

Development and Governance

Ronald L. Holzacker  
Rafael Wittek  
Johan Woltjer *Editors*

# Decentralization and Governance in Indonesia

 Springer

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# Decentralization and Governance in Indonesia

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# Preface

## **About the SInGA Research Program on Governance and Sustainable Society**

We wish to dedicate this volume to all those involved in research on governance and a sustainable future for Indonesia. Our particular gratitude goes to members of the research team on good governance at the University of Groningen, including the Indonesian partners and Ph.D. researchers involved. We hope that the current research on Indonesia and the collective efforts presented here will be of benefit for Indonesian society in the coming decades.

The editors of this volume have designed an integrated program for mid-level policy officials from Indonesia pursuing a Ph.D. degree at the University of Groningen participating in the World Bank's SPIRIT program (Scholarship Program for Strengthening the Reforming Institution) and other scholarship programs established by the Indonesian and Dutch governments. A key objective has been to offer advanced capacity building for the integration of theoretical and empirical perspectives on governance, especially suitable for civil servants moving into leadership positions within the national ministries of Indonesia, lecturers at Indonesian universities, and leaders from important civil society organizations. While the Ph.D. candidates have individual research projects spanning four years of research, there has been a high level of collaboration across the research team and interdisciplinary supervision by various departments within the university and key partnership universities in Indonesia. The results of this research are presented in Ph.D. dissertations, in scientific journals, and in this edited volume.

The program was established with the enthusiastic support of the Central Executive Board (CvB) of the University of Groningen and its President, Professor Sibrand Poppema. In addition, the faculties and research schools of the editors of this volume, the Faculty of Arts, the Faculty of Behavioral and Social Sciences, and the Faculty of Spatial Sciences have also been very supportive and provided additional resources. The initial launch of the program and its ongoing success in

maintaining close contacts with stakeholders in Indonesia is due to the great diligence of Mr. Tim Zwaagstra, Program Manager for Southeast Asia of the Research and Valorisation office of the University of Groningen. The interdisciplinary, inter-faculty nature of the research program is fostered by its home in the Globalisation Studies Groningen (GSG) institute of the University, led by its Director Prof. Joost Herman. We would also like to thank the great efforts of Tienke Koning, Director of the Ubbo Emmius Fund, in support of the SInGA program.

Earlier versions of many of the papers in this volume were presented at the Spirit Indonesia Groningen (SInGA) conference on governance and sustainable society, held from April 9–10, 2014, in Groningen, The Netherlands. This conference was organized with the financial and logistical assistance of one of the university's focal research areas 'Sustainable Society.' We wish to thank Prof. Oscar Couwenberg, Academic Director, and Sharon Smit, Managing Director, of the Sustainable Society core research area for their support. The Ph.D. candidates presented articles related to their research and received comments from a distinguished range of invited guests. Key note presentations were delivered by Rudolf Treffers, (former) Executive Director of the World Bank, and Theo Thomas, World Bank official in Jakarta and Brussels. The conference was opened by the University President Sibrand Poppema and her Excellency Retno Marsudi, Indonesian Ambassador to the Kingdom of The Netherlands, currently the Foreign Minister of Indonesia.

Regular exchanges continue between the University of Groningen and Indonesia, and at partner universities to discuss governance and sustainable society research. For example, Ronald Holz hacker delivered a series of lectures related to this research program at Gadjah Mada University in Yogyakarta and visited the University of Indonesia in Jakarta, during the summer of 2014. It is our intention to further disseminate this kind of research with a view to improving our understanding of well-being for present and future generations in Indonesia. It is also our intention to demonstrate the role of decentralized governance beyond Indonesia. Recruitment is ongoing for new Ph.D. candidates to join our governance and sustainable research program, recently expanded beyond Indonesia to include countries in Southeast Asia and ASEAN. The book launch for this edited volume is to take place at the fall conference 'Governance and Sustainable Society in Southeast Asia' November 18–20, 2015, at the Royal Netherlands Academy of Arts and Sciences (KNAW) and the Rijksmuseum Amsterdam.

Ronald L. Holz hacker  
Rafael Wittek  
Johan Woltjer

# Contents

## **Part I Theoretical Reflections on Decentralization and Governance for Sustainable Society**

- 1 Decentralization and Governance for Sustainable Society in Indonesia.** . . . . . 3  
Ronald L. Holzacker, Rafael Wittek and Johan Woltjer
- 2 Good Governance Contested: Exploring Human Rights and Sustainability as Normative Goals.** . . . . . 31  
Jilles L.J. Hazenberg

## **Part II Decentralization and Policy Making**

- 3 Decentralization and Primary Health Care Innovations in Indonesia.** . . . . . 53  
Suwatin Miharti, Ronald L. Holzacker and Rafael Wittek
- 4 The Impact of Decentralization on Educational Attainment in Indonesia.** . . . . . 79  
Tatang Muttaqin, Marijtje van Duijn,  
Liesbet Heyse and Rafael Wittek
- 5 Decentralization, Foreign Direct Investment and Development in Indonesia.** . . . . . 105  
K. Kuswanto, Herman W. Hoen and Ronald L. Holzacker
- 6 The Inclusive Growth Concept: Strengths, Weaknesses, and a Research Agenda for Indonesia.** . . . . . 145  
Pande Nyoman Laksmi Kusumawati, J. Paul Elhorst  
and Jakob de Haan

<b>Part III Challenges of Decentralization for Cities to Create Sustainable Futures</b>	
<b>7 Metropolitan Governance and Institutional Design: Transportation in the Jakarta Metropolitan Region . . . . .</b>	<b>171</b>
Taufiq Hidayat Putra, Johan Woltjer and Wendy Guan Zhen Tan	
<b>8 Environmental Governance by Transnational Municipal Networks: The Case of Indonesian Cities. . . . .</b>	<b>201</b>
Annisa Paramita Wiharani and Ronald Holzacker	
<b>Part IV Governance to Limit Opportunities for Corruption in a Decentralized Environment</b>	
<b>9 Institutional Change and Corruption of Public Leaders: A Social Capital Perspective on Indonesia . . . . .</b>	<b>233</b>
Mala Sondang Silitonga, Gabriel Anthonio, Liesbet Heyse and Rafael Wittek	
<b>10 Corporate Governance and Corruption: A Comparative Study of Southeast Asia . . . . .</b>	<b>259</b>
Nureni Wijayati, Niels Hermes and Ronald Holzacker	
<b>Index. . . . .</b>	<b>293</b>

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**Part I**  
**Theoretical Reflections on Decentralization  
and Governance for Sustainable Society**

# Chapter 1

## Decentralization and Governance for Sustainable Society in Indonesia

Ronald L. Holzhacker, Rafael Wittek and Johan Woltjer

Indonesia, over the past two decades, has embarked on a process of decentralization as part of a broader process of democratization, which followed earlier periods of centralized governance and authoritarian rule across the archipelago. The purpose of this book is to explore the connections between governance and sustainable society in a wide variety of policy fields in Indonesia and how reforming governance structures may contribute to societal benefits and the creation of a long-term sustainable society. The structures created may be characterized as a variable form of multi-governance, with varying types of relationships between the central government and newly empowered local governments.

The decentralization process in Indonesia entails new fiscal and financial relationships, political responsibilities, policy making latitude, involvement by citizens and civil society organizations, and accountability mechanisms, which vary by policy area. In certain policy areas and in particular regions or localities, this has led to increased policy performance by giving local governments the authority and power to tailor national goals to local circumstances, using local knowledge, expertise, and democratic input from the citizens to increase responsiveness. In other policy areas or in particular regions however, decentralization has likely resulted in a loss of expertise from the national government and

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The editors of this volume and the authors of this introduction are listed in alphabetical order.

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3

diminished oversight and accountability to the center, with little gain in citizen input and local democratic control.

Indonesia is a middle-income developing country, with special challenges of economic development and governance structure. Many institutions of global governance, like the World Bank, have promoted the idea that certain principles of governance are beneficial for the promotion of economic growth and development, which they have labeled “good governance.” These principles include such concepts as political stability, government effectiveness, rule of law, regulatory quality, and the control of corruption, but also transparency and the involvement of citizens in decision making. Recently, scholars have begun to explore the links between ideas of good governance and broader benefits to society, like inclusive growth and improved access to health and education, which may facilitate entering a broad trajectory of societal change and effective governance for the creation and innovation necessary for a sustainable society for present and future generations. A sustainable society may be understood as one that ensures well-being for present and future generations. It is a society where governance arrangements are in place, so resources are carefully managed and individuals have opportunities to develop themselves in freedom.

Consequently, we are interested in studying practices of governance in particular policy fields and the links to societal benefits, from economic growth and development, to education and health improvements. The expectation is that entering a trajectory of societal and governance innovation will lead to broad societal benefits and the creation of a sustainable society fostering growth and beneficial societal development, thus avoiding the middle-income trap of stagnant growth and societal development. Institution building is critical to this process.

This introductory chapter is structured as follows. Section 1 gives a short overview of the decentralization efforts of the Indonesian government. Section 2 links these developments to the general discussion on sustainable society and introduces the general analytical framework of the research program behind this volume. Sections 3–6 discuss the four main elements of this analytical framework: modes, objectives, mechanisms, and outcomes of governance. These sections link to previous research on multi-level governance (Sect. 3), sustainable development goals (Sect. 4), and the theoretical foundations of the framework (Sect. 5) and introduce a general conceptual framework of governance outcomes, including types of governance failures (Sect. 6) Governance failure. Section 7 highlights key assumptions and findings of the different chapters in this volume and positions them within the analytical framework. Section 8 gives a summary overview of the organization of the volume and its nine chapters, and Sect. 9 concludes.

## 1 Decentralization in Indonesia

Since declaring national independence following the Second World War, the Indonesian state has wrestled with attempts to pursue strategies of both centralization and decentralization. The desire for a strong central state emerged from

attempts to maintain national unity over the vast archipelago, with a large population with great religious, cultural, and ethnic diversity. At times, this focus on a strong central state was a response to secessionist tendencies in certain regions, for example in Sumatra and Sulawesi in the 1950s, as well as in Aceh and other regions in the decades since. However, the diversity of the society and the human and natural resource endowments across the country also suggested a policy of decentralization “since the wide range of resources and needs means that centralized decision making alone cannot be sufficiently sensitive to local factors” (Ranis and Stewart 1994). Thus, early on scholars have aimed to “assess the impact on social and economic development of moves toward greater decentralization” in Indonesia (Ibid.). Therefore, it is likely that entering the trajectory of a middle-income developing country with a diverse economy, with a need for foreign capital and expertise, and desire to raise education and social standards to confront growing disparities across the country requires an effective decentralization strategy.

Even during the autocratic era when President Suharto held almost complete authority, and other governing bodies were seen to take little more than rubber-stamp decisions, changes at the local level were foreseen. For example, the 1974 Basic Law No. 5 was an attempt at constitutional change to provide more responsibility at levels below the national, at the provincial, district, subdistrict, and village levels.

The more recent first and second rounds of decentralization occurred during the democratic era have had more impact on decentralization and have taken place within the broader context of democratization. The first decentralization began in 1999 when Law No. 22/1999 was passed. The law granted the central government and local governments to spend two years preparing for the implementation of the decentralization. The second wave of decentralization began in 2004 when Law No. 32/2004 was passed to replace the previous law from 1999.

The political and economic crisis in Indonesia in 1997 (see, e.g., Forrester and May 1999) rapidly accelerated the process of decentralization and changed the relationship between the central government and the provincial and local governments. After President Suharto stepped down from being in power for more than 30 years, President Habibie began to respond to pressure from societies outside of Java that had felt unfairly treated by the previous regime (Suwondo 2002). He introduced Law No. 22/1999, which replaced the hierarchical governance system that linked local governments to the center with one that granted local governments greater autonomy. The law provided that mayors and district heads be selected by local assemblies, which meant that local government would become more democratic and accountable to the local population. Fiscal arrangements between the center and periphery also changed considerably, with the ending of central funding of regional civil servant salaries and a detailed array of development grants (“Inpres Instruksi President”—Presidential instruction), replaced by a single block system known as the General Purpose Fund (“Dana Alokasi Umum”—DAU) (Silver et al. 2001). Indonesia has a very centralized tax system, which means that the emphasis on “transfers from the central government to regional governments is the determining factor in local fiscal capacity”

(Silver et al. 2001, p. 345). A key concern of many commentators is “whether local governments are capable of assuming the level of responsibility and discretion necessitated by a block grant system” (Ibid., p. 346). It is also clear that fiscal decentralization implies a still centrally coordinated distribution of funds.

The new President of Indonesia, Joko Widodo, universally known as Jokowi, took office on October 20, 2014. This was a historical occasion for the country and for any democracy, marking the very first time that one popularly elected leader, Susilo Bambang Yudhoyono, stepped down and handed over power to another democratically elected leader. Jokowi emerged not from Indonesia’s political and business elites, but from the *reformasi* movement that toppled the Suharto dictatorship over 16 years ago. A hallmark of this reform agenda has been the continued decentralization of policy making toward the local level from the past authoritarian center.

Overall, Indonesian decentralization has been central to its policies since the end of the 1990s. The main shift involved is one from relocating principal administrative powers from central government directly to local government rule. Legislative changes on administrative and fiscal reform have mainly focused on practical objectives for decentralization. The objective has been to bring public services closer to the people: Government is to be more responsive to local needs. Political considerations have also played a role in these changes. National political leaders have generally believed that devolving central government authority to decentralized administration will reduce the effect of separatist sentiments (Fitriani et al. 2005). An accelerator of decentralization was the 1997 economic and political crisis in Indonesia (Silver and Sofhani 2008). In general, support for decentralization has been widespread and characterized by a radical transformation of central–local relations, particularly in 1999 and the immediate years thereafter.

These decentralization policies have created a demanding agenda for capacity building at the local level (municipalities, districts) during the last decade and have also left little room for coordinated governance arrangements at regional levels (Hudalah et al. 2014; Miharja and Woltjer 2010). The consequence is that decentralized governance in Indonesia involves varying degrees of development, including local egoism and institutional fragmentation. In the field of urban planning, for example, urbanized local government agencies have been establishing local institutions and even “kingdoms of their own” (Firman 2009). Districts have a tendency to execute development policies themselves, such as on roads or water provision, thereby ignoring a wider need to coordinate these essential services and infrastructure with adjacent areas.

The context of this volume, therefore, is one of a rather fragmented institutional landscape and a practice on decentralization as a work in progress. Our understanding points to a need for strengthening of sustainable arrangements at all levels of governance in Indonesia: at the increasingly remote yet coordinative national level, at the local district level with more or less independent and diverging “local kings,” and at the regional gap in between. A wide variety of innovations in governance are emerging at all of these levels.

## 2 Decentralization and Sustainable Society

The great interest among scholars and policy makers in governance and sustainable development is an indication that it is widely perceived that governance matters a great deal in the transition to sustainable development. The influential Brundtland Commission (1987) established by UN resolution defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Ibid.). The debate since has focused on exploring the interplay between different principles of sustainable development, such as “improving intergenerational and intra-generational equity; alleviating chronic poverty; encouraging public participation in decision making; observing important environmental limits to growth...” (Jordan 2008, 20). The international community has continued to discuss and elaborate on these dimensions of sustainable society, and noted that the principles at times may sharply conflict with one another, thus requiring systems of governance to resolve conflicts and to coordinate (Ibid., also see United Nations Agenda 21 [UN 1992], and the Report of the World Summit on Sustainable Development (UN 2002)]. There has been a continuing scholarly interest in exploring the links between governance and sustainable society. For example, a recent volume titled *Challenges to Democratic Governance in Developing Countries* focuses in particular on the “problems of democratic governance and corruption in these countries as the key issue in sustainable development” (Mudacumura and Morcol 2014).

Indonesia has been active in the global governance discussion for sustainable society. The state is contributing to the High-Level Political Forum on Sustainable Development, which was launched during Rio+20. For example, the Indonesian State Minister of Environment, Prof. Balthasar Kambuaya, presented a statement on sustainable consumption and production (SCP) as part of the High-Level Forum. The Minister stressed that SCP is central to meeting the social development goals (SDGs), because it moves from commitments to targeted actions. The Minister stated that SCP has been integrated into the country’s National Development Planning for the coming period 2015–2019 (Ministry of Environment 2014). The Foreign Ministry of Indonesia recently released a statement to the Working Group of Sustainable Development Goals in New York reflecting upon the proposed focus areas to be discussed for possible inclusion in the SDGs (Ministry of Foreign Affairs 2014). The statement declared that the SDGs should “carry forth the spirit of the current MDGs” (Millennium Development Goals) and should “consistently link with the provision of adequate means of implementation” (Ibid.) of the goals.

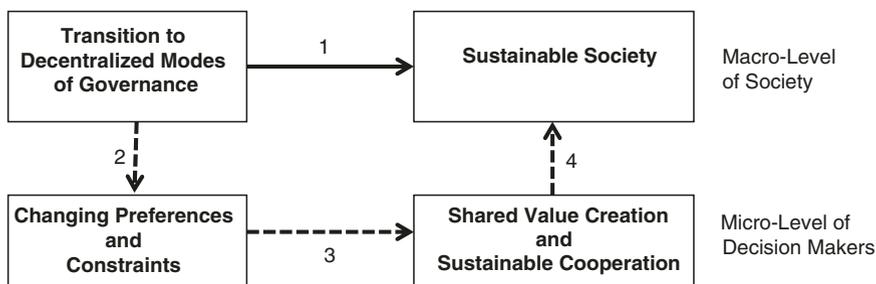
Hence, as is the case in many other countries, Indonesia’s current decentralization trajectory is an attempt to build a more sustainable society through changing essential elements of its governance structures. These changes affect practically all of its policy domains and administrative levels of decision making. Such an endeavor is not only challenging for policy makers, but also challenging for social and political scientists who seek to understand the pathways between

decentralization and its (un)intended societal-level outcomes. Much progress has been made, particularly through recent advances in the study of multi-level governance. We build on these advances but suggest that this macro-perspective will be of limited use to come to grips with the complexities of the phenomena, unless it is combined with a theoretical micro-foundation (Wittek 2007). That is, we suggest to analyze decentralization and its societal impact in terms of a micro–macro problem and use analytical sociology’s social mechanism reasoning (Hedström and Bearman 2009) to solve it. This means that the assumed macro-level relationship between decentralization and a sustainable society needs to be explained by specifying (1) how the changing modes of governance affect the preferences and constraints of relevant decision makers (the macro–micro link or situational mechanism), (2) how these individual-level preferences and constraints affect the decisions and actions of these stakeholders, in particular with regard to their ability to cooperate and create shared value (the micro–micro link or action-generating mechanism), and (3) how and under which conditions these outcomes at the micro-level contribute to building a sustainable society (the micro–macro link or aggregation mechanism). Figure 1 presents a schematic summary of this analytical framework.

In other words, in order to understand why specific changes in a governance structure are effective or not, it is essential to reconstruct the three pathways through which these effects will arise. The nine chapters in this volume demonstrate the explanatory power of this analytical framework by illustrating the large variation in how these pathways can take shape. In the remainder of this introductory chapter, we first introduce the main components of our analytical framework and then position the different chapters within it.

### 3 Governance Modes: Multi-level Structures

The idea of governance refers to the economic, political, and social institutions (i.e., the rules) by which authority in a country is exercised (Kaufman et al. 2010). Governance typically includes legal and social structures, and processes



**Fig. 1** Analytical framework: a macro–micro–macro model of decentralization and sustainable society

of citizens and groups articulating their interests, exercising their rights, taking responsibilities, and achieving agreement. Governance occurs at various levels: international, national, regional, and local.

In this book, we focus on multi-level governance to better understand the changing relationship and modes of governance in Indonesia between the central government and local governments and between the stakeholders and citizens. First, it is clear that the decentralization processes in Indonesia have resulted in shared and overlapping competences between the national and local levels of government. Second, while this is a loss of control by the national government, it may ultimately lead to gains in the effectiveness of policy by making it more amenable to local circumstances. In addition, the loss of direct control may be ameliorated by accountability mechanisms to assure national standards and objectives are pursued. Thirdly, local governments in Indonesia are increasingly involved in lobbying and influence seeking at the national level, involving both formal institutions and associations and networks.

There are two lobbying mechanisms that have been created within the decentralized system to link the levels of government. First, the Regional Representative Council (Dewan Perwakilan Daerah—DPD) is an upper house of parliament, which deals with bills on “regional autonomy, the relationship of central and local government, formation, expansion and merger of regions, management of natural resources and other economic resources, and Bills related to the financial balance between the center and the regions.” The DPD members are elected directly by the people during the general election and they serve as senators. Each province has four elected senators (see Republic of Indonesia, Senate 2015).

The other mechanisms providing linkage have less formal power but are nonetheless influential in the decentralized system. There is the Association of Provincial Governments (Asosiasi Pemerintah Provinsi Indonesia—APPI), the Association of City Governments (Asosiasi Pemerintah Kota Seluruh Indonesia—APEKSI), and the Association of District Governments (Asosiasi Pemerintah Kabupaten Seluruh Indonesia—APKASI). APPI is an association of provincial governments in which the membership consists of 34 governors, while APEKSI is an association of mayors and APKASI is an association of the heads of districts in Indonesia.

The municipalities are also at times involved in the creation of transnational networks with other municipalities outside the nation-state, to exchange information, expertise, and best practices. There is a rich literature on the increasing role that the processes of transnationalization are having on governance arrangements (see, e.g., Bruszt and Holzhaecker 2009).

Our focus on multi-level governance (Hooghe and Marks 2001) is concerned with three main modes of governing: hierarchies, networks, and markets. There has been a focus on networks as a preferred mode of governing, emerging as a bridging and coordinating mechanism between the hierarchies of government and the operation of markets. Multi-level governance is often involved in the hierarchical and network processes, linking the international level to regional, national, and local governance levels, so that policy development and implementation may

be better suited to local conditions and more responsive to local citizens and their needs. Global governance increasingly impacts the lives of individual citizens and is an integral part of the overall governance scheme necessary to create sustainable societies. International organizations such as the United Nations and the World Bank are important institutions in the global system, as are regional institutions such as the European Union (EU) and the Association of Southeast Asian Nations (ASEAN). However, the created governance system is most effective when it is not solely based on top-down initiatives, but relies instead on the involvement of whole set of institutions spanning regional, national, and local governments, relevant stakeholders, and civil society. The emerging institutional framework is complex and combines hierarchical and non-hierarchical network structures.

Multi-level governance is often involved as a state decentralizes policy making. For example, Indonesia has decentralized its primary healthcare system so that it may be more responsive to local needs and improve health outcomes. During this process, key questions emerge about accountability to the center and the maintenance of national standards, while opening opportunities for local innovation, adaptation, and responsiveness to local needs. In the area of the environment, regional transnational municipal network initiatives are assisting Southeast Asian cities in contributing to their state's international climate change commitments. This is a form of governance innovation focused on regional networks of local government, contributing to national commitments made in international fora. In the area of human rights, for example, the states in Southeast Asia cooperate within the regional human rights mechanisms of ASEAN, with many of their National Human Rights Institutions (NHRI) also networking and exchanging best practices in the Asia Pacific Forum (APF) of NHRIs.

Since the fall of Suharto's authoritarian New Order regime in 1998, scholars have been discussing the problems with democratization in Indonesia. A recent volume by Aspinall and Mietzner (2010) identifies three broad schools of thought in this regard. First, there is a group of scholars arguing that "despite institutional reforms, democratic change has been superficial, with core structures of power remaining unchanged," most importantly the oligarchic elites (Ibid., p. 1). Here, they cite the work of Robison and Hadiz (2004) and Bourdeau (2009). The second group of scholars believes that Indonesia has done exceptionally well in consolidating its democracy, especially from a comparative viewpoint across the globe and Southeast Asia in particular, citing the work of MacIntyre and Ramage (2008). Finally, other authors have taken a middle ground emphasizing that while Indonesia has made democratic progress, it remains crippled by severe structural problems, most notably corruption and weak law enforcement (ibid., p. 2). For this perspective, they cite Davidson (2009) and Aspinall (2010). This middle position also includes authors like Widodo (2010), who establish that although the guidelines and formal procedures for accountability within the Indonesian government are in place, the implementation in practice of accountability guidelines has not yet been wholly successful.

We feel we also belong to this middle ground of thinking on democracy in Indonesia. We believe that after nearly 20 years since the dissolution of the New

Order regime, continued economic growth and a strengthened state apparatus and multi-level governance, combined with new committed leadership in Jakarta, means that democratic consolidation has advanced and will continue in Indonesia.

#### 4 Governance Objectives: Indonesia's Priorities in International Context

The concept of governance has not just attracted the interest of academics, but has also sparked a real and active discussion within nations and international organizations. Indonesia has made commitments with international organizations, which recognize and further delineate the country's focus on governance issues. Here, we will provide an overview of the positions of the United Nations, the World Bank, the EU, and the ASEAN on the challenges facing Indonesia and the possible policy solutions. Table 1 summarizes governance priorities embedded in recent policies at the United Nations Partnership for Development (UNPDF), the World

**Table 1** An overview of governance priorities in recent international policies

	Key suggestions, objectives
United Nations Partnership for Development (UNPDF Framework 2011–2015 Indonesia 2010)	<p>1. "Acceleration of Physical Infrastructure Development." Includes the following: food security (e.g., land rights, agricultural zones, adaption to climate change), infrastructure (e.g., economic growth, just social development), energy (e.g., restructuring state-owned enterprises, increasing supply capacity, renewable energy), and "left-behind areas" (e.g., infrastructure to increase welfare)</p> <p>2. "Improving Soft Infrastructure." Includes the following: reform of the bureaucracy and governance (e.g., state, apparatus, regional autonomy, human resources, regulations, law enforcement), investment and business climate (e.g., legal certainty, procedural simplification, economic zones)</p> <p>3. "Strengthening of Social Infrastructure." Includes the following: education (e.g., access and enrollment rates, access to university education, comprehensive education), health (e.g., public health, healthy living places, clean water), poverty reduction (e.g., income distribution, empowerment, economic opportunities), environment and management of natural disasters (e.g., climate change, controlling degradation of the environment, early warning systems)</p> <p>4. "Development of Creativity," including culture and technological innovation</p>

(continued)

**Table 1** (continued)

	Key suggestions, objectives
World Bank (World Bank Development Policy Review 2014)	<ol style="list-style-type: none"> <li>1. "A stronger Center of Government to manage the policy process and resolve policy conflicts"</li> <li>2. "Streamlined bureaucracy for enhanced accountability"</li> <li>3. "More strategic management of human resources across the public administration"</li> <li>4. "Better planning and budgeting procedures to deliver improved results with public spending"</li> <li>5. "Stronger accountability for service delivery at the local level"</li> </ol>
European Union (Council of the European Union 2009)	<ol style="list-style-type: none"> <li>1. "Cooperation in trade and investment" (e.g., trade facilitation)</li> <li>2. "Cooperation in other sectors" (e.g., economic policy dialogue, industrial policy and SME cooperation, science and technology, energy, transport, education and culture, human rights, the environment, agriculture and rural development, marine and fisheries, and health)</li> <li>3. "Civil society" (e.g., role and potential contribution of organized civil society, especially academics)</li> <li>4. "Modernization of the public administration" (e.g., improving organizational efficiency, increasing institutions' effectiveness in service delivery, transparent management of public resources)</li> </ol>
Association of Southeast Asian Nations (Framework for Equitable Economic Development 2011; ASEAN-EU Development Cooperation Agreement 2015)	<ol style="list-style-type: none"> <li>1. "Enable regional economic integration based on the principles of inclusive and sustainable growth, poverty alleviation and narrowing the development gap within and between all ASEAN Member States"</li> <li>2. "Connectivity through sustainable and inclusive economic integration and trade"</li> <li>3. "Climate change, environment and disaster management"</li> <li>4. "A comprehensive dialogue facility"</li> </ol>

Bank, the European Union (EU), and the Association of Southeast Asian Nations (ASEAN).

Overall, we see that the international community, in agreement with Indonesia, places a good deal of importance on the development of democracy, civil society, and public administration in the country. A strong, general emphasis is on economic opportunity and choice, and well-being-oriented aspects of a sustainable society.

The new Indonesian government has recently presented its plans in the Medium-Term National Development Plan 2015–2019 (Minister of National Development Planning 2015). The plan is a very detailed blueprint prepared by the Indonesia Minister of National Development Planning, Mr. Andrinof Chaniago. It lays out six broad goals for the government to pursue in the period ahead to create a better Indonesia: enhancing economic competitiveness, improving the quality of human resources, deriving greater benefits from the maritime sector, increasing the quality of economic growth, restoring the damaged environment, and promoting civil society.

Our research team had the opportunity to meet with the Minister at the Indonesian Embassy in The Hague on March 7, 2015, to hear and question the plans of the new government. Chaniago explained that the plan is an attempt to translate the newly elected Indonesian President's vision, mission, and priorities into action. It will guide Indonesia's National Development Planning for the coming five years, from 2015 to 2019, during President Joko Widodo's period in office. Chaniago noted that the plan was developed by combining political and technocratic approaches, whereby the political agenda offered during the president's election campaign was framed to fit the current situation and government capacity (Chaniago 2015).

The Minister noted that the Government of Indonesia is focused on efforts to “enhance competitiveness, productivity and growth, as well as inter-sectoral and inter-regional balance, fairness and equity” (Ibid.). According to the national plan, the manufacturing and processing sectors' share of contribution to GNP is planned to increase significantly, replacing a portion of the shares currently coming from the extraction and construction (property) sectors. Additionally, the government has set targets and indicators so that the share of GDP produced by the Indonesian islands beyond Java will increase by 2019. Finally, he explained that new targets and indicators have been formulated to focus on addressing inequality, poverty, unemployment, social development, and the development of a constructive, development mentality among the Indonesian people (Ibid.).

## 5 Governance Mechanisms: Neo-Institutional Approaches

Governance structures are instruments to achieve policy goals. These structures are the result of deliberate institutional design and emergent social and informal conventions. Formal governance structures are attempts to shape the preferences and constraints of relevant decision makers. If designed properly, they influence individual decision making in such a manner that the resulting actions contribute to realizing the underlying policy goals.

The design of formal institutions usually rests on (implicit) assumptions about what drives human decision making and behavior. During the past decades, these assumptions have increasingly been shaped by the so-called institutional turn in the social sciences (Evans 2005). This turn comes in an economic and a

**Table 2** Neo-institutional approaches to governance: summary overview

Approach	Theories	Main behavioral challenge for governance	Solutions induced by decentralization	Intended outcome
Neo-institutional economics	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Transaction cost theory</li> </ul>	<ul style="list-style-type: none"> <li>• Moral hazard</li> <li>• Information asymmetry</li> <li>• Asset specificity</li> </ul>	<ul style="list-style-type: none"> <li>• Interest alignment</li> <li>• Decision space</li> <li>• Accountability through monitoring and sanctioning</li> </ul>	<ul style="list-style-type: none"> <li>• Rule compliance</li> <li>• Intelligent effort</li> <li>• Effective coordination</li> </ul>
Neo-institutional sociology	<ul style="list-style-type: none"> <li>• Social capital theory</li> <li>• Cultural theory</li> </ul>	<ul style="list-style-type: none"> <li>• Strong patron–client relations, cliques, and old boy networks</li> <li>• Strong in-group solidarity, obligations, and reciprocity</li> <li>• Illegitimacy</li> </ul>	<ul style="list-style-type: none"> <li>• Open networks, weak ties, overlap, and brokerage</li> <li>• Civil society, participation</li> <li>• “Weak” solidarity</li> </ul>	<ul style="list-style-type: none"> <li>• Joint production motivation</li> <li>• Shared value creation</li> </ul>

sociological variant. While both emphasize the importance of institutions as the major tool for creating social welfare, they differ with regard to their assumptions about what drives human behavior and consequently also with regard to what constitute the major problems institutions should solve and how they should do this. Table 2 summarizes some key elements of both frameworks.

The impact of neo-institutional economics—most notably of principal agent and transaction cost reasoning—on policy design can hardly be underestimated, and this perspective also informs several chapters in this book. According to this framework, the major challenge for a governance structure is to prevent or mitigate opportunistic behavior, for instance agents exploiting either their information advantage at the expense of their principal (the “moral hazard” problem in agency theory) or their exchange partner’s dependence on them (the “holdup” problem in transaction cost reasoning). This approach advocates two main solutions to solve these problems: aligning the interests of principals and agents, and implementing a system that monitors, controls, and sanctions the agent’s performance. An example for interest alignment is a performance contingent pay or promotion scheme, backed by a system of performance evaluation. The key idea behind both these solutions is simple: Since agents are human and therefore mostly motivated by selfish motives, they will most likely act on behalf of a principal if they (a) are sufficiently incentivized to do so, (b) have the necessary resources and decision space, and (c) are held individually accountable for their actions. In the Indonesian public sector and elsewhere, formal governance structures during decentralization were transformed according to these principles with the aim to achieve improvements in many domains, like higher rule compliance of government officials and corporations, better coordination between government entities at all levels, more

efficient and reliable public service provision, and entrepreneurship leading to innovation and intelligent effort of its leaders.

In sociology, the New Institutionalism stresses the importance of cultural and relational embeddedness: Human action is always context dependent, and their preferences and opportunities are strongly influenced by cultural rules, norms, and beliefs on the one hand and their social–structural environment (e.g., their social networks) on the other hand. These informal norms and networks can function as a major resource for individuals and groups (“social capital”), but they also can pose a severe challenge for the effectiveness of formal governance structures. When informal norms and expectations are insufficiently aligned with or even competing against formal rules, the latter will lack the legitimacy that any institution needs to be effective. This may further be exacerbated when these formal rules have to be implemented in highly cohesive social settings, characterized by close-knit cliques with vested interests in the status quo and strong mutual solidarity. The transformation of governance structures during decentralization trajectories often has the explicit purpose to overcome these social and cultural obstacles. The idea is that the changes in the formal institutional arrangements will also facilitate the necessary transformations in the domain of informal norms and network structures. For example, a social fabric that is dominated by patron–client relations, strong in-group solidarity, and particularism will be gradually replaced by a civil society, with multiple overlapping networks, active participation, and weak solidarity, such as norms facilitating fruitful exchanges not only within, but also between groups (Lindenberg 1988).

Variants of these neo-institutional approaches also inform the theoretical reasoning behind the nine chapters in this volume. Some of them take the economic variant as their point of departure (Wijayati, Putra, Kuswanto, Miharti, Muttaqin), whereas others are more strongly rooted in the sociological version (Sondang Silitonga, Wiharani, Hazenberg) or combine the two (Kusumawanti).

## 6 Governance Outcomes: A Conceptual Framework

Governance structures can fail, because they produce unintended outcomes. With regard to building sustainable societies, they can fail in both the ends and the means to achieve them. First, a major precondition for sustainable society is that governance structures move from a one-sided emphasis on economic welfare toward a more balanced set of goals, including also the social and environmental domain (“People, Planet, Profit”). This idea has also been referred to as shared value creation (Porter and Kramer 2011). Shared value creation can have many faces, with the distinction between economic and social values representing two of its most important dimensions. The idea behind this theory, as popularized by Porter and Kramer (2011), is that governance structures geared to achieve both economic and social/normative goals will yield higher levels of profits and social welfare than institutional arrangements that attempt to maximize only one of these dimensions.

**Table 3** Typology of governance outcomes

	Sustainable cooperation (“means”)	
	Shared value creation (“ends”)	
	Low	High
Low	I	II
High	III	IV

Second, governance structures may fail in their selection of the appropriate means for value creation. There are many examples of governance structures that are very effective in creating value, as the well-known example of bonus incentives has shown. The same holds for arrangements to induce *shared* value creation, as the emerging template of social enterprises shows hybrid organizational forms that aim to be competitive in the market, while pursuing a societal purpose. All forms of governance at some point need to induce some degree of cooperation in order to create value, be it employees complying with company rules, citizens paying their taxes, different ministries collaborating in a complex policy case, or corporations respecting environmental regulations. The question is, however, to what degree these forms of value creation through cooperation are short-lived or indeed sustainable. We define sustainable cooperation as the durable joint production of mutual benefits, with *durable* meaning that cooperation is resilient against external shocks and endogenous decay (Wittek et al. 2013). For example, in the financial sector, governance relying strongly on bonus incentives was effective to elicit the commitment of its workforce, but with its focus on short-term gains, this form of eliciting cooperation turned out to be highly self-destructive and therefore not sustainable.

Cross-classifying the aforementioned means–ends distinction of governance (see Table 3) allows us to identify to which degree a governance structure is likely to fail in building a sustainable society.

First, there are governance structures that are geared toward value creation in a single welfare domain (e.g., economic) and that do not take particular precautions to ensure the cooperative arrangements necessary to achieve this are sustainable (Quadrant I). We consider these governance structures as least likely to succeed in building sustainable societies. The reason is that one-sided maximization of specific social welfare outcomes, be it economic growth or human development, is not only self-undermining in the long run, but also subject to legitimacy conflicts. Combined with an inherently instable cooperation base, Quadrant I governance is less suited as a template for sustainable society. Ironically, most of our current templates of governance fall into Quadrant I. For example, one of the most widespread measures of societal welfare, GDP, focuses on economic value creation and neglects social and environmental value. Similarly, the most widespread forms of organizational governance make use of incentive alignment, eliciting short-term profit maximization through cooperative relations with an increasingly limited time horizon (e.g., short-term contracts). Many large-scale decentralization trajectories aiming for sustainable society through good governance reflect attempts to replace Quadrant I governance by one of the other three forms.

Second, a governance structure for sustainable society may be successful in creating shared value, but it may fail in grounding shared value creation in sustainable forms of cooperation. Conversely, governance structures may be highly successful in bringing about sustainable cooperation, but they may fail in creating shared value for society. We assume that compared to Quadrant I governance, both types of governance are a step in the right direction when it comes to building sustainable societies. In fact, case studies and analyses presented in this volume show that many decentralization-induced changes either reflect transitions toward Quadrant II or Quadrant III governance, or may benefit from such a transition. For example, Putra et al.'s case study of the metropolitan transport system in Jakarta identifies sustainable intergovernmental relations between local and provincial levels as a crucial precondition for an effective and efficient functioning of the system. Here, a Quadrant I structure that nourished authority conflicts and parochialism gradually moved toward a Quadrant III structure which enabled sustainable cooperation. Similarly, what the countless inclusive growth measures have in common is that they urge to incorporate both economic and non-economic dimensions of growth. That is, the transition from economic growth to inclusive growth reflects a move from Quadrant I governance toward Quadrant III governance: shared value creation at the level of societies.

Finally, we posit that sustainable societies require Quadrant IV governance structures: institutional arrangements that enable shared value creation through sustainable cooperation. As the contributions to this volume illustrate, designing and implementing governance structures that are able to reach this outcome can be considered as one of the major challenges for any government.

One example of the difficulties to achieve Quadrant IV outcomes—shared value creation through sustainable cooperation—can be found in the context of urban governance innovation at the regional level. Governance here typically involves the need for coordination between local government agencies on specific issues like urban development, healthcare provision, water management, garbage processing, and public transport—a clear issue of shared value creation. At the same time, existing coordination arrangements in Indonesia often lack well-defined institutional design. A more formalized option for regional coordination does exist through so-called regional development coordinating bodies, such as Badan Kerjasama Pembangunan (BKSP), but these too typically have limited authority and usually suffer from a lack of capacity to adequately harmonize fragmented local initiatives. Despite recent well-known interlocal government cooperation arrangements for urban regions like *Jabodetabek* (Greater Jakarta) and *Kartamantul* (Greater Yogyakarta), these structures currently fail to ensure sustainable cooperation between the different stakeholders. Overall, consolidation and coordination between local governments, aimed at sustainable urban development, remains a fundamental challenge (Laquian 2005).

An illustrative case of the resulting fragmented urban governance is greater Jakarta. Jakarta is a fast-growing city region of global importance, featuring substantial urban sprawl, expansion, and deconcentration (Murakami et al. 2003). It is one of the most suburbanized metropolitan areas in the world. Industrial land

development and privately run suburban industrial centers in particular have become a key feature of urbanization in Greater Jakarta (Hudalah et al. 2013). These industrial centers have become increasingly specialized in their function and are located far beyond the traditional central city. In combination with large-scale housing development featuring new towns (Shatkin 2008; Winarso and Firman 2002), Jakarta truly has a large-scale polycentric metropolitan structure.

Importantly, this structure with its large-scale private land development stretches well beyond the formal government boundaries of the Jakarta central district and even the Jakarta metropolitan area (Goldblum and Wong 2000). Greater Jakarta consists of Jakarta as the metropolitan core, surrounded by its suburbs including *kotas* (municipalities) and *kabupatens* (districts) adjacent to Jakarta. Clearly, urban patterns have outgrown traditional central city governments. Metropolitan phenomena like mobility or water supply are crosscutting the central city and adjacent municipalities and districts, and, therefore, are crosscutting decentralized local governance arrangements. Under decentralization, urban governance is fragmented and lacks cooperation at the regional level. The consequences for sustainability include social segregation, inequality, and reduced environmental quality (Hudalah and Firman 2012), resulting in a need to improve the capacity of the suburban local government and metropolitan governance.

It remains to be seen to what degree these developments are detrimental or conducive to shared value creation and sustainable cooperation. In order to better understand under which conditions decentralization can be a tool to achieve shared value creation through sustainable cooperation (outcomes in Quadrant IV), it is necessary to gain a more systematic and detailed insight into the unintended effects of specific interventions and how these may be prevented or mitigated. That is, we need to closely examine the potential decentralization-induced governance failure and its possible solutions. Each of the nine chapters in this volume presents examples for these mechanisms. The next section provides a short summary overview.

## 7 Decentralization, Governance Failures, and Solutions

The chapters in this book contain many fine-grained examples illustrating the unintended consequences of decentralization-induced changes in the governance structures. They also shed some light on possible solutions to these failures. This section can only provide a bird's-eye overview of some of the main findings.

Five chapters mainly center on governance failure due to problems of sustainable cooperation (see Table 4). Sondang Silitonga addresses corruption of public officials, which still is a major threat to building a trustworthy and efficient public service and state bureaucracy. She finds that though the decentralization in the formal governance structure had potentially beneficial effects on accountability and control, these seem to have been partially neutralized by agents building or drawing on different informal social capital structures to support their rent extracting

**Table 4** Governance failure examples: sustainable cooperation

Policy domain (chapter)	Antecedent	Outcome (governance failures)	Example solutions	Type of solution
Public service (Sondang Silitonga)	Shifting social capital base	Inefficient and untrustworthy public service provision through corruption of public officials	Increased transparency in local governance, enforcement of regulatory law, social control	Organizational (Q III)
Urban environmental policy (Wiharani)	Climate change on a global scale	International and national commitments, need for local action	Transnational municipal networks	Organizational (Q III)
Urban transport (Putra)	Poor intergovernmental relations	Inefficient metropolitan transport	Interlocal government cooperation agency, BKSP	Organizational (Q III)
Economic growth (Kuswanto)	Poor intergovernmental relations	Decline in foreign investment	One-stop services offices (PTSP)	Organizational (Q III)
Economic growth (Wijayati)	Weak corporate governance	Inefficient resource allocation through corporate corruption	Disclosure requirements, limits to tenure and multiple directorships, increased number and quality of accountants	Legal-organizational (Q III)

activities. Potential solutions to this governance failure are a further increase in the transparency of governance, stronger enforcement of the rules, and facilitating informal social control. Next, Wiharani focuses on environmental problems such as reducing the emission of greenhouse gases which are a subject of international treaty, but which require extensive action by local governments and cooperation among stakeholders to meet national targets. Here, the establishment of transnational municipal networks may assist in creating sustainable cooperation among cities to learn from each other's successes or failures.

Putra analyzes the large-scale inefficiencies in the metropolitan transport system in Jakarta. One of the obstacles to improve the efficiency of the system are poor intergovernmental relations, which in turn are the result of local governments fearing a loss of their authority. The institutionalization of interlocal government cooperation at the meso-level (BKSP) has the potential to facilitate sustainable cooperation. Kuswanto focuses on the deterioration of the climate for foreign direct investments. Again, poor intergovernmental relationships seem to be one of the major obstacles. Here, some success in improving cooperation could be booked through the establishment of one-stop services offices (PTSP). Wijayati's chapter suggests that weak corporate governance structures facilitate firm-level corruption, which leads to inefficient resource allocation and is detrimental to economic growth. Based on a detailed comparison with the corporate governance structures of Malaysia and Thailand, she suggests that stronger disclosure requirements, restrictions on tenure and multiple directorships, and an increased number and quality of accountants may alleviate these problems.

In the remaining four chapters, the key issue of shared value creation is addressed (see Table 5). Hazenberg points to the restricted conceptualization of the theoretical construct and empirical indicators for "good governance". Current approaches are characterized by economic consequentialism and definitional vagueness. As a result, the construct fails as a valid and reliable instrument for policy evaluation. A potential solution for this problem is to adopt a sustainability and international legal human rights perspective to normatively ground the concept. Kusumwati's chapter extends the well-known criticism of a one-sided conceptualization of "economic growth" to the current efforts to construct an index of "inclusive growth". These efforts rest on arbitrary indicators and weighing procedures, and suffer from aggregation bias. The chapter presents a statistical-methodological solution that allows more reliable construction of indices through the incorporation of cause-effect estimates. Miharti's chapter argues that the strong regional and local disparities in the performance of the health system are due to the new governance structure not succeeding in triggering sufficient local-level innovation in the health sector. Drawing on a variety of best-practice cases, she concludes that this may be resolved by strengthening community participation, organizational capacity, and interorganizational learning. Muttaqin shows that since the decentralization, variations in educational attainment at the municipal level have increased. He argues that the beneficial effects of decentralization are susceptible to shifting voter priorities and resource competition between different policy domains. Human capacity building and municipality development may be potential remedies.

**Table 5** Governance failure examples: shared value creation

Policy domain (chapter)	Antecedent	Outcome (governance failures)	Example solutions	Type of solution (quadrant)
Defining good governance (Hazenbergh)	Economic consequentialism and definitional vagueness of good governance	Failed instrument for policy evaluation	International legal human rights, normative foundation	Methodological (Q II)
Measuring inclusive growth (Kusumwati)	Arbitrary indicators and weighting, aggregation bias	Non-inclusive growth	Simultaneous and structural equation modeling	Legal–normative (Q II)
Primary health care (Miharti)	Insufficient healthcare innovation	Regional and local disparities in health	Organizational capacity building at PHC level	Organizational (Q II)
Primary education (Muttaqin)	Shifting voter priorities, competition between policy domains	Intermunicipal disparities in educational attainment	Human capacity building at municipal level	Organizational (Q II)

In sum, the examples of governance failure in this book show that the design and implementation of governance structures for sustainable society in Indonesia is a work in progress. At the national level, we see coordinative and distributive governance emerging, aimed at strengthening national standards for governance and distributing development capacities and (financial) resources. National governance seems to be increasingly locally informed. Local capacities are reinforced in municipalities and districts. There is clear attention for capacity building at an increasingly independent local level. Nonetheless, we see a need to further strengthen the capacities of local government. It seems also clear that government capacity, both in terms of financial and human capital, is generally deficient and may be contributing to inconsistencies in implementation and weaker enforcement and control. The role of the local public sector, for example in urban planning and development, is also vulnerable in comparison with the private sector. Institutions will need to be made more resilient, and new institutions need to be designed.

## 8 Organization of the Book

This book addresses the issues of governance and decentralization in Indonesia and the impact this has on the society and the creation of a sustainable society in a wide variety of policy areas. It is evident that these policy areas are also the areas that the Indonesian government and international partners believe are essential for Indonesia to focus on as it continues to advance as a middle-income developing country. The book is organized into four main parts, beginning with theoretical reflections on decentralization and governance for sustainable society, followed by

three empirical sections: decentralization and policy making, challenges of decentralization for cities to create sustainable futures, and governance to limit opportunities for corruption in decentralized environments.

More specifically, the empirical research by the research team focuses on the following topics: decentralization in the governance of primary health clinics in Indonesia and improvements in health outcomes, decentralization and improving access and quality in education, managing inbound investment to contribute to regional development policy, governance of economic growth to include inclusive growth strategies, institutional design and governance for metropolitan transport in Jakarta, improving environmental governance through transnational municipal networks, the role of leadership in promoting ethical behavior and good governance within institutions, and effective corporate governance and the control of corruption. For each of these studies, an implicit link is drawn between the contribution that governance in the policy sector is making to beneficial societal impacts and the creation of a sustainable society.

We will now briefly introduce each chapter in the book and its main conclusions. Chapter 2 of this volume serves, alongside this introduction, as part of the theoretical reflections on decentralization and governance for sustainable society. Thus, Chapter 2 by Jilles Hazenburg is a critical reflection on the concept of “good governance.” He argues that the concept of good governance suffers from vagueness and that its contestation is often the result of an overly economic outlook. In response to these problems, he argues that a sounder, normative foundation to the concept of good governance should be built, focused on the fundamental values that governance should aim and adhere to, in order to be called “good.” He states that the fundamental values embodied in international legal human rights norms would be a good beginning to this consideration. He also argues that status egalitarianism (treating individuals as fundamentally equal) and well-being for individuals and generations into the indefinite future should be more fully incorporated into the concept of good governance for creating a sustainable society.

The second part of the book turns to empirical research and focuses on decentralization and policy making in particular policy sectors in Indonesia. The third chapter focuses on decentralization and primary healthcare innovation. Suwatin Miharti et al. use decision space theory to explain variation in healthcare performance following the decentralization era in the country. She finds that whereas some districts had the organizational capacity to use the expanded opportunities which decentralization brought to improve health outcomes, for some districts decentralization may have brought a loss of expertise from the center and lower health outcomes. In the best cases, decentralization serves to enable innovation and improve health accessibility and acceptance. However, the capacity to innovate varies widely across districts, which results in large differences in health performance across districts. Finally, from a multi-level governance perspective, she concludes that even at times when innovation is encouraged, accountability to the center is necessary to ensure national targets, balanced health staff distribution, and balanced health spending.

The fourth chapter of the book by Tatang Muttaqin et al. is focused on the impact of decentralization on educational attainment in Indonesia. Muttaqin finds that while educational attainment measured by analyzing the mean years of schooling across the districts in the country has increased in the decentralization era, regional variations in educational attainment have also grown. Here, there is a clear urban/rural split, where rural areas and less developed municipalities have lagged in improving educational attainment. In terms of the efforts to create a sustainable society, his findings suggest that the government places particular focus on increasing educational attainment in these rural areas and less developed municipalities.

Chapter 5 of this volume, by Kuswanto et al., focuses on the governance of foreign direct investment in Indonesia and uses a multi-level governance approach to analyze the relationship between the central government ministries and local governments in guiding FDI. He finds that decentralization has led to a greater focus on the integration of FDI into regional development plans and a concern for the societal impact of FDI. He notes that without clear mechanisms of intergovernmental relations to manage FDI, devolution could lead to a deterioration of the investment climate, so the country would become less attractive to FDI. He concludes by stating that the change in the governance arrangements for FDI to give greater power to local governments has resulted in a better balance between economic development, social development, and economic protection.

In the final chapter of this part, Chapter 6 by Laksmi Kusumwati et al., the concept of inclusive growth comes into focus. She surveys the innovations that have been made to move beyond GNP as a measure of growth to include broader measures and asks how these concepts may help to provide a better understanding of the economic development process in an emerging middle-income economy like Indonesia. She finds that the government of Indonesia considers inclusive growth important for assuring the sustainability of development. Under decentralization, not only national governments, but also local governments have responsibilities to ensure inclusive growth in their societies.

The third part of the book addresses the challenges of decentralization for cities to create sustainable futures. Here, Chapter 7 by Taufiq Hidayat Putra et al. is focused on institutional design and governance for metropolitan governance. While decentralization in many policy areas may have created opportunities for local control and innovation, decentralization has created great coordination difficulties in developing a regional transport strategy for major metropolitan areas consisting of many different local governments, such as in the mega city Jakarta. In other words, even though decentralization has arguably provided local governments with greater authority and opportunity to tailor policy making to the local area in certain policy areas, decentralization to local governments also presents great coordination problems for local governments in providing transport across major urban areas. Putra concludes by stating that designing cooperative arrangements that preserve the autonomy of actors will be most effective in developing a regional public mass transit, and not the more coercive measures that force cooperation, as these are likely to fail politically. One strategy he suggests is the

creation of an institutional body mandated to consolidate the political decisions coming from the local governments involved, with a clear division of labor and authority of the actors involved. He believes this can lead to a more sustainable society, because an accepted, legitimate, and effective metropolitan governance will have the backing of its citizens, as it eases their daily commute and offers transport by public transport instead of private automobile.

Chapter 8 by Annisa Paramita Wiharani et al. discusses environmental governance and transnational municipal networks. Wiharani examines how cities are increasingly reaching out across borders to form transnational municipal networks to exchange best practices and consult on addressing environmental issues in their communities. Decentralization has provided cities with a greater authority to cooperate with other cities and institutions abroad, including transnational municipal networks. Decentralization in Indonesia has especially transformed the environmental governance in terms of the implementation of policy, which benefits from a transfer of knowledge, expertise, and technology within these networks. These networks of cities are, in turn, beneficial for assisting nation-states in meeting their international environmental commitments, like climate change agreements. Thus, multi-level governance, which classically focuses on the governance arrangements between levels of government and the involvement of citizens and other stakeholders, is extended here to include municipal networking and building institutions to exchange best practices to improve planning and implementation of their local environmental policies. This results in local environmental gains and steps toward the creation of a sustainable society in the city and region and also contributes to national and international goals.

The final section of the book, part four, is focused on governance to limit opportunities for corruption in a decentralized environment. Chapter 9 by Mala Sondang Silitonga takes a social capital perspective, which informs the climate in which corruption is viewed as acceptable or unacceptable within a given institutional context. She first notes that previous research indicates that the shift of formal power from the central government to regional governments has increased the opportunities for actors at the local level to be involved in corruption. She argues that informal processes are important for initiating and sustaining corruptive transactions, and these processes may be modified by leadership initiatives within institutions to change the norms of behavior and strengthen the social capital of groups and individuals to resist corruption and assure transparent decision making. She concludes by finding that without government transparency, enforcement of regulatory law, and greater citizen control, it will be difficult to control the occurrence of corruption.

Finally, Chapter 10 by Nureni Wijayati et al. focuses on corporate governance and corruption in Southeast Asia, in a comparative study of Indonesia, Malaysia, and Thailand. She begins by noting that weak corporate governance was deemed a crucial factor in deepening the financial and economic crisis in the region in the late 1990s. Her study aims to demonstrate how a strong corporate governance institutionalist framework helps to reduce a country's level of corruption. She focuses on three aspects of corporate governance, which control opportunities

for wide-scale corporate corruption: shareholder rights, the quality of the board of directors, and accounting, auditing, and transparency standards. She concludes that the Indonesian corporate governance framework is less stringent than in Malaysia and Thailand, which provides a favorable environment for corruption to persist in the country.

## 9 Conclusions

Indonesia is changing rapidly. This volume focused on the interplay between the macro-level changes as they followed in the wake of two decades of decentralization efforts in Indonesia and the micro-level decision-making processes in both the public and the private realm. Through explicating these macro–micro links in a variety of policy domains, the research reported in this book offers several distinct contributions to enhance our understanding of the impact of Indonesia’s decentralization efforts on improving the sustainability of its society (Table 6).

At the macro-level of Indonesian society, we identify three important trends to understand the on-going process of decentralization and governance in Indonesia. First, our research in a wide variety of policy fields identifies an emerging variable geometry multi-level system within the formal government arrangements with local governments which are legally codified, include fiscal transfers, and involve formal accountability mechanisms. Earlier phases of decentralization foresaw a more uniform arrangement between the central and local governments. Later experience (and disappointment with the results) led to a reassessment and the creation of a greater variety of formal relationships and operational mechanisms between levels of government. This was partially due to the political reality of dealing with locally elected mayors and councils for the first time, and part of this was due to the experience with the interaction of the bureaucracies, which varied by policy area. A key challenge ahead is further development of the accountability mechanisms between the national and local levels, which takes into account the regional

**Table 6** Decentralization and governance, and the challenges ahead

Mode of governance	Decentralization trend	Challenges ahead
Formal governance	Variable geometry multi-level governance	Strengthening accountability mechanisms
Informal governance	Hierarchy to network governance	Strengthening citizen and civil society input
Shared value creation and sustainable cooperation	From economic growth to inclusive growth	Increase effectiveness of governance
		Diffusion beyond Jakarta metro- to regional cities and rural areas
		Creation of sustainable society for future generations

and local variations and the political will expressed in the local democracy and national goals and standards.

Secondly, in terms of informal governance, we find a trend away from strictly hierarchical arrangements toward various networking arrangements. Depending on the policy area involved, there are varying degrees of input by citizens and civil society organizations at the national and local levels in Indonesia. In addition, we find various networking relationships emerging and strengthening in the country to the international community. There is an increase in the involvement, consultation, and joint goal setting by regional institutions like ASEAN and by the international community like the UN and the World Bank. In addition, networks linking cities in Indonesia to transnational municipal networks across the region have increased. The challenges ahead are to increase the input of citizen preferences and involvement of civil society organizations in the governing process and create institutions, processes, and norms that limit the opportunity for corruption.

Thirdly, our research notes a trend toward shared value creation and sustainable cooperation in government policy. Whereas earlier periods of policy making focused more exclusively on economic growth, there has recently been an increased focus on inclusive and sustainable growth involving broader parts of the society, as well as policies toward improving cooperation among and between government agencies and other societal stakeholders. This process has been apparent since at least the Indonesian government's response to the Asian financial crisis, but we expect this focus to accelerate under the new Indonesian government, based not only on the rhetoric of the election campaign, but also on the revised policy plans of the new government noted in the new five-year plan.

At the micro-level of decision-making processes, our contribution consists in the introduction of a general conceptual framework for the analysis of governance failure and a theory-based in-depth investigation of the pathways leading to such failures, as well as to their prevention and mitigation. We believe that this volume demonstrates the need for and fruitfulness of such a social mechanism approach in assessing the effectiveness or failure of different modes of governance. Another lesson to be drawn from the various chapters is that this explanatory strategy should be grounded in a sound behavioral theory, which is able to incorporate both self-interest and social preference motives of individual decision makers. More specifically, the majority of governance failures reported occur in the realm of building and maintaining cooperative relationships (e.g., between and within government agencies) and in the domain of intrinsic values concerning what citizens consider legitimate ends to strive for (e.g., inclusive as opposed to a narrow focus on economic growth). With many of the current structures in place being designed according to the principles of neo-institutional economic theory, policy makers and scholars may indeed benefit from the insights generated on the emergence and dynamics of informal governance structures.

Finally, it should be noted that the majority of solutions of governance failures reported in this book are organizational in nature. That is, they relate to very specific interventions in the design of authority relations, the distribution of responsibilities, workflow interdependencies, the implementation of procedures for

coordination, communication, monitoring, and control, and fostering climates of mutual trust. Whereas some of these organizational changes required major restructuring efforts, others could be realized with relatively modest investments. Such relatively low-cost organizational pathways to compliant reform implementation reflect patterns found in other countries (Nieto Morales et al. 2015), and strengthening organizational capacity at all levels seems to be a promising avenue also for Indonesia's reform agenda.

We expect this book will be influential in both the academic and the policy communities that are interested in the links between patterns of governance and societal outcomes. Across many different policy areas, there is a distinct lack of research on the effectiveness of various governance structures and the linkages of accountability and responsibility of various levels of government to societal outcomes. There is a real need for this kind of research in middle-income developing countries, which are undergoing rapid change in their economies, governance systems, and societies. The editors and authors of this book would like to dedicate this book to the present and future generations of Indonesians who wish to live in a peaceful, growing, equitable, and democratic society.

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