

INDONESIA'S STORY:

Indonesia's progress
on governance:
State cohesion
and strategic
institutional reform

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Development Progress



Indonesia's progress on governance:

State cohesion and strategic institutional reform

Key messages

1. Indonesia has transformed itself since 1998 into a relatively open, stable and democratic nation, underpinned by a process of decentralisation as the centrepiece of a wide-ranging programme of institutional reforms.
2. International, national and local factors have all contributed to institutional reform processes in Indonesia. These are also deeply embedded in historical institutional arrangements which facilitated strategic decision making by key actors involved in reform processes.
3. Reformers have been able to adopt strategies for reform that have led the state to act in ways that benefit the general population, even though traditional 'good governance' benefits have yet to occur in many places.

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Summary

Indonesia is the world's fourth most populous state, rich in natural resources, the largest Muslim-majority nation and a significant player in one of the world's fastest growing regions. It has emerged from a decade of financial, political and environmental crises and is now recognised as an important partner in attempts to address global challenges. For more than three decades, Suharto's New Order regime ruled the country unencumbered by any effective system of checks and balances, often protecting the interests of a narrow subset of Indonesian society. In the end, expanding gaps between different socioeconomic, cultural and geographic groups of the diverse Indonesian population, aggravated by the economic crisis of 1997/98, became untenable.

Since then, Indonesia has transformed from a highly militarised and centralised authoritarian state into a relatively open, stable and democratic one. The country has pursued an ongoing and wide-ranging reform programme that includes aggressive decentralisation, designed to devolve greater amounts of responsibility and authority to local levels, and significant changes to the way formal government institutions work.

The road to reform has not always been smooth. While much has been achieved, many of the traditional 'good governance' benefits expected by donors, including strengthened voice, increased accountability, reduced corruption and improved service provision, have yet to occur in many places. Practical challenges of corruption, patron-client relations and 'money politics' remain significant. Nevertheless, the case of Indonesia demonstrates that institutional arrangements can lead the state to act in ways that benefit the general population.

What has been achieved?

Governance reform has largely responded to citizens' expressed expectations. Surveys in the 1990s suggested provision of public services, including health care and education, was not among the general population's key priorities. Rather, as growing political and economic crisis challenged the centralised patronage-based practices that had promoted growth and stability in the late 1980s and early 1990s, there was more desire to reform formal political institutions, including ousting the Suharto regime and re-evaluating the mix of central versus local governance assets.

Widespread reform of state institutions

Since 1998, there have been a number of significant reforms to state institutions. These reforms have fundamentally restructured the Indonesian state, changing the balance of power among branches of government, establishing or strengthening independent oversight agencies, introducing a system of checks and balances and bringing an end to the executive dominance that defined the latter years of Suharto's reign. Key areas of reform include:

- **Electoral reform:** The country has adopted competitive, direct, 'free and fair' elections under the supervision of an independent Electoral Commission. Guaranteed appointment of members of the armed forces and the police to parliament has been abolished. Voter turnout has been impressive, with 93.3% of registered voters voting in the 1999 parliamentary elections, the first after Suharto's fall, and has largely remained high. Indonesians have also shown a clear willingness to vote out incumbents, particularly where they have been associated with corruption or other scandals.
- **Parliamentary reform:** Parliament has undergone important changes in composition, including the end of protected appointments in the Dewan Perwakilan Rakyat (People's Representative Council) and the introduction of the Dewan Perwakilan Daerah (Regional Representative Council). MPs have begun to act with significant independence from the executive, and are now exploring their new role as a major component of Indonesia's developing system of checks and balances.



- **Budget and financial reform:** A newly consultative budget process has been developed, along with a new legal framework that includes specific input controls and other fiscal rules designed to promote budget responsibility, reduce corruption and increase financial accountability.
- **Judicial reform and the rule of law:** Significant steps have been taken towards the separation of powers and the establishment of a more independent judiciary. Critical reforms include the creation of the Constitutional Court and independent Judicial, Corruption Eradication and Police Commissions, as well as shifting the responsibility for management of the court system from the executive to the Supreme Court.
- **Military reform:** The military has given up much of its political influence, including the 'dual system,' under which the armed forces not only played a military function but also retained significant involvement in economic activities. The police force has been separated from the armed forces, and serving military officers are no longer permitted to hold positions in the civilian bureaucracy.

Improved state cohesion

Although Indonesia's work towards democratic decentralisation has not yet fully realised some of the expected dividends, including improved accountability and service provision, these reforms have nevertheless served an important function. Once Suharto's semi-coercive authoritarian regime collapsed, it became apparent that Indonesia needed to develop a new set of institutions to maintain a critical degree of state cohesion, as a prerequisite for engagement in more complex tasks, such as the organisation of coherent social policy and improvements in service delivery.

Democratic decentralisation has been implemented as an intelligent political strategy to strengthen the basic but critical state function of stability. In light of the significant rifts within Indonesian society in the period leading up to the collapse of the New Order, the maintenance of a cohesive state should not be underestimated as an accomplishment.

Since decentralisation laws came into effect, there has been a significant decline in regional separatism and regional conflict. The lynchpin of this strategy to counter the fragmentation and possible balkanisation of Indonesia has been the institution of a complex but largely effective system of revenue redistribution. Without significant fiscal resources of their own, local governments are heavily dependent on transfers from the centre, providing them with an incentive to maintain a good relationship with the national government.

What has driven change?

Historical legacies

Much of the progress that has been achieved so far in fact has roots in New Order institutional arrangements. For example, Suharto's semi-coercive regime allowed a range of social and political actors to operate as long as they could be incorporated into the system. As a result, when the regime collapsed, more than 11,000 civil society organisations were already operating largely unregulated, including two of the largest mass-based Muslim organisations in the world. These roots have been helpful in establishing Indonesian civil society as a legitimate stakeholder in Indonesian politics.

Historical influences can also be seen in patterns of economic governance. Heavily centralised and unable to attract significant external investment, Indonesia's oil and gas sector failed to develop a dominant position during the New Order era. The resultant lack of investment in petroleum-related infrastructure (relative to similarly endowed countries) has had the positive effect of contributing to the development of a far broader-based economy than might otherwise have been the case.

Strategic choices

Strategic decisions made by key actors have also influenced the shape of the reform process. For example, the withdrawal of the military from direct involvement in political affairs was a savvy response by senior military officers to the strong anti-military tone of many of the protests in the waning days of the New Order regime. By willingly consenting to the loss of parliamentary privileges and to other reforms that reduced its visible influence on

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politics, the post-Suharto military was able to repair its reputation and preserve for itself a degree of influence in the new institutional arrangements.

Similarly, the decision by President Bacharuddin Jusuf Habibie's government to devolve powers responded to resentment of the centralisation of power and wealth in Jakarta. Decentralisation increased regional autonomy while creating a federal system of redistribution that provided enormous incentives for local elites to remain part of a unified Indonesian state. There is little doubt that these reforms were politically intelligent, chosen to preserve the integrity of the nation state in the face of recognised challenges presented by separatist elements.

Social and cultural norms

International, national and local norms have played an important role in determining legitimate options for reform. For example, decentralisation reforms were not the only possible solution to the challenges of state cohesion facing the Indonesian state. The strength of the international movement towards democratic decentralisation, endorsed by key international institutions, carried significant weight in this regard.

Socio-cultural norms have been influential at the local level too. Institutional reforms have resulted in a proliferation of different arrangements in districts and regions across the country. In some cases, local communities are pursuing institutional arrangements that are alternative to formal secular law, including forms of governance based on traditional customs (adat) and Sharia law, which do not necessarily apply cross nationally.

Accommodative reform

Indonesia has pursued reforms that work, rather than designing reforms and measuring progress against an 'ideal' set of institutional arrangements. This has accommodated some of the less savoury characters and practices of the Suharto regime, allowing them to retain a part of their former influence. In doing so, reformers have grounded institutional change in existing political structures, thus reducing the likelihood of reforms being rejected.

Indonesia's adaptation of reform processes to the practical realities of existing power structures and institutions provides a good example of how to pursue institutional change without falling into the trap of wholesale transplantation of ideal models from one country to another. Reforms had to be suited to the Indonesian context, or they would not have been able to accommodate the complex set of incentives facing both reformers and potential spoilers.

Lessons learnt

- A significant number of forces and incentives drive institutional change processes. National elites may have very different incentives and reasons for engaging in reforms than their development partners. Recognising this, it is therefore not surprising that reforms have not always played out in accordance with some actors' high expectations.
- Although strong ideological positions certainly serve a purpose in policy debates, the nature of political realities often demands 'partial' or 'compromise' solutions. Existing distributions of power and the need to placate potential spoilers may require an accommodative approach to reform.
- Current governance practices are the outcome of an ongoing, iterative process of reform, which can reflect a significant degree of analysis and learning on the part of reformers. It is important not to assume that Indonesia today is merely at an intermediate point on a linear route from 'bad' governance (authoritarianism) to 'good' (consolidated democracy). The Indonesia story emphasises the partial nature of all governance reform processes.
- Where governance reforms significantly redefine the relationship between citizens and the state, flexible and longer-term support is necessary to allow local processes to take their course and institutional innovations to take root and show results.



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