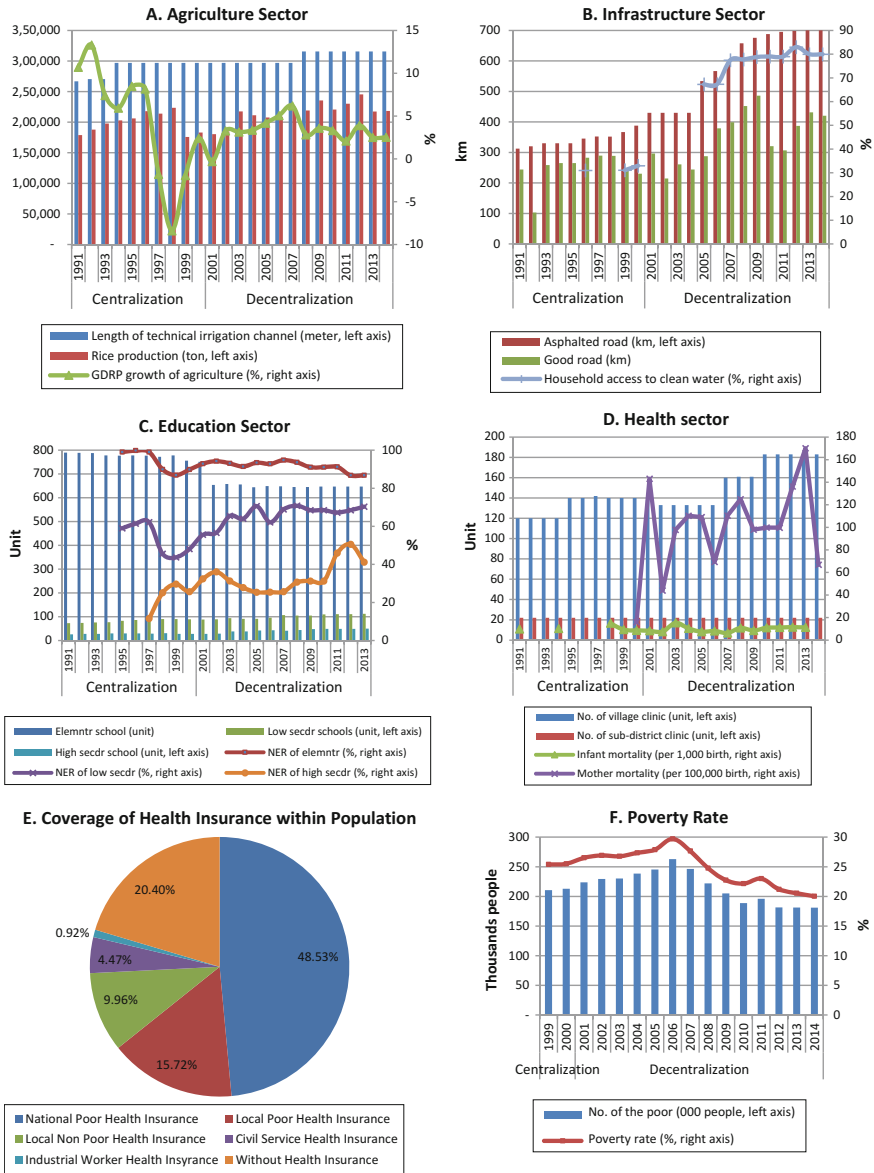
This program was implemented since 2003 to cover on average five houses per village per year.

The amount of village grant was substantially increased in 2006, thanks to the establishment of Government Regulation 75/2005 on Village, which mandates district government to allocate at least 10% of fiscal transfers as grants to village government. The most recent observation to district budget presents that allocation of budget for village government substantially increased in 2015, thanks to the establishment Law 06/2014 on Village, which mandates the central government to allocate state budget as grants to village government. In average, each village in Purbalingga district received about IDR 300 million to 500 million in 2016 from the state budget. In addition, there are several programs delivered through the scheme of grants for village government. They included the Asphalt Distribution Project (*Bantuan Aspal*), which was earmarked for village roads, the Water and Sanitation for Local Corporation (*Pamsimas*) which was earmarked for clean water facilities and the Poor House Renovation Program (*Program Stimulan Pemugaran Rumah Keluarga Miskin/PSPR Gakin*), which was earmarked for housing. Other programs included the Village Allocation Fund (*Alokasi Dana Desa/ADD*), Territorial Development Fund (*Bantuan Pembangunan Wilayah*), National Program for Community Empowerment (*Program Nasional Pemberdayaan Masyarakat/PNPM*) and Food Labor Intensive Project (*Proyek Padat Karya Pangan/PKP*), whose utilization of funds was independently decided by the community. Village grants played an important role in raising the contributions from the community. The district government delivered grants to the community for infrastructure development, and community would contribute the self-supporting funds. Most of the projects clearly stipulated that some portion of the development costs should come from the contributions of the community.

### ***5.2.3 Development Progress in Some Selected Sectors***

In the agriculture sector, through 2015, irrigation still relied on 159 dams built in the 1970s and 1980s, of which 25 of them were seriously damaged. The length of technical irrigation canals before and after decentralization were virtually the same, only increased by about 19 km. Irrigation coverage was enlarged only through small-scale irrigation canals built by village governments. Their scope was often very small, less than 1 km. In turn, low investment in the agriculture sector implied a relatively slower growth of the agriculture sector in the structure of the local economy. In the years before the 1998 monetary crisis, the GRDP of the agriculture sector could grow by 8% per year. However, after decentralization, the growth was on average less than 5% per year (Fig. 5.5a). As most rural residents were relying on agriculture as their livelihood source, the slow growing agriculture sector meant that the rural economy did not substantially increase after decentralization.

In the infrastructure sector, of about 710 km of district road, 95% were asphalted by 2014, an increase from 52% in 2000 (Fig. 5.5b). Yet, only 45% of them were in



**Fig. 5.5** Some socio economic indicators in Purbalingga, before and after decentralization. *Source* Calculated from BPS Purbalingga (1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012)

good condition. Most funds were spent for road maintenance despite the development of new ones. With regard to clean water facilities, through 2014, about 79% of households accessed clean water, compared to that of 31% in 2000. The data did not mean that they all had direct access to district waterworks. The portion of households having access to district waterworks was only about 8% of total households, and stagnated over the years. Most increases were due to small clean water facilities in the village, which was financed both by the budget in the infrastructure sector and by other programs for community empowerment.

In the education sector, with a consistent increase in the education budget, the district government could build 113 new kindergartens, 21 new lower secondary schools and 45 new upper secondary schools (Fig. 5.5c). The utilization of this increase was mostly for the improvement of school facilities and the salaries of teachers. There was still no serious effort to improve the access of poor students to schooling, for example by delivering mass and sufficient scholarship for poor students. As a result, although education facilities increased over years, school participation did not substantially increase. The Net Enrollment Ratio (NER) increased in lower secondary school and stagnated in the elementary and upper secondary levels.

With regard to the health sector, up to 2014, the district government built about 21 new village polyclinics. One achievement of decentralization in the health sector was the increase in number of households covered by health insurance. Thanks to the Health Insurance for the Poor (*Askeskin*) program implemented since 2006, the number of households covered by health insurance has reached about 80% (Fig. 5.5e). While the health insurance covered most of the population, not all of indicators in the health sector increased. While life expectancy increased over the years, the infant mortality rate stagnated, and the mother mortality rate fluctuated (Fig. 5.5d). What actually happened was that the recipients of health insurance did not always use the card when they were sick, due to problems of bad services.

### 5.3 Comparison with Other Districts

By analyzing budgetary data from 2007 to 2012 in 318 rural districts in Indonesia, it can be seen that the districts spent about 50% of the total budget for salaries and other operational costs, on average (Tables 5.2 and 5.3). There were quite big gaps

**Table 5.2** Allocation of development expenditure and changes in Human Development Index from 2007 to 2012 in 318 rural districts in Indonesia

Allocation for development expenditure (50% in average)	HDI Change (2.84 increase in average)		P value
	Under average	Above average	
– Under average	88	76	0.218
– Above average	72	82	

*Source* Calculated from secondary data



**Table 5.3** Portion of direct expenditure and changes in Human Development Index across Indonesian rural districts, 2007–2012

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
1.	Klaten	23.78	-0.72
2.	Tabanan	25.75	-2.97
3.	Kuningan	27.15	-2.58
4.	Karanganyar	27.17	-3.76
5.	Purworejo	28.02	-5.19
6.	Boyolali	28.66	-0.26
7.	Wonogiri	29.04	1.34
8.	Sumedang	29.52	-4.89
9.	Ciamis	29.93	-0.12
10.	Kulon Progo	30.50	-0.77
11.	Sragen	30.65	2.81
12.	Temanggung	30.87	4.54
13.	Banjarnegara	30.87	2.97
14.	Garut	30.98	-1.45
15.	Ponorogo	31.27	0.87
16.	Bantul	31.48	-2.08
17.	Banyumas	31.90	-0.7
18.	Bondowoso	31.91	10.71
19.	Magetan	31.95	-0.04
20.	Tulungagung	32.16	-0.33
21.	Pacitan	32.32	8.07
22.	Gunung Kidul	32.86	4.4
23.	Lumajang	33.00	8.48
24.	Pandeglang	33.10	3.26
25.	Cilacap	33.35	5.64
26.	Buleleng	33.51	3.18
27.	Lombok Barat	33.52	3.23
28.	Padang Pariaman	33.58	5.95
29.	Banyuwangi	33.66	1.68
30.	Pemalang	33.68	10.38
31.	Batang	33.73	5.19
32.	Kebumen	33.79	2.76
33.	Ngawi	33.88	2.03
34.	Aceh Besar	33.92	1.42
35.	Trenggalek	33.98	5.94
36.	Blora	34.18	0.38
37.	Simalungun	34.20	-2.04
38.	Sukoharjo	34.24	-7.58
39.	Lombok Timur	34.31	0.25

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
40.	Agam	34.49	-2.71
41.	Lamongan	34.55	2.29
42.	Sumenep	34.64	13.92
43.	Gresik	34.88	-1.23
44.	Subang	35.28	0.03
45.	Lombok Tengah	35.29	5.89
46.	Lampung Tengah	35.54	2.24
47.	Sleman	35.56	-0.16
48.	Tuban	35.76	4.99
49.	Tasikmalaya	35.81	6.1
50.	Gianyar	35.91	-0.54
51.	Majalengka	35.96	3.47
52.	Wonosobo	35.96	-18.49
53.	Nganjuk	36.30	0.95
54.	Tanggamus	36.42	5.44
55.	Rembang	36.83	2.63
56.	Tegal	36.94	5.8
57.	Jombang	36.96	-0.22
58.	Purbalingga	37.02	1.83
59.	Grobogan	37.05	1.36
60.	Indramayu	37.09	-17.05
61.	Brebes	37.18	12.5
62.	Kendal	37.20	7.6
63.	Pati	37.23	4.89
64.	Madiun	37.31	9.02
65.	Purwakarta	37.39	3.65
66.	Tanah Datar	37.42	0.31
67.	Klungkung	37.42	10.42
68.	Demak	37.55	7.75
69.	Bangli	37.68	2.64
70.	Lampung Selatan	38.35	3.42
71.	Bojonegoro	38.39	8.33
72.	Bireuen	38.52	3.85
73.	Karangasem	38.67	5.78
74.	Jember	38.75	10.35
75.	Jepara	39.15	2.41
76.	Langkat	39.19	2.92
77.	Jembrana	39.50	-5.84
78.	Dompu	39.57	6.9
79.	Banda Aceh	39.60	0.52

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
80.	Lampung Timur	39.66	2.05
81.	Gowa	39.70	7.1
82.	Karawang	39.72	6
83.	Muna	39.85	7.84
84.	Pamekasan	39.87	6.73
85.	Minahasa Selatan	39.87	0.1
86.	Kerinci	39.95	-4.2
87.	Situbondo	40.27	16.75
88.	Cianjur	40.46	5.12
89.	Bandung	40.50	1.06
90.	Polewali Mandar	40.64	7.14
91.	Buton	40.66	2.23
92.	Dairi	40.68	-21.69
93.	Cirebon	41.01	-4.29
94.	Pasaman	41.21	0.02
95.	Pontianak	41.28	6.78
96.	Kudus	41.60	3.67
97.	Aceh Barat	41.68	2.45
98.	Donggala	41.92	10.64
99.	Bima	41.92	5.97
100.	Aceh Selatan	42.04	0.5
101.	Kediri	42.13	6.81
102.	Cirebon	42.26	6.56
103.	Soppeng	42.36	-1.03
104.	Bengkulu Utara	42.65	4.89
105.	Deli Serdang	42.81	-0.24
106.	Majene	42.93	10.37
107.	Aceh Tengah	42.97	0.14
108.	Konawe	42.98	2.28
109.	Suami	43.13	-2.16
110.	Bone	43.22	4.31
111.	Blitar	43.29	-0.79
112.	Luwu	43.34	1.1
113.	Sidoarjo	43.36	-6.26
114.	Bengkulu Selatan	43.68	-1.09
115.	Poso	43.75	6.98
116.	Malang	43.85	4.56
117.	Timor Tengah Selatan	44.15	4.14
118.	Bulukumba	44.47	6.76
119.	Magelang	44.74	2.82

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
120.	Padang Sidempuan	44.88	0.36
121.	Pinrang	45.03	-0.67
122.	Belu	45.15	9.04
123.	Hulu Sungai Selatan	45.19	2.32
124.	Flores Timur	45.29	5.38
125.	Lampung Barat	45.31	3.21
126.	Serdang Bedagai	45.37	1.04
127.	Badung	45.56	-5.93
128.	Bogor	45.60	-2.34
129.	Pekalongan	45.60	9.47
130.	Kupang	45.73	13.8
131.	Pangkajene Kepulauan	45.74	9.12
132.	Tapanuli Selatan	45.76	-0.92
133.	Sambas	45.84	11.71
134.	Minahasa	46.01	0.96
135.	Toba Samosir	46.04	-5.62
136.	Lahat	46.09	3.78
137.	Kapuas	46.29	-2.06
138.	Tana Toraja	46.39	2.18
139.	Rejang Lebong	46.48	3.46
140.	Takalar	46.62	-15.77
141.	Alor	46.64	12.1
142.	Labuhan Batu	46.68	2.36
143.	Tulang Bawang	46.71	1.19
144.	Batanghari	46.77	3.59
145.	Sampang	47.03	12.51
146.	Seluma	47.18	12.32
147.	Bolaang Mongondow	47.42	-0.35
148.	Tapanuli Tengah	47.82	5.32
149.	Lembata	47.86	11.13
150.	Mamasa	48.02	-8.98
151.	Nabire	48.10	5.04
152.	Jeneponto	48.11	10.12
153.	Lampung Utara	48.16	0.08
154.	Mandailing Natal	48.18	-1.21
155.	Pasuruan	48.30	8.29
156.	Semarang	48.81	-2.53
157.	Merangin	48.83	-4.21
158.	Tanah Laut	49.00	2.81
159.	Bangkalan	49.17	4.76
160.	Asahan	49.26	-18.97

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
161.	Sanggau	49.61	0.09
162.	Ogan Komering Ilir	49.73	4.86
163.	Aceh Timur	49.84	3.67
164.	Manggarai	49.94	1.06
165.	Luwu Utara	50.30	4.95
166.	Konawe Selatan	50.46	1.47
167.	Sukabumi	50.51	1.84
168.	Hulu Sungai Utara	50.63	5.79
169.	Sorong	50.99	11.15
170.	Banjar	51.00	6.85
171.	Aceh Tenggara	51.42	0.21
172.	Maros	51.49	4.48
173.	Aceh Utara	51.52	2.72
174.	Pasaman Barat	51.69	7.01
175.	Kuantan Singingi	51.92	-3.61
176.	Sinjai	51.93	0.9
177.	Kolaka	51.94	0.11
178.	Sidenreng Rappang	51.96	6.18
179.	Jayapura	52.05	-12.75
180.	Tolitoli	52.06	10.52
181.	Gorontalo	52.09	6.4
182.	Tapanuli Utara	52.14	-1.28
183.	Timor Tengah Utara	52.20	11.37
184.	Aceh Tamiang	52.21	5.25
185.	Wajo	52.25	0.74
186.	Bekasi	52.62	5.62
187.	Barito Kuala	52.63	8.45
188.	Sintang	52.75	-1.83
189.	Bone Bolango	52.85	7.88
190.	Ogan Ilir	52.86	3.28
191.	Bengkayang	52.86	12.19
192.	Bantaeng	52.89	7.18
193.	Humbang Hasundutan	52.90	5.36
194.	Biak Numfor	53.03	-2.03
195.	Halmahera Barat	53.12	3.31
196.	Samosir	53.33	-11.2
197.	Jayapura	53.47	-0.75
198.	Indragiri Hilir	53.58	1.03
199.	Solok	53.61	0.4
200.	Parigi Moutong	53.64	6.63
201.	Barito Utara	53.73	-2.42

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
202.	Aceh Barat Daya	53.75	3.16
203.	Simeulue	53.77	1.8
204.	Banyuasin	53.89	4.73
205.	Way Kanan	53.93	4.13
206.	Jayawijaya	54.01	13.02
207.	Ngada	54.55	4.01
208.	Kaur	54.58	-1.8
209.	Bangka Belitung	54.69	-0.43
210.	Lebak	54.72	4.38
211.	OKU Timur	54.81	4.74
212.	Indragiri Hulu	55.22	-4.07
213.	Pohuwato	55.34	-0.37
214.	Bangka	55.47	-5.55
215.	Mamuju	55.75	3.19
216.	Bungo	55.81	0.71
217.	Barito Selatan	55.97	1.19
218.	OKU Selatan	56.01	0.44
219.	Hulu Sungai Tengah	56.02	0.63
220.	Paniai	56.22	19.89
221.	Gayo Lues	56.38	7.41
222.	Tangerang	56.55	5.01
223.	Boalemo	56.56	9.23
224.	Morowali	56.61	2.42
225.	Tabalong	56.92	7.04
226.	Enrekang	57.24	-0.68
227.	Bintan	57.33	0.73
228.	Ogan Komering Ulu	57.40	0.89
229.	Kampar	57.41	1.35
230.	Minahasa Tenggara	57.56	5.46
231.	Tapin	57.77	8.42
232.	Barru	57.77	3.46
233.	Karimun	57.89	3.82
234.	Balangan	58.22	14.25
235.	Sumba Barat	58.39	0.88
236.	Rokan Hulu	58.72	-4.33
237.	Sarolangun	58.81	5.13
238.	Barito Timur	58.85	4.31
239.	Muara Enim	58.89	4.17
240.	Solok Selatan	58.97	5.03
241.	Bombana	59.52	-0.37

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
242.	Landak	59.63	7.55
243.	Fakfak	59.75	-0.39
244.	Nias	60.30	0.52
245.	Dharmasraya	60.31	-16.39
246.	Bangka Tengah	60.35	1.46
247.	Ketapang	60.37	8.44
248.	Kapuas Hulu	60.68	5.36
249.	Waringin Timur	60.73	-8.66
250.	Mukomuko	61.03	-0.84
251.	Rote Ndao	61.06	12.27
252.	Gunung Mas	61.29	0.21
253.	Belitung	61.35	0.68
254.	Melawi	61.94	5.24
255.	Seram Bagian Barat	62.03	0.62
256.	Tanjung Jabung Barat	62.06	1.08
257.	Waringin Barat	62.19	3
258.	Pakpak Barat	62.19	9.83
259.	Tebo	62.53	0.93
260.	Manokwari	62.65	-12.64
261.	Buol	62.69	2.37
262.	Kepahiang	62.70	3.75
263.	Tolikara	62.89	19.29
264.	Asmat	62.89	26.16
265.	Belitung Timur	63.09	-5.06
266.	Paser	63.24	1.63
267.	Mimika	63.59	8.85
268.	Halmahera Utara	63.94	5.06
269.	Merauke	64.15	4.27
270.	Aceh Jaya	64.26	2.12
271.	Kepulauan Sitaro	64.39	-3.7
272.	Bangarat	64.39	3.31
273.	Tanah Bumbu	64.57	7.12
274.	Mamuju Utara	64.86	10.08
275.	Kolaka Utara	64.97	3.38
276.	Halmahera Selatan	65.08	3.1
277.	Natuna	65.30	-20.56
278.	Tojo Una Una	65.42	-14.62
279.	Kepulauan Mentawai	65.91	3.75
280.	Keerom	67.28	3.49
281.	Lamandau	67.29	-0.49

(continued)

**Table 5.3** (continued)

No.	Name of district	% of Direct expenditure in total budget	Change in HDI
282.	Musi Rawas	67.42	1.72
283.	Mojokerto	67.76	-0.04
284.	Pelalawan	67.82	-0.77
285.	Raja Ampat	68.32	9.74
286.	Bangka Selatan	68.54	6.45
287.	Katingan	69.40	-0.46
288.	Boven Digoel	69.63	22.85
289.	Puncak Jaya	69.74	5.77
290.	Musi Banyuasin	69.81	-0.63
291.	Tanjung Jabung Timur	69.81	5.74
292.	Lingga	70.13	-7.06
293.	Halmahera Tengah	70.16	1.1
294.	Wakatobi	70.38	9.15
295.	Waropen	70.72	8.87
296.	Bengkalis	70.75	-4.86
297.	Sorong Selatan	71.04	6.47
298.	Luwu Timur	71.38	3.3
299.	Berau	71.62	-1.44
300.	Murung Raya	71.84	1.53
301.	Kutai Timur	71.88	4.83
302.	Seram Bagian Timur	72.00	6.12
303.	Rokan Hilir	72.31	2.56
304.	Mappi	72.82	23.5
305.	Pegunungan Bintang	74.39	27.87
306.	Kaimana	74.75	6.74
307.	Penajam Paser Utara	74.93	-1.1
308.	Bulungan	75.14	-0.28
309.	Sukamara	75.41	3.56
310.	Siak	75.68	-1.09
311.	Malinau	75.78	-4.3
312.	Halmahera Timur	76.21	3.16
313.	Nunukan	76.76	-1.65
314.	Teluk Wondama	77.03	11.34
315.	Seruyan	77.79	5.65
316.	Supiori	81.75	11.41
317.	Teluk Bintuni	82.21	2.4
318.	Sarmi	83.39	7.71

Source Calculated from <http://data.go.id/dataset/indeks-pembangunan-manusia-ipm>; <http://www.djpk.depkeu.go.id/datadjpk/105/>, <http://www.djpk.depkeu.go.id/datadjpk/131/>, retrieved in May 18th, 2016



among the districts. The minimum portion of spending on salaries and other operational costs was 16.6% while the maximum portion was 76.2% of the total budget. Most districts with a larger portion of development expenditures were new established districts in which the burden for civil servant salaries was still low. Most of the districts in Java where local revenues were limited and were dependent on fiscal transfers from the central government had a smaller portion of development expenditures.

In terms of the Human Development Index (HDI), the district experienced an improvement of 2.84 points from 2007 to 2012, on average. Similar to the distribution of spending across the districts, there were also quite big gaps of HDI changes across the districts. The minimum HDI change was -21.69 points while the maximum change was 27.87 points (Table 5.3). With a crosstab analysis, it can be seen that the more the districts allocate for development expenditure, the higher the HDI improvement they will achieved. However, there is still no significant correlation between development expenditure and HDI improvement. This means that HDI improvement depends not only on general allocation of spending, but more importantly, on the specific allocation of spending within sectoral development.

Purbalingga district itself is in a category of districts that allocate development expenditures under average, and experienced HDI improvement under average compared to all districts. Between 2007 and 2012, it allocated 37% of development expenditures and experienced HDI improvement at 3.65 points. Unfortunately, most of the districts in Indonesia, 88 out of 318 districts, are in this category.

## 5.4 Discussion

One of the purposes of fiscal decentralization is to improve the allocative efficiency of local expenditure. Allocative efficiency means the best composition of spending to pursue economic development. Unfortunately, up to now, there is still no fixed formula for creating allocative efficiency in district budgeting. Therefore, it is expected that local governments formulate spending based on a scale of priority. Findings in Purbalingga district show that the portion of development expenditure, despite some increases in years, has never been higher than recurrent expenditure. This is contradictory to the mission of accelerating rural development through decentralization. This means that so far, district budgets are not pro rural development.

Observing the development spending after decentralization, there are some years where an increase in budgets for village grants, health and education exists. It is explored here the reasons behind the increases and found that there are several national regulations influencing the budget allocation at district level. For example, in the education sector, the central government in 2003 issued Law 20/2003 on the National Education System, which stipulates that the district government should allocate at least 20% of its development expenditure for the education sector. In health sector, in 2009 the central government issued Law 36/2009 on Health, which

makes it compulsory for the district government to allocate at least 10% of development expenditures to health sector. The same as in the education and health sectors, the central government in 2005 also issued Government Regulation 75/2005 on Village, which stipulates that the district government should allocate at least 10% of fiscal transfers as grants to the village government. Moreover, the implementation of the National Program for Community Empowerment (NPCE), as the largest community empowerment program in Indonesia, has since 2007 involved the district government in a cost sharing mechanism, which makes it compulsory for the district to allocate many more funds to the program. All of these national policies clearly have the impact on the increases in development expenditure.

The sector of agriculture, which has no national regulations intervening from the central level, does not show any improvement in budget allocation. The portion of spending for agriculture is relatively same across the years, constituting around 2 and 3% of total budget. The same as agriculture, spending for infrastructure sector, even though increased in several years, decreased again in 2010 and 2011. Thus, it can be said that the increases in the budget allocation for health, education and community empowerment are not pure initiatives of district government, but rather the result of the intervention of the central government.

At the district level, indicators of some sectors show mixed results. The positive impact of decentralization can be easily identified in access to clean water, road development, coverage of health insurance, the number of village polyclinic, kindergarten and upper secondary schools, and the NER of lower secondary schools. On the contrary, the GRDP growth of the agriculture sector and the NER of elementary schools have decreased. Findings in Purbalingga district are consistent with a study by the World Bank (2007), which finds that there is no clear trend on the impact of decentralization in the quality of public service.

## 5.5 Conclusion

So far, local budgets do not prioritize rural development. The increase in recurrent expenditures was unavoidable in the initial years of decentralization. However, the inefficiency in establishing district agencies and the non-existence of workload analysis for civil servant recruitment attest to this increasing trend of recurrent expenditure. There is also much evidence that some recurrent expenditures are not truly necessary. The positive impact of decentralization can be easily identified in the access to clean water, road development, coverage of health insurance, number of village polyclinics, kindergartens and upper secondary schools, and the NER of lower secondary school. In contrast, the GRDP growth of the agriculture sector and the NER of elementary schools decreased.

The reform of district organization to be more efficient is a key policy for decreasing recurrent expenditure. There should be a restructuring of the current district agencies by conducting study on workload analysis to identify the

proportional number of civil servants. At the national level, the central government is expected to strengthen its monitoring on the utilization of the district budget. The experience from the regulations on education, health and village block grants shows that they effectively increase the spending in the respective sectors. Similar regulations setting the minimum portion of the district budget to be allocated can be enacted for the agriculture and rural infrastructure sectors.

## References

- BPS (2010) Trend of selected socio-economic indicators of Indonesia 2010. BPS, Jakarta
- BPS Purbalingga (1992) Purbalingga district in figure, 1991. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1993) Purbalingga district in figure, 1992. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1994) Purbalingga district in figure, 1992. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1995) Purbalingga district in figure, 1994. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1996) Purbalingga district in figure, 1995. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1997) Purbalingga district in figure, 1996. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1998) Purbalingga district in figure, 1997. BPS Purbalingga, Purbalingga
- BPS Purbalingga (1999) Purbalingga district in figure, 1998. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2000) Purbalingga district in figure, 1999. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2001) Purbalingga district in figure, 2000. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2002) Purbalingga district in figure, 2001. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2003) Purbalingga district in figure, 2002. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2004) Purbalingga district in figure, 2003. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2005) Purbalingga district in figure, 2004. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2006) Purbalingga district in figure, 2005. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2007) Purbalingga district in figure, 2006. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2008) Purbalingga district in figure, 2007. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2009) Purbalingga district in figure, 2008. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2010) Purbalingga district in figure, 2009. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2011) Purbalingga district in figure, 2010. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2012) Purbalingga district in figure, 2011. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2015) Purbalingga district in figure, 2014. BPS Purbalingga, Purbalingga
- Mahi RB (2010) Intergovernmental relations and decentralization in Indonesia: New arrangements and their impacts on local welfare. In 4th Symposium of the Institute for Comparative Studies in Local Governance, Tokyo (pp 187–197). Tokyo: National Graduate Institute for Policy Studies (GRIPS)
- World Bank (2007) Spending for development: making the most of Indonesia's new opportunities. World Bank, Washington, D.C.
- World Bank (2007) Spending for development: making the most of Indonesia's new opportunities. World Bank, Washington, D.C.

## Chapter 6

# Participatory Budgeting: Between Procedures and Realities

**Abstract** The participatory budgeting established in Indonesia after decentralization provides the community an opportunity to participate in local budgeting. While the meetings and public hearing are procedurally seen as good enough for accommodating community proposals, the result is perceived as far from being participative and accommodating. The low willingness of district governments to share budget information has hindered public participation. The non-existence of clear procedures to screen village proposals and the low capacity of district councils make the selection of village proposals not based on scale of priorities. Participatory budgeting just becomes a formality where rural residents still cannot influence budgetary decision making.

**Keywords** Fiscal decentralization · Participatory budgeting · *Musrenbang* · Public hearing · Rural development

### 6.1 Introduction

Along with fiscal decentralization, the Indonesian government involved villagers in budgetary decision making by establishing a public hearing mechanism, locally named *Musrenbang*, through Law 25/2004 on the National Planning System. This is procedurally an effort to provide a medium whereby people participate in local development planning. The idea behind the participatory budgeting system is that the resources transferred from the central government should be used to meet the needs of local people. The aim is to create the allocative efficiency of local spending, or the best composition of spending that meets the various needs of local people.

While *Musrenbang* had been implemented in Indonesia, the portion of development expenditure did not substantially increase after decentralization. Chapter 5 showed that a larger portion of the district budget was utilized for recurrent expenditure. This has raised questions about the design and implementation of participatory budgeting in Indonesia. To understand the design and implementation

of participatory budgeting in Indonesia, a case study in Purbalingga district will be discussed in this chapter. The case of Purbalingga district is quite relevant to discuss as it only allocated a low portion of the budget for development expenditure. Thus, it can be identified here what is really happening in the district budget formulation.

A method of process documentation research is applied to follow the dynamic of budgeting in 2010. This is basically a data collection method whereby the researcher closely follows the process to record how the procedures are systematically executed by the agencies and how the interfaces between an organization and people are taking place. Using this method, the researchers stayed in the research location for a long time and made detailed observations documenting the process among all actors.

## 6.2 Procedure of Participatory Budgeting

Procedurally, the public hearing consists of meetings held at the village, sub-district and district levels. At the village level, the village government invites the community in the meeting to identify development proposals and to select delegations to attend the sub-district meeting. Subsequently, the sub-district meeting is held to find an agreement on the priority proposals from this area to propose to the district meeting. Finally, the district meeting is held by inviting the delegations from the villages, district agencies, local associations and Non-Governmental Organizations (NGO's). In the district meeting, bottom-up proposals are discussed together to be financed by the district budget. Every year, public hearings are held from January to April (Fig. 6.1).

Further, the public hearing is followed by budget drafting, which is executed by district agencies under the supervision of the district head. Procedurally, budget drafting consists of tasks to make a detailed spending plan for the proposal accepted during the public hearing. The leading institution in budget drafting is the Local Planning Agency, which should make a field observation to see the feasibility of the proposals and to count in detail the budget needed to execute the proposals. Budget drafting is held between April to October every year.

After the budget is drafted, the district head then delivers the draft of local budget to the local council to be discussed in the plenary session. The plenary session is the institution that has the power to amend, scrutinize and legalize district budget. The plenary session is usually held from November to December every year. The budgeting process from the public hearing to the legalization of bills on local budget takes one year to plan.

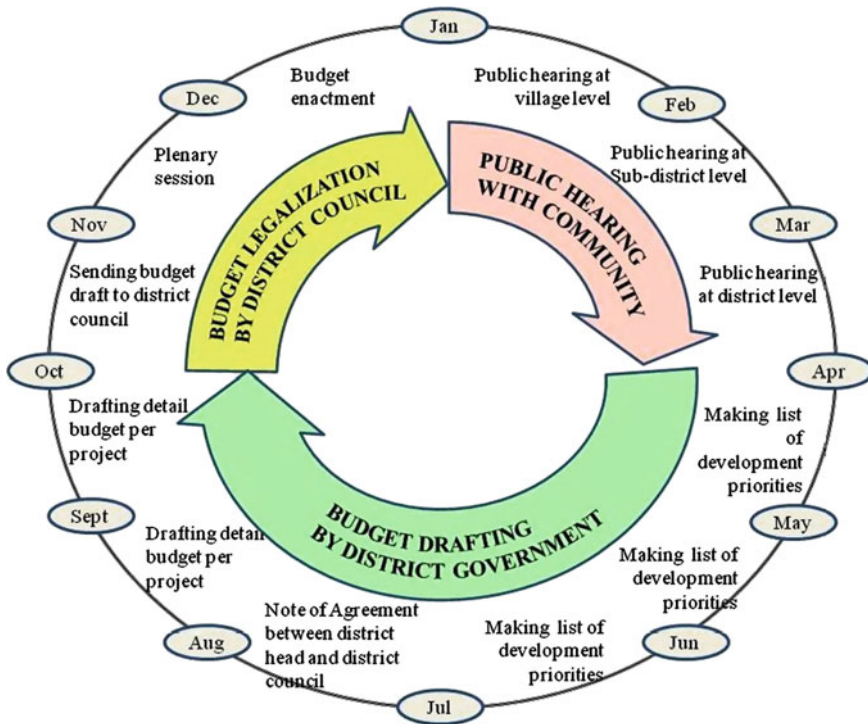


Fig. 6.1 Cycle of local budgeting process

### 6.3 The Case of Purbalingga District

#### 6.3.1 The Proceedings of 2010 Budgeting Process

In January 2010, the Purbalingga Local Planning Agency (BAPPEDA) projected that the 2011 revenues would be IDR 860 billion, an increase by IDR 180 billion from the previous year. In line with these revenue projections, the 2011 recurrent expenditure would be IDR 570 billion, an increase by IDR 100 billion from the previous year (Radar Banyumas Daily News 2010b). This means that more than half of the revenue would be used for recurrent expenditures.

#### Public Hearing

As an annual routine, public hearings began with village meetings in February and sub-district meetings in March (Figs. 6.2 and 6.3). The village meeting was the first step of proposal identification that determined whether the proposals really came from the poor people and were made based on the needs of villagers or not. However, there was no mechanism to ensure that the meeting was properly conducted in each village. Having 229 villages, it was impossible for the personnel of the Local Planning Agency to monitor each of the meetings. On the other hand,

**Fig. 6.2** Sub-District meeting held for *Musrenbang*



**Fig. 6.3** Focused group discussion within *Musrenbang*



whether the sub-district head made a field observation to ensure that village head conducted the meeting was doubtful.

While no one can ensure that every village conducted a village meeting, a documentary study on the database of village proposals finds that there were about 1,540 projects proposed by the rural community, which required funding of about IDR 298 billion. All of these proposals were submitted to the district meeting, which was held at the district office in April 1st, 2010.

In April 1st, 2010, sessions of the district meeting began in the morning, started with the speech from the district head. Thereafter, the Local Planning Agency presented the projection of revenues and the general indicative budget allocated for each sector. Throughout the meeting, the lack of budget transparency was observed. Budget documents, especially operational expenses, were considered confidential

and not presented. There was no agenda enabling rural delegations to scrutinize the recurrent expenditure items (Head of Purbalingga Local Planning Agency 2010).

During the afternoon session, the participants were divided into three groups to discuss the development proposals of each sector, namely the economy, socio-cultural and infrastructure groups. Although the meeting provided an opportunity for the community to submit proposals, it did not guarantee the approval of funding. Each village proposal competed not only with the proposals from the other villages, but also with the proposals from the district agencies. Because of different levels of social or political positions as well as different capacities to propose ideas and make favorable arguments for their proposals, what really happened in the forum was a process of negotiation and competition that was often political in nature. In the forum, participants from district agencies were seen dominating discussions. Village delegations, with little power and experience, could not make strong arguments for their proposals.

### **Budget Drafting**

Procedurally, the Local Planning Agency had to make a field observation to appraise the proposals. However, the field observation was not always conducted due to the excessive number of proposals and limited personnel able to make an assessment. In many cases, the evaluation of the proposals was executed at the desk only. These created a problem of low trust between the agency and the other institutions. In the view of personnel from the planning agency, the community and the other agencies were irrational in submitting proposals, and did not give priority to the proposals. On the other hand, in the view of the community and the other civil services, the Local Planning Agency did not understand the real problems in the field and could not respond to new programs proposed by community.

Several personnel from the agency expressed the difficulty in assessing the proposals. There were no clear procedures to screen and prioritize the proposals and no field observation to investigate them. The process of screening became more difficult since they had to accommodate many instructions from the prominent figures, political institutions and official to prioritize specific proposals. One proposal that had been rejected by low grade personnel could emerge again and even be accepted to be financed due to the veto of the higher-grade officer. Thus, what was happening was that the personnel of the planning agency focused only on minimizing the items of spending within proposals, and made it as efficient as possible, while the decision to accept the proposal for finance was in the hands of the chief of the agency and district head.

### **Local Council Plenary Session**

The district council's plenary session offered the last window of opportunity to gain a pro-rural development budget after the public hearing could not optimally accommodate the village proposals. Yet, the power of the district council to revise the budget draft was hardly exercised. Generally, the members of the council lacked a capacity to evaluate the draft budget as 40% of them graduated only from the upper secondary school. The council formally only commented on four points in budget allocation, which was that the district government allocated more for poor



housing reparations, scholarships for the poor children, development of a road network in some sub-districts, and to focus on road repair rather than new road development. Besides some minor revisions in development expenditure, there was no substantial request to examine the items of this expenditure in detail.<sup>1</sup>

The result of a tiring and long budgeting process did not meet the expectation of most rural delegations. The attendance of rural delegations did not influence the budget allocation for rural development much. They had many proposals, yet they faced a classic problem of budget limitation during the district meeting. 68% of the district budget in 2011 was spent for recurrent expenditures. The portion of expenditures for the main sectors of rural development including agriculture, infrastructure, health, education, and village grants was only about 29% of the total budget (Table 6.1). Among the 1,540 proposals with the funding requirement of IDR 298 billion, 320 proposals were accepted with the funding of about IDR 29 billion.<sup>2</sup> This means that among IDR 290 billion of total development expenditures in 2011, only 10% of them were to finance proposals from the villages (Purbalingga District Government 2010).

### 6.3.2 *Evaluation of Budgeting Process*

From the perspective of the rural delegation, the participatory budgeting was a mere formality. A village head routinely attending district public hearing conveyed his pessimistic view about the effectiveness of the public hearing to accommodate village proposals. He narrated how he, on several occasions, proposed the building of clean water facility for his village to the district government, but the proposal was not accepted yet. He even questioned the rationale for annual meetings considering that the previous proposals had not been funded.<sup>3</sup>

From the perspective of the district government, the main problem was the irrationality of the community in making proposals. The interviewed officer said, "I have to cut them so that our expenditure will be balanced among all sectors. If not, our agencies cannot work since all money is allocated to the village proposals". The interviewed officer also said that there were difficulties in matching the district program priorities with the village proposal. To some extent, the participatory budgeting was seen to be something undermining the draft.<sup>4</sup>

Further, the district council head recognized that their capacity to evaluate the budget draft was low. However, according to him, it did not mean that the council did nothing to improve the budget for rural development. He even pretended that the spending for rural development was significantly higher than before

---

<sup>1</sup>Official letter of local council on 2011 budget draft.

<sup>2</sup>Analyzed from list of village proposals and 2011 budget draft.

<sup>3</sup>Interview with one village head in Kejobong sub-district on March 26th, 2011.

<sup>4</sup>Interview with Mr. T.P.R., the officer of Planning Agency of Purbalingga District in March 17th, 2011.

**Table 6.1** Budget of Purbalingga District, 2011

Budget items	Amount of money (IDR)
<i>I. Revenues</i>	865,161,075,000
A. Locally generated revenues	91,721,635,000
1. Local taxes	17,131,721,000
2. Local service charges	60,429,693,000
3. Shares of profits of local government enterprises	8,980,000,000
4. Other locally generated revenues	5,180,221,000
B. Fiscal transfer	628,936,355,000
1. Revenue sharing from the central government	39,187,956,000
2. General grants	522,204,299,000
3. Special grants	67,544,100,000
C. Other	144,503,085,000
1. Grants	2,751,586,000
2. Revenue sharing from province	22,765,992,000
3. Adjustment fund of special decentralization	54,957,290,000
4. Financial assistant from province and others	14,827,461,000
5. Adjustment fund of education budget	49,200,756,000
<i>II. Expenditure</i>	915,827,562,000
A. Recurrent expenditure	578,069,267,000
1. Salary	506,584,153,000
a. Basic salary	314,185,342,900
b. Family allowance	29,775,831,800
c. Rice allowance	18,711,693,000
d. Income taxes	7,958,750,800
e. Health insurance	6,879,215,200
f. Allowance for non-certified-teacher	12,725,850,000
g. Allowance for certified-teacher	36,476,406,000
h. Structural allowance	6,361,030,000
i. Functional allowance	31,650,576,100
j. General allowance	9,004,924,500
k. Welfare allowance (8 month)	13,463,817,000
l. Incentives of district revenue collection	3,000,000,000
m. New civil servant salary	7,200,000,000
n. Allowance for district head	400,000,000
o. Salary of district council	8,630,917,000
p. Other salaries	159,798,700
2. Interest	70,234,000
3. Subsidy	300,000,000
4. Grants for some selected organization	24,753,418,000
5. Office maintenance and other operational costs	43,361,462,000
6. Accidental expenses	3,000,000,000

(continued)

**Table 6.1** (continued)

Budget items	Amount of money (IDR)
B. Development expenditure	337,758,295,000
1. Agriculture	19,705,743,000
2. Infrastructure	37,588,358,000
3. Health	42,774,225,000
4. Education	127,434,645,000
5. Village grants	40,097,282,000
6. Other sectors	70,158,042,000
<i>III. Financing</i>	
A. Local government revenues	57,053,078,000
1. Balance remaining from the previous year budget	52,853,078,000
2. Local borrowing	2,100,000,000
3. Repayment of district loan	2,100,000,000
B. Local government expenditure	6,386,591,000
1. Investment in district enterprise	2,014,000,000
2. Payment of district borrowing	2,272,591,000
3. District loan	2,100,000,000

Source Purbalingga District Government (2011)

decentralization, and noted that this would be impossible without the role of district council. Further, he also criticized the district government for often being late in sending the budget draft, making the council less than optimal in its scrutiny.<sup>5</sup>

For triangulation, the investigated budget documents show the justification of many recurrent expenditures to be questionable. For example, there were transfers of grants to about 29 organizations amounting to IDR 10 billion. They included a sports committee, a women's group called *Pemberdayaan Kesejahteraan Keluarga* whose members are mostly wives of the district officers, a civil servants' association, a pensioner association, and many others, who were doubted to have direct links with community development programs. Furthermore, the cost of meeting and traveling to provincial and central government institutions was quite high, reaching IDR 6.5 billion (Purbalingga District Government 2010). Considering that in decentralization, the district government was supposed to solve its problems based on local initiatives, this amount was questionable and considered excessive. All of the findings from the investigation of the district budget show that there were actually still many possible spaces to decrease recurrent expenditure and, vice versa, to increase development expenditure.

Further, the district council was partly responsible for the rise in recurrent expenditure. They spent about IDR 5 billion for the training, research tour, and work visit of its only 45 members. This amount was quite high, as compared to a budget of only IDR 7.5 billion for irrigation (Purbalingga District Government

<sup>5</sup>Interview with the district council head, February 18th, 2013.

2010). Even, some members of the council proposed an extra additional fund allocated to council members to accommodate the proposal from their constituents (Radar Banyumas Daily News 2010a). All of these findings show that the council did not only lack the capacity to evaluate the budget draft, but also, more importantly, it lacked sensitivity to prioritize the development expenditure.

## 6.4 Discussion

Public involvement in the budgeting process is a topic gaining great attention from academics. Ebdon and Franklin (2006) make a review on existing literatures on participatory budgeting and find that public participation in budgeting is still a complex issue. According to them, there are principally three factors influencing the effectiveness of participatory budgeting to accommodate public interest. The factors are the selected mechanism to involve the community, process within the mechanism and the political and governmental environment.

Sources identify various mechanisms of participatory budgeting, which range from public hearings, focus group discussion by committees, and surveys (Ebdon and Franklin 2006). Each mechanism has its strengths and weaknesses. For example, a public hearing is usually better in term of representation because it can involve many rural residents, but its discussion may not be focused due to the high number of participants. Vice versa, a focus group discussion through a specially created committee may deeply analyze the budget, but its membership is usually very limited. In Indonesia, the overall system is a combination of public hearings and focus group discussions, which is good because it overcomes the weaknesses of one method with the other.

Overall, the mechanism of participatory budgeting in Purbalingga district is good in concept but bad in practice. By seeing the procedure, one may assume that the district government has adopted a bottom-up approach. The development initiative comes from the grassroots level, and the systematic meeting held from village to district level is a mechanism ensuring that the budget will incorporate people's input. However, the reality is not the same as the bottom up approach. Practically, a top-down approach is more prominent. Although it gives people the opportunity to submit proposals, there is no guarantee that the proposals will get funding.

The problem may be the process within the mechanism itself. For example, from the case of Purbalingga district. The mechanism is not effective because there is a serious information gap between villagers and the government. The district government does not provide clear information about the amount of budget available for village proposals. Because villagers do not know about it, they tend to submit too many proposals. The confidentiality of recurrent expenditures indicates low transparency and low willingness of the district governments to seek public inputs. It may be true that the community has been irrational in making proposals. Yet, if the budget information is openly shared, such irrationality may decrease. By openly

sharing the information, the public can evaluate the recurrent expenditure, thus some unimportant items can be deleted.

There are also problems in the governmental environment. In the selection of proposals that will be financed, the district government does not make a field observation of proposals. If there is a field observation, the budgeting result will be fairer. So far, the results are questionable because within a meeting where participants came from different backgrounds with unequal political power, the discussion will not be effective to make fair decisions. Participatory planning can suffer from elite domination because people come to the meeting from unequal positions of power. They have different levels of social and political power as well as knowledge of administrative procedures, resulting in a different capacity to fight for their proposals. In a participatory meeting, there is always the possibility that participants with better experience and power will dominate the discussion to advance special interests and to exclude other participants. Those having no experience and power will be the losers. It is not difficult to find elite domination in Purbalingga district. By comparing the portion of funds to finance proposals from villagers and those from local agencies, there is clear evidence of elite domination in Purbalingga. If there is any conflict between the proposals submitted by village governments and a plan already made by the district agencies, the plan from the district agency will be the priority of the district government. Regardless it is because of the limitations of the development fund or because the government considers proposals from village governments as not a priority, the portion of budget allocation for proposals from villagers is only less than 10% of total district expenditures.

## 6.5 Conclusion

The existing participatory budgeting cannot effectively accommodate rural community interests. The biggest implementation gap within the current mechanism is the governmental environment. The low willingness of the district government to share budget information has hindered the effectiveness of public participation. In addition, there are no clear procedures to screen the village proposals, and the local council lacks the requisite capacity to analyze the draft of budgets as well as sensitivity to local problems. All of these implementation gaps make the public unable to influence the budgeting process to increase spending for rural development. Thus, participatory budgeting becomes just a formality without real participation from the villagers.

To improve the effectiveness of participatory budgeting in Indonesia, there should be a mechanism whereby district governments share local budget information with the community. Since budgeting is quite a complex issue, the language and media used to share information should be as simple as possible so that community can understand the substance of the local budget. So far, information provided through newspapers is less successful than through radio or public board.

Along with the efforts to improve information access to local budget, there is always a need to improve the capacity of local planning agencies and local council so that they can effectively prioritize the local budget spending.

## References

- Ebdon C, Franklin A (2006) Citizen participation in budgeting theory. *Public Adm Rev* 66: 437–447
- Head of Purbalingga Local Planning Agency (2010) Musrenbang kabupaten dalam rangka penyusunan Rencana Kerja Pemerintah Daerah tahun 2011 (*Musrenbang* for 2011 Work Plan of Purbalingga District). Paper presented at the District Public Hearing, Purbalingga, 01 Apr 2010
- Purbalingga District Government (2010) Document of Purbalingga district budget 2010 (Mimeo). Purbalingga District Government, Purbalingga
- Purbalingga District Government (2011) 2011 budget plan. Local Planning Agency, Purbalingga
- Radar Banyumas Daily News (2010a) Dana aspirasi akhirnya dibatalkan (Finally, aspiration fund is annulled). *Radar Banyumas Daily News*, 10 Dec 2010
- Radar Banyumas Daily News (2010b) Musrenbang Vs visi misi bupati terpilih (*Musrenbang* and the vision of elected district head). *Radar Banyumas Daily News*, 31th Jan 2010

# Chapter 7

## Social Capital for Decentralized Rural Development

**Abstract** Social capital in rural Indonesia mainly exists within informal institutions. Various types of informal rural institutions are active in conducting periodical meetings and addressing common livelihood problems. However, although social capital exists, it is not well utilized to execute decentralization. Village governments are still monopolized by several formal institutions, namely village officers, village council and village development committees. The informal institutions are given no opportunity to enter the village political arena. These imply the lack of empowerment for the villagers within decentralization. Although the institutions are internally strong, the lack of connection with the village government makes the institutions unable to control village decision making.

**Keywords** Social capital • Institutional membership • Rural institution • Decentralization • Rural development

### 7.1 Introduction

A study by Putnam (1993) in rural Italy finds a specific characteristic of social relation that influences the success of development programs: it is civic tradition, and more narrowly, social capital. Through a comparative study on localities in Italy, he finds that development programs were more successful in the northern parts of Italy where civic tradition was well developed, compared to the southern part of Italy where the community had less civic tradition. His findings have inspired a general understanding that social capital will influence the success of decentralization very much.

Scholars have proposed various definitions of social capital by fundamentally highlighting the importance of community networks. Bourdieu (1986) defines social capital as membership in communities that makes resources, advantages and opportunities available to the individual. Putnam (1993) defines social capital as the

features of social organization that facilitate coordination and cooperation for mutual benefit. When coming to measurable indicators, sources are vague in extracting the concept of social capital. Indicators of social capital are differently established to serve various purposes and contexts. Among various indicators proposed by academics, Grootaert (1999) finds that institutional membership could be a good indicator to measure social capital in developing countries. Institutional membership is measured based on several dimensions including density of associations, internal heterogeneity, frequency of meeting attendance, members' effective participation in decision making and the payment of dues (Grootaert 1999).

Based on types of connections among the group members, Szreter (2002) identifies three types of social capital, which are bonding, bridging, and linking social capital. Bonding social capital refers to connections among people having relatively same demographic characteristics. They make a group just to share an identity without expecting any benefits from it. An example of bonding social capital is a network of relatives. Bridging social capital refers to connections among people having relatively similar background and motivated by benefits offered by groups. An example of bridging social capital is membership in a sports group, farmer group, and any other institutional membership. Linking social capital refers to connections among people having not only different demographic characteristic, but also power. An example of linking social capital is membership in a group composed of ordinary villagers and local politicians, government heads or NGO's. While bonding and bridging social capitals are a horizontal relationship among the people, linking social capital is a vertical association between less powerful people and government or external agencies.

To understand the grassroots realities of social conditions whereby decentralization is executed, especially about social capital in rural Indonesia, a case study in three villages, namely Serang, Kedarpan and in Purbalingga District will be presented. Data were collected through questionnaires, interviews and observation. Respondents were selected from villagers through cluster and stratified random sampling based on location, gender and relative economic status. There are totally 240 respondents involved in this study, which consist of 111 people in Serang, 61 people in Kedarpan, and 58 people in Sumilir.

## **7.2 The Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District**

### ***7.2.1 Socio-economic Condition of Study Sites***

Like most villages in Java, the study sites are agriculture villages whose main commodities are vegetables in Serang, cassava in Kedarpan and rice in Sumilir. For many villagers, farming alone is not sufficient as the only income source.



They develop part-time side jobs like herding livestock, working on others land, and working in urban areas as temporary migrants. Several basic education and health infrastructures such as kindergartens, elementary schools and village health posts have been available in each village. The main roads have been asphalted and accessible by car. The electricity networks have existed since the 1990s although not all households have access to it. Up to the time when the fieldwork was conducted, networks of home phones and water pipeline were not available yet in the researched villages. Junior and senior high schools, public health centers, markets, public transportation, post offices, and branches of local bank are available only in the sub-district capital where villagers go there mainly on by foot, bicycle or motorcycle (Table 7.1).

**Table 7.1** Socioeconomic condition of Serang, Kedarpan and Sumilir village, 2011

No	Condition	Serang	Kedarpan	Sumilir
1.	Demography and territory			
	– Number of population (person)	7,665	2,264	2,163
	– Number of households	1,426	585	447
	– Size of territory (Ha)	1,309	225	226
2.	The occupation of household heads			
	– Farmer	65%	44%	50%
	– Industrial laborer and private enterprise worker	7%	20%	22%
	– Trader	7%	10%	2%
	– Carpenter, mason, electrician and construction sector	4%	6%	1%
	– Running small and medium enterprises	4%	3%	5%
	– Transportation sector	1%	5%	0
	– Civil servant, army and police	2%	2%	5%
	– Retired person	0%	1%	4%
	– Jobless/unemployed	4%	5%	8%
	– Others	6%	4%	3%
3.	Physical infrastructures and accessibility			
	– Number of elementary schools	6	2	2
	– Number of kindergartens	3	2	1
	– Number of village polyclinic	1	1	1
	– Household coverage of electricity	92%	97%	91%
	– Household coverage of water pipeline	22%	24%	26%
	– Average distance to sub-district capital (km)	5	2	4

Source BPS Purbalingga (2011a, b, c)

### 7.2.2 Institutional Membership of Rural Communities

Various types of organizations existed in the study villages. There are five types of groups based on similar roles, as follows:

1. Governmental organizations, which are organizations given power by the state to conduct some specific tasks. These include:
  - (a) Village officers (*Perangkat Desa*), which consist of about ten people to conduct daily administration tasks in village office.
  - (b) Village council (*Badan Permusyawaratan Desa*), which consists of about ten people to supervise village officers.
  - (c) Village development committee (*Lembaga Ketahanan Masyarakat Desa*), which consists about ten people to execute physical development.
  - (d) Neighborhood groups (*Rukun Tetangga dan Rukun Warga*), which are sub-hamlet units consisting of about fifty households living in the same location.
2. Social service groups, which are groups providing specific services like education, health, family planning, etc., to their members. In the study villages, it includes:
  - (a) Group of homemakers (*dasawisma/PKK*), which is a group of homemakers to promote secondary income generation.
  - (b) Group of health service post (*Posyandu*), which is a group to provide health care for children and pregnant mothers, vaccinations and family planning.
  - (c) Civilian defense group (*Hansip*), which is a group to maintain security.
  - (d) Funeral group, which is a group to maintain the cemetery and to provide funerals for dead villagers.
3. Farmers' groups, which are groups promoting mutual assistance of their members to increase agriculture production.
4. Religious groups, which are groups promoting religious activities like collective prayer and mosque maintenance.
5. Others, which include sports clubs, art groups, etc. which cannot be simply categorized in the previous four groups.

In terms of membership numbers, except neighborhood groups where all villagers were automatically members, the community initiated groups had more members than the state initiated groups. The neighborhood group, religious group, farmers group, the group of health service posts and the group of homemakers were the groups where most respondents became members. Although many organizations existed in the study villages, not all of the members were active. For example, although all respondents were by regulation automatically made members of neighborhood groups, only 59% regularly attended the meeting. In general, the neighborhood group, followed by religious and farmer groups was the three top organizations with active membership. Therefore, it is fair to say that community initiated groups were generally more active than the state initiated groups. Only 19% of respondents had not actively joined any groups. This means that institutional membership was high in all three villages (Table 7.2).

**Table 7.2** Community organizations in the study sites and membership of respondents

No	Type of groups	The founder	Serang		Kedarpan		Sumilir		Total	
			Member	Active member	Member	Active member	Member	Active member	Member	Active member
1.	Neighborhood group	State	111(100)	64(58)	60(100)	38(63)	58(100)	33(57)	229(100)	135(59)
2.	Religious group	Villagers	43(39)	37(33)	21(35)	17(28)	15(26)	11(19)	79(34)	65(28)
3.	Farmer group	Villagers	40(36)	34(31)	12(20)	11(18)	11(19)	13(22)	63(28)	58(25)
4.	Group of health service	State	25(23)	20(18)	7(12)	5(8)	4(7)	3(5)	36(16)	28(12)
5.	Funeral group	Villagers	0	0	16(27)	15(14)	0	0	16(7)	15(7)
6.	Group of homemakers	State	4(4)	3(3)	2(3)	2(3)	12(21)	9(15)	18(8)	14(6)
7.	Village council	State	2(2)	2(2)	3(5)	1(2)	2(3)	2(3)	7(3)	5(2)
8.	Village development committee	State	3(3)	3(3)	2(3)	1(2)	0	0	5(2)	4(2)
9.	Civilian defense	State	1(1)	1(1)	1(2)	0	1(2)	1(2)	3(1)	2(1)
10.	Driver's group	Villagers	1(1)	0	0	0	0	0	1	0
11.	Youth group	State	1(1)	0	0	0	2(3)	0	3(1)	0

Source Field survey, 2013

Note Number in parentheses indicates a percentage

### 7.2.3 Utilization of Social Capital

The informal groups helped to address various livelihood problems, for example by providing rotating savings and credit, maintaining facilities, organizing prayer, and so on (Figs. 7.1 and 7.2). Although these groups were active, meaning that they had periodic meetings and tried to solve the common problems of the members through discussion, it did not always mean that matters of public policies, development programs and governmental affairs were discussed there. More often, those matters were discussed only by village officers, the village council and the village development committee. Membership in these three organizations was very limited, and their meetings remained indirectly accessible by most of the villagers.

Therefore, respondents' understanding of some general matters related to decentralization in Indonesia was relatively low (Fig. 7.3). Two elements measured here were the understanding of some general terms of decentralization, and the understanding of some selected major poverty alleviation programs implemented during decentralized system.

Respondents' understanding of some general matters related to decentralization in Indonesia was relatively low. Two proxies used here were the understanding of the term "regional autonomy (*otonomi daerah*)", which is broadly quoted and mentioned in Indonesia, and the "Public Hearing of the Local Budget (*Musrenbang*)", which is an annual event of participatory budget formulation at the district and village levels. Surprisingly, even though these two terms had been used for quite a long time, most respondents answered that they had only heard them, but did not understand the meaning.

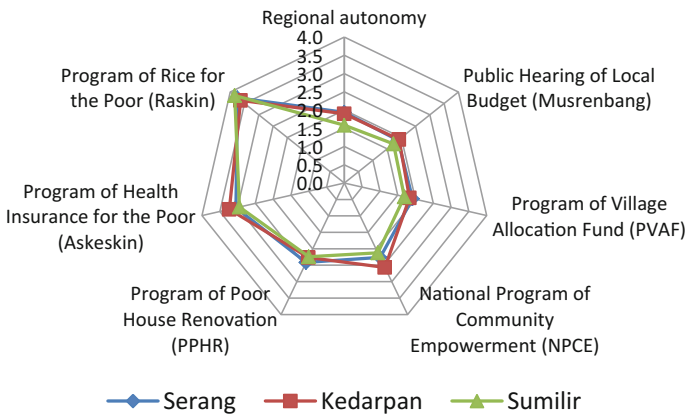
Most respondents had a relatively similar level of understanding of some major programs of poverty alleviation implemented in the study villages. There were several programs used as the indicators in this study. The Rice for the Poor program (*Raskin*), Health Insurance for the Poor (*Askeskin*), and Program of Poor House

**Fig. 7.1** Meeting of funeral group in Kedarpan village





**Fig. 7.2** Meeting of women’s group to teach sandal making



**Fig. 7.3** Understanding of respondents to matters related to decentralization. *Source* Field survey, 2013. *Note* Scoring method: Never heard = 1; Heard, but did not understand = 2; partially understood = 3; Understood = 4

Renovation (PPHR) were social protection programs delivering rice, free health cards and renovation funds, respectively. The National Program for Community Empowerment (NPCE) and the Program of Village Allocation Fund (PVAF) were infrastructural development programs implemented since 2004 and 2006, respectively. Except for understanding the *Raskin* and *Askeskin* programs, the understanding of respondents of the other programs was low. The highest understanding was about the *Raskin* program, of which most respondents became the beneficiaries.

### 7.3 Discussion

The rural community in Indonesia has traditionally built social relations as well as collective action. Keyfitz (1985), in his study within one village in Java during the 1950s, finds that a tradition of helping each other existed strongly in his study village. Not only was there the tradition of self-help, but also various informal institutions, mostly traditional and religious organizations, which facilitated the social relations among the villagers. Keyfitz's study indicates that a long time before the Suharto regime came to power, social capital had existed within the Indonesian rural community.

However, many studies presented that Suharto's policy in implementing a state-led rural development system had created negative consequences on social capital. As Antlöv (2000) has clearly described, in the name of efficiency, the regime homogenized and bureaucratized rural institutions in Indonesia. Various institutions were established by the state, all with the same structure and name throughout Indonesian villages, to be the only vehicle of rural development and the only medium where the voices of the community could be expressed. The system weakened informal rural institutions where the social capital of Indonesian villagers traditionally existed.

The findings here are contrary to many concerns that social capital has disappeared due to a lengthy state intervention during the Suharto administration. Diverse community groups exist, ranging from neighborhood, farming, religious, funeral, women groups and many others. They facilitate the social relations of the villagers, provide some kinds of social services where the government usually cannot, and help to solve some livelihood problems. Institutional memberships existed outside village government institutions, not involved in village decision making or the political arena. They were flexible, so that villagers could join and leave easily. Some groups had no formal name or appointed leadership, but there were periodic meetings and prominent members that would organize group activities. These groups could be identified only if the researchers or government staff made a close observation within the rural community.

The main problem of social capital in the Indonesian rural community is not about its existence, rather about its utilization. So far, the Indonesian government has not seriously taken issue with the utilization of the social capital to execute decentralization. The design of decentralization, as stipulated in the existing laws and regulations, emphasizes the role of the formal institutions of village government where membership and access are limited. The formalization and bureaucratization of village government made it difficult to involve informal institutions. The village government is not setup to interact with the informal institutions by law. For example, Government Regulation 72/2005 on Village did not clearly stipulate the obligation for village governments to involve these informal institutions in village development meetings. Rather, the regulation emphasized the roles of the Village Development Committee and the Village Council in developmental decision making.

Thus, the key point to emerge from this study is that the existing community groups do not reflect the civic traditions. The current relationship between the government and informal institutions is indifferent. As an implication, villagers are mainly engaged as passive actors within the development programs. Although some informal groups may be internally strong, a lack of external connections with the government has limited their effectiveness. To refer to the typology of social capital by Szreter (2002), the existing network is only a bridging social capital among the members, but not one linking with the government. The lack of connection with more powerful external actors implies a lack of empowerment for the members. The informal institutions are like unused resources in decentralization. They exist in the community, and the members utilize them to serve their needs, but the government does not. The under-utilization also means that social capital will not be able to grow simultaneously. After about twelve years of decentralization, the community still has limited understanding of some very basic terms of decentralization.

To improve the utilization of social capital in rural development, the existing regulations must be revised to the existing regulation. The village government should be obliged to involve informal institutions in village decision making. Efforts to make a connection between formal and informal institutions should be started by the village government by inviting the informal institutions to village meetings.

## 7.4 Conclusion

Social capital exists within the rural community, and it is generally supportive enough for decentralization. This is indicated from the active membership of many respondents in rural institutions, mostly informal ones. However, social capital is not well utilized to execute decentralization. Informal institutions are not given an opportunity to enter the village political arena. While social capital exists within informal institutions and operates at the hamlet level, decentralization is exercised by formal institutions where membership is limited and operated at the village level. For the success of decentralization, and as a way to develop community capacity, it is recommended here that the government involves informal institutions in the execution of decentralization. The regulations on decentralization should oblige village governments to involve informal institutions in developmental decision making.

## References

- Antlöv H (2000) Village governance in Indonesia: past, present and future challenges. Paper presented at the Conference on Dynamic of Local Politic in Indonesia, Yogyakarta, 3–7 July 2000
- Bourdieu P (1986) The forms of capital. In: Richardson J (ed) Handbook of theory and research for the sociology of education. Greenwood, New York, pp 241–258
- BPS Purbalingga (2011a) Karangreja sub-district in figure, 2010. BPS Purbalingga, Purbalingga

- BPS Purbalingga (2011b) Kejobong sub-district in figure, 2010. BPS Purbalingga, Purbalingga
- BPS Purbalingga (2011c) Kemangkon sub-district in figure, 2010. BPS Purbalingga, Purbalingga
- Grootaert C (1999) Social capital, household welfare and poverty in Indonesia. World Bank, Washington D. C.
- Keyfitz N (1985) An East Javanese village in 1953 and 1985: observations on development. *Population Dev Rev* 11(4):695–719
- Putnam R (1993) *Making democracy work: civic traditions in modern Italy*. Princeton University Press, Princeton
- Szreter S (2002) The state of social capital: bringing back in power, politics, and history. *Theory Soc* 31(5):573–621



# Chapter 8

## Rural Community Leadership in Decentralization

**Abstract** The roles of rural community leaders in decentralization cannot be underestimated, as they are the main actors organizing villagers in executing rural development programs. Four kinds of community leaders exist in rural Indonesia, namely the village head, hamlet head, upper neighborhood head and lower neighborhood head. Through cases study in Serang, Kedarpan and Sumilir villages, it is found that majority of their leadership capacity indicators were good enough, especially in terms of being informed, creativity, fairness, encouragement, responsiveness and submission to consensus. However, their accountability is perceived to be low. Among them, the neighborhood head is perceived to be the most popular leader. It is seen that the lower neighborhood head has become the safety guard that improves information access and accountability reports for the community while the village head is not optimally performing it. Rural community leaders are the key actors to make decentralization succeed. Their capacity to organize communities can be strengthened through capacity development, establishing clear institutional arrangements and providing sufficient incentives.

**Keywords** Community leader • Javanese leadership • Local capacity • Rural institution • Rural development • Decentralization

### 8.1 Introduction

In Indonesia, a village consists of several hamlets (*Dusun*), a hamlet consists of several upper neighborhood groups (*Rukun Warga*; RW), and an RW consists of several lower neighborhood heads (*Rukun Tetangga*; RT). An RT is a group of about fifty households living in the same area. The RW is association of 2-5 RTs adjoining each other. A hamlet is a settlement bordered with a natural boundary like a field, river or hills. From the lowest level, rural leadership consists of RT heads, RW heads, hamlet heads and village heads. The daily interaction, communication and social capital of villagers are concentrated within the hamlet. Physical infrastructure like schools, mosques and clean water facilities are built in each hamlet.

Similarly, community organizations like farmers groups, prayer groups and women's groups are established per hamlet. Villagers develop their identity as members of the community based on their hamlet. A village in Indonesia is therefore a group of several communities or several hamlets.

Utilizing rural community leaders as agents of the government has long been a practice in Indonesia. In the Dutch colonial era, the government used village heads to collect taxes and contribute croplands for the coercive-farming program. When the Japanese military occupied Indonesia, they used village and neighborhood heads to mobilize food, forced labor, and other resources to win the war. Similar cases also occurred during the Suharto administration from 1968 to 1998, in which the government used village and neighborhood heads to control people, to maintain political stability and to spread government propaganda.

Before decentralization was applied in 2001, village heads were structurally put in a dilemmatic position. They were very strong within the village, but very weak in the higher levels of government. Within the village, the government positioned the village head as the strongest actor in the village government. All community organizations, village councils and development committees had to put the village head in the highest position of their structure. The village head was *ex officio* the general leader or the protector of those organizations. Therefore, he had the substantially highest power to make decisions. However, externally, the village head was only the subordinate of the sub-district head. He had no power to reject the requests of sub district head, and had to be obedient and accountable to the latter. Playing dual roles at the same time, many village heads were found to prioritize their role as state agent or as the sub ordinate of the sub-district heads, rather than the head of an autonomous village government (Evers 2000; Antlöv 1996, 2000). Then, during the Suharto administration, rural community leaders were more a means of serving the central government. The Suharto administration presented a designed institution where the government could efficiently utilize rural community leaders as agents of the state. This is particularly important to consider as a background to analyzing the current rural leadership because many traditions inherited from the period of the Suharto administration are still practiced by the current village government.

The situation drastically changed after decentralization. Within each village, the power of the village head decreased through the establishment of village council. At the same time, the power of the village head with the district government increased through the abolishment of the hierarchical line between the village and sub-district head. The abolishment made the village head more independent from the intervention of the higher levels of government. While decentralization provided a structural change to the rearrangement of the rural leadership hierarchy, the practice is influenced by the capacity of rural leaders and cultural factors that shape the pattern of interaction among them.

This chapter will analyze the capacity of rural leadership and to what extent they could play roles in implementing decentralization. To do so, it will present the case study of Serang, Kedarpan and Sumilir villages in Purbalingga District, Central Java Province. Data were collected through questionnaires, interviews and

observation. Respondents were selected from villagers through cluster and stratified random sampling based on location, gender and relative economic status. There were totally 240 respondents involved in this study, which consist of 111 people in Serang, 61 people in Kedarpan, and 58 people in Sumilir.

## 8.2 Literature Reviews

Leadership is generally understood as the ability to influence the other members of an organization. Leadership theory has been developed in order to understand the best way to ask and persuade the followers to achieve the shared objectives (Yukl 2010). Most sources elaborating the concept of leadership are based on Western concepts, in particular North American culture (Irawanto 2011). The existing concepts and indicators are open to discussion, in terms of whether they are suitable for all localities with different local cultures.

There are many types of leadership, and among them, community leadership is unique. This is because community leadership is not only about the ways to execute the function of official management. More importantly, community leadership is about transforming and empowering a community as a political entity. In the context of Indonesian decentralization, the capacity of community leadership can be explained as the ability to empower local people, to deliver public service, and to solve local problems based on local initiatives.

While Indonesia is very heterogeneous in terms of ethnicity and culture, most national leaders are ethnically Javanese. Thus, the influence of Javanese culture within Indonesian society cannot be underestimated. There have been many studies finding that at the state level, the leadership style is established based on the principles of Javanese culture. Understanding the nature of Javanese leadership in rural communities is very important to understanding the role of community leadership in the implementation of decentralization.

Javanese society is traditionally built based on the principle of solidarity, but not equality (Mulder 1996). The pattern of relations between the rural leader and villagers is hierarchical. It puts the village head as the highest patron within villages (Antlöv 1996; Mulder 1996; Evers 2000). The concept of Javanese leadership has been elaborated upon by Mulder (1996), who explains that a leader in Javanese society means a parent or guardian of a community. Similarly, Irawanto (2011) explains that rural Javanese people see their leaders as the fathers of their community. Most studies in Javanese rural society find that leadership is paternalistic, which expects a leader to guide the followers, to treat them fairly, to help them during difficulties and to protect them during danger. A leader should perform fatherly, moral and benevolent deeds, behave wisely and honestly, be close to and tolerant of the followers. On the other hand, the followers are expected to respect the leader as an elder, to be obedient and never make an open critique (Mulder 1996; Velsink 1996; Antlöv 1995).

In the context of Indonesian decentralization, the government of Indonesia through Law 06/2014 on Village formally classifies villages into two types, which are Customary Village (*Desa Adat*) and ordinary Village, or simply called Village (*Desa*). The former is the villages still strictly implementing the customary laws. The later is the one in which principles of modern organization and institutional arrangement are applied, and traditional values are not strictly implemented in daily life of community. This classification might imply to the differentiation on the degree in which traditional values of community leadership is applied. The later type, in which most Indonesian villages are categorized, can be said as a combination of traditional to modern type of community organization.

By considering the culture of Javanese society and the task of village head in decentralization, Sutiyo and Maharjan (2014) developed indicators of community leadership capacity as follows:

1. Informativeness: provide information and socialize the development programs;
2. Creativity: able to identify the most effective ways to tackle local problems and create new programs to better the local livelihood;
3. Fairness: distribute development programs fairly without discriminating against any individual or group;
4. Encouragement: motivate people to participate in development;
5. Responsiveness: give prompt response to local problems;
6. Accountability: provide the report of the village budget;
7. Submission to consensus: obey the decisions made at the meeting.

These indicators are useful in analyzing the roles of community leaders in rural development. The indicators are closely associated with the tasks of rural leaders in decentralization. For example, in the planning stage, they are responsible for disseminating information, formulating the strategy, solving problems and accommodating different inputs from the community. In the execution stage, they are responsible to encourage their community to participate. In the evaluation stage, they are responsible to provide report for transparency and accountability.

### **8.3 Case Study of Serang, Kedarpan and Sumilir Villages in Purbalingga District**

#### **8.3.1 Profile of Rural Leadership**

Serang and Kedarpan had younger village heads compared to Sumilir. Both Serang and Kedarpan village heads had previously left the village to make a living. They came back to the village only a few years before their election. Neither one had experience in rural institutions before. Yet, the two won in landslides in 2006 and defeated the incumbents. On the other hand, Sumilir had the oldest village head. He was previously an elementary school teacher in the village. He had much experience in rural institution, as he had been active in some village organizations long before

**Table 8.1** The profile of village head, hamlet head and neighborhood head in study sites, 2011

No	Institution	Village		
		Serang	Kedarpan	Sumilir
1.	Village head			
	• Education	Under graduate	Low secondary	High secondary
	• Age (years)	38	45	67
	• Occupation background	Salaried job	Business	Salaried job
2.	Hamlet Head			
	• Number (person)	5	3	3
	• Average education (year)	10	12	12
	• Occupation (farmer: non-farmer)	5:0	3:0	3:0
3.	Upper neighborhood ( <i>Rukun Warga/RW</i> ) heads			
	• Number (person)	8	5	3
	• Average education (year)	7	6	6
	• Occupation (farmer: non-farmer)	4:4	2:3	2:1
4.	Lower neighborhood ( <i>Rukun Tetangga/RT</i> ) heads			
	• Number (person)	33	11	9
	• Average education (year)	6	8	8
	• Occupation (farmer: non-farmer)	25:8	7:4	5:4

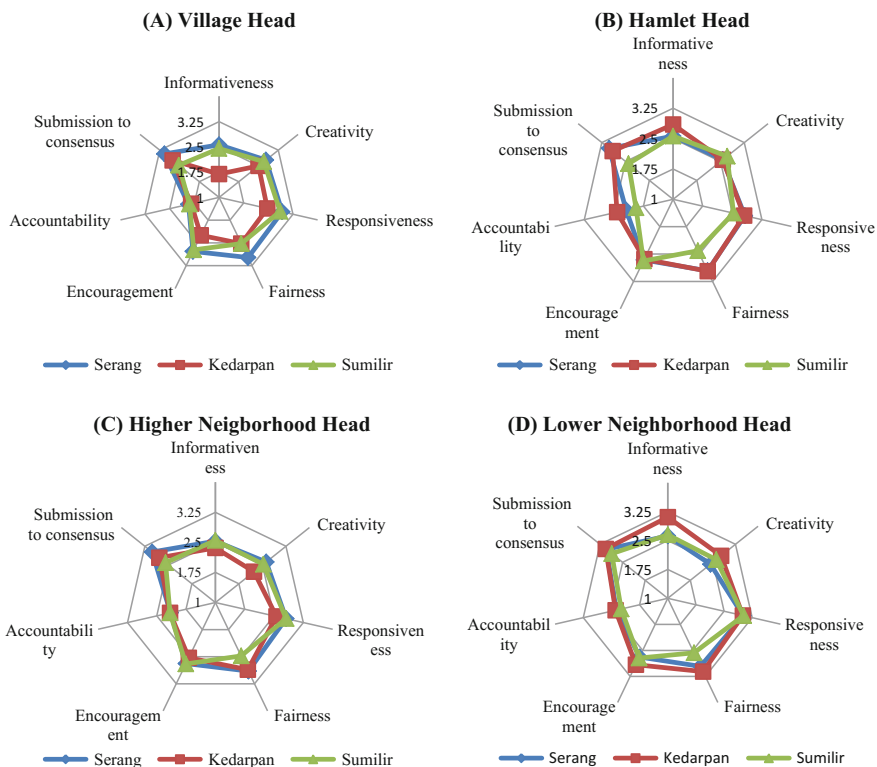
Source Field survey, 2012

the election. Further, in terms of education, the Serang village head had the highest education level, which was a bachelor degree.

In term of neighborhood heads, most of them were farmers with only elementary education. In terms of education and occupation, it is seen that the profile of neighborhood heads was similar among the study villages. Serang, the largest village, had 33 neighborhood groups while Sumilir, the smallest village, had only nine neighborhood groups (Table 8.1).

### 8.3.2 Capacity Assessment of Rural Leadership

It was found that the skills of rural leaders were good enough. Most indicators like informativeness, creativity, fairness, encouragement, responsiveness and submission to consensus were perceived to be good enough (Fig. 8.1). However, most community leaders were perceived to be poor in terms of accountability. Among the study villages, there were no substantial differences in the way villagers perceived the capacity of the leaders, except that the informativeness of Kedarpan village head was quite lower than the other village heads.



**Fig. 8.1** Villager’s perception to community leadership capacity. *Source* Field survey, 2012. *Note* Score 1-1.74: poor; 1.75-2.49: slightly poor; 2.5-3.24: good enough; 3.25-4: good

Village, hamlet and neighborhood heads could substitute or complement each other. If in a location the capacity of village head was low, then the capacity of the hamlet head or the neighborhood head was higher. For example, the results of questionnaire presented that village head’s capacity was highest in Serang and lowest in Kedarpan. In the same time, the capacity of the hamlet head was highest in Kedarpan. In term of neighborhood heads, Kedarpan village presented the highest score. It was seen that neighborhood heads became a safety net for the community when the higher community leaders failed to function.

There is a factor that might influence the capacity of community leaders, especially neighborhood heads. Until now, the position of neighborhood heads within the government structure was ambiguous. They were put as the lowest level of community leaders, receiving tasks from village heads. They were also incorporated as the lowest administrative level whereby villagers needed their signature to access all letters of reference from the village office. However, they received no financial incentives like the other village officers. While the village and hamlet heads received salaries from the government, the neighborhood heads received no incentives. This was why most villagers were reluctant to become neighborhood

heads. Once a person was elected neighborhood head, he could hold this position for a very long time after his term of service because nobody was willing to replace him. The matter of incentive was quite important because becoming rural leaders meant that they had a new social status. In a village, rural leaders are traditionally expected to attend every ceremony or party conducted by every villager, in which they had to bring some gift. The higher the position of a community leader, the more he was expected to attend the party and therefore spend money on a gift.

### **Informativeness**

To share information and to publicly promote a government program are the first steps that should be conducted before a program is implemented. There are several ways to improve informativeness such as inviting villagers to the meetings, to put the information on a public bulletin board, or to give speeches in various sessions. It was observed that the village head of Serang better understood the tips to improve informativeness, especially by conducting open meetings before and after a program's implementation. The importance of inviting villagers to meetings can be seen in the case of Kedarpan. The village head of Kedarpan preferred to apply a strict representative system of village meetings. He only invited rural institutional heads, mainly neighborhood heads, to the meetings. As a result, many respondents in Kedarpan had a limited understanding of what the village head was doing as a community leader, and perceived the village head as not informative. Most villagers got information about development projects and government policy from the hamlet and neighborhood heads. This was the reason why respondents gave higher scores to hamlet and neighborhood heads. A similar case also happened in Sumilir, in which the village head invited many villagers to meetings, thus he was perceived to be sufficient in terms of informativeness. Generally, for many villagers, being invited to a meeting meant that the village head was willing to hear their voices. Even if in the meeting they were just listening with no ideas to discuss, they would feel that they had been involved in decision making.

### **Creativity**

The creativity of rural leaders is strongly needed to solve various problems in rural development. As it has commonly been argued, the sources of creativity are either skills from education or experiences. In terms of education, rural leaders generally had higher educational degrees compared to the community. In terms of experience, many of them had practiced governmental tasks previously, and could get experience through a learning-by-doing process. Even in Serang village, although the headman was quite new in governmental affairs, he proved that he was able enough to perform the tasks as community leader. While creativity is often an abstract term, many respondents understood creativity through a simple illustration. For example, they were regarded as creative because with limited funds, they were still able to build the infrastructure in cheaper manner than the district government.

### **Fairness**

Treating the community fairly could be seen from the willingness to listen to every villager, regardless of his or her social status. However, in many cases, treating

people fairly was understood as delivering the programs equally to all villagers. Even, this could lead to a leakage in the distribution of government programs, such as social protection programs like cash transfers and subsidized rice. Some respondents could evaluate the leaders to be unfair simply because they did not receive the program benefits although they were ineligible for them.

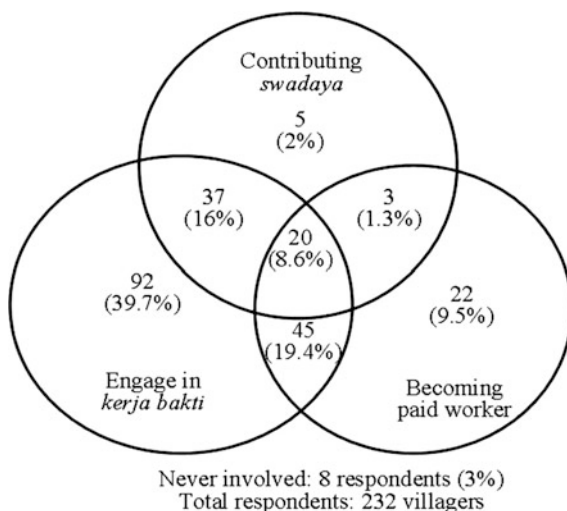
**Encouragement**

Overall, rural leaders have functioned well in terms of encouraging or mobilizing the resources for rural development. Visiting project sites, working together with villagers, and being present in project execution were important to show that the village head was not only talking, but also working. In execution stage, villagers participated in project execution mainly by becoming paid workers, contributing *swadaya* and engaging in *kerja bakti*. *Swadaya* is the practice of contributing self-supporting funds or other building materials while *kerja bakti* is the practice of becoming a voluntary worker. Both *swadaya* and *kerja bakti* have existed in Indonesian rural areas for a long time and have become a tradition of rural development in Indonesia. *Kerja bakti* became the most frequent activity done by respondents to participate in project execution. About 83.7% of respondents stated that they engaged in *kerja bakti*, 38.8% of respondents said that they participated by becoming paid workers, and 27.9% stated that they contributed *swadaya*, either in cash or in materials, during the project execution. The portion of people that were never involved in project execution was relatively small, only about 3% of respondents (Fig. 8.2).

**Responsiveness**

Overall, the result of questionnaires showed that rural leaders were responsive enough. Among community leaders within a village, the lower neighborhood heads had the highest scores compared to the other community leaders, especially in terms

**Fig. 8.2** Respondents' involvement in project execution in Serang, Kedarpan and Sumilir. *Source* Field survey, 2012





of responsiveness. The lowest community leader in the village is the neighborhood head. In a hierarchical society like that in Java, being in the lowest level of rural leadership means that the neighborhood head will initially confront day-to-day community problems, complaints and other affairs before the other levels of community leaders. Most neighborhood heads held periodic meetings with their community. Information about development programs was delivered through these meetings.

### **Accountability**

Low scores of accountability were given mainly because the budget report was not put on the information board, or the leaders did not inform about the utilization of money after the project was finished. In the same time, the nature of Javanese society that made them reluctant to make open critiques and open debate created difficulties for the village head in making decisions. The fact that villagers tended to gripe behind his back but not to ask openly made the village head confused often. The village head in Sumilir said that he was often confused about the villagers, that everything he did was always regarded as wrong. According to him, many development plans could not be implemented, and they needed many adjustments. The calculation of funds in planning meeting could not be rigidly implemented.

In contrast with the formal accountability mechanism that did not exist in the study sites, the sense of trust actually could be built from the planning stage. Interviews with several respondents from the poor revealed that they were satisfied with the project if their proposals became a priority or if information dissemination was clear enough during the planning meeting. Employing local workers in project execution gave the opportunity to villagers to monitor construction quality as well as the material used. Not surprisingly, the respondents tended to express satisfaction with the project if they became workers. Here, working together in project execution not only built trust between the villagers and the village government, but also increased the community's control and sense of belonging to the project.

### **Submission to Consensus**

Most respondents perceived their leaders to be submissive to the results of community meetings. For many villagers, submission to the consensus and decisions made by the community was substantial to building trust with the leader. Even if villagers were just listening with ideas to discuss in the meeting, they usually still understood the decision made at the end of meeting. Thus, they would evaluate the leaders based on that decision. Rural leaders usually avoided misbehaving or acting in the way that was not in accordance with the consensus.

## **8.4 Discussion**

Structurally, the village head is the highest level of leadership within a rural community, while the hamlet head as the apparatus of village government is the direct sub-ordinate of the village head. The neighborhood head has a somewhat

ambiguous position, as he is not the subordinate of the village head. The relationship pattern built by the four layers of community leadership is to complement each other. Neighborhood heads become the safety guard in case of the low capacity of a higher leader. For example, when village head is not informative enough, then neighborhood heads provide more information to the community. Overall, a village head is the most influential actor within the community. Although decentralization has decreased the power of the village head over villagers, the traditional hierarchical relationship is still strong.

The hierarchical and paternalistic nature of Javanese society makes the success of decentralization heavily dependent on the roles played by community leaders. Currently, one of the weaknesses of rural leadership capacity is a lack of accountability. In Javanese society where people are customarily reluctant to complain openly, it will be very hard to hear from the community, especially the poor. The silence of the community should not be regarded as real harmony as if there is no request for accountability. Rather, the silence and voicelessness of the community in front of their leaders is a kind of patron-client relationship characterized by inequalities and hierarchy. There must be a mechanism to hold the village head accountable to sharing budget information with the community directly. Up to the present, the accountability mechanism is limited to a representative meeting involving the village council, or the submission of a financial report to district government. The existing mechanism does not lead to improved accountability in the eyes of villagers.

There is a need to improve accountability. To do so, villagers must be provided opportunities to learn information about the expenditure. Rural leaders play a very important role in constructing or developing new mechanisms to promote accountability. The most important thing is communication, especially with conversations in meetings. Directly inviting villagers to meetings substantially improves participation, transparency and accountability. Like the case of the Serang village head and Kedarpan neighborhood head, inviting villagers to meetings and explaining the program are very important in satisfying the villager. In rural societies where most villagers are not able to access information through written documents, then directly explaining in front of them will improve the implementation of decentralization at the village level. Improving communication between rural leaders and the community can also be conducted through an informal mechanism. Some rural leaders usually take methods like informing during routine meeting, after preaching, or through the loudspeakers of the mosque. These methods have proven effective in creating more participatory governance, in which the quality of decision making, accountability, and program information can be improved.

In the meantime, the government should consider the multiple roles played by rural community leaders. Despite being the formal leader in the village office, the village head is also a traditional leader of the community, a partner of many civil servants in the district government, and a client of many higher officials. All of these roles imply additional personal spending, such as attending marriage party in the community, contributing to the proposals of some organization, serving

refreshment to many guests, attending various meetings regularly, and securing the relationships and networks he built. In this sense, many rural community leaders are paid less compared to the roles that they have to play. Without a sufficient salary, and at the same time a lack of accountability, they are very prone to misuse the village budget. There should be a balance between the amount of work that they have to do, the expectations of the community toward them, and the salary they receive.

## 8.5 Conclusion

Generally, the community perceived the leadership capacity of the village, hamlet and neighborhood heads to be good enough, mostly with high scores in indicators related to traditional leaders like informativeness, responsiveness, fairness, encouragement and submission to consensus. However, in terms of democratic leadership in practicing accountability, the community tends to give a low score. These indicate that rural community leaders are not completely successful in transforming themselves to be the leaders of modern institutions through decentralization. The capacity indicators measured here are actually still far from completely measuring the more technical indicators like understanding decentralization and their tasks within that system. However, as general information, this set of capacity indicators shows that rural community leaders have performed their role in organizing community within decentralization.

After about ten years of implementing of decentralization in Indonesia, it is argued here that rural community leaders will continue to be the main actors determining the success of decentralization at the village level. The success of decentralized program will be determined by the ability of rural leaders to develop communication with the villagers, especially by ensuring that there is no bottleneck of information in the community. So far, informal tactics and oral communication are effective in improving the quality of governance within decentralization.

## References

- Antlöv H (1995) Exemplary center, administrative periphery. Rural leadership and the new order in Java. Curzon Press. London
- Antlöv H (1996) Village leaders and the new order. In: Antlöv H, Cederroth S (eds) Leadership in Java: gentle hints, authoritarian rule. Curzon Press, Great Britain, pp 73–96
- Antlöv H (2000) Village governance in Indonesia: past, present and future challenges. Paper presented at the conference on dynamic of local politic in Indonesia, Yogyakarta, 3–7 July 2000
- Evers PJ (2000) Resourceful villagers, powerless communities (rural village government in Indonesia). The World Bank Indonesia, Jakarta

- Irawanto DW (2011) Exploring paternalistic leadership and its application to the Indonesian context. Massey University, New Zealand
- Mulder N (1996) The ideology of Javanese-Indonesian leadership. In: Antlöv H, Cederroth S (eds) Leadership in Java: gentle hints, authoritarian rule. Curzon Press, Great Britain, pp 57–72
- Sutiyo, Maharjan KL (2014) Capacity of rural institutions in implementing decentralized development in Indonesia. In: Maharjan KL (ed) Communities and livelihood strategies in developing countries. Springer Japan, Tokyo, pp 147–163
- Velsink IS (1996) Traditional leadership in rural Java. In: Antlöv H, Cederroth S (eds) Leadership in Java: gentle hints, authoritarian rule. Curzon Press, Great Britain, pp 33–56
- Yukl G (2010) Leadership in organization. Prentice Hall, NJ

# Chapter 9

## Institutional Capacity of Village Government

**Abstract** The success of decentralization in rural areas heavily depends on the capacity of village government institutions, mainly the village officers, village council and village development committee. Through the case study in Serang, Kedarpan and Sumilir, it was found that the majority of individual capacity indicators were perceived to be good enough. However, institutional capacity is not simply the capacity of the members, but more importantly, their ability to work together to perform the tasks of the organization. In fact, capacity realization of most members is hampered by problems of weak coordination and low incentives. Therefore, for the success of decentralization, the government should overcome problems of weak coordination and provide incentives to these institutions.

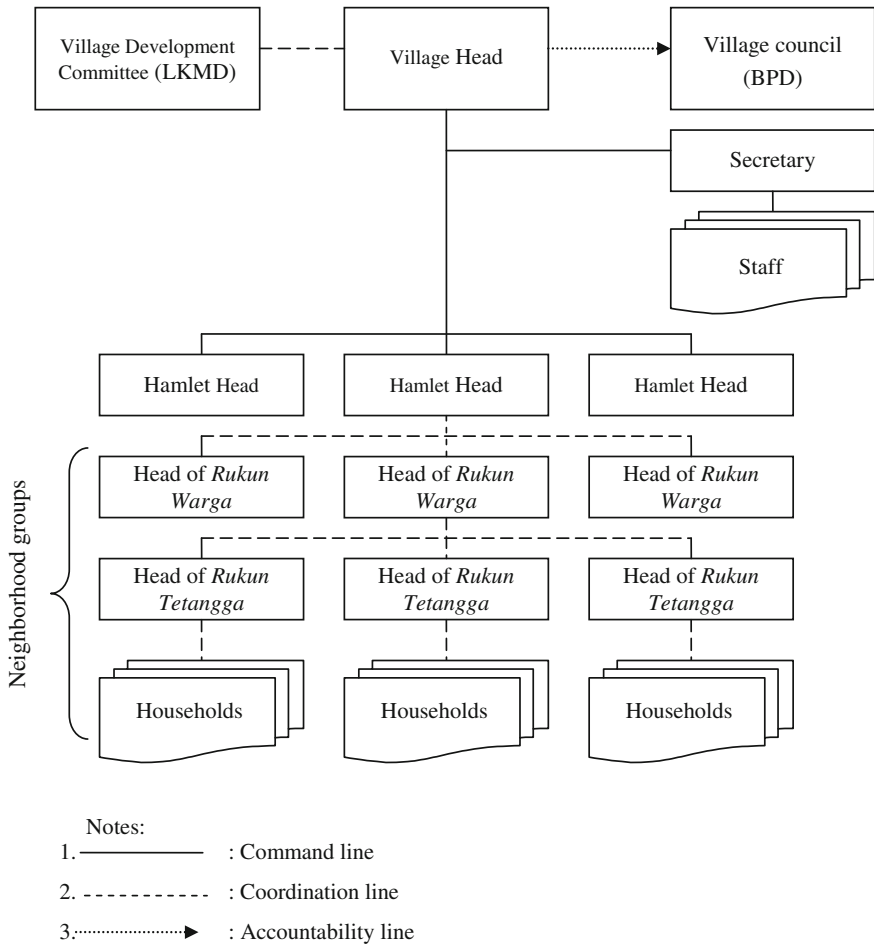
**Keywords** Rural institution · Local capacity · Village government · Village apparatus · Village council · Village development committee

### 9.1 Introduction

Indonesian law acknowledges the rights of a village government to be autonomous. With regard to rural development, the essence of autonomy can be seen from the power of a village government to plan, to execute and to evaluate rural development projects based on local initiatives. The law stipulates that a village is a legal and political entity having authorities to govern and administer its household affairs based on its origins and customs.

As the lowest level of government, a village has a set of formal institutions to perform its governmental tasks. Under the current regulations, there are formal institutions within a village, which are the village officers, village council and village development committee (Fig. 9.1).

The village officer consists of the village head, secretary, staff and hamlet heads. Their tasks are conducting village administration. The village head is directly elected by villagers every six years, and can be reelected for a maximum of three terms of service. The village secretary, staff and hamlet heads are recruited from



**Fig. 9.1** Structure of village government

villagers through a test with a term of service is up to the age of 56 years old. Every village has an office where village officers routinely work. The salary of village officers comes from two main sources. The first is *bengkok* land, which is a specific plot of land given to each village officer during his time of service. The second is additional allowance given by district government.

The village council, or *Badan Permusyawaratan Desa* (BPD), is an institution introduced after decentralization in 2001. It consists of 5–11 people elected every six years. Their tasks are to voice community aspirations, to supervise village officers and to enact village decrees.

Another formal institution is the village development committee, or *Lembaga Ketahanan Masyarakat Desa* (LKMD), which is an institution introduced in the 1980s to execute physical projects within the village. It consists of about ten people

ected every five years. The pattern of its relationship with village officers and the village council is coordination, consultation and partnership.

Those three above mentioned institutions are the main institutions executing rural development programs. During decentralization, rural development programs mostly took the form of grants where the utilization was locally decided by villagers. Simply speaking, Antlöv (2003) stated that the system “appears fairly favorable to local democracy” because the upper government levels cannot change the community decisions as long as it does not deviate from the law. Sufficient institutional capacity is therefore required by the village government to succeed in decentralization. The village officers, development committee and council must have the knowledge and skills to implement their newly transferred tasks. As many studies have found, the success of decentralization in improving livelihood of rural residents heavily depends on the capacity of local institutions (Uphoff et al. 1998; Jutting et al. 2005; Johnson 2001; Blair 2000; Aref et al. 2009).

In Indonesia, the capacity of village governments has become a concern. There have been many studies finding that the long state intervention during the Suharto administration has created a negative impact on local capacity. Several studies find that many rural institutions have faced difficulties in adapting to the new system and understanding the role they should play (Widianingsih 2005; Dharmawan 2002; Alatas et al. 2005; Antlöv 2003; Bebbington et al. 2006). Most of them point out that there is a tradition of waiting for technical guidance from the district government, and a lack of initiative and technical knowledge to solve problems.

This chapter aims to analyze the current capacity of village governments, underlining in particular the capacity of the village officers, village council and village development committee. In addition, it will also discuss the capacity development delivered by district governments. A case study was conducted in Serang, Kedarpan and Sumilir in Purbalingga District, Central Java Province. Data were collected through questionnaires, interviews and observation. Respondents were selected from villagers through cluster and stratified random sampling based on location, gender and relative economic status. There were totally 240 respondents involved in this study, which consist of 111 people in Serang, 61 people in Kedarpan, and 58 people in Sumilir.

## 9.2 Literature Reviews

Capacity is generally defined as the ability to perform functions, solve problems, and set and achieve objectives (UNDP 2002). No consensus is available to break down capacity into measurable indicators. Cohen (1993) finds that the term “capacity” is inconsistently used to the point where it loses analytic power. Most sources measure capacity based on indicators of education, training, work experience and a person’s other socio economic background. The measurement is insufficient for the basis of institutional analysis because institutional capacity is not simply the sum of individual capacity. Institutional capacity is also about

regulation, organization structure, network or relationship and even culture embedded within community.

To measure capacity, Mizrahi (2004) proposed that the indicators should be based on the “capacity of whom” and the “capacity to do what”. This means that each institution needs a different set of capacity indicators. Capacity indicators of village officers are different from those of the council and development committee. Similarly, capacity indicators to implement development tasks are different from the other tasks.

Capacity and performance are two different concepts. While capacity refers to skill and competence belonging to the actor, performance refers to a result of capacity realization. Therefore, capacity cannot be measured only from performance, and vice versa, should not assume that good capacity will always result in good performance. Capacity may exist within a person, but the likelihood that it can be realized to achieve good performance depends on many factors, including capacity of other people, social structure that determine pattern of relationship within community, and difficulties of problems that they want to solve (Bebbington et al. 2006; Mizrahi 2004).

## 9.3 Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District

### 9.3.1 Profile of Village Government

The profile of the village governments in Serang, Kedarpan and Sumilir shows that the education level of most members is upper secondary school (Table 9.1). There

**Table 9.1** Profile of village government

No.	Institution	Village		
		Serang	Kedarpan	Sumilir
1	Village officers			
	• Number (person)	12	11	12
	• Average education (year)	10	10	11
	• Average age (year)	45	43	42
2	Village council			
	• Number (person)	10	5	4
	• Average education (year)	11	12	12
	• Occupation (farmer: non-farmer)	5:5	3:2	2:2
3	Village development committee			
	• Number (person)	15	12	9
	• Average education (year)	12	12	11
	• Occupation (farmer: non-farmer)	8:7	3:9	1:8

Source Field survey, 2012



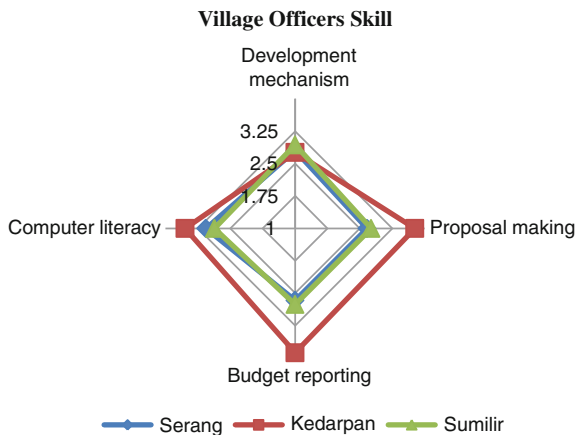
is no significance difference among the three villages. It is too early to justify whether this level of education was sufficient to perform the tasks. Considering the education of villagers was commonly elementary school, the members of the village government mostly came from the educated members of the community. Further, in terms of occupation, members of the village council proportionally were farmers and non-farmers. Members of the development committee in Kedarpan and Sumilir were mostly non-farmers. It is found that many of them were civil servants, which means that they had good administrative capacity. The domination of civil servants in the development committee membership raised a question about the representation of community, in which most people are farmers.

### 9.3.2 Capacity Assessment of Village Government

#### Village Officers

Village officers were categorized as supporting the administrative staff within the village government. The self-assessment questionnaire distributed to village officers shows that they had good enough capacity in terms of administrative skills, development, proposal making, budget reporting and computer literacy (Fig. 9.2). Among the three villages, the highest scores were in Kedarpan. There were some basic office facilities and working tools in the village government, although they were still far from complete. In every office, there were at least two computers with printers and two motorcycles. Various official and administrative books were made available by the district government every year. In every village, a meeting room with a capacity of over fifty people was available, which means that an open meeting with villagers could be conducted if needed (Fig. 9.3).

**Fig. 9.2** Self perception to capacity of village officers.  
 Source Field survey, 2012.  
 Note Score 1–1.74: poor;  
 1.75–2.49: slightly poor;  
 2.5–3.24: good enough;  
 3.25–4: good



**Fig. 9.3** Village Office building in Kedarpan



Although the skills and working tools of village officers were quite good, many officers were reluctant to update the reports and administrative data. An information board was available in every village office, but the information was not up to date (Fig. 9.4). Annual budget reports were made in a mimeograph with a good arrangement of pages on the budget plan, technical drawings, record of expenses, receipts, attendant lists, and photographs of outputs. In the report, some pages were simply copied from year to year. The interviewed officers said that the distribution

**Fig. 9.4** Information board in village office. Photo was taken in 2013 while the board was still presenting the 2009 data

**PAPAN MONOGRAFI DESA: SUMILIR  
KEC. KEMANGKON, KAB. PURBALINGGA PROPINSI JAWA TENGAH  
KEADAAN TAHUN: 2009**

A. BUNDAH PEMERINTAHAN		B. KARYAWAN	
1. Jumlah Korp. Kel.	158 org	1. Man. Neg. Negeri	24 org
2. Jumlah Korp. Korp.	158 org	2. ASN	3 org
3. Jumlah PNS	144 org	3. Swasta	133 org
4. Jumlah PNS	144 org	4. Swasta	133 org
5. Jumlah PNS	144 org	5. Swasta	133 org
6. Jumlah PNS	144 org	6. Swasta	133 org
7. Jumlah PNS	144 org	7. Swasta	133 org
8. Jumlah PNS	144 org	8. Swasta	133 org
9. Jumlah PNS	144 org	9. Swasta	133 org
10. Jumlah PNS	144 org	10. Swasta	133 org
11. Jumlah PNS	144 org	11. Swasta	133 org
12. Jumlah PNS	144 org	12. Swasta	133 org
13. Jumlah PNS	144 org	13. Swasta	133 org
14. Jumlah PNS	144 org	14. Swasta	133 org
15. Jumlah PNS	144 org	15. Swasta	133 org
16. Jumlah PNS	144 org	16. Swasta	133 org
17. Jumlah PNS	144 org	17. Swasta	133 org
18. Jumlah PNS	144 org	18. Swasta	133 org
19. Jumlah PNS	144 org	19. Swasta	133 org
20. Jumlah PNS	144 org	20. Swasta	133 org
21. Jumlah PNS	144 org	21. Swasta	133 org
22. Jumlah PNS	144 org	22. Swasta	133 org
23. Jumlah PNS	144 org	23. Swasta	133 org
24. Jumlah PNS	144 org	24. Swasta	133 org
25. Jumlah PNS	144 org	25. Swasta	133 org
26. Jumlah PNS	144 org	26. Swasta	133 org
27. Jumlah PNS	144 org	27. Swasta	133 org
28. Jumlah PNS	144 org	28. Swasta	133 org
29. Jumlah PNS	144 org	29. Swasta	133 org
30. Jumlah PNS	144 org	30. Swasta	133 org
31. Jumlah PNS	144 org	31. Swasta	133 org
32. Jumlah PNS	144 org	32. Swasta	133 org
33. Jumlah PNS	144 org	33. Swasta	133 org
34. Jumlah PNS	144 org	34. Swasta	133 org
35. Jumlah PNS	144 org	35. Swasta	133 org
36. Jumlah PNS	144 org	36. Swasta	133 org
37. Jumlah PNS	144 org	37. Swasta	133 org
38. Jumlah PNS	144 org	38. Swasta	133 org
39. Jumlah PNS	144 org	39. Swasta	133 org
40. Jumlah PNS	144 org	40. Swasta	133 org
41. Jumlah PNS	144 org	41. Swasta	133 org
42. Jumlah PNS	144 org	42. Swasta	133 org
43. Jumlah PNS	144 org	43. Swasta	133 org
44. Jumlah PNS	144 org	44. Swasta	133 org
45. Jumlah PNS	144 org	45. Swasta	133 org
46. Jumlah PNS	144 org	46. Swasta	133 org
47. Jumlah PNS	144 org	47. Swasta	133 org
48. Jumlah PNS	144 org	48. Swasta	133 org
49. Jumlah PNS	144 org	49. Swasta	133 org
50. Jumlah PNS	144 org	50. Swasta	133 org
51. Jumlah PNS	144 org	51. Swasta	133 org
52. Jumlah PNS	144 org	52. Swasta	133 org
53. Jumlah PNS	144 org	53. Swasta	133 org
54. Jumlah PNS	144 org	54. Swasta	133 org
55. Jumlah PNS	144 org	55. Swasta	133 org
56. Jumlah PNS	144 org	56. Swasta	133 org
57. Jumlah PNS	144 org	57. Swasta	133 org
58. Jumlah PNS	144 org	58. Swasta	133 org
59. Jumlah PNS	144 org	59. Swasta	133 org
60. Jumlah PNS	144 org	60. Swasta	133 org
61. Jumlah PNS	144 org	61. Swasta	133 org
62. Jumlah PNS	144 org	62. Swasta	133 org
63. Jumlah PNS	144 org	63. Swasta	133 org
64. Jumlah PNS	144 org	64. Swasta	133 org
65. Jumlah PNS	144 org	65. Swasta	133 org
66. Jumlah PNS	144 org	66. Swasta	133 org
67. Jumlah PNS	144 org	67. Swasta	133 org
68. Jumlah PNS	144 org	68. Swasta	133 org
69. Jumlah PNS	144 org	69. Swasta	133 org
70. Jumlah PNS	144 org	70. Swasta	133 org
71. Jumlah PNS	144 org	71. Swasta	133 org
72. Jumlah PNS	144 org	72. Swasta	133 org
73. Jumlah PNS	144 org	73. Swasta	133 org
74. Jumlah PNS	144 org	74. Swasta	133 org
75. Jumlah PNS	144 org	75. Swasta	133 org
76. Jumlah PNS	144 org	76. Swasta	133 org
77. Jumlah PNS	144 org	77. Swasta	133 org
78. Jumlah PNS	144 org	78. Swasta	133 org
79. Jumlah PNS	144 org	79. Swasta	133 org
80. Jumlah PNS	144 org	80. Swasta	133 org
81. Jumlah PNS	144 org	81. Swasta	133 org
82. Jumlah PNS	144 org	82. Swasta	133 org
83. Jumlah PNS	144 org	83. Swasta	133 org
84. Jumlah PNS	144 org	84. Swasta	133 org
85. Jumlah PNS	144 org	85. Swasta	133 org
86. Jumlah PNS	144 org	86. Swasta	133 org
87. Jumlah PNS	144 org	87. Swasta	133 org
88. Jumlah PNS	144 org	88. Swasta	133 org
89. Jumlah PNS	144 org	89. Swasta	133 org
90. Jumlah PNS	144 org	90. Swasta	133 org
91. Jumlah PNS	144 org	91. Swasta	133 org
92. Jumlah PNS	144 org	92. Swasta	133 org
93. Jumlah PNS	144 org	93. Swasta	133 org
94. Jumlah PNS	144 org	94. Swasta	133 org
95. Jumlah PNS	144 org	95. Swasta	133 org
96. Jumlah PNS	144 org	96. Swasta	133 org
97. Jumlah PNS	144 org	97. Swasta	133 org
98. Jumlah PNS	144 org	98. Swasta	133 org
99. Jumlah PNS	144 org	99. Swasta	133 org
100. Jumlah PNS	144 org	100. Swasta	133 org

of tasks among the personnel was not proportional. The young and motivated personnel received bulky tasks, while the other personnel only sat in the office and rarely came to work. The official working hours in the village office were not implemented. Many villagers were disappointed because the village office was left empty without staff on working days.

There is an important issue that may influence capacity of village government. The issue is about the size of *bengkok* land, which was village inventory land allocated to each village officer as a substitute for a salary. Sumilir had quite large *bengkok* land, about 18 ha. Per hectare of *bengkok* land in Sumilir could afford about IDR 2.5 million per month. This implies people's enthusiasm to become village officers. The current village head had to compete with about five other candidates to win the 2007 election. Similarly, when five village staffs positions were vacant in 2009, the number of applicants was about 27 persons. Different from Sumilir, the size of *bengkok* land in Kedarpan was only 3 hectares of non-irrigated land, and Serang had no *bengkok* land. The village officers in Kedarpan and Serang received an allowance from the district government amounting to IDR 600,000 per month. Thus, people's enthusiasm to become village officials was not as high as in Sumilir. Even in Serang, when four positions of village officials were vacant in 2008, none applied and the posts remained vacant for about one year.

### **Village Council**

Legally, the village council has substantial power in village decision making and is expected to play an important role as a legislative body. They had to represent community opinions and control village government in conducting the tasks. However, in practice, the council positioned itself as a partner of the village head in conducting government tasks. What they did was give inputs to the village head during meetings, and gave warnings when the village head made a mistake. Although villagers perceived that the capacity of the village council was good enough (Fig. 9.5), most of the council members were too confused to actualize their power into action. The confusion led them to prefer consensus in meetings, and to solve disagreements with the village head in a familial manner.<sup>1</sup> Many council members with a farmer background had a limited ability to speak in the meetings, to generate ideas and to understand the budget reporting system.<sup>2</sup>

Although most respondents perceived that their capacity was good enough, in fact the village council does not always function as an institution. For example, there was no routine meeting among its members. Many of them also did not follow the updated information about development programs in the village. The reason was because the village head did not inform them, or they rarely came to the village office to look for the information. Becoming a member of village council could be a

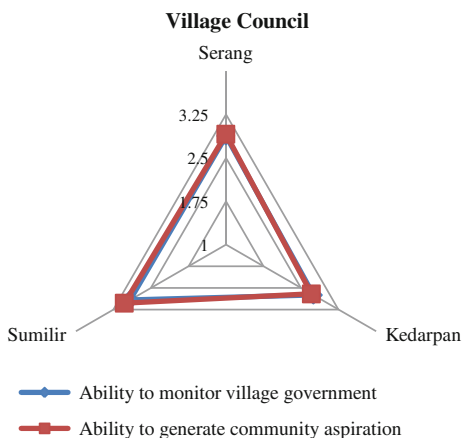
---

<sup>1</sup>Interview with the head of Kedarpan council in February 23rd, 2012, the head of Sumilir council in January 18th, 2012 and the head of Serang council in February 2nd, 2012.

<sup>2</sup>Interview with the head of Kedarpan village in January 12th, 2012; the head of Kedarpan council in February 23rd, 2012, the head of Sumilir council in January 18th, 2012; and the head of Serang council in February 2nd, 2012.

**Fig. 9.5** Villagers perception to capacity of village council  
*Source* Field survey, 2012.

*Note* Score 1–1.74: poor; 1.75–2.49: slightly poor; 2.5–3.24: good enough; 3.25–4: good

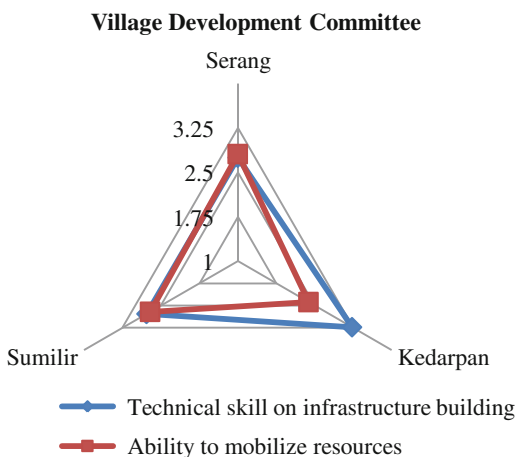


burden for some people because they had to control the village head but received no incentives for this task. Efforts to develop the capacity of the village council were also limited since the district government emphasized administrative capacity development for village officers.

**Village Development Committee**

Legally, the village development committee was identical to an operational team specialized in building physical infrastructure. Thus, in practice, the members mostly consisted of construction experts whether by education or by experience. Most respondents perceived this institution to have a good enough capacity to perform their tasks in executing physical development projects (Fig. 9.6). In practice, the capacity of village development committee in infrastructure building was quite good. For example, they were able to pave the roads with asphalt to build a simple bridge 10 meters long, and to build a house two stories tall.

**Fig. 9.6** Villager’s perception to capacity of village development committee. *Source* Field survey, 2012. *Note* Score 1–1.74: poor; 1.75–2.49: slightly poor; 2.5–3.24: good enough; 3.25–4: good



The committee members tended to position themselves as sub-ordinates of the village government rather than act on behalf of villagers. They cared more about executing the projects, mainly in mobilizing community contributions and the labor force rather than in accommodating villager's aspirations in development planning. Matters regarding development planning are perceived more as the tasks of the village head and council.<sup>3</sup>

### 9.3.3 Actualization of Capacity

#### Case of Serang Village

Serang is a typical village in a hilly area. It is located in the northern part of Purbalingga district, just at the base of Slamet Mountain. It is one of the largest villages in Purbalingga, which covers an area of 1,309 ha with a total of 7,625 people. About 65% of household heads worked in agriculture, mainly planting vegetables such as cabbages, carrots, potatoes, chili peppers and strawberries. The share of poor households in Serang was 15% (BPS Purbalingga 2011).

A lack of infrastructure such as roads and markets was mostly the first answer when respondents were asked to identify local problems in their village. The village head and officers stated that the limitations of the government funds to develop rural infrastructures were the main challenge they routinely faced. To overcome this problem, the village government minimized project expenses by mobilizing cash and labor contributions, lowering the wage of workers and utilizing locally cheaper building materials. The village government never bought land from villagers for infrastructure building, since before the construction began, the villagers expected to voluntarily contribute the land.

During about five visits to the village office, the first author often found the neighborhood heads or farmers' group head at the office to meet with the village head. This indicated that there was good coordination between the village head and the other institutions. Most villagers said that the current village head was generous. See for example in the case of the village office building in 2007. Due to severe damage, the village office in Serang could not be used to sustain administration tasks. After being calculated, full repairs could only be done over two fiscal years, as one annual budget was not sufficient. Surprisingly, the village head proposed that he was willing to provide additional money from his own pocket to complete repairs within one year, as long as the villagers agreed to reimburse him the following year. Through a meeting, this idea was agreed. Thus, in Serang, the leadership of the village head and good coordination among rural institutions helped to solve local problems more effectively.

---

<sup>3</sup>Interview with the head of Sumilir village development committee in January 18th, 2012 and the head of Kedarpan village development committee in February 23rd, 2012.

Efforts to improve villager income were executed through the establishment of a borrowing and lending cooperative. The cooperative had the initial capital of IDR 100 Million, and could provide credit up to IDR 5 Million for a borrower. Although the amount of money was still small and substantially less than enough to start a business, it could help villagers to add capital to begin planting vegetables.

### **Case of Kedarpan Village**

Kedarpan is a village in a relatively low but dry area. The village covers an area of 225 ha with a total of 2,264 people. About 44% of households worked in agriculture, mainly planting cassava. This village also had a high share of poor households, which was 26% (BPS Purbalingga 2011).

Similar as the case of Serang, the village of Kedarpan also lacked physical infrastructure, mostly roads and clean water facilities. In this village, Kedarpan, the development of rural infrastructures did not rely only on government funds. There was infrastructure construction directly funded and managed by villagers without involvement from the government. This mainly consisted of religious facilities such as mosques and *madrasah*. Several respondents in Kedarpan village said that in 2009 without any financial assistance from the government they were successful in building a clean water facility for several houses in their areas.

In Kedarpan, there were no routine meetings among the village officers, council and development committee. Rather, meetings were conducted as needed. Even though there was no routine meeting among the rural institution heads like in Serang, the relationships and communication among rural institutions was amiable enough, thanks to the performance of the neighborhood heads. The village head tried to develop a network with a third party to improve rural development, for example with the district council. Entrusting a proposal to a council member was believed to have a greater chance of funding, than if the village head himself submitted it to the district government. Infrastructure development was to some extent segregated by hamlet. The scale of priority projects was not made at the village level. Rather, the village government distributed funds equally to all hamlets or alternated the location of development periodically. These aimed not only to create development equity, but also to maintain harmony and to prevent social jealousy among hamlets. In Kedarpan, the village head said that these had been consensus among villagers, and so far, the implementation was smooth.

### **Case of Sumilir Village**

Sumilir is a village in a low and wet area. The area covers 226 ha with a total of 2,163 people. Most household heads (50%) worked in the agriculture sector, mainly by planting rice. About 23% households were poor in 2010 (BPS Purbalingga 2011).

In this village, physical infrastructure was better compared to the other villages. Thus, when villagers were asked to identify local livelihood problems, most of them did not consider lack of infrastructure but discussed the lack of opportunities for generating income. Efforts to establish cooperatives had been attempted several times, for example by establishing borrowing and lending cooperatives, establishing a farmers group to fatten cows, and so on. However, most of them failed, and the groups dissolved without providing clear information about their assets and profits.

The village head, council and development committee were all of the opinion that it was always difficult to reach consensus and to develop cooperation with villagers. For example, it took a very long discussion just to decide the type and location of the project. According to the village head, his position on development issues was always challenged by some villagers. The village head, development committee, and council during a separate interview said that the activeness of villagers in contributing cash and labor was very low. While the maintenance of the drainage system that in Serang and Kedarpan could be done voluntarily, in Sumilir it had to employ paid workers. From the perspective of most village officers, this was a sociological change that unavoidably occurred within the community, something also happening in other areas. Yet, discussion with villagers and outsiders revealed relatively different information. Many villagers felt uncomfortable with too much nepotism within the village government. For example, there were about three families whose father and son were both officers in the village. Thus, the inactiveness in cash and labor contributions was an indirect protest of the domination of some families in the village government. Similar information was given by a sub-district officer, who said that Sumilir was the most unstable village, with many cases of villagers protesting. The problematic relationship between the village government and villagers caused some projects not to be finished on time.

## 9.4 Discussion

The organizational capacity of the village government in implementing decentralization consists of two main sets of tasks, administrative and political. The administrative tasks are performed by village officers, which are mainly organizational procedures, financial administration, proposal making and accountability reports. The political tasks are performed by the village council and development committee, which are mainly development planning, public hearings, accountability meetings, and control over development funds. As it is found, the principle of good governance has not been effectively implemented in the study sites. The village council lacks the will to oversee the village government. The village officers do not enact a transparent and credible system of financial management. Although individual skills of most institution members are good enough, the problems of low incentives and limited supervision from the district government make the skills not always be translated into action.

For the district government, the current challenge is to find a balance of capacity development along with the transfer of the budget to the village government. To improve the capacity of the village government, there must be a commitment of technical assistance from the top. Otherwise, decentralization will just become a formality, and the principle of good governance cannot be realized. Successful decentralized rural development needs more than simply transferring political power, budgets, discretion and conducting development management training to the villagers.

Those who want to apply decentralization in rural development should at least consider the heterogeneous nature of the rural community. It consists of many villagers with various economic and social backgrounds, in which each of them have various interests either as individuals or as members of rural institutions. Thus, assuming that the existing capacity can always be utilized for rural development is an incorrect way of thinking. Even though the abilities exist, the effectiveness of addressing local problems will greatly depend on the connection among institutions and the complete political atmosphere within the village. To be effective in resolving local problems, good political circumstances within the village are needed. When this condition is not met, decentralizing development tasks to rural community may result in time inefficiency, raise new conflicts, waste resources and cause program failures. In the worst-case scenario, it does not resolve the problem but leads to other new problems.

## 9.5 Conclusion

In general, each employee of the village government institution has good enough capabilities to implement tasks in rural development. Of course, these are a good start for decentralization. However, a good individual capability is only the first step. Another step is to ensure that these capabilities are translated into action. Although village officers have quite good capacity, they do not always translate them into action. Similar cases are also found in the village council and village development committee. Capacity development and the improvement of incentives to village government personnel are needed for the success of decentralization.

There may be a problem of incentives that makes personnel reluctant to take action. Up to now, village officers receive small allowance. They could not optimally perform their tasks because they have to look for additional income beyond their salary. Although this may be not the case in villages having large *bengkok* land, it surely affects the villages with limited *bengkok* land. Therefore, higher salaries for village officers are needed to ensure their performance.

## References

- Alatas V, Pritchett L, Wetterberg A (2005) Voice lessons: local government organizations, social organizations and the quality of local governance. The World Bank Indonesia, Jakarta
- Antlöv H (2003) Village government and rural development in Indonesia: the new democratic framework. *B Indones Econ Stud* 39(2):193–214
- Aref F, Redzuan M, Emby Z (2009) Assessing community leadership factor in community capacity building in tourism development: a case study of Shiraz, Iran. *J Human Ecol* 28 (3):171–176
- Bebbington A, Dharmawan L, Fahmi E, Guggenheim S (2006) Local capacity, village governance, and the political economy of rural development in Indonesia. *World Dev* 34(11):1958–1976



- Blair H (2000) Participation and accountability at the periphery: democratic local governance in six countries. *World Dev* 28(1):21–39
- BPS Purbalingga (2011) Purbalingga district in figure, 2010. BPS Purbalingga, Purbalingga
- Cohen JM (1993) Building sustainable public sector managerial, professional, and technical capacity: a framework for analysis and intervention. Harvard Institute for International Development
- Dharmawan L (2002) Dynamics of local capacity and village governance: findings from the second Indonesian local level institutions study. The World Bank Indonesia, Jakarta
- Johnson C (2001) Local democracy, democratic decentralization and rural development: theories, challenges and options for policy. *Dev Policy Rev* 19(4):521–532
- Jutting J, Corsi E, Kauffmann C, McDonnell I, Osterrieder H, Pinaud N, Wegner L (2005) What makes decentralisation in developing countries pro-poor? *Eur J Dev Res* 17(4):626–648
- Mizrahi Y (2004) Capacity enhancement indicators. World Bank Institute, Washington, D.C.
- UNDP (2002) Capacity for development, new solution to old problems. Earthscan Publications Ltd, New York
- Uphoff N, Esmar MJ, Krishna A (1998) Reasons for success: learning from instructive experiences in rural development. Vistaar Publications, New Delhi
- Widiansih I (2005) Local governance, decentralization, and participatory planning in Indonesia: seeking a new path to a harmonious society. In: Ahmad R (ed) *The role of public administration in building a harmonious society*. ADB, Philippines, pp 69–89

# Chapter 10

## Community Participation in Rural Development

**Abstract** Designed to promote community participation, decentralization aims to replace the state led rural development previously applied. However, after the authorities were transferred, the question remains whether the system can truly facilitate community participation. Some locally made regulations have deviated from spirit of participatory development mandated by national regulations. The non-existence of guidelines on how to involve the community in decision making has resulted in the differences of types of planning meetings. Some villages apply open meetings, while others apply representative meetings. In implementation, community involvement is prominent, yet the system cannot fully abolish the practice of coercive mobilization of local resources. In the evaluation stage, the community is not involved much in evaluating projects and government accountability is weak. The community has no power to access budget reports and to hold the village government accountable. The village head is still orienting its accountability to the district government.

**Keywords** Community participation · Village decision making · Resource mobilization · Program evaluation · Rural development · Decentralization

### 10.1 Introduction

Decentralization has transferred to the village government not only power to implement, but also to plan and to evaluate the village budget. It is obviously different from the state-led rural development system previously applied where the initiatives mostly came from the upper village levels and the community acted more as an object of development (Bebbington et al. 2006; Antlöv 2000; Evers 2000; Widianingsih 2005). According to Rasyid (2002), Indonesian decentralization aims to encourage local initiatives by placing the center of decision making at the lowest level of government. It is expected that the community will become an active subject of rural development.

Despite those expectations, participatory approach itself seems elusive when put into practice. One of the difficulties that it may deal with is in determining the most suitable mechanism that should be established to involve the villagers, especially those who are poor, in the whole development process. Johnson (2001) points out that poverty itself has debilitating effects that discourage the poor from participating. The poor usually do not have enough understanding of the new mechanism as well as not enough money to engage in the local political process. Here, there will be always a possibility that decentralized rural development only results in pseudo-participation, in which participation is just rhetoric rather than a reality. Therefore, the success of decentralization in promoting participatory development heavily depends on regulation. At this point, a concern may arise about the viability of Indonesian decentralization in promoting participatory rural development. This is because the existing decentralization laws explain more about the transfer of power but less about the mechanisms to involve the community. Thus, the ways to involve the community will depend on a locally made mechanism.

Cohen and Uphoff (1980) identify two main contexts where the concept of participation is used. The first is the political context where participation mainly refers to people involved in political activities like elections and policy formulation. The second is the developmental context where participation mainly refers to people involved in development programs. In the context of rural development, the concept of participation proposed by Cohen and Uphoff might be the most appropriate one. Cohen and Uphoff (1980), by using the approach of a project cycle, define participation as people involved in every stage of rural development programs, from planning, execution, getting benefits, to evaluation. According to them, involvement in the planning stage covers activities that identify problems, generate ideas, assess options and make choices. Involvement in the execution stage covers activities of cash, labor and material contributions, engagement in project administration and enlistment. Involvement in getting benefits covers activities where people take advantage of the programs. Involvement in evaluation covers activities where people evaluate the programs and hold the government accountable for what it has done. With regard to involvement in the execution stage, Oakley (1991), Cohen and Uphoff (1980) strongly advise that rural residents in many developing countries are usually poor, therefore it should be carefully assessed whether community contribution during program execution is a voluntary or coercive action. Real participation, according to them, should be a voluntary action, and resource mobilization should not exploit the poor.

Community participation in development stages is interconnected, and increase in participation in one step has the potential to increase participation in the other steps (Cohen and Uphoff 1980; Oakley 1991). From a political perspective, involvement in planning and evaluation are a foundation of participatory development. Direct involvement, especially in the planning and evaluation stages, is better than a representative system and should be pursued as far as possible (Oakley 1991; Paul 1987; Parker 1995; Cohen and Uphoff 1980).

Sources suggest those aiming to analyze community participation in rural development programs be aware about the circumstances in which people are involved. The circumstances include, among others, the procedures of participation and mechanism of decision making having been established in the regulations, the capacity of communities in the issues where they are involved, the power relation and social structure within community, and the local culture influencing the behaviors of people in social interaction.

This chapter aims to analyze whether decentralization has facilitated community participation in rural development. A case study was conducted in Serang, Kedarpan and Sumilir in Purbalingga District, Central Java Province. Data were collected through questionnaires, interviews and observation. Responses were selected from villagers through cluster and stratified random sampling based on location, gender and relative economic status. There were totally 232 respondents involved in this study, which consists of 113 people in Serang, 61 people in Kedarpan, and 58 people in Sumilir Village.

## 10.2 Regulation of Community Participation

The field work of this study was conducted when the national regulation on procedure of community participation was Government Regulation 72/2005 on Village. It was the main implementing regulation of decentralization that specifically regulated village governments and rural development. In principle, the regulation mandated that village planning should be participatory (Article 63.1). The village head should provide a budget report to the district government and village council, and should inform the villagers (Article 15.2). The regulation did not elaborate on a mechanism to involve the villagers, but it mandated district governments to make a guide for village government (Article 66).

Based on this act, the Purbalingga district government issued a guide on village budget management, through District Regulation 8/2010 on the Guide for the Village Allocation Fund. According to the guide, the first stage of village budget execution is a planning meeting to decide the utilization of the village budget. The second stage is a technical meeting in which the project team discusses the project technically. After the project is executed, the last stage is an accountability meeting where the village head presents the project report. Further, it is stipulated that the village meeting should be conducted by involving at least all the members of village development committee, the head of the village council and one council member dealing with development affairs, village officers, neighborhood heads and prominent community figures.

Here, there is a conflict between the national regulation and the guide made by the district government. The spirit of participatory development mandated by regulation 72/2005 is inappropriately defined by the implementing guide, which narrows community involvement only to some selected institutions. Informal institutions, like farmer groups, religious groups and many other traditional groups

where social capital within the community exists, are not involved. The mechanism also makes it impossible for villagers to be involved as individuals, not representing a group, in the village decision making process. Such inappropriate interpretation to the principle of participation is possibly due to limited discussion before enacting the guide and the fact that its formulation process was exclusive by involving only a few selected bureaucrats from the district agencies.

### **10.3 Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District**

#### ***10.3.1 Community Involvement in Planning***

The formalization of planning meetings was found in study sites. It was conducted in the village office based on an invitation letter distributed to the attendant. The issue of a formal invitation was decisive, because villagers could not join the meeting unless they were given an invitation letter. Especially for female household heads, obstacles discouraging their involvement were not only structural, related to formalization of meeting, but also cultural. When they were asked whether they would go or not if they received invitation, most of them preferred to stay at home rather than to attend the meeting. Their reasons varied from considering it as men's business, the meeting was often held during the night when it was customarily inappropriate for women to go out of the house, or unable to speak in public.

The village head played a decisive role in deciding who would be invited and how to conduct the meeting. In Serang, the village head asked the neighborhood heads to send five people from their neighborhoods to come to the meeting. In Sumilir and Kedarpan, the village head only invited neighborhood heads. This was quite different from Kedarpan, in which only the institution heads attended the village meeting. Based on an interview with the village head of Kedarpan, the main factor discouraging him from applying an open meeting was its inefficiency in terms of budget.<sup>1</sup> According to him, an open meeting required more operational costs to provide logistics like snacks and beverages for attendants, something considered wasteful amidst a village budget scarcity. However, it is argued here that budget efficiency was not strong enough to be the main reason to reduce the number of meeting attendants. This could be seen from the case of Serang, in which the village head involved more villagers in the meeting (Fig. 10.1). According to the village head of Serang, he preferred to invite many villagers to increase the legitimacy of decisions and to minimize complaints from the community.<sup>2</sup>

---

<sup>1</sup>Summarized from the interview with Kedarpan village head in March 19th, 2011.

<sup>2</sup>Summarized from the interview with Serang village head in February 26th, 2011.



**Fig. 10.1** Open planning meeting in Serang village

In the end, it was clear that the decision whether to apply open or representative meetings was not strongly motivated by cost saving. Rural development, as well as the mechanism to involve the community in village decision making, was practically executed in the environment where the village head had decided on a mechanism deemed to better involve the villagers. The regulation, regardless of its weaknesses, is not always implemented. Modifications to the regulation are implemented in every village, in which some led to better participation by inviting more villagers while others led to worse participation by inviting fewer people to the meeting than desirable. Such practices like this are very common because of the weak control by the district government of the quality of meeting, number of participants, and the institutions invited to the meeting.

Respondent's involvement in planning was significantly higher in Serang (Table 10.1). In Serang, besides being attended by institution heads, the meeting was also attended by many villagers. Further, respondents in Kedarpan village were the least involved in the planning meeting. Villagers not invited to the village meeting might be still involved in planning in the neighborhood meeting where they were mostly just informed about the decision made in the village meeting. Participant observations find that the meetings at the neighborhood or hamlet level were more inclusive by involving more villagers.<sup>3</sup> These meetings were held informally where an invitation was not required. The weakness of this meeting was that it functioned mostly to disseminate information, not to make a decision.

<sup>3</sup>Observation and discussion in hamlet meeting in Bojongsari, Kedarpan in March 28th, 2011.

**Table 10.1** Respondent's involvement in planning

No.	Indicators	Village				P value
		Serang	Kedarpan	Sumilir	Total	
1	Involved in planning					0.00***
	• Never	15(13)	20(33)	11(19)	46(20)	
	• Rarely	25(22)	23(38)	17(29)	65(28)	
	• Often	69(61)	14(23)	28(48)	111(48)	
	• Always	4(4)	4(7)	2(3)	10(4)	
2	Generating idea in planning (n = 186)					0.11
	• Never	23(23)	5(12)	19(40)	47(25)	
	• Rarely	51(52)	22(54)	22(47)	95(51)	
	• Often	22(22)	13(32)	3(6)	38(20)	
	• Always	2(2)	1(2)	3(6)	6(3)	

Source Field survey, 2012

Note \*\*\* means significant at 1%

Number in parenthesis means percentage

### 10.3.2 Community Involvement in Implementation

Villagers participated in project execution mainly by becoming paid workers, contributing cash or materials and engaging in voluntary (unpaid) work. Voluntary work was the most preferred form of participation in project execution. Participation in Serang was significantly higher than in the other villages (Table 10.2). Wages for village government sponsored projects were set below the standard. In Sumilir, the wage of a laborer in the road asphalt-paving project in 2010 was set at IDR 20,000 per day compared to the standard wage of about IDR 24,500. The wage of a skilled mason was set at IDR 30,000 per day, compared to the wage standard of IDR 32,500. Data from several project documents in Kedarpan and Serang also confirmed similar findings. Although considered unjust, it could ensure that the workers of government-sponsored projects were from poor households. The non-poor were reluctant to become workers since they still could earn more income from other jobs.

Community participation in project implementation should ideally be a voluntary action selected by each villager. However, there were cases where community contribution was coercive, for example by cutting the salaries of worker to add the amount of cash contribution. In some cases, the workers were unaware that their salary was cut due to the secrecy of budget documents. An example was in the road-building project of Kedarpan in 2007. At that time, a worker's wage was reduced by IDR 1,500 from the wage of IDR 18,500 per day per worker to count as cash contribution. The village government did this to reduce the expenses since the community insisted the village government lengthen the road by about 1 km while

**Table 10.2** Respondent's involvement in project execution

No.	Indicators	Village				P value
		Serang	Kedarpan	Sumilir	Total	
1	Times of voluntary working a year					0.00***
	• Never	2(2)	3(5)	4(7)	9(4)	
	• 1–6 times	2(2)	9(15)	14(24)	25(11)	
	• 7–12 times	3(3)	32(53)	39(67)	74(32)	
	• More than 12 times	104(94)	16(27)	1(2)	121(53)	
2	Days of becoming the paid worker a year					0.260
	• Never	97(87)	47(78)	47(81)	191(83)	
	• A day to 14 days	9(9)	7(12)	7(12)	23(10)	
	• 15 days to one month	4(4)	6(10)	2(3)	6(6)	
	• More than a month	1(1)	0(0)	2(3)	3(1)	
3	Amount of cash/material contribution a year (IDR)					0.140
	• None	69(62)	44(73)	39(67)	152(66)	
	• <100,000	23(21)	9(15)	17(29)	49(21)	
	• 101,000–500,000	14(13)	5(8)	1(2)	20(9)	
	• >500,000	5(5)	2(3)	1(2)	8(3)	

Source Field survey, 2012

Note \*\*\* means significant at 1%

Number in parenthesis means percentage

the available fund was only about IDR 81 million, which was only enough for building a road with a length of 600 m.<sup>4</sup> Of course, this case was not simply an issue of coercive mobilization since it was also responding to the community's insistence on quantity. From the other perspective, this case could also be regarded as a method to solve the problem of fund limitations.

It was also found that decentralizing rural development to the village government led to more efficient spending in obtaining building materials, especially in Serang and Kedarpan. The expenses in infrastructure development were cheaper compared to the standard price set by the district government. Village governments could obtain them from the producer directly for a cheaper price. This was different from the district government sponsored projects where registered suppliers supplied the material. Decentralization created multiplier economic effects by utilizing the budget to pay villagers working in the projects. So far, people involvement in project execution is well implemented. (Figs. 10.2 and 10.3).

<sup>4</sup>Interview with the LKMD head in Kedarpan Village, in March 19th, 2011.



**Fig. 10.2** Community participation in irrigation development



**Fig. 10.3** Women participate in road development



### ***10.3.3 Community Involvement in Evaluation***

Decentralizing rural development to village governments aimed to increase community control of development funds. For this objective, transparency in fund utilization was compulsory to create government accountability. Yet, in general, it is found that budget transparency was not well practiced. The practice of presenting a report on a public information board was not always conducted. The public information boards in village offices were not updated. For example in Sumilir village office, during a work visit in January 2012, a public information board in the office was still presenting some general information about the 2010 village budget.

**Table 10.3** Respondent's involvement in evaluation

No.	Indicators	Village				P value
		Serang	Kedarpan	Sumilir	Total	
1	Informed about utilization of fund					0.042*
	• Never	31(27)	19(31)	26(45)	76(33)	
	• Rarely	62(55)	24(39)	25(43)	111(48)	
	• Often	16(14)	17(28)	6(10)	39(17)	
	• Always	4(4)	1(2)	1(2)	6(3)	

Source Field survey, 2013

Note \*means significant at 10%

Number in parenthesis means percentage

The responsibility meeting, which was supposed to be a forum to present the fund utilization and to hand over the outputs to the community, was not always implemented. Thus, it was therefore not surprising that most respondents (80%) stated that they were never/rarely informed about fund utilization. Here, again, respondents in Serang were significantly more informed than the other villages (Table 10.3).

In many cases, the utilization of funds was not reported to the community (Figs. 10.4 and 10.5). It is found that actually all three villages always made a project report, but they kept it hidden in the office and only submitted it to the district government via the sub-district head. The village governments still oriented their accountability toward the upper government levels rather than to the community. To where the village government would be accountable was related to an issue of power relations. So far, the community had no power to hold the village head accountable and transparent. On the other hand, although in decentralized system there was no direct chain of command from the district to village governments, the former was still more powerful than the latter. The other reason was the incentives of giving the report to the district government. If the village government failed to submit the report on time, the district government would delay the transfer of funds as well as punish them by reducing the amount of the next year's transfer. The existence of punishment motivated the village heads to submit the reports routinely, as it would also show that the village governments could execute the project well. The punishment itself was a crucial threat because up to now, the main source of the village budget was the transfer from the district government. Although the village government could look for internal revenues, not one of the study villages was able to earn. Facilities like the village market and motorcycle-pedicab pool, on which village governments could impose charges, or village government enterprises that could provide profit, were not available in the study villages.

Open complaints from villagers were rare. Not all villagers, especially the poor, had the bravery to protest since they did not want to be regarded as troublemakers or were afraid that it would cause trouble when they administered official letters in

**Fig. 10.4** Public board in village office without budget information



**Fig. 10.5** A board presenting budget information to improve transparency



the village office. Some indirect protests were expressed through a reluctance to join the village government sponsored activities. Villagers themselves unintentionally developed some kind of tolerance to fund misuse. They might sometimes be aware that several projects suffered from corruption just by seeing their construction quality or by comparing them to the other projects using the same amount of funds. As long as they thought it was only petty corruption, they would not openly complain. Among the study villages, there was a case of fund misuse reported in Serang in 2007. At that time, the village development team was suspected of misusing about IDR 10 million from the village budget. Since public complaints resulted in no settlement at the village level, the community then reported it to the sub-district head. Instead of bringing the case to the police for legal settlement, the sub-district head preferred to issue administrative sanctions on the culprits and to ask them to return the funds. The case was closed in 2008 after they returned the funds.

## 10.4 Discussion

Sources argue that direct participation is better than a representational system. In this regard, decentralization is promoted based on an assumption that the more locally power is executed, the higher is its potential to promote direct participation, inclusive decision making, optimum resource mobilization as well as better accountability and transparency. However, it is indeed recognized to be a considerable scope for enhancing a direct participation. For example, just in a village of 500 households, it is seen that direct participation at every moment of public decision making is impossible. Thus, a representational mechanism was necessary to overcome this problem.

Blair (2000), through his review on decentralization practices in Bolivia, Honduras, India, Mali, the Philippines, and Ukraine, finds that real participatory development will be achieved only if decentralization involves as many citizens as possible in decision making. Further, when a direct participation is seen as impossible due to the area size and population, he suggests that the regulation should guarantee the participation of marginalized groups in the established representational system. He also suggests that the accountability of local government should not rely only on a formal mechanism, but also through informal mechanisms.

What is happening in Indonesia, especially in Purbalingga district, is the opposite of the suggestion made by Blair. The spirit of participatory rural development mandated by the national regulations is deviated from a locally established mechanism made by the district government. While Blair (2000) suggests that marginal groups should be guaranteed a place in public decision making, the procedure made by Purbalingga district conversely mandates that formal institutions like the village council and development committee to be the core institutions in village meetings. By only making it compulsory for the village head to involve formal institutions, then informal institutions and marginalized groups have been excluded from village meetings. Informal institutions, in which most villagers are active members, like farmer groups, religious groups and many other traditional groups, are not involved. Limited involvement of informal institutions creates problems of representation. Even if the locally established mechanism of participation is practiced perfectly, there are still many groups and marginalized people that will not be accommodated or involved in village meetings.

As has been presented, the ways to seek community participation in the study villages are through formal methods. The formalization of village meetings, which has become an obstacle to inclusive participation, is also seen to be the result of the current administrative reporting system. The village government needs a letter of invitation, signature, bill of meeting logistics and so on to be the proof of spending submitted to the district government. This also seems to be a structural barrier inherited from Suharto's policy to bureaucratize village governance. Indeed, regulations are not the only factor influencing the success of decentralization in promoting participatory development. It is found that the leadership of the village head

is another influencing factor in the promotion of community participation. In conditions where the village head is still the most powerful actor within a village, the way of involving people depends on his inclination. Some village heads modify the mechanism to be far better than the stipulated regulations, for example by inviting more villagers to improve participation. On the other hand, some village heads take actions to invite fewer people than what it is stipulated in the regulations, making the quality of participation worse. Because many things about community participation depend on the village head, it is quite important to identify the criteria of the village head that can facilitate good participation. From the case of Serang, it is not education and working experience, but awareness and willingness to improve participation from the village head that will contribute to improved community participation. Initially, improving community participation through inviting more villagers to village meetings could be inefficient for village budget, but in the end, it will result in better development outputs and improved village governance.

There are also many local traditions, practices and initiatives at every stage of rural development that have strengths and weaknesses in promoting participatory development. Formality is among the traditions seen to weaken participation. It is also found that the mechanism of accountability emphasizes formal methods, especially through reports to the district government and village council, which in turn weakens the quality of participation. The study villages do not use informal methods like presentations to the villagers directly or indirectly through public board. The formalization and upward orientation of accountability of the village government implies a lack of community control over the village government. As an impact, community involvement is currently just pseudo-participation emphasizing resource mobilization rather than planning and evaluation.

The most recent procedure of community participation has been changed into Regulation of Ministry of Village, Backward Regions and Resettlement 02/2015 on Guide and Mechanism of Village Decision Making. The spirit of the regulation is similar as the Government Regulation 72/2005 on Village, which is the existing regulation during the fieldwork of this study. As it is found here, the effectiveness of community participation heavily depends on the implementing guide issued by district government, the initiatives and capacity of village head in conducting the participatory meeting, and the supervision of district government to the implementation of community participation, especially in planning and evaluation stages of rural development.

## 10.5 Conclusion

No one can debate that the current condition of rural development has been more participatory than before decentralization. The power relationship and the institutional arrangement in village governance have changed, which in turn, have created a new atmosphere for participatory rural development. However, the implementation of the new system is still not institutionalized well. Although the spirit for

applying participatory mechanism is great, it cannot be implemented since there is no clear practical mechanism to be applied. The issue of representation remains unsolved, hence it has the potential to diminish the voice of the poor in the decision making process. In contrast with the planning stage, the involvement of the poor in the execution stage is better. This is mainly because participation in the implementation of the program has been a long-time tradition. However, it is still not clear whether the participation in the implementation stage is a kind of a pure participation or a kind of mobilization of people to achieve the most efficient financial utilization. An accountability tradition does not exist yet although trust has been attempted through the direct involvement of community in execution process.

The spirit of participatory development mandated by decentralization laws is inappropriately defined by the locally established mechanism of participation. Thus, Indonesian decentralization has not completely facilitated a real participatory development. The community was involved more in the project execution, but less in planning and in evaluation. The decentralized system requires more than just transferring the power of planning, execution and evaluation to village governments. Perhaps more importantly, there should be a general guide on the ways to involve villagers and the mechanism of filling complaints by considering the local social and political context. Regulations should oblige the village government to involve informal institutions and the marginal groups in village decision making. Further, the district government should monitor the implementation of this regulation.

## References

- Antlöv H (2000) Village governance in Indonesia: past, present and future challenges. Paper presented at the conference on dynamic of local politic in Indonesia, Yogyakarta, 3–7 July 2000
- Bebbington A, Dharmawan L, Fahmi E, Guggenheim S (2006) Local capacity, village governance, and the political economy of rural development in Indonesia. *World Dev* 34(11):1958–1976
- Blair H (2000) Participation and accountability at the periphery: democratic local governance in six countries. *World Dev* 28(1):21–39
- Cohen JM, Uphoff NT (1980) Participation's place in rural development: seeking clarity through specificity. *World Dev* 8:213–235
- Evers PJ (2000) Resourceful villagers, powerless communities (rural village government in Indonesia). The World Bank Indonesia, Jakarta
- Johnson C (2001) Local democracy, democratic decentralization and rural development: theories, challenges and options for policy. *Dev Policy Rev* 19(4):521–532
- Oakley P (1991) The concept of participation in development. *Landscape Urban Plann* 20:115–122
- Parker AN (1995) Decentralization: the way forward for rural development?. World Bank, Washington, D.C.
- Paul S (1987) Community participation in development project: the world bank experience. The World Bank, Washington, D.C.

- Rasyid MR (2002) Otonomi daerah: latar belakang dan permasalahannya. In: Harris S (ed) Desentralisasi dan otonomi daerah: desentralisasi, demokratisasi dan akuntabilitas pemerintah daerah. LIPI, Jakarta, pp 13–30
- Widianingsih I (2005) Local governance, decentralization, and participatory planning in Indonesia: seeking a new path to a harmonious society. In: Ahmad R (ed) The role of public administration in building a harmonious society. ADB, Philippines, pp 69–89

# Chapter 11

## Does Decentralization Matter in Rural Poverty Alleviation?

**Abstract** The lack of a budget for rural development and the weak capacity of government institutions to manage a database of poor households create implementation gaps in many poverty alleviation programs implemented in Indonesia. The Program of Health Insurance for the Poor (*Askeskin*) is a program suffering from serious under coverage. Furthermore, some programs distributing benefits in hand like the program of Rice for the Poor (*Raskin*) and the Program of Women's Saving Group (PWSG) suffer from leakage because the kinds are distributed to almost all villagers. Mistargeting in poverty alleviation programs has no correlation to kinship relations with village officers, but is more due to the principle of solidarity among rural residents to distribute the programs equally, even to the non-poor. Under coverage as well as leakage of the programs makes them unable to achieve their objective to alleviate poverty. Only rural infrastructure development significantly improves respondents' access to some selected public services.

**Keywords** Poverty alleviation · *Raskin* · *Askeskin* · National program for community empowerment · Program of woman saving group · Decentralization

### 11.1 Introduction

Poverty is broadly defined as a lack of basic necessities to maintain a sufficient standard of living (Haughton and Khandker 2009). In most countries, poverty is measured based on a poverty line, which is a minimum level of income needed by a person to obtain a minimum calorie intake and other services to live properly. The World Bank set a poverty line at US\$2 per day for moderate poverty and US\$ 1 per day for extreme poverty. At the same time, Indonesian government set its own poverty line at US\$1.56 Purchasing Power parity (PPP) per person per day (BPS 2010).



Poverty is a multidimensional issue (Haughton and Khandker 2009; Ravallion 1996). Therefore, a simplified measure based on income alone may not explain fully the nature of poverty. Many sources have proposed methods to measure the multidimensionality of poverty, yet according to Ravallion (1996), most of them face both methodological and conceptual challenges. Henry et al. (2001) argue that a relative poverty condition can be described from consumed food, dwelling conditions, asset ownership, education and expenditure. Although this method is still not able to measure the multidimensionality of poverty, it provides a relatively better way to identify the poor in a community.

Rural poverty refers to the poverty phenomena existing in rural areas. Poverty alleviation programs principally aim to help the poor meet their basic needs. Alleviating rural poverty through improving the quality of life of the poorest group within a village is the final objective of rural development and decentralization. The government strategy to alleviate poverty is implemented through three clusters of programs. The programs having wide coverage and funding, as identified by Daly and Fane (2002), are as follows:

1. Cluster of Social Protection, which consists of individual targeting programs to distribute basic necessities to the poor. This cluster consists of several key programs, as follows:
  - a. Program of Rice for the Poor (*Raskin*), which distributes about 15 kg of subsidized rice per household per month;
  - b. Program of Health Insurance for the Poor (*Askeskin*), which provides a card of free basic medication for the poor in a government clinic;
2. Cluster of Community Driven Development, which consists of programs to improve infrastructure in poor villages. This cluster consists of the National Program for Community Empowerment (NPCE), which delivers grants from the central government;
3. Cluster of Small Enterprise Development, which consists of programs to provide loans to the poor without collaterals. The prominent one is the Program of Women's Saving Group (PWSG), which distributes funds to rural women in a microfinance arrangement.

To understand the impact of decentralization on poverty alleviation, a case study was conducted in Serang, Kedarpan and Sumilir in Purbalingga District, Central Java Province. Data were collected through questionnaires, interviews and observation. Respondents were selected from villagers through cluster and stratified random sampling based on location, gender and relative economic status. There were totally 232 respondents involved in this study, which consisted of 113 people in Serang, 61 people in Kedarpan, and 58 people in Sumilir Village.

## 11.2 Case of Serang, Kedarpan and Sumilir Villages in Purbalingga District

### 11.2.1 Targeting Effectiveness of the Poverty Alleviation Program

By referring to the indicators set by the government, it is identified here that a total of 81 respondents consisting of 34 respondents in Serang, 25 respondents in Kedarpan and 22 respondents in Sumilir were eligible for the programs. However, the real number of beneficiaries of many programs did not match those criteria. Some programs suffered from leakage, which means that they distributed to the non-eligible. In contrast, some programs suffered from under-coverage, which means that those eligible did not become beneficiaries.

Social protection suffered from both leakage and under-coverage. The *Raskin* Program suffered from leakage, as the rice was distributed not only to the eligible villagers, but also to almost all the villagers (Figs. 11.1 and 11.2). The interviewed village officers said that the rice was equally distributed to prevent social jealousy from the non-recipients. Some 94% of the total respondents received rice from this program monthly. As a result, the amount of rice that the poor received was less than what it should be. The *Askeskin* Program delivered to the poor a card for a year of free basic medication within government clinic (Fig. 11.3). Some 40% of the respondents received free health cards from the program (Fig. 11.4). There was almost no leakage in this program because the name of recipients was printed on the identification card issued by the statistical agency, which was necessary to access the services. However, the program suffered from under-coverage, as some of the poor respondents did not become beneficiaries.

The other factor contributing to the equal distribution of social protection programs was the mistake of villagers in defining the meaning of “fairness”. Many of them simply perceived fairness as equal distribution for all villagers. Then, they insisted the village head to give the program. The village head, who was pressured by villagers, had no choice but to fulfill their demand. Some village officers said that they were afraid that the villagers not receiving the programs were not willing to contribute cash and labor in rural development again, or would not participate in any village government sponsored activities.

The NPCE distributed grants to village government annually by considering the land size, population and prevalence of poverty. The villages of Serang, Kedarpan and Sumilir received about IDR 256 million, 152 million and 180 million in 2010, respectively (Kedarpan Village Government 2010; Serang Village Government 2010; Sumilir Village Government 2010). However, the dispersed amounts, according to the village heads, were not enough for rural infrastructure development. Annual budget reports show that the largest share of the grant were used for road improvement, followed by irrigation, clean water facilities and school building.

**Fig. 11.1** Stock of rice for Raskin Program in village office. Source [www.blogdesatukdana.blogspot.co.id/](http://www.blogdesatukdana.blogspot.co.id/)



**Fig. 11.2** Packaging rice into a 10 kg per household. Source [www.blogdesatukdana.blogspot.co.id/](http://www.blogdesatukdana.blogspot.co.id/)



**Fig. 11.3** Card of free health insurance for the poor



**Fig. 11.4** The recipient presents card of free health insurance. Source [www.purworejopos.com](http://www.purworejopos.com)



The PWSG provided an alternative source of loan for the villagers to develop small businesses. It distributed funds to women groups to be utilized as revolving credit, amounting to IDR 10 million per group (Purbalingga District Government 2010). There were five women's groups in Serang, 3 groups in Kedarpan and Sumilir that received the PWSG funds. Because of limited funds, the loan amount that clients could borrow was small. For example, in one hamlet of Kedarpan, the head of a women's group said that her group reached a consensus to limit the loan at IDR 500,000 with an interest rate at 10%. About 92% of respondents borrowed money from the program. However, there were no criteria used to determine who is eligible to apply for the loan. Thus, the wealthier became clients of the program while some of the poor never accessed the loans because of high interest rate and fear of not being able to repay the loans.

Despite all of the leakage and under coverage, there was no significant correlation between mistargeting and kinship relations with the village government. The reason of the leakage was that using the criteria set by government, the differentiation between the poor and non-poor was often slight. The statement of "everybody here is poor" was commonly expressed by respondents when talking about the distribution of programs. Thus, equal distribution aimed to prevent social jealousy and to maintain village harmony (Table 11.1).

### ***11.2.2 Changes in Socio-economic Condition of Respondents***

By 2012, there were still many respondents falling into poverty in term of food and health services access. With regard to the food dimension, there were 25 respondents (11%) having difficulty in eating meal twice a day and 184 respondents (79%) not able to consume meat more than once a week. With regard to access to health services, there were 63 respondents (27%) still unable to pay medical costs when sick. Even though there were some beneficiaries escaping from poverty, their

**Table 11.1** Kinship relation and distribution of poverty alleviation programs

Eligibility	Name of programs	Kinship relation with village officers	Program Beneficiaries		P Value	
			No	Yes		
Eligible	<i>Raskin</i>	No	0	67	0.049**	
		Yes	0	14		
	<i>Askeskin</i>	No	24	43		
		Yes	9	5		
	PWSG	No	9	58		0.515
		Yes	1	13		
Non eligible	<i>Raskin</i>	No	8	92	0.266	
		Yes	7	44		
	<i>Askeskin</i>	No	67	33		0.299
		Yes	39	12		
	PWSG	No	4	96		0.319
		Yes	4	47		

Source Field survey, 2012

Note \*\* means significant at 5%

numbers were fewer than non-beneficiaries. This means that social protection programs have no significant impact on poverty alleviation.

With regard to access to public services, by 2012, there were 139 respondents (60%) and 73 respondents (31%) still without access to clean water and electricity, respectively. Indeed, among 227 respondents without access to clean water in 2000, 19% had clean water facilities in 2012. Out of 106 respondents without access to electricity in 2000, 31% had access to electricity in 2012. The changes are statistically significant, except for the change in electricity access in Kedarpan. Observations shows that district waterworks did not exist except for some small clean water facilities in a few neighborhoods. Electricity networks had existed in each village before decentralization. Therefore, it is fair to say that the inability of some respondents to access electricity was due to the respondents' financial difficulties while the low access to clean water facilities was due to limited infrastructure.

With regard to income and asset, by 2012, there were 90 respondents (39%) with an income less than IDR 600,000 per month, and 39 respondents (17%) with assets less than IDR 500,000. After about twelve years of decentralization, the incomes of the poor respondents did not improve much. There were only nine respondents moving out of income poverty. Most of the improvements were the assets of the poor where 39 poor respondents increased their assets to more than IDR 500,000. Comparing the beneficiaries and the non-beneficiaries of the PWSG, the significant difference is only in the assets of the poor (Table 11.2).

**Table 11.2** Change in some selected poverty indicators, 2000–2012

Poverty indicator	Program beneficiaries	Number of respondents		Change	P value
		2000	2012		
Only able to eat meals twice a day	Beneficiaries of <i>Raskin</i>	29	25	4 (14)	0.023**
	Non beneficiaries of <i>Raskin</i>	1	0	1 (100)	
Only able to consume meat once a week	Beneficiaries of <i>Raskin</i>	207	176	31 (15)	0.273
	Non beneficiaries of <i>Raskin</i>	11	8	3 (27)	
Not able to pay medical cost	Beneficiaries of <i>Askeskin</i>	50	39	11 (22)	0.175
	Non beneficiaries of <i>Askeskin</i>	37	24	13 (35)	
No access to clean water	Serang	113	101	12 (11)	0.000***
	Kedarpan	56	38	18 (32)	0.000***
	Sumilir	58	45	13 (22)	0.000***
No access to electricity	Serang	54	36	18 (33)	0.000***
	Kedarpan	18	14	4 (22)	0.219
	Sumilir	34	23	11 (32)	0.001***
Income less than IDR 600,000 per month	Beneficiaries of PWSG	87	79	8 (9)	0.922
	Non beneficiaries of PWSG	12	11	1 (8)	
Asset worth not more than IDR 500,000	Beneficiaries of PWSG	73	39	34 (47)	0.021***
	Non beneficiaries of PWSG	5	0	5 (100)	

Source Field survey (2012)

Note \*\*, \*\*\* means significant at 5% and 1%, respectively

### 11.2.3 Cases of Some Selected Respondents

The general impact of poverty alleviation programs have been presented in the previous section. In addition, it is still necessary to understand the specific impact of government policies at a household level. For this purpose, in-depth interviews with some selected villagers were conducted and presented here.

#### Case of Mr. Tugiyo, a Coconut Sugar Maker

Mr. Tugiyo, at age of 38 years, had three family members consisting of his wife and his two children in elementary schools. He was a producer of coconut sugar, utilizing his sixteen coconut trees. Every day he incised and boiled the sap to make sugar, from which he could make about three kilogram of sugar worth IDR 21,000. Being a coconut sugar maker, he practically could not develop a side job since he spent all day on incision, boiling and looking for firewood. His wife had an additional source of income as a maker of fake eyelashes, from which she earned

about IDR 8000 a day. With a dirt floor, bamboo wall, and no clean water facilities or electricity, he was easily recognized as a poor household. His only liquid asset was an old motorbike worth about IDR 4 million.

He was the beneficiary of social protection programs. From the *Raskin* program, he received about 8 kg of rice every month. This amount was just half of the amount that he formally deserved to receive, 15 kg. Although he knew that the rice was reduced, he saw it as not a serious problem since he also considered the feelings of the other villagers who did not become beneficiaries. Thanks to the *Raskin* program, he said that he did not experience serious food insecurity in the last year. He also received a card of free basic medication from the *Askeskin* program. By bringing the card, his family could receive free medication in sub-district polyclinic when sick. In 2011, he counted that he used the card about three times. He never received the funds for house renovation. He actually really wanted to receive the fund to improve the house. He even questioned why, as a poor household, his family did not receive the program funds while those with relatively better finances had received them. All he could do was waiting until he might receive the funds to repair his house in the future. He had never accessed the loan from PWSG since according to him, it would only create an additional financial burden. If cash was needed, he preferred to borrow from a middleman of his coconut sugar. According to him, proposing a loan to the middleman was relatively easier, and he could repay just by selling sugar to him.

He might be among the most marginalized group within his village. Due to his remote house location from a main road, he did not benefit from infrastructure development. For example, although the neighborhood built a clean water facility, he could not access it since the pipe did not reach his house. A similar case occurred when he wanted to access electricity. From 2000 to 2012, the changes in his economic condition were owning a second-hand motorcycle bought in 2005 and improving of his foundation with concrete stone in 2008. These changes were not attributable to the existing poverty alleviation programs.

### **Case of Mr. Santo, a Farmer**

Mr. Santo, at the age of 50 years, had a big family to maintain. He had a wife, one child in elementary school, and one mother-in-law. In addition, there was his son, 28 years old, his daughter-in-law and a granddaughter living in his house. He was poor as could be easily seen from his house condition. The material used for his walls was bamboo, and the floor was rudimentary. He had access to electricity and clean water since before decentralization. As a farmer, his family only had 0.2 ha of dry cropland where he planted coconut, coffee and some wood trees. Income from farming was less than enough to support his daily needs. Thus, he also worked on another villager's land and sometimes worked in construction projects. His wife and son were engaged in various income generations like becoming laborer and migrant workers.

He was a beneficiary of all social protection programs. From the *Raskin* program, every month, he received about 6 kg of rice. He said that he had never faced serious food insecurity in the last year, thanks to the *Raskin* program. Further, he received a card of free basic medication from the *Askeskin* program. By bringing the card, his family could receive a free medication at the sub-district polyclinic when sick. However, he told that the service and drug quality he received when using the card was not good, thus, sometimes he did not use it. In 2012, when his granddaughter was born, he needed additional money to pay for the medication and conduct some birth rituals. Having no cash on hand, he proposed a loan to PWSG, amounting to IDR 500,000. Thus, in his case, the aim of the PWSG to provide the capital assistance for developing businesses was not achieved. Up until the time of the interview, the repayment of the loan was still not finished. When he was asked whether he would propose a loan in the future to develop a business, he answered that he might not borrow again. According to him, the PWSG interest rate was too high, about 15%, which was higher than a loan given by a lender.

The only change in his economic condition from 2000 to 2012 was his floor condition, from dirt to rudimentary due to funds from the government. He received that fund in 2007, amounting to IDR 2,500,000. With some additional fund from selling a goat, he could improve his floor and kitchen.

#### **Case of Mrs. Mayeng, a Chicken Trader**

Mrs. Mayeng was a widow, 55 years old, with three family members. Her daughter, at age 25 years, worked in the capital city of Jakarta. Her first son, at age 20 years, worked as a laborer, and sometimes went to Jakarta to find work. Her second son was 12 years old, a student in elementary school. She lived in a house with wooden walls and a rudimentary floor. She had no clean water facilities, and got electricity through an illegal connection to her relatives. She had no cropland, and her income mainly came from chicken trading in the market and remittances from her daughter.

She was a beneficiary of *Raskin*, *Askeskin* and PWSG. From the *Raskin* program, she received about 6 kg per month. She also a beneficiary of the *Askeskin* program, and she had used that card to get health services in government polyclinics. She had not received funds from the government to repair her house although she really wanted to. While not benefitting from the program-related poor house renovation, she benefitted more from the PWSG. She counted that she had accessed loans from the PWSG three times, totally amounting to about 2 million rupiah. She used the money to supplement the capital from her trading. She actually expected that the PWSG provided many more funds to women. In her experience, the funds from the PWSG were very helpful, especially when her original capital decreased. If the program could provide more funds and its interest rate decreased, then she thought she could increase her profits.

From 2000 to 2012, there were some changes in her wealth. Her floor was improved from dirt to rudimentary. She also had a color television, which she bought in 2007. However, these changes were not attributable to the PWSG. Her daughter gave her the money to improve the house and buy the television.



### 11.3 Discussion

Although most programs suffered from leakage and under coverage, rural elite capture is not conscious, as there is no significant correlation between mistargeting and kinship relation with the rural elite. The actual reason for this leakage was that using the criteria set by the government, the differentiation between the poor and non-poor was often slight. Thus, equal distribution prevents social jealousy and maintains village harmony. Another factor contributing to the equal distribution of social protection programs is the mistake in defining the term of fairness. Here, it is seen that the mistake in defining the principle of solidarity among the villagers can be counter-productive to the effectiveness of the distribution of social protection programs.

At the household level, poverty can be categorized based on the degree of severity. Those who still face problems of food insecurity might be the poorest group within the community. They need intensive government programs to move out of poverty. Social protection like *Raskin* and *Askeskin* is by design targeted to this group. It is argued here that only if social protection is successful in achieving its stated objectives, can the poorest people take advantage of other programs. However, the leakage in targeting as observed in *Raskin* program where the rice was distributed to all the villagers, and under coverage as observed in *Askeskin* made these programs unable to achieve their objectives completely.

The NPCE indeed improved the infrastructure in the study villages. Furthermore, changes in access to electricity and clean water facilities were also significant. However, here too, it cannot simply be concluded that the poorest group benefitted from the existing infrastructure. Closer observation finds that it is usually the non-poor who could access clean water and electricity. The poor usually do not consider infrastructure development to be a priority.

In the case of the cluster of small enterprise development (PWSG), nearly half of the poor respondents were able to increase their assets to over IDR 500,000. However, in terms of income generation it could not meet its objective, as the loan could not be delivered to the poor effectively due to leakage in targeting and inadequate funding. It can also be said that the PWSG only prevented beneficiaries from falling deeper into poverty but did not enable them to escape poverty.

The failures of programs as mentioned above suggest that the most needed programs for the poor in rural areas are social protection programs and empowerment programs focusing to income generation. If well implemented and sufficiently funded, those programs will be very helpful for the poor. Social protection programs will help to reduce the expenditure of poor households through the distribution of basic needs. In the mean time, economic empowerment programs will help the poor improve their income. The reduced expenditure and increased income will improve the capacity of poor household to escape poverty. In the context of decentralization, district government has the power to manage national programs and launches local initiatives. Therefore, district budget and resources should be optimally utilized to support the financing and implementation of social protection and income generation of the poor in rural areas.

## 11.4 Conclusion

Most poverty alleviation programs suffer from under coverage due to insufficient funding. The program of Health Insurance for the Poor (*Askeskin*) suffered from serious under coverage. Further, some programs distributing kinds in hand like the program of Rice for the Poor (*Raskin*) and the Program of Women's Saving Group (PWSG) suffered from leakage because the kinds are distributed to almost all villagers. Despite some mistargeting, there is no association between kinship relations with village officers and this mistargeting. Thus, the mistargeting is more due to the mistake in defining the principle of solidarity within the rural community. Further, the under coverage and leakage of the programs made them unable to achieve their objective of alleviating poverty. Only rural infrastructure development significantly improves respondents' access to some selected public services.

To ensure that the poorest groups benefit from decentralization, the government should improve the targeting mechanism in poverty alleviation, especially social protection and microfinance clusters. As Indonesia is a diverse country, the government should not strictly impose any national standard for identifying eligible households. It may be worth the government involves the community in identifying the beneficiaries, as it will provide an opportunity to develop local flexibility in defining the poor. Some public hearings about the purpose of programs and who is eligible for them should also be conducted by the government to improve the effectiveness of the distribution of social protection programs.

## References

- BPS (2010) Trend of selected socio-economic indicators of Indonesia 2010. BPS, Jakarta
- Daly A, Fane G (2002) Anti-poverty programs in Indonesia. *Bull Indonesian Econ Stud* 38(3):309–329
- Haughton J, Khandker SR (2009) Handbook on poverty and inequality. World Bank, Washington D. C
- Henry C, Sharma N, Lapenu C, Zeller M (2001) Assesing the relative poverty of microfinance clients. CGAP, Washington, D. C.
- Kedarpan Village Government (2010) Final report of Village Allocation Fund (VAF) of Kedarpan Village 2010. Kedarpan Village Government, Purbalingga
- Purbalingga District Government (2010) Report of National Program for Community Empowerment (NPCE) of Purbalingga District, 2009 (Mimeo). Purbalingga District Government, Purbalingga
- Ravallion M (1996) Issues in measuring and modeling poverty. *Econ. J.* 106(438):1328–1343
- Serang Village Government (2010) Final report of Village Allocation Fund (VAF) of Serang Village, 2010. Serang Village Government, Purbalingga
- Sumilir Village Government (2010) Final report of Village Allocation Fund (VAF) of Sumilir Village, 2010. Sumilir Village Government, Purbalingga

## Chapter 12

# Policy Options for Decentralization and Rural Development in Indonesia

**Abstract** Decentralization in Indonesia has several potentials, which include the strong social capital within the rural community, the good individual capacity of village officers and the functioning rural community leaders. At the same time, decentralization has challenges including the low political commitment of the district government in prioritizing rural development in the local budget, the low efficiency of district agencies, the low capacity of district council for analyzing the budget, the inconsistency of local implementing regulations in defining decentralization and establishing a participatory mechanism, the tradition of formalization within the village government, and the problematic capacity realization of village government due to lack of motivation, incentives and coordination. Thus, to improve decentralization, the government of Indonesia should strengthen legislation on decentralization, deliver capacity development to rural institutions, and institutionalize participation of rural community, especially the poor, in rural development and poverty alleviation programs.

**Keywords** Policy options · Decentralization · Rural development · Institutionalization of decentralization

### 12.1 Introduction

Theoretically, decentralization has both potentials and challenges for rural development. Decentralization will accelerate rural development if the local budget prioritizes the needs of rural residents, the social capital of rural community is strong enough, the rural poor can actively participate in development programs, and local institutions have enough capacity to implement decentralization. Decentralization surely needs the political commitment of local leaders to create expenditures that meet public needs, to establish suitable institutions and procedures to involve the community in rural development, and to deliver continuous capacity development to rural residents and their institutions.

In Indonesia, decentralization has been implemented to facilitate the broad agenda of local democratization. It changed the strategy of rural development from a top-down to bottom-up approach by underlining in particular local capacity development, public participation and community empowerment in the execution of government programs. Using an approach of policy phases starting from policy formulation in budgeting, policy implementation underlining the roles of social capital, rural leadership, local capacity, community participation, and policy impacts on poverty alleviation, through the findings and discussion in the previous chapters, the potentials and challenges of decentralization in Indonesia have been identified here.

## 12.2 Potential of Indonesian Decentralization

From the case studies of Serang, Kedarpan, and Sumilir in Purbalingga District, Central Java Province, several potential benefits of decentralization can be identified. The potential benefits are mostly related to the social capital of the rural community and the capacity of local institutions and rural leadership. The social capital of the rural community is still strong enough, which is indicated from the existence of various community organizations and the robustness of institutional membership. The capacity of village governments, especially the village officers, and the leadership of the village, hamlet and neighborhood heads, are also good enough. More importantly, cases of rural elite capture within distribution of social protection programs are not conscious.

With regard to social capital, while there are many concerns that social capital in rural areas has disappeared due to the long centralization of the Suharto administration, it is proven here that social capital in Indonesian rural areas is still strong enough. Long application of centralization in Indonesia had weakened rural institutions, but soon after the reform, the institutions revived. Various community organizations like neighborhood groups, religious groups, farmers' groups and many social service groups are found in villages. Groups initiated by the community are more active in helping and facilitating their members to overcome common livelihood problems, and have more members than state initiated groups. Periodic meetings are held by most institutions to maintain connection and cooperation among the members. Various efforts to ease livelihood problems are conducted by these institutions through a savings and credit system, teaching skills such as earning additional income and so on.

The robustness of rural institutions indicates that villagers are able to organize themselves in managing potential benefits and expanding their capacity. The activeness of the community members in attending the institutional meetings indicates intense social relations within them, which means that the transfer of information and capacity development will be more easily conducted if the government utilizes these institutions. The problems may lie in the utilization of social capital itself. While institutional membership is robust and social capital exists, the

government seldom involves the institutions in village decision making. There is a problem of formalization of village meetings, in which only formal institutions are involved.

With regard to the capacity of local institution, in the study sites, it can be seen that village officers come from a relatively better educational level among communities. This is because by regulation, the requirement to be a member of a village government or village council is at least the upper secondary level. While this level of education is still relatively lower than the education of most civil servants in Indonesia, this is much higher than the education of most villagers. In the study sites, it is found that the technical skills needed to implement the village budget, understanding of development management and skill in financial reporting and computer operations are quite good. The problems may lie in capacity realization. There are many cases where capacities cannot be translated into action due to problems of low motivation, lack of incentives and low coordination.

In the study sites, the community perceived the leadership capacity of the village, hamlet and neighborhood heads as good enough, mostly with high scores in indicators related to traditional leaders like informativeness, responsiveness, fairness, encouragement and submission to consensus. However, in terms of a modern leader that should practice accountability, the community tends to give a low score. While these indicate that rural community leaders are not completely successful in transforming themselves to be leaders of modern institutions in decentralization, it can also be concluded that they are still functioning well in traditional leadership. The measured capacity indicators may still be far from complete in measuring technical indicators like understanding decentralization and their tasks within the system. However, as general information, this set of capacity indicators shows that rural community leaders have substantial roles in organizing the community within decentralization.

Indeed, as in many agrarian societies, power in rural areas is often concentrated in hands of a few local elites. In Indonesia, rural elites are mostly villagers with large cropland. Modernization of Indonesian villages during the Suharto administration raised a new group of elites, which mostly consist of educated villagers or those successful in developing business. In the study sites, the village officers are mostly educated villagers, while the village council and development committee members are mostly civil servants. The elites have substantial roles in village decision making and to some extent are able to drive the implementation of decentralization based on their understanding and perception. While rural elites, especially community leader, have substantial power to influence decision making, it is proven that cases of elite capture in distribution of rural development programs are not intentional. Cases of leakage and under-coverage within the distribution of social protection programs have been found, but there is no significant correlation between the cases and kinship relation with village leaders. The mistargeting is more due to the government's inability to manage the poverty database. The other factor contributing to the leakage is the policy of the village head to distribute the program equally to prevent social jealousy within the rural community.

### 12.3 Challenges of Indonesian Decentralization

After about fifteen years of decentralization in Indonesia, significant impacts of decentralization have been identified in term of physical infrastructure like clean water facilities, electricity, road development and educational infrastructure. In the health sector, there is a significant increase in health insurance coverage. However, the GRDP of the agriculture sector has decreased and schooling participation has not significantly increased. Under coverage as well as leakage within the distribution of social protection programs make them unable to optimally achieve their objectives. The rural poor experienced more improvement in access to electricity, clean water, and asset ownership, but less in terms of income generation.

The reasons behind these facts are that decentralization in Indonesia faces several challenges in implementation. Unless the challenges are solved, the impact of decentralization on rural development will never be optimal. The challenges are mainly related to the low political commitment of the district government to prioritize rural development in the local budget, the low efficiency of district agencies, the low capacity of the district councils to analyze the budget, the inconsistency of local implementing regulations in defining decentralization and establishing a participatory mechanism, the tradition of formalization within the village government, and the low motivation, incentives and coordination of the officers of village government to perform their tasks.

With regard to the district budgeting process, the portion of expenditure for rural development in the agricultural and infrastructure sector is low. The transferred financial resources from the central government are spent more on recurrent expenditures due to the increases in of civil servants and the inefficiency of district government agencies. There are challenges of the low willingness of district government to share budget information and the low capacity of district councils to analyze the budget. Thus, the existing participatory budgeting just becomes a formality, and rural residents still cannot influence the budgeting process. As the budget for rural development is low, when the programs are implemented at the village level, they cannot cover many of the poor. At the household level, most poverty alleviation programs suffer from under coverage due to insufficient funding.

There are many examples where the spirit of participatory development mandated by laws on decentralization is deviated by local implementing regulations made by the district government. For example, the local implementing regulation in Purbalingga district does not guarantee the rights of marginal groups like women and the poor or informal institutions to participate in village decision making. By only making it compulsory for the village head to involve formal institutions, informal institutions and marginalized groups have been excluded from village meetings. Informal institutions in which most villagers are active members, like farmers' groups, religious groups and many other traditional groups, are not involved. The limited involvement of informal institutions creates problems of representation. This has become a barrier to promoting inclusive decision making as well as the accountability of the village budget.

The other challenges of decentralization are related to the tradition of formality within the village government. Currently, the village government is still monopolized by several formal institutions namely village officers, village council and village development committee. In the name of decentralization, power and resources were transferred to these formal institutions although they only have a few members and villager's access to these institutions is limited. The formalization of decentralization has created a significant barrier to community participation. The informal institutions like neighborhood, farmer and religious groups are given no opportunity to enter the village political arena, implying a lack of empowerment for the villagers during the implementation of decentralization. Not well utilized in decentralization, membership in informal institution just becomes a bonding social capital not transformed to linking social capital connecting villagers to the government. Although the capacities of the village governments are good enough, weak coordination among them is still a major problem hampering the realization of the capacity to address local problems. The village head is still very dominant, and blocks the capacity of other institutions, especially the village council and village development committee.

The better quality of community participation in some villages is attributable to the initiative of the village head rather than the existing regulations. There is still confusion about enhancing a direct participation. It is seen that direct participation at every moment of public decision making is impossible, and therefore a representational system is unavoidable. In a community where there is a culture of formalization and ineffective village council, there are always weaknesses in enhancing community participation through a representational system. The formalization of village meetings is seen to be a structural barrier inherited from Suharto's policy to bureaucratize village governance. Decentralization creates only pseudo-participation emphasizing resource mobilization rather than planning and evaluation.

## 12.4 Some Policy Options

To improve the allocation of district budget for rural development, especially in agriculture sector, it is recommended that the central government strengthen legislation on decentralization. The legislation should set aside a minimum portion of the district budget to be allocated for agricultural sectors, which is the main sector of rural economy. To improve the quality of public hearings in the district budgeting process, the legislation should make it compulsory for district governments to share budget information and to create clear-cut procedures for selecting village proposals. Furthermore, workload analysis to determine the ideal size of district government agencies as well as the number of civil servants is also strongly recommended, so that the structure of district governments and their recurrent expenditures can be more efficient.

With regard to local capacity, the government should deliver capacity development to village governments, especially village councils and village development committees. The content of capacity development should be directed at the personal empowerment of these institutions, so that they can take a more balanced position toward the village head traditionally very dominant in rural areas. It can be done through public hearings of the regulations on decentralization and rural development and through training to foster community participation in village governance and development planning. In the mean time, higher incentives should be given to village officers so that they are more motivated to perform their tasks.

In the meantime, it is important to note that the efforts to strengthen village government capacity should not continue alone. Capacity development for village government institutions will not automatically empower community because their structures have limitations to reaching the community directly and the majority of villagers are organized in informal institutions. Thus, hand in hand with capacity development for the village government, the government should also empower the community. It can be done by guaranteeing the rights of informal institutions as well as the marginal groups in village decision making. The government should involve informal institutions and marginal groups based on the logic that the more they are involved, the more they are empowered. Not only will they be more able to identify their problems and to solve them, but they will also be more able to find agreement among various interests within the community and to manage local conflicts.

With regard to the identification of beneficiaries of poverty alleviation programs, the central government is expected not to impose centrally set indicators of poor households strictly. Rather, it should provide space for the application of additional local indicators set by the rural community and the village government. The application of additional local indicators of poor households will fill the gaps when the central government indicators are not successful in identifying the eligible households for social protection and other development programs. In this connection, poverty alleviation should be understood as rights-based development that should not exclude poor person from the development programs just because he or she does not meet an indicator set by the central government.

The most suitable programs for rural poverty alleviation are the programs of social protections and income generation, which are implemented through sufficient budget support from the district government and involvement of local community in identification of beneficiaries and decision making. Initiatives and involvement of rural residents, especially the poor, in development planning and evaluation of the programs, and capacity development for the village government to identify the beneficiaries and manage the execution, will overcome the problems of implementation of poverty alleviation programs.

Overall, the improvement in local budgeting process, mechanism of community participation, utilization of informal community groups and social capital, capacity development for village government, and involvement of the poor in formulation of poverty alleviation programs and identification of the beneficiaries, will improve the implementation of decentralization and rural development in Indonesia. These



will create a condition in which bottom up approach in rural development policy is optimally implemented. Poverty alleviation efforts should be conducted through an approach of community action, in which rural community is actively involved in decision making, program execution and controlling the utilization of resources. The objective of Indonesian government to develop rural areas based on principles of diversity, participation, real autonomy, democratization and people empowerment is hopefully achieved within the framework of decentralization.

# Index

## A

Accountability, 2, 6, 9, 14, 20, 36, 99, 102, 107–109, 121, 125, 127, 132, 133, 135–137, 153, 154  
Administrative decentralization, 3, 16, 20, 23, 32  
Agriculture, 4, 7, 9, 21, 33, 55, 56, 60–63, 74, 75, 90, 119, 120, 154  
Agriculture extension, 19  
Allocative efficiency, 14, 73, 77  
Asian monetary crisis, 5  
*Askeskin*, 38, 65, 94, 139, 141, 144, 146–149

## B

Background of decentralization, 1, 2  
Backward Village Program, 46, 48  
Basic necessities, 17, 50, 139  
*Bengkok* land, 112, 115, 122  
Bonding social capital, 90, 155  
Bottom-up approach, 27, 85, 152  
Bridging social capital, 90, 97  
Budget allocation, 4, 55, 56, 73, 81, 86  
Budgetary decision making, 7, 19, 77  
Budgetary information, 19, 22  
Budget information, 7, 77, 85, 86, 108, 154, 155  
Budget reports, 115, 125, 141  
Bureaucracy formalities, 7  
Bureaucratization of village government, 96

## C

Capacity assessment, 103, 114  
Capacity development, 9, 19, 23, 24, 99, 113, 117, 121, 151, 152, 156  
Capacity realization, 111, 113, 151, 153  
Centralization, 3, 5, 7, 28, 38, 152  
Centralized regime, 1  
Challenges for decentralization, 21

Challenges of Indonesian decentralization, 154  
Civic tradition, 89, 97  
Civil service, 7, 32, 60, 81  
Civil society, 1, 4, 16, 22, 53  
Coercive mobilization, 125, 131  
Community development, 13, 14, 22, 84  
Community driven development, 6, 38, 47, 140  
Community involvement, 19, 125, 127, 136  
Community leader, 99, 100, 102, 104–106, 108, 109, 153  
Community participation, 9, 19, 22, 23, 37, 47, 125–127, 130, 135, 136, 152, 155, 156  
Community proposals, 22, 77  
Corruption, 5, 51, 134  
Creativity, 99, 103, 105  
Customary institutions, 36  
Customary village, 36, 102

## D

*Dana Bandes*, 57  
Database of poor households, 139  
Decentralization, 1–3, 5–7, 9, 13–16, 18–24, 27, 28, 30, 32, 36, 37, 55–57, 59, 60, 62, 63, 73, 74, 77, 84, 89, 94, 96, 99–101, 108, 109, 121, 122, 125–127, 136, 137, 140, 144, 148, 151–156  
Decentralization performance, 6  
Deconcentration, 15, 16, 29  
Delegation, 15, 47, 78, 81, 82  
Democratization, 1–3, 5, 16, 29, 152  
Design of decentralization, 39, 96  
Development expenditure, 58, 60–62, 73, 77, 82, 84  
Development inefficiency, 4  
Devolution, 15, 16, 19  
Direct participation, 135, 155  
Distribution of tasks, 15, 23, 32  
District councils, 7, 77, 154

- District spending, 55  
 Domestic affairs, 5, 23, 27, 30
- E**  
 Economic challenges, 1, 2, 5  
 Economic decentralization, 16  
 Economic growth, 7, 9, 17, 22, 43, 46, 57  
 Economic shock, 49, 50  
 Empowerment, 17, 36, 42, 57, 74, 89, 97, 148, 152, 155  
 Encouragement, 99, 103, 109, 153
- F**  
 Fairness, 99, 103, 109, 141, 148, 153  
 Fiscal capacity, 21, 58  
 Fiscal decentralization, 21, 23  
 Fiscal transfer, 6, 21, 32, 37, 55, 58, 63, 74  
 Formal institution, 7, 111, 135, 153, 155
- G**  
 General Allocation Funds, 59  
 Good governance, 121  
 Government Regulation 72/2005, 38, 96, 127, 136  
 Green Revolution, 4, 17, 37, 41, 44, 45, 57
- H**  
 Hamlet, 47, 99, 104, 107, 111, 120, 152  
 Hamlet head, 99, 103, 111  
 Health Insurance for the Poor, 6, 48, 49, 65, 94, 140  
 Health sector, 32, 50, 55, 57, 58, 62, 65, 73  
 History of decentralization, 28  
 Human Development Index, 7, 55, 65, 73
- I**  
 Implementation gaps, 1, 2, 9, 41, 86, 139  
 Individual capacity, 111, 113, 151  
 Individual skills, 121  
 Indonesian Communist Party, 42  
 Informal community groups, 156  
 Informal institutions, 7, 9, 96, 156  
 Informal rural institutions, 89, 96  
 Informativeness, 102, 103, 105, 109, 153  
 Infrastructure development, 19, 51, 63, 120, 131, 139, 141, 146, 148, 149  
 Institutional approach, 20, 23  
 Institutional arrangement, 24, 35–37, 102, 136  
 Institutional capacity, 113  
 Institutional choices, 1, 2  
 Institutional framework, 2
- Institutionalization of decentralization, 9  
 Institutional membership, 22, 90, 92, 96, 152  
 Insufficient funding, 41, 149, 154  
 Intergovernmental relation, 13
- J**  
 Javanese leadership, 101  
 Javanese society, 101, 108
- K**  
*Kecamatan* Development Program, 38, 41, 47  
 Kedarpan, 90, 91, 93, 94, 99, 100, 102–106, 108, 111, 113–116, 120, 121, 127–130, 133, 140, 141, 144, 152
- L**  
 Landholding inequality, 41–43, 45  
 Land reform, 41–43, 45  
 Law 22/1999, 5, 29, 36  
 Law 23/2014, 30, 34  
 Law 33/2004, 35  
 Law 5/1974, 4, 5  
 Leadership capacity indicators, 99, 102, 109, 153  
 Leadership indicators, 99, 102, 109, 153  
 Legislation on decentralization, 151, 155  
 Legislative body, 27, 30, 38, 117  
 Livelihood problems, 89, 94, 96, 120, 152  
 Local budget, 9, 13, 21, 24, 55, 62, 74, 78, 86, 94, 151, 154  
 Local budgeting, 24, 55, 77, 79, 156  
 Local capacity, 5, 7, 9, 13, 23, 112, 152, 156  
 Local capacity realization, vii  
 Local council, 20, 27, 28, 30, 32, 58, 78, 81, 86, 87  
 Local democracy, 1, 9, 112  
 Local executive, 27, 30  
 Local government, 1, 4–6, 9, 14–16, 18–23, 27–30, 32, 35, 36, 55, 58, 59, 62, 73, 83, 84, 135  
 Local initiatives, 23, 27, 36, 38, 84, 101, 111, 125, 148  
 Local leaders, 2, 4, 6, 19, 41, 151  
 Local Planning Agency, 78–81  
 Local politics, 9, 20, 23  
 Local resources, 20, 125  
 Local revenues, 21, 58, 59, 73  
 Local taxes, 21  
 Low capacity, 77, 108, 151, 154  
 Lower neighborhood head, 99, 106  
 Low incentives, 111, 121

Low willingness of district governments, 77

## M

Mass Intensification Program, 44  
 Microfinance, 19, 149  
 Mistargeting, 49, 139, 143, 148, 149, 153  
 1998 monetary crisis, 5, 63  
 Multidimensionality of poverty, 18, 140  
*Musrenbang*, 7, 77, 80, 94

## N

National integrity, 28  
 National Program for Community  
 Empowerment, 63, 74, 95, 140  
 National unity, 4  
 Neighborhood, 7, 92, 93, 99, 100, 103–108,  
 119, 128, 144, 153  
 Neighborhood head, 99, 103–105, 107, 108,  
 127

## O

Open meetings, 105, 125  
 Operational costs, 21, 55, 58, 60, 65, 128  
 Ordinary Village, 36, 102  
 Organizational capacity, 121

## P

Participatory budgeting, 18, 19, 22, 77, 82, 85,  
 86, 154  
 Participatory development, 125–127, 135, 137,  
 154  
 Participatory mechanism, 137, 151, 154  
 Patrimonial culture, 7, 9  
 Patron-client relationship, 108  
 Policy formulation, 152  
 Policy implementation, 152  
 Policy options, 155  
 Political commitment, 9, 19, 22, 151, 154  
 Political decentralization, 16, 23  
 Political stability, 2, 4, 18, 43, 100  
 Post Suharto administration, 1  
 Potential for decentralization, 18  
 Potential of Indonesian decentralization, 152  
 Poverty alleviation, 154, 156, 157  
 Poverty database, 41, 153  
 Power separation, 2, 27, 36  
 Presidential Instruction Funds, 36  
 Principle of solidarity, 101, 139, 149  
 Prioritization of government policies, 55  
 Program evaluation, 126  
 Program of Health Insurance for the Poor,  
 139, 149

Program of Poor House Renovation, 95  
 Program of Woman Saving Group, 139, 140,  
 143–149  
 Pro-rural development budgeting, 41  
 Pseudo-participation, 126, 136, 155  
 Public administration, 9  
 Public hearing, 9, 19, 30, 77–79, 82, 121, 156  
 Public participation, 2, 5, 77, 86  
 Purbalingga district, 22, 56, 59, 61, 73, 85,  
 100, 113, 119, 127, 135, 143, 154

## R

*Raskin*, 6, 38, 94, 139, 140, 144, 146,  
 147, 149  
 Recurrent expenditure, 7, 55, 58–60, 73, 74,  
 79, 81, 82, 84, 86  
 Reform, 5, 19, 30, 36, 42, 43, 52, 55, 74, 152  
 Representation, 2, 19, 85, 114, 135, 154, 155  
 Representative meetings, 125, 129  
 Representative system, 126  
 Resource mobilization, 19, 37, 126, 136, 155  
 Responsiveness, 18, 99, 102, 103, 107, 153  
 Rice for the Poor program, 6, 49, 51, 94  
 Rural community leaders, 100, 109  
 Rural development, 4, 6, 7, 9, 13–15, 17–19,  
 36, 39, 41, 52, 56, 73, 81, 86, 99, 106, 112,  
 122, 126, 131, 136, 151, 154, 156  
 Rural development policy, 42, 44, 157  
 Rural development programs, 38, 53, 57, 112,  
 126, 127, 153  
 Rural economy, 63  
 Rural infrastructure, 4, 33, 37, 58, 75, 119, 120,  
 139, 141, 149  
 Rural institution, 9, 23, 89, 96, 97, 102, 105,  
 113, 119, 120, 122, 151  
 Rural leadership, 99, 100, 107, 108, 152  
 Rural livelihood, 17, 41

## S

Scale of priorities, 77  
 Scholarship for the Poor, 49  
 Selection of village proposals, 77  
 Self-governing communities, 36  
 Serang, 90, 91, 99, 102, 104, 105, 108, 113,  
 114, 116, 119, 121, 128–131, 134, 136,  
 140, 141, 152  
 Small enterprise development, 140, 148  
 Social capital, 7, 13, 22, 24, 89, 90, 96, 97, 99,  
 128, 151, 155, 156  
 Social protection program, 6, 8, 9, 38,  
 41, 50, 53, 95, 106, 141, 144,  
 146–148, 152, 154

- Social Safety Nets, 48–51  
 Special Allocation Funds, 59  
 State led rural development, 125  
 Submission to consensus, 99, 102, 103, 107, 109  
 Subsidies for Autonomous Regions, 58  
 Successful development, 1–3, 14, 24  
 Suharto administration, 4, 7, 29, 36, 41, 44, 47, 96, 100, 112, 152  
 Suharto regime, 2, 3, 9, 28, 42, 96  
 Sumilir, 90, 91, 99, 100, 102, 105–107, 111, 113–115, 120, 122
- T**  
 Targeting accuracy, 50  
 Targeting effectiveness, 9, 14, 19, 141  
 Top-down planning, 4, 5  
 Traditional, 4, 22, 29, 39, 42, 45, 96, 102, 108, 109, 135, 153, 156  
 Traditional groups, 127, 154  
 Traditional institution, 1, 36  
 Traditional leader, 42, 108, 153  
 Tradition of formalization, 151, 154  
 Transparency, 2, 9, 14, 22, 38, 47, 48, 80, 85, 102, 108, 132, 134, 135
- U**  
 Unconditional Cash Transfer, 38, 50–52  
 Uniform structure, 29  
 Upper neighborhood head, 99, 103
- Utilization of district budgets, 55, 75  
 Utilization of social capital, 94, 97, 152
- V**  
 Village Allocation Fund, 95, 127  
 Village apparatus, 107  
 Village council, 36, 38, 89, 92–94, 96, 100, 108, 111–114, 117, 121, 122, 127, 135, 136, 153, 156  
 Village decision making, 89, 96, 97, 117, 128, 129, 136, 137, 153, 154, 156  
 Village development committee, 7, 89, 92–94, 96, 111–114, 117, 118, 122, 127, 155, 156  
 Village government, 4, 6, 7, 27–29, 35–38, 46, 49, 51, 62, 63, 74, 78, 86, 89, 96, 97, 100, 107, 111–115, 117, 119–122, 125, 127, 130–137, 141, 143, 151–156  
 Village grants, 61–63, 82  
 Village head, 4, 23, 36–39, 46, 80, 82, 99–108, 115, 117, 119–121, 127, 129, 136, 141, 153, 155, 156  
 Village officers, 89, 92, 94, 104, 111–117, 120–122, 127, 139, 141, 144, 149, 151–153, 155, 156  
 Village political arena, 89, 97, 155  
 Village proposals, 77, 80–82, 85, 86, 155
- W**  
 Weak coordination, 111, 155  
 Weak management, 41