

Robert Simanjuntak  
Decentralization and Local Autonomy

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## DECENTRALIZATION AND LOCAL AUTONOMY

### 1. The Meaning of Decentralization

We are concerned here with sub-national level of government which have some measure of autonomy; as such they have certain characteristics:

- a corporate (legal) entity
- able to buy, sell and hold property
- defined geographical boundaries
- some forms of decision making body, normally an elected assembly although it may be partly (or wholly) appointed
- functions and powers specified in legislation
- own budget and bank account
- some independent financial resources
- appointment of own staff (although this may be from a unified national cadre)

An alternative name for this form of decentralization is devolution.

This pattern should be distinguished from deconcentration or administrative decentralization, in which the execution of certain activities or the administration of certain functions is delegated to local or regional offices of the central government without any autonomy or independent financial sources.

### 2. The Reasons for Decentralization

There are essentially four reasons for having a decentralized system of government:

- Democratic representation  
To ensure the right of people throughout the country to participate in the decisions which directly affect their region
- Impracticality of Centralized Decision Making  
It is unrealistic for those at the centre to make detailed decisions about all public services throughout the country, especially a large country like Indonesia
- Local Knowledge  
Those in the local are are likely to have much greater knowledge about local needs, priorities, conditions, etc.
- Mobilisation of Resources  
Mobilisation of support and resources may be facilitated by the closer relationship between the population and decision makers at the local level

However, there are always counter-arguments:

- The Need for National Unity  
Since national unity is fragile, especially in a new (developing) nation, devolution of powers could lead to national disintegration
- The Desirability of Uniform Standard Nationally  
There is a valid argument that no one should be disadvantaged by poorer provision of services just because they live in a different region. However, there is an inherent diversity between regions (e.g. regarding national resources, tax potential, etc.)
- Lack of Capacity at the Local Level  
Both technical and managerial is a serious problem in most LDCs, but the response of centralising all decision making merely discourages the development of any capacity at the local level
- Low Participation at the Local Level  
There is an argument that decentralization fails to mobilise support and therefore lacks legitimacy. (However such an argument is less likely to apply in a large and diverse country such as Indonesia)
- Local Governments are Inefficient and Corrupt  
(However, this can also be found at the national level -- usually on a much grander scale!)

All too often, pressures for centralization arise from the desire for power, and the unwillingness to tolerate alternative centres of power, particularly if these are occupied by opposition parties.

### 3. Forms of Decentralization

These vary widely between countries, as does the nature of regional/local government which results. Reasons for variations include:

- the size of the country
- degree of regional diversity (physical, ethnic, cultural)
- political ideology
- local traditions
- foreign influences, especially colonial

Some of important variations can be identified:

- Federal Systems  
where states predate central (federal) governments and/or have powers and rights enshrined in constitutions (e.g. USA)
- Federal and Unitary Systems  
for historical reasons local government has an significant degree of autonomy (e.g. Nigeria and India)
- Unitary systems where local government is clearly the creation of central government

- Parallel systems of local government and deconcentrated administration
- Integration of deconcentrated and decentralized systems, in which the head of the local government is also the representative of central government in the region (e.g. Indonesia)
- Two-tier systems, in which the two tiers each have separate functions and responsibilities (e.g. UK non-metropolitan areas)
- Two tier systems in which the higher level has a supervisory function in relation to the lower ties (e.g. Indonesia)
- etc.

In all of these arrangements, there is plenty of scope for confusion and conflict over responsibilities and conflict. Systems of local government in each country evolve, and are often subject to "reform" by central government. Some of this reform tends to centralize power and to erode local autonomy. But, the current trend all around the world is to decentralize fiscal, political, and administrative responsibilities to lower level governments and to the private sector. This is what has been happening in Indonesia as part of the "total reform."

#### 4. Powers and Functions of Local Government

Six broad categories of functions can be identified:

a) Provision of services is the primary function of local governments:

- local environmental services (waste disposal, cleansing, fire protection, etc)
- district/local roads
- primary (and often secondary) education
- local health services (clinics, primary health care, etc.)
- urban infrastructure (water supplies, sanitation, housing)
- agricultural services (extension services, markets, etc.)
- cultural and leisure services (parks, recreation areas, libraries, art galleries, etc.)

By contrast, central governments are generally responsible for:

- defence and international relations
- national development policy
- primary communication networks (trunk roads, ports, airports, broadcasting, telecommunications)
- agricultural policy
- higher education
- referral health services (major and teaching hospitals, disease control, etc.)

b) Regulation, again a wide variety of functions here:

- policing, law and order (although this is often a central government function)

- pollution control
  - development control (e.g. town planning)
  - consumer protection (trading standards)
- c) Development Functions, this involves not only the construction of new infrastructure for the services mentioned, but promotion of the economic development of the region
- d) Representation of the interests of the local population on matters outside the local authority's own direct responsibility, eg. with central government and national agencies
- e) Planning and Coordination of all development taking place locally, whether by central government agencies, local agencies or private investors, especially the allocation of land-use and the coordination of physical infrastructure.
- f) etc.

## 5. Sources of Finance

Regional/local governments have six main sources of finance:

- Charges for services provided directly to the public
- Profits from local enterprises
- Local Taxes levied on the local population
- Shared Taxes, taxes levied by central (or state) governments, which are shared with local governments, either on the basis of origin or through a formula
- Grants from central (or state) governments, to make up the difference between local expenditure needs and local revenue potential
- Loans from central government or private institution, mainly for infrastructure and equipment

## 6. Central-Local Financial Relations

In most countries, it is the national legislature which establishes the local government system, provides its legal basis and determines its power and functions. Thus, the national legislature can at any time amend the status of local government.

Central government normally specify local taxing and charging powers, provide a substantial proportion of local governments' resources, and also regulate in some detail the expenditures of local government (what services local authorities may or must provide).

There are some important issues/lessons should be remembered before designing a central-local fiscal system.

- There is a trade-off between the fiscal framework that works best for macroeconomic management and the framework that works best for local authorities management
- Unbalanced fiscal decentralization (where centrally financed revenue sharing greatly exceeds the costs of the services being transferred to local control) not only creates central government budget problems, but promotes inefficiency in local service delivery
- There must be controls over sub-national indebtedness
- There should be no lag between decentralization of local fiscal control and the sharing of revenues
- Finance should follow function

## 7. The Meaning of Local Autonomy

The concept of local autonomy is not absolute. Rather, there is a range. Much will depend on the national situation, and cultural attitudes to power and authority. However, certain things are essential if we are to talk of local discretion.

- Some form of elected assembly which makes decisions about local services and expenditures
- Meaningful discretion over the local provision of services and expenditures
- Employment of its own staff. Local autonomy implies having control over the appointment, dismissal, and terms of service of their own staff, etc.
- Some independent sources of revenue. This does not mean that local autonomy is incompatible with receiving grants from central government, or even that the bulk of local expenditures have to be met from local sources. What matters is: discretion at the margin

Therefore, there are essentially six tasks to be done to make decentralization successful in Indonesia

- Clearly define the functions of central and local governments (thus, redefining the power sharing)
- Define the executing agencies of local autonomy, i.e. the institution(s) that run the functions above to provide services (this could be the public sector agencies, private sector, partnerships, etc.)
- Define/Identify the criteria of the personnel and the system needed
- Define/Identify the local financial sources to finance the functions
- Empower the locals' people representatives (DPRD)
- Increase the local governments' management capability

(Dr Robert A Simanjuntak, February 5, 1999)