



Japan International Cooperation Agency



Directorat General of Regional Development  
Ministry of Home Affairs

THE STUDY  
ON  
CURRENT STATUS AND NEEDS ASSESSMENT  
OF  
LOCAL GOVERNMENTS  
FOR  
IMPLEMENTING DECENTRALIZATION  
AND  
REGIONAL AUTONOMY  
IN REPUBLIC OF INDONESIA

DECEMBER 2002

# EXECUTIVE SUMMARY

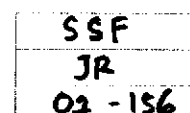


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# EXECUTIVE SUMMARY

## INTRODUCTION

### Objectives of the Study

1. To identify problems and issues on the implementation of decentralization and regional autonomy by monitoring and obtaining basic data and information on current status of local governments in the aspects of development planning, local finance, human resources development, institutional restructuring, and local regulations.
2. To identify capacity building needs of local governments for implementing decentralization and regional autonomy.
3. To formulate policy option and measures to assist local governments in implementation of decentralization and regional autonomy.

### Methodology of the Work

4. In general, the methodology of study will be based both on quantitative and qualitative approaches and the final output should reflect the mix between them. The quantitative approach will be mainly used for measuring the regional potential and its utilization, the calculation of public services unit cost, and potential local government own revenue. The qualitative approach will consist of interviews with central and local government officers, in-depth interviews (questionnaire guided interview), and focus group discussion (FGD).

## DEVELOPMENT PLANNING

### Review and Capacity Building Needs

5. Most of local governments surveyed have produced some planning documents as required in laws and government regulations. Rencana Strategis (Renstra) should be the most needed documents since it will be a political document that involves the direct interaction between local executives and legislatives.
6. When the local governments drafted those planning documents, most of them followed the guideline from central government such as Law 4/99 for Poldas, Law 25/2000 for Propeda, and Government Regulation 108/2000 for Renstrada. As new experience, most of local governments not really understand or care about the



- “soul” or essence of each planning document and see it as just part of administrative requirements.
7. It is important, then, to have series of seminars/symposiums/workshops on the issue of local planning not just on how to draft the documents but also on the basic principle of planning process and its sequences.
  8. Many local planning documents are not transformed into local regulations (Perda). The legislative is more interested in APBD and pay less attention to other planning documents. In the local legislative, most of them formed a special committee on planning documents (Pansus Perencanaan). The Pansus will be the one who deals with the local governments and most of local governments feel that there is not much resistance from the Pansus.
  9. Most of local governments are lack of consistencies both between document and reality, and between planning documents themselves. Most of local government surveyed mentioned that they referred to National Plan (Propenas) in making the documents, but very few at kabupaten/kota level referred to Provincial Plan. The discussion about planning documents in the beginning of regional autonomy era seems to understate the role of regional spatial plan (RTRW/ Rencana Tata Ruang Wilayah) that should be made once every 10 years. One of the main reasons for inconsistency among planning documents is the intervention from the local parliaments in determining APBD.
  10. The real participatory planning is a rare commodity in the Indonesian system. The local governments surveyed have initiated the public participation in the planning process, but because the people are not used to participation it self, the participatory planning process is still minimal. Local governments also have problems on their own. They are not used to listen to their residents. Participants realize that the local governments do not really listen to them and still implement policies or actions that are not really of people interests. There should be capacity building needs on some groups in the community, together with the local governments, to learn about planning process and why their opinions will be definitely needed.
  11. Planning Information System has not started to be thought as important by local government. The financial constraints are cited as the main reason why the system has very slowly developed. Very few regions that have started thinking about the system, begin by dealing with data accuracy and availability. They cooperate with the local statistics office to improve the data quality. The capacity building process should start with the improvement of local planning staffs to ensure that they understand how to make a good plan. Separately, the local government decision makers need to know the impact of having a good planning information system and as a result, they are willing to allocate part of the local budgets for the system development. A short seminar or guidance from central governments might be



enough to convince them, but the form of technical assistance will be much more appealing.

12. Since monitoring process of planning system is left behind, then the massive capacity building in monitoring development should be in place. A more specific capacity building will be needed urgently for the local parliament members who have rights to evaluate bupati/walikota performance annually and at the end of their terms.

### **Policies Formulation**

13. The central government has to be clear and firm in determining the national standard of planning procedures, both from legal point of view and procedural point of views. The developed planning system should not treat planning of different level of governments separately. Central government, supported by foreign agencies, should conduct massive capacity building process of the system, from making the document draft to monitoring the plan implementation.
14. The central government has to provide immediate technical assistance for building the planning information system at the local level, again supported by foreign agencies. The participatory planning approach has to be listed as one necessary requirement of qualified planning system.
15. The capacity building process for the planning system should involve not only local governments but also local parliaments and local community representatives. There has to be understanding among them that the planning documents are not just an academic exercise within Bappeda but they should be accessible by local communities.

## **LOCAL FINANCE**

### **Review and Capacity Building**

16. The role of local owned revenues had been very small for a long period of time. By the end of 2001, most of local governments still rely on the transfers from central government, mainly from general-purpose grant transfer. The role of central government in financing the decentralization is still a major theme.
17. Most of local governments in the survey have lack ability in the calculating and estimating local tax revenue potential. Law 34/2000 is welcomed by most of regions. Some regions on the survey have raised critical elements toward Law No.34/2000. Local government had a very limited creativity in revenue collection strategy. They still do "classical actions" such as improving object database, speed up the PERDAs to confirm with the Law, and to simplify some administration procedures. Much could be done by local governments, such as improving revenue planning.



18. For intergovernmental transfers, DAU is the most popular one for the local governments. The allocation of DAU is considered satisfactory for some regions. For the regions that are complaining on the DAU, they have some characteristics; they are located in Java and or the city governments (“kota”) and are not satisfied with the formula
19. On the natural resource revenue sharing, the main problems are the disbursement of the money that is considered late, and creates some uncertainties on local revenue collections. Central government should develop a better system of transferring money from central to local regions, and has some schedules.
20. The specific issues related to non-tax revenue sharing from natural resources can be found in some regions, especially in Java. Three cases are emerged: (i) inconsistency in decision about forestry provision (Provisi Sumber Daya Hutan or PSDH) allocation; (ii) incomplete transfer of fishery revenue sharing; (iii) incomplete transfer of exploitation and exploration royalties. Some confusions often happened within the Central Government Agency themselves (Ministry of Forestry and Ministry of Finance) regarding the amount of natural resource sharing distributed to local government.
21. DAK is considered as not really important for some of the regions being surveyed. However, the level of understanding of local governments on the usage of the DAK has been improved dramatically. There is an interesting observation regarding the amount available for decentralization funding and for deconcentration (DIP) funding after the decentralization process takes place, which raises a question about the consistency of decentralization policy.
22. Most of regions in the survey have not established this Performance Budgeting system yet. One of the main problems is how to measure the indicator. The local revenue unit does not have any knowledge to measure a sectoral minimum service standard (SPM). It seems to be very difficult to set up standard spending assessment (SSA) for the local governments because local governments have a tendency to increase the routine spending allocation, data availability, and main activities of local governments are not yet fully decentralized. Local governments concern Kepmendagri No. 29/2002 might be difficult to follow, given a very limited time to adjust and to understand the content of the regulation.
23. Financial information system is the main vehicle of the central government and local government to monitor the quality of financial planning process at the regions. Data availability and collection system are some problems that occur in the establishment of financial information system at the central level. Another problem is funding availability and human resources capability.
24. Improvement in revenue performance is also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues. Among some actions being taken by local governments is administrative simplification.



25. To improve the better financial planning at the region, there are five attempts, such as calculating the revenue target in a more realistic way, better coordination with other government institutions, setting up financial planning system, improving financial information and training of local financial planning officers.

### **Policies Formulation**

26. Enlarging local taxing power can be implemented by transferring some taxes owned by central government to the local governments. Some changes on local taxes including making the current property tax and land transfer tax from central to local governments and surcharges or Piggybacking on Personal Income Tax (PIT).
27. Other policies formulations include allocatiton of DAK budget of central government should to improve the infrastructure conditions in the regions, Socialization of Law No.34/2000, Increases Training on Local Revenue Raising Strategies, and higher education for local revenue officers, and Socialization of Local Budgeting and Information System:

## **INSTITUTIONAL RESTRUCTURING AND HUMAN RESOURCE DEVELOPMENT PROGRAM**

### **Review and Capacity building**

28. The organization structure in the areas surveyed showed that there are no valid analyses in designing the structure organization of the local government. Only few areas that designed the organizational structure based on the needs. One problem in designing organization is the inability to analyze their structure correctly, other problem is the inability to fulfill the positions with the right persons due to the lack of competencies in the regions. In the restructuring process, some institutions are liquidated, merged, changed in status or even extended. Some institutions in localities are set up due to strong recommendation from central government None of the local government has done evaluation of the effectiveness of the organization structure
29. The number of employees currently in the structure exceeds the ideal figure needed by the new structure of organization. There are local areas that still need more employees to run the local government administration. The main concern of local government is to make sure that they must always have sufficient fund for employees every year.
30. BAPERJAKAT and at the same time, Bupati, play an important role in employee's career path. Competencies become a big issue in local government. Because, the numbers of staffs needed by the local government is plenty, however due to the low educational background and quality the needs are unmatched by the supply available.





31. Training program is important for human resources development. Some training activities (structural, technical, functional, others) have been done by local offices. . Some of them are in coordination with other institutions (e.g. LAN, universities, foreign agency, kabupaten/kota government) and some of them are provided by the local Apparatus and Human Resources Development Agency (BPSDMA, formerly Badan Diklat Propinsi). The participant should be in the structure first before he/she given training. Technical trainings are needed to increase the competency of staffs, especially in technical levels.
32. The new system prevents government employee (Pegawai Negeri Sipil or PNS) from moving easily to other Kabupaten/Kota/Province. Other problems come from central government, that do not consistent with echelon or other. This transfer problem becomes more complicated with the fact that local employment agency (BKD) has lost control to the management of employee at kabupaten/kota level. Local government sees BKD as central government office that currently has no authority anymore to them.
33. Indigenous employees issue that ever came out in the beginning of decentralization, was not found in this survey. That was probably because the problem arised if employees are hired due to their locality, not due to their capacity.
34. Proper information system allows all employees to access the information without discrimination. The information system is not a fractional problem that can be assigned to one division only, but it is an integrated system that should be initiated by top level management. By giving training to the employees about the information system, not only teach them the flow of information, but teach them responsibilities of each division. Thus, information system will open the mindset of accountability and responsibility of the job. The use of computer in government office will be a must in the near future.
35. Clarity in carrier path is needed by local government to increase its capacity building. The government should start job analysis that could show the career path of one position. The position should also be filled with proper credentials: education and experience. The policy ruling the competence and position should be issued so that the lack of competence that happens currently in the offices can be reduced over time.
36. Transparency is important aspect in good governance that should be considered in developing institutional restructuring and human resource development. It is obvious that Indonesian's culture is far from transparency, and we also know that many regulations in Indonesia does not reflect the spirit of transparency. Therefore, this should start from management level to initiate transparency.
37. Training needs analysis can be performed based on gap analysis between needs and existing activities. One strategy for improving training is to look for Universities that provide trainings on these technical matters.



## **Policies Formulation**

38. Central government takes over the management of government employees like during the previous system before decentralization took place. The level system (I, II, III, IV) should be reevaluated since the system are based on education degree only and duration of work.
39. The role and function of BKN and BKD, the work relationship between those two level offices, the criteria to set up BKD should be explained by government. This BKD function should be maximized as an institution that develop the human resources capacity in the localities.
40. Government should set up new task force to direct the study of carerr path, including structural and functional positions, both in central and local government.
41. Various training programs and seminar should be designed based on the needs of local government activities. This will need coordination between BKN, BKD, LAN and universities and associations.
42. Government should reform the salary system of government employees. Salary should reflect responsibility and load of work. As we currently aware, the salary and benefit of government employees are so low to cover basic needs. However, to compensate that, many government projects are marked up. This create economic cost and social cost.

## **REGIONAL REGULATIONS**

### **Review and Capacity Building**

#### **Local Government Regulations Establishment Process**

43. DPRD members just discuss, evaluate, and giving approval or disapproval to the drafts that were produced by executives. This would suggest the low level of DPRD's member capacity. Meanwhile, there are also indications that local governments (and especially DPRD's) produce regulations just to exercise their power in the autonomy era. In the regulation making process, there is quite good indication that they have involved local community, NGO, and local business people, eventhough, the participation is still limited.
44. Only less than 10% of the 1053 regulations submitted to (and reviewed by) the Ministry of Home Affairs have been recommended to be corrected or withdrawn.. Each Pemda in average issued at least five regulations in the last two years. If the numbers apply to all local governments (kabupaten/kota), this means that at least 2000 new Perdas should be submitted to the central governments, reviewed and suggested to be corrected.



45. The information system as a whole will of course affect the knowledge of those involved in designing the regulations. As previous discussions suggest, the information system in Indonesian local governments is still relatively poor.

### **Policies Formulation**

46. Central government should prepare a number of model regional regulations (perdas) in key areas of finance, organization, and personnel in order to provide guidance to the regions how their regulations could (should?) look like.
47. Regional governments have to substitute hitherto binding central government regulations by regional regulations, and central government agencies have to develop a facilitating style of providing guidance and consultancy services to the regions. The central government has to provide immediate technical assistance for this, supported by foreign agencies.
48. The participatory approach has to be listed as one necessary requirement of designing local regulation. This could be stated in central government regulation (PP), or even in the Law (UU). The special capacity building in this matter should then be developed. This capacity building process should involve not only local governments but also the local parliament members and local community representatives.