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**The Effect of District Proliferation  
In a Decentralized Indonesia  
The Cases of South Sulawesi and West Sulawesi Provinces**

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***Disclaimer:***

This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

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## Dedication Page

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for my super supportive husband *ayah* Heri Wibowo,  
for my amazing sons *mas* Rafa Rasyid Wibowo and *dek* Farhan Faruq Wibowo,  
for my beloved parents *ibuk* Sri Hartati and *bapak* Sukardi Winarno,  
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Thank you for your never ending love, support and inspiration...

*Terimakasih...*



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## List of Acronyms

BOS	<i>Bantuan Operasional Sekolah</i> (School Operation Fund)
DAK	<i>Dana Alokasi Khusus</i> (Specific Allocation Fund)
DAU	<i>Dana Alokasi Umum</i> (General Allocation Fund)
DBH	<i>Dana Bagi Hasil</i> (Revenue Sharing)
DPOD	<i>Dewan Pertimbangan Otonomi Daerah</i> (Regional Autonomy Council)
HDI	Human Development Index
MoEC	Ministry of Education and Culture
MoRA	Ministry of Religious Affairs

## **Abstract**

Indonesia's decentralization has shifted to the devolution process to cities and districts resulting in a large creation of new autonomous regions. Decentralization is claimed to improve public service provision. However, the transfer of public service delivery to local government together with the process of government units' proliferation is argued to lead some challenges in the fiscal Balance and administrative capacity of the local government. Meanwhile, there are also arguments on the political motivation behind decentralization and district proliferation. This study tries to examine the effect of government's unit proliferation to the allocation of fiscal resource and the outcome of education service in South Sulawesi and West Sulawesi provinces, by comparing the conditions of the proliferated region compare to the non-proliferated region and the child region compare to the parent region. Although stronger conclusions are not possible due to the limitation of descriptive statistic method to handle causality issue, the findings of this study demonstrate that apart from any political motives behind government units' proliferation process in Indonesia, there is the potential that new district creation may enhance service delivery by increasing the sensitivity to local need, with additional remarks that such benefit comes together with additional cost for both local government and central government.

## **Relevance to Development Studies**

Decentralization plays an important role around the world within the last decades. Like many other countries, Indonesia has decentralized its central governments' authorities to the responsibility of the local government. However, Indonesia's decentralization has been followed by a large creation of new autonomous regions which also known as government units' proliferation. Decentralization is argued to improve public service provision through allocative efficiency, however, when followed by regional proliferation, it is argued to create fiscal balance and administrative capacity issues of the local government. Therefore this study tries to investigate the technical effect of government units' proliferation, to examine the positive and negative impact of government's unit proliferation on fiscal resource allocation and public service delivery outcome in Indonesia. By using study case from districts and municipalities in South Sulawesi and West Sulawesi province, it is expected that this paper may contribute to the improvement of the future performance of government units' proliferation in Indonesia

## **Keywords**

Decentralization, District Proliferation, Service Delivery, Education, Local Government, Indonesia

# Chapter 1

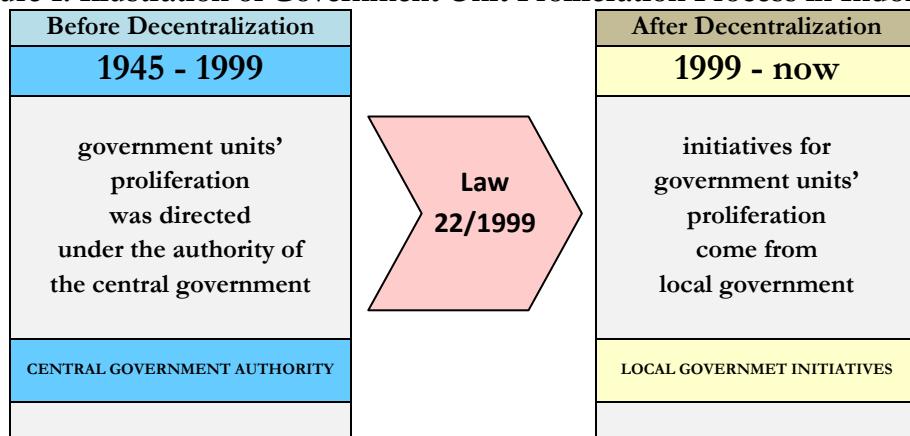
## Introduction

Within the last decades, countries around the world are decentralizing the responsibilities of its central governments to lower level of governments. Decentralization is predominantly well-known in developing countries for diverse reasons such as the start of multiparty systems in Africa; expanding democratization in Latin America; the shift toward market economy in Eastern Europe and the former Soviet Union; ethnic and geographic issues in South Asia, Bosnia Herzegovina, Ethiopia and Russia; as well as the increasing needs to improve local delivery service in East Asia (Litvack et al. 1998).

Indonesia, like many other countries, has been attempting to decentralize its central governments' authorities to the liability of its subnational governments. Before 1999 Indonesia's decentralization efforts were emphasized on deconcentration to provinces, but with the collapse of Suharto's government there were huge shift of decentralization focus to devolution process to cities and districts which also well-known as the 'big bang' decentralization (Smoke 2015). In its development, devolution process in Indonesia has been followed by the trend on the creation of new autonomous regions which also known as Government units' or district proliferation. While the creation of more government units at the local level may bring governance closer to the people, it may also increase administrative costs, divert resources and foster cronyism.

In the centralized government period, government units' proliferation in Indonesia was directed under the authority of the central government. Along with the decentralization process, central government of Indonesia also grants local governments to be able to actively request for the establishment of new autonomous regions (Figure.1). According to Law 22/1999 on Local Government, autonomous region is defined as legal community unit within a specific geographical boundary who has its authority to regulate and manage the interests of local society on their own initiative. Under the Law 22/1999, the initiatives for government units' proliferation also come from local government. The new policy has resulted in the creation of a large number of new autonomous regions.

**Figure 1. Illustration of Government Unit Proliferation Process in Indonesia**



Own construction, source: Law No. 22/1999

During 53 years of the centralized government period from 1945 to 1998, there have been 341 autonomous regions created in Indonesia. In the end of 1999, Indonesia has 27 Provinces, 249 Districts, and 65 Municipalities. However, during the decentralized period between 1999 and 2014, there are 207 new additional regions consist of 7 new provinces, 167 new districts and 33 new municipalities (Table 1).

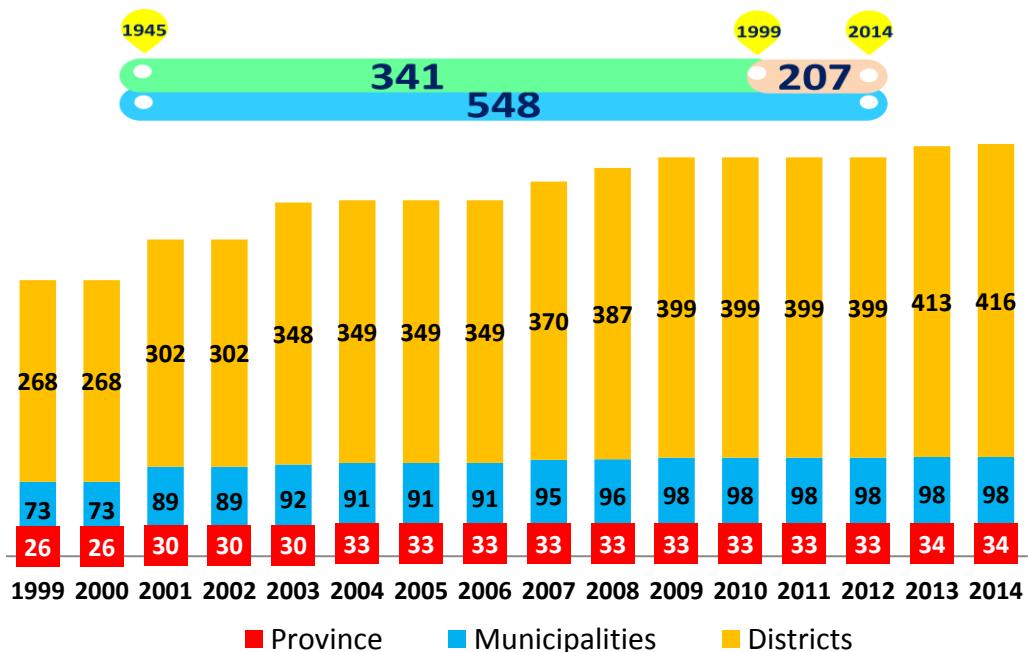
**Table 1. Autonomous Regions in Indonesia by Island, 1998 versus 2014**

Island / Archipelago	Number of autonomous regions								New autonomous regions (1999 - 2014)	
	Province		Districts		Municipalities		Total			
	1998	2014	1998	2014	1998	2014	1998	2014		
Sumatra Island	8	8	55	109	21	31	84	148	64	
Bangka Belitung Archipelago	0	1	0	6	0	1	0	8	8	
Riau Archipelago	0	1	0	5	0	2	0	8	8	
Java Island	5	6	82	85	26	34	113	125	12	
Nusa Tenggara Archipelago	4	3	39	37	3	4	46	44	-2	
Kalimantan Island	4	5	24	47	6	9	34	61	27	
Sulawesi Island	4	6	33	70	7	11	44	87	43	
Maluku Archipelago	1	2	4	17	1	4	6	23	17	
Papua Island	1	2	12	40	1	2	14	44	30	
<b>Indonesia (Total)</b>	<b>27</b>	<b>34</b>	<b>249</b>	<b>416</b>	<b>65</b>	<b>98</b>	<b>341</b>	<b>548</b>	<b>207</b>	

Own construction, souce: BPS-Statistics Indonesia (1999, 2014)

Chart 1 shows the evolution on the number of autonomous region in Indonesia differentiated by provinces, municipalities and districts. By the end of 2014 Indonesia has a total of 548 autonomous local governments: 34 Provinces, 416 Districts and 98 Municipalities.

**Chart 1. Total Autonomous Regions in Indonesia by year, 1999-2014**



Own construction, souce:

BPS-Statistics Indonesia (1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014)

The creation of more regions has generated various consequences. Hoffman and Kaiser (2002) mentioned that the efficiency on the wage bill per capita of local government has decline sharply. Meanwhile, according to a study by Bappenas (2008) due to the incapability to develop the same degree of local revenue as the parent regions, new autonomous regions has been constantly being more fiscal dependent than the control and parent regions. 'Scale economies are also at risk because of the size of local governments. This is likely to get worse in the near future due to the apparently unstoppable tendency to create new regions—both provinces and local governments.'(Hoffman and Kaiser 2002: 9).

Some studies have been conducted to measure the result of government units' proliferation implementation in Indonesia with various findings. The increasing number of local governments was not always followed by improvements in the conditions of the new autonomous regions. Although some regions were considered as a success, many of them also considered a failure. Thus, there has to be more study on the effects of government units' proliferation in Indonesia that looks simultaneously to its positive and negative consequences.

As cited by Hadiz (2004: 698), Rodan et al. argued that "policy-making in any area is fundamentally shaped by contests between competing interests and is essentially indicative of particular modes of distribution of power", this also applies to those related to decentralization. Accordingly, as quoted by Firman (2009: 145), Shah and Thompson argue that the decision to decentralize might be motivated by short-term political interest rather than to expect long-term benefit of decentralization. In the context of decentralization, there are also arguments on the political reason behind government units' proliferation process in Indonesia.

The political economy of government units' proliferation is clearly important but that lies beyond the scope of this paper. This study will only focus on technical investigation into the positive and negative effect of regional proliferation, to investigate that apart from any political motives behind proliferation process in Indonesia, there should be cost and benefit outcome resulted from the policy. The main objective of this study will be to evaluate the government units' proliferation implementation as part of decentralization process in Indonesia, to examine the effect of government's unit proliferation on fiscal resource allocation and public service delivery outcome.

The study will focus on Sulawesi area. As it can be seen from Table 1, Sulawesi Island has the second largest additional number of new region. There are 43 new autonomous regions in Sulawesi Area, this number is accounted for 25% of total additional regional proliferation during the decentralization period in Indonesia. The examination will focus on West Sulawesi Province as a new autonomous region which comes from South Sulawesi Province, the region which has the largest number of autonomous region within Sulawesi Island. The investigation also includes South Sulawesi Province as the Parent Region.

## **1.1. Research Strategy**

This paper aims to investigate the possible positive and negative implications of district proliferation on fiscal resource allocation and public service delivery outcome in South Sulawesi and West Sulawesi Province from different angles, combining different examinations of comparing the regions based on its proliferation type: proliferated region, non proliferated region, parents region and child region. Proliferated region is region which experience regional proliferation either as parent region or as child region, including the region which is transferred into new province. On the contrary, non proliferated region is the region which never

encounters proliferation or never being transferred to a new province. Parents region is a region which experience regional split from one region to two or more region, whereas child region is the new region resulted from the split.

By combining different point of view this study aim to add more perspective in the research field of decentralization and government unit proliferation in Indonesia which may also applicable for other research in different country.

As promoted in the United Nation's Sustainable Development Goals (SDG), education plays an important role in development discourse in the world. Education sector also play important role in Indonesia, not only because the education system is the fourth largest in the world, with over than 250.000 schools occupied by more than 50 million students and employed around 2,6 million teachers (World Bank 2014), but also due to the fact that education spending in Indonesia was higher than other sectors (*ibid.*). Data from World Bank (2014) show that education spending in Indonesia has reached to the amount of US\$14 billion equivalent in 2007 at a proportion of more than 16 percent of total government expenditure. Considering that education sector is an important agenda for Indonesian Government's development program, therefore this study will focus on the government units' proliferation implementation impact in service delivery on education sector.

By going through some lessons from districts and municipalities in West Sulawesi Province and South Sulawesi province, it is expected that this paper may contribute in improving the future performance of government units' proliferation in Indonesia.

## **1.2. Research Question**

To achieve the objectives, this research is guided by the main research question 'what are the effects of government units' proliferation to fiscal resource allocation and education service outcome in South Sulawesi Province and West Sulawesi Province?'

There have been some studies on the effects of decentralization to public service delivery in Indonesia. As mentioned in the Asian Development Bank publication on the impact of fiscal decentralization (Martinez-Vazquez 2011: 4), Simatupang and Qibthiyyah observed improvements in education outcomes in post-decentralization period in Indonesia which indicated by literacy rates, schooling year and school dropout rate in primary and secondary education. However those studies only focus on the effect of decentralization without considering government units' proliferation as an influencing factor.

There are also some studies on the regional proliferation in Indonesia. The study by Bappenas (2008) evaluate the performance of the new regions compare to its parent region and control region, however the sample were selected from six different provinces, which may have different socio economic background. Whereas the study by Ministry of Home Affairs (2011) only focus on evaluating the proliferation based on the new region performance compared to other new regions, the results is a performance rank among the new established regions, no information on the comparison between the proliferated and non proliferated region, and between the new regions and its parent region.

This study aims to update the findings of previous studies on the effects of decentralization to education service delivery by adding government units' proliferation as an influencing factor. To find out that when decentralization is followed by government units proliferation whether there are similar or different result on the effect to fiscal resource allocation and education service delivery outcome.

This paper comes with the hypothesis that: Creating more districts brings the service closer to the people and improves education service delivery outcome in South Sulawesi Province and West Sulawesi Province.

To elaborate, the research also raises sub-questions as follows:

1. In what ways government units' proliferation affected fiscal resource allocation in South Sulawesi Province and West Sulawesi Province?
2. To what extent government units' proliferations improve education service delivery outcome in South Sulawesi Province and West Sulawesi Province?
3. To what extent government units' proliferations effects in education service delivery outcome vary across basic educations and upper secondary education in South Sulawesi Province and West Sulawesi Province?

### **1.3. Selection of Data**

The indicators which are used for analysis in this paper is adopted from a combination of indicators use in the study by Bappenas (2008) and Ministry of Home Affairs (2011). For the main outcome indicators this study use Literacy Rate and School Enrollment Rate, whereas for the additional indicators this study use Student Per School Ratio and Student per Teacher Ratio

#### Literacy Rate

In Indonesia, knowledge dimension of Human Development Index (HDI) is measured by two indicators: literacy rate and years of schooling. Therefore this paper will use literacy rate to measure the outcome of education service delivery. According to BPS-Statistics Indonesia (n.d.a), Literacy Rate is defined as the proportion of population above 15 years old who able to read and write simple sentence compare to the total number of population above 15 years old. Higher the literacy rate illustrate better outcome in education delivery service.

#### School Enrollment Rate

School Enrollment Rate use in this study is gross enrollment rate which defined as the proportion of student number in certain educational level at certain age range (BPS-Statistics Indonesia n.d.b). The educational level consists of three types: elementary, lower secondary and upper secondary level. School Enrolment Rate indicates the participation rate in a certain education level. Higher School enrollment rate show higher participation rate.

#### Student Per School Ratio

Student per school ratio indicate school enrollment capacity. If the ratio is high, it means that the school has high capacity of enrollment and there is sufficient school for each level of education in the region. Meanwhile, if the ratio is low it can be interpreted in two ways. The first interpretation is that school has low capacity and there are students who cannot study due to unavailability of school, whereas the second interpretation is that the school has sufficient capacity but the enrollment rate is low, so that the capacity is not optimally utilized.

#### Student per Teacher Ratio

The availability of teaching personnel is the next important thing after the availability of school, in order to deliver good educational service. Therefore student per teacher ratio is used as indicators for supporting analysis. The better ratio is the smaller one, it represent the number of student who need to be handled by one teacher. The smaller the number means teacher will have more attention to the students which will improve the quality of the learning process.

## **1.4. Methodology**

This is a limited comparative and exploratory research. Although the better method to use would have been econometrics or regression analysis, however there is no sufficient data to do such study. Therefore, this study will use a descriptive study method to justify the evidence on the effects of government units' proliferation to local development in South Sulawesi Province and West Sulawesi Province. As a consequence, this paper acknowledge that there might be some problems of attribution, but unfortunately the scarcity of the data in district and municipality level in Indonesia allows to do only a very basic descriptive statistics analysis only.

This study relied on secondary data, using available information in the literature and statistics that are found in the most recent reports, official documents and secondary surveys of related articles, as well as government documents, books, journals, and other relevant sources both in English and Bahasa.

Although causality is an important issue, with limited method and resources, indicating causal relation will be difficult task for this study. To acknowledge the issue of causality, this paper will use arguments and findings from the related previous research.

## **1.5. Data Collection and Processing**

The Data used in this paper are collected from BPS-Statistics Indonesia, Ministry of Finance, and *Satu Data Indonesia*. Literacy rate and School Enrollment rate is collected from BPS statistics, summarized from annual publication. Meanwhile for Student per School ratio, data on number of school and number of student per district is collected from annual publication of Statistical Year Book Indonesia, and then the ratio is own calculated. The same treatment also applied for Student per teacher ratio. For fiscal data, this paper relies on two sources, DAU data is collected from Ministry of Finance publication, while data on local expenditure and local revenue are collected from Satu Data Indonesia. Fiscal data mostly available on annual basis per district, before the data can be processed, it has to be input first in Excell. Data is processed with excel, by grouping the data based on region proliferation type, followed by calculating the mean of each group. The analysis is done based on the comparison of the mean of each group.

## **1.6. Scope and Limitation**

### **1.6.1. Scope of the study**

The study is carried out only for region which already proliferated for more than 10 years. It means the populations are all proliferation which happened between 1999 and 2004. The criteria for choosing the sample are that it should be province which experienced part of its districts being proliferated into new province in order to be able to analyze the different performance between the proliferated region and the non proliferated region. It means the sample should be new province which formed between 1999 and 2004, including its parents region. There are 7 new provinces which were formed between 1999 and 2004, they are Kepulauan Bangka Belitung, Banten, Gorontalo and North Maluku which were formed in 2001, and Kepulauan Riau, West Sulawesi and West Papua which were formed in 2004. Among the three new provinces proliferated in 2004, only West Sulawesi and South Sulawesi as its parent province which has complete data availability for all the districts and municipalities within the province, therefore this study will only focus for West Sulawesi and South Sulawesi province. Data period is 5 years from 2009 to 2013. However, the use of secondary data may create limitation in the analysis process.

### **1.6.2. Limitation**

Initially the study was designed to include 10 years data period. However, for district and municipalities level, data availability is limited. The main indicators data for education service outcome which consist of literacy rate and school enrolment rate at district and municipality level are only available for 5 recent years, from 2009 to 2013. Another problem is related to data consistency. There were different data publication by different institution, this create data inconsistency problem.

Moreover the discussion on this paper is only limited to the technical effects of government units' proliferation on fiscal resource allocation and education service delivery outcome. As remarked in the previous section, the political economy of government units' proliferation is clearly important but that lies beyond the scope of this paper.

## **1.7. Organization of The Research Paper**

The research is divided into 6 chapters. Chapter 1 give introduction and describe the design of the study, followed by chapter 2 which explain the theoretical framework and literature review on decentralization, district proliferation, and public service delivery. Then chapter 3 give information on the background situation in Indonesia, regarding decentralization and district proliferation in Indonesia, and some background information on South Sulawesi and West Sulawesi province. Chapter 4 discuss the evidences on the cost of government units' proliferation in South Sulawesi and West Sulawesi provinces, followed by Chapter 5 which examines the evidences of government units' proliferation impact on education service delivery. Lastly, chapter 6 becomes the last part of the paper which present conclusion

## Chapter 2

# Theoretical Framework and Literature Review

This chapter presents the theoretical framework and literature review on decentralization, proliferation of region and public service delivery. The chapter will be arranged into three sections. The first section provides theories about decentralization, followed by the second section which presents theories on the proliferation of region. Whereas the last section describes how decentralization interrelates with the proliferation of region and public service delivery derived from earlier studies.

### 2.1. Concept of Decentralization

At the most basic definition, decentralization refers to the transfer of legal and political authority from central government to subordinate unit government in terms of planning, decision making and managing public function (Rondinelli 1981). Rondinelli differentiated three degrees of decentralization: deconcentration, delegation, and devolution (ibid.). Deconcentration is the least extensive type of decentralization which involves the shifting of workload from central government headquarters office to its local office staff, without any decision authority given (ibid.). Even though it does not give the chance to exercise local discretion of decision-making process, it promotes the sense of government being closer to the people (ibid.). Meanwhile, delegation is a type of decentralization which delegates the decision-making and management authority for certain functions to organizations with indirect control of the central government. It depicts a more extensive form of decentralization compare to the administrative deconcentration which usually becomes a response to the limitations on public administration (ibid.). The last degree of decentralization according to Rondinelli is devolution as the most excessive form of decentralization which strengthens or creates independent levels and units of government (ibid.). Devolution indicates the separation of function by the central government and the formation of new governance units beyond the jurisdiction of the central authority (ibid.).

Additionally, Falleti (2005) define decentralization as a process of transferring government responsibilities, resources and authorities. Falleti classifies decentralization policies into three categories based on the nature of the authority: administrative, fiscal, and political (ibid.). Administrative decentralization is the set of policies which shift the administration and delivery of social services to subnational governments which may involve the delegation of decision-making authority, but it is not always a compulsory condition (ibid.). Moreover, fiscal decentralization is the set of policies initiated to increase the fiscal autonomy of subnational governments. It can be in the form of central government transfers, delegation of national tax authority, or the formation of new local taxes (ibid.). Meanwhile, political decentralization is a series of constitutional amendments and electoral reforms intended to promote the representation of subnational politics and to delegate electoral capacities to local actors (ibid.). Different rationales of decentralization have been discussed in various literature. The classic literature on decentralization commonly preoccupied with arguments on efficiency in public provision. Oates (1972) developed the theory of fiscal federalism which explains that in the existence of various needs, service provision from a decentralized government will promote

higher citizen wellbeing. According to fiscal Federalism theory, decentralization is an attempt on maximizing social welfare with a combination of allocative efficiency, economic stability, and distributive equity (Oates 1972, Tiebout 1956). In addition, administrative arguments highlight the administrative impact of delegating authority to the local jurisdiction. Decentralization is frequently regarded as a process of enhancing central government capacity in acquiring better information on local condition in order to be more responsive in planning, managing and implementing local programs (Maddick 1963). Decentralization is considered as an approach to mobilize reinforcement for national development policies by promoting better knowledge at the local level (Rondineli et al. 1983). Local governments are assumed to be a better communication channels between local society and the national government (*ibid.*). This supports public administration theories which focus on how modern bureaucracies which described as effective, efficient, and rational system are accomplished (Weber 1968). “Decentralization is often justified as a way of managing national economic development more effectively or efficiently” (Rondineli et al. 1983: 9). Accordingly, Litvack (n.d.) argue that in some countries decentralization occurred due to the lack of governance arrangement in providing local services, while in other cases, decentralization has been motivated by the necessity to enhance service delivery and the indication of administration constraints at the central level. Meanwhile, from political science theories point of view, decentralization is regarded as “mobilization, organization, articulation, participation, contestation, and aggregation of interests” (Schneider 2003: 39). According to Litvack (n.d.), in some countries, decentralization has been motivated by political reasons, such as in Latin America where decentralization became the part of democratization process in the replacement of the autocratic central regimes, or in Africa where multi-party political systems required more local voice in the decision making process, as well as in Ethiopia where decentralization became a result of ethnic group demands for more participation in the political development. Additionally, Eaton et al. (2010) mention four incentives which drive political motivation of decentralization, namely: Electoral Incentives, Partisan Incentives, Common Institutional Incentives to Defend the Center, Coalitional Incentives. Van de Walle mention that political economy approach on decentralization started with the argument that the way central government in developing countries design and implement their decentralization reform are in line with their interest (Grossmann and Lewis 2013). Moreover, by using study case from Uganda, Green (2010) argues that district creation has been utilized to develop patronage, in order to help the national elites to win the elections.

The reasons of decentralization vary from one country to the other. An important thing to be highlighted is that there is no single cause is sufficient to rationalize the trigger of decentralization. In most cases, the decision to decentralize is an outcome of a combination of factors.

## **2.2. Government’s Unit Proliferation in the context of Decentralization**

According to Rondinelli (1981) among the various form of decentralization, division can be made between areal and functional decentralization. While functional decentralization focuses on the delegation of authority to carry out specific function or activities to organization which operates nationally, areal decentralization is mainly aimed at delegating the public function to specific organization within certain sub-national spatial or political boundary (*ibid.*). Functional decentralization is reflecting deconcentration type of decentralization, of which the task and function are extended to local area but still within the authority of the central government.

Meanwhile, Areal decentralization is reflecting a devolution type of decentralization which delegate public functions to well-defined geographical or political boundary usually in the form of subnational administrative units. An example of functional decentralization is the establishment of local branch office of a ministry office which nationally or centrally controlled by the headquarters office, while an illustration of areal decentralization is the transfer of authorities to local government beyond the central government control.

Governments' unit proliferation in this paper refers to administrative unit proliferation in the form of areal decentralization which followed by the split of subnational government into two or more new administrative units: a parent region and at least one new unit as the child region. Governments' unit proliferation proponent commonly explain the establishment of new region using the argument that proliferation of region improves public service delivery by promoting local government responsiveness and accountability. Tiebout (1956) emphasize the circumstances when decentralized public service delivery is going to have higher efficiency than the decentralized one, whereas Fitran, et al. (2005) put highlight on the efficiency of decentralized governance. However, opposition argues that relative efficiency discussed in the literatures is hardly accomplished. Some argue that governments' unit proliferation is a political matter. Awortwi and Helmsing (2014) argue that although initially the formation of new district in Uganda was intended to bring the service closer to the people, but along with the implementation, the motivation has changed. The unequal district division in which opposition regions are targeted, the following victory in parliamentary seat acquisition from the new region, and the timing of new district creation which mostly happen the year prior to general election has gave evidence of a new motivation to utilize district formation as a tool for political patronage (ibid.).

Increasing number of subnational administrative units has been a phenomenon in several countries in recent years. This phenomena has been significantly occurs in Africa. "With the exception of President Paul Kagame of Rwanda, who has shrunk the number of LG districts from 106 to 30, several African leaders have increased the number of LG jurisdictions" (Awortwi and Helmsing 2014: 298). Accordingly, Grossman and Lewis (2013: 2) mentioned that "almost half of Sub-Saharan African countries increased their number of sub-national administrative units by over 20%". Additionally, aside from Africa, numerous countries had their number of local government increased after undertaken decentralization reform. Brazil has the number of *municípios* increased by 2.000 within 15 years, and Venezuela which has new additional 128 *municípios* within one decade (Awortwi and Helmsing 2014). Similarly, Czechoslovakia and Hungary have their municipalities number increased by 50% within four years from 1989 to 1993, while Vietnam has its province number increased by 24 from 1996 to 2003 and Indonesia has additional new district at the number of 205 in no more than a decade (Grossman and Lewis 2013: 2).

While some literatures highlight the top-down process of new region formation which motivated by state elites who try to find opportunity to build up and expand patronage system, the others argue that new region creation demands generate from bottom-up process, where connection between localities, whether it is economic, political or identity based, has created disparity in the level of demand for new administrative unit (Lewis 2014).

"The creation of several new units typically makes each one, on average, smaller and more homogeneous, which may affect citizens' capacity for collective action and therefore the level and quality of public goods and services they receive" (Grossman and Lewis 2014: 1).

Government units' proliferation may cause significant change to country's economic, social and political condition. The next section will discuss more on how government units' proliferation interconnects with decentralization and public service delivery.

### **2.3. Interrelation of Decentralization, Government Units' Proliferation, and Public Service Delivery**

Although decentralization and government's unit proliferation is a different process, the latter often happen following the establishment of decentralization policy. The devolution of authorities to local government has encouraged a momentum for new region creation. "when new resources and authorities are devolved to localities—typically the centrepiece of decentralization reforms—such units are imbued with increased value for local citizens and elites" (Lewis 2014: 574).

"Countries begin decentralization processes for different reasons. Some are searching for a more efficient—and leaner—public sector, while others are disenchanted with the performance of planning and centralized policies." (Martinez-Vazquez 2011: 2). "An often expressed hope is that decentralization will reduce overload and congestion in the channels of administration and communication. Programs are decentralized with the expectation that delays will be reduced and that administrators' indifference to satisfying the needs of their clientele will be overcome. It is thought that decentralization will improve government's responsiveness to the public and increase the quantity and quality of the services it provides." (Rondinelli et al. 1983: 9). The most widespread theoretical motivation of decentralization is to achieve allocative efficiency in the local distribution of public goods (Oates 1972, Tiebout 1956), and that good government is the one which closer to the people (Inman and Rubinfeld 1997, World Bank 1997). Channa and Faguet (2012) has conducted empirical review on the impact of decentralization in enhancing technical efficiency and preference matching in the provision of health and education service in developing countries. Preference matching is defined as "the extent to which public goods provided by local governments match citizens' preferences or demands" (ibid.: 4) which also known as allocative efficiency is most decentralization literature. Meanwhile, Technical efficiency is defined as "the production of more or better public goods by a decentralized government for a given set of inputs" (ibid.: 4). The study organizes the evidence by its empirical quality and identifies the credibility of the identification strategy into three degrees: strongly credible, somewhat credible and less credible. Table 2 present selected results only from strongly credible evidence in education sector.

As illustrated in Table 2, on the technical efficiency, strongly credible evidence shows almost undivided support to the argument on the ability of decentralization to enhance service delivery outcomes in education. Galiani et al. (2008) find that there is positive correlation between decentralization and the output on Mathematics and Spanish test scores in secondary schools in Argentina. Accordingly, Faguet and Sánchez (2008) find that decentralization has a significant and positive association with changes in student enrolment rates in state schools in Colombia.

**Table 2. Selected Empirical Evidence on the Argument of Preference Matching and Technical Efficiency of Decentralization**

No	Author (Date)	Country of Study	Date Implemented	Programme Description	Method of Analysis	Sample	Measure/s of Decentralization	Results	Identification Strategy	Argument being supported
1	Faguet and Sanchez (2008)	Colombia	Phased beginning in 1970s - key reform in 1991	Increase in devolved funds to Local Government, greater responsibility for public services, political devolution	OLS and 2SLS	90% of municipalities universe over period 1994 to 2004	<ul style="list-style-type: none"> <li>▪ Local Government own revenue sources / Local Government expenditure</li> <li>▪ Binary factor of Municipal Certification</li> <li>▪ Share of transfers to education expenditure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decentralization positively associated with higher enrolment in public school</li> </ul>	Strongly Credible	technical efficiency
2	Galiani et al (2008)	Argentina	1991	Decentralized financing, staff management and budgeting to Local Government. Schools choose textbooks and teaching methods	Difference in differences	Almost all secondary schools over period 1994 to 1999	<ul style="list-style-type: none"> <li>▪ Actual transfer from province to Local Government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decentralization associated with higher Math and Spanish scores</li> </ul>	Strongly Credible	technical efficiency
3	Faguet (2004); Faguet (2012); Faguet and Sanchez (2008)	Bolivia	1994	Increase in devolved funds to Local Government, responsibility for public services, establishment of oversight committees	OLS using a fixed effects mode	Universe of 311 regions over 1987 - 2007	Binary measure of before and after Decentralization implementation	<ul style="list-style-type: none"> <li>▪ Investment in education increases significantly post Decentralization</li> <li>▪ Investment increases are associated with illiteracy levels</li> </ul>	Strongly Credible	preference matching
4	Skoufias et al (2011)	Indonesia	1999	Increase in devolved funds to Local Government, responsibility for public services. In 2005, direct election of local government	Difference in differences	200 out of 400 districts during 2001 to 2006	Binary measure of election date	<ul style="list-style-type: none"> <li>▪ Overall public expenditure increased post Decentralization</li> <li>▪ Increase in spending on education post Decentralization</li> </ul>	Strongly Credible	preference matching

Notes: selected results only from strongly credible evidence in education sector

Source: Channa and Faguet (2012: 19, 37).

Meanwhile, the evidence indicates that decentralization changes local patterns on public spending (Faguet 2004, Faguet 2012, Faguet and Sanchez 2008, Skoufias et al. 2011). However, there is less agreement on whether these changes are responsive or not to local needs. Faguet discover favorable evidence in Bolivia, that regions with high illiteracy rate invested more heavily in education, while regions with better education indicators put their priority to other sectors, therefore he argue that the finding indicates that local government sensitivity to local need is better than the central government (Faguet 2004, Faguet 2012, Faguet and Sanchez 2008). On the contrary, Skoufias et al.'s (2011) finds that political decentralization is linked with increase in overall public spending in Indonesia, but higher spending does not necessarily denotes improvement in the preference matching.

Moreover, Bahl (2001) argues that local government has issues on the mismatch of assigned revenues and expenditure. Local governments' expenditure responsibility is mostly larger than the revenue function assigned to them. Accordingly, Grossman and Lewis (2014) argue that new regions are likely have less infrastructure and fewer civil servant, which make them has lower administrative capacity and become dependent on the assistance of central government in the planning and implementing public service delivery.

Decentralization is believed to enhance public service delivery through increasing efficiency in the distribution of resources. Common assumption on decentralization is that it improves resource allocation. Local Government is assumed to have better knowledge on local requirements and preferences, which enhance technical efficiency and preference matching among various public services, including education service. However, the transfer of public service delivery to local government together with the process of government units proliferation is argued to lead some challenges in the Fiscal Balance and administrative capacity of the local government. When decentralization is followed by government units' proliferation the enhancement in the outcome of service delivery may be followed by mismatch in the local revenues and expenditures.

# Chapter 3

## Background Situation in Indonesia

### 3.1 Decentralization in Indonesia

Decentralization has taken place in several regions around the world within the last decades. Among those countries, Indonesia is one who decided to distribute certain authorities to its subnational governments. Decentralization in Indonesia was started in 1999 with the stipulation of Law No. 22/1999 on Local Governance and Law No. 25/1999 on Fiscal Balance between Central and Regional Government.

“According to Law 22/1999 and Law 25/1999, the central government will reduce significantly its role into only five authorities: military and defense, fiscal and monetary, religion, judicial system, and foreign affairs, plus standardization and macro-economic planning. The rest of authorities decentralized to the local governments, especially the kabupaten (district or regency) level and the kota (municipality) level.” (Brodjonegoro 2001: 4).

Law No. 22/1999 on Regional Government removes the hierarchical relationship between the provincial and the district/municipality governments. The district/municipality governments become fully autonomous that instead of reporting to the governor of the province, their heads are responsible to the local parliament. (Alm et al. 2001). The Law also transfers the responsibility of all the deconcentrated central government ministry offices at province and district/municipality level to the respective local governments (*ibid.*). Meanwhile, Law No. 25/1999 initiates essential reforms in Indonesia’s intergovernmental fiscal affairs. “The reforms strongly increased the regional government’s share of government resources, moved the transfer system from one dominated by earmarked grants to one largely relying on general grants supplemented by revenue sharing, and—with the reforms introduced by law 34/2000—gave broad taxing authorities to local government.” (Hofman and Kaiser 2002: 12)

### 3.2 Five Tiers of Government Structure in Indonesia

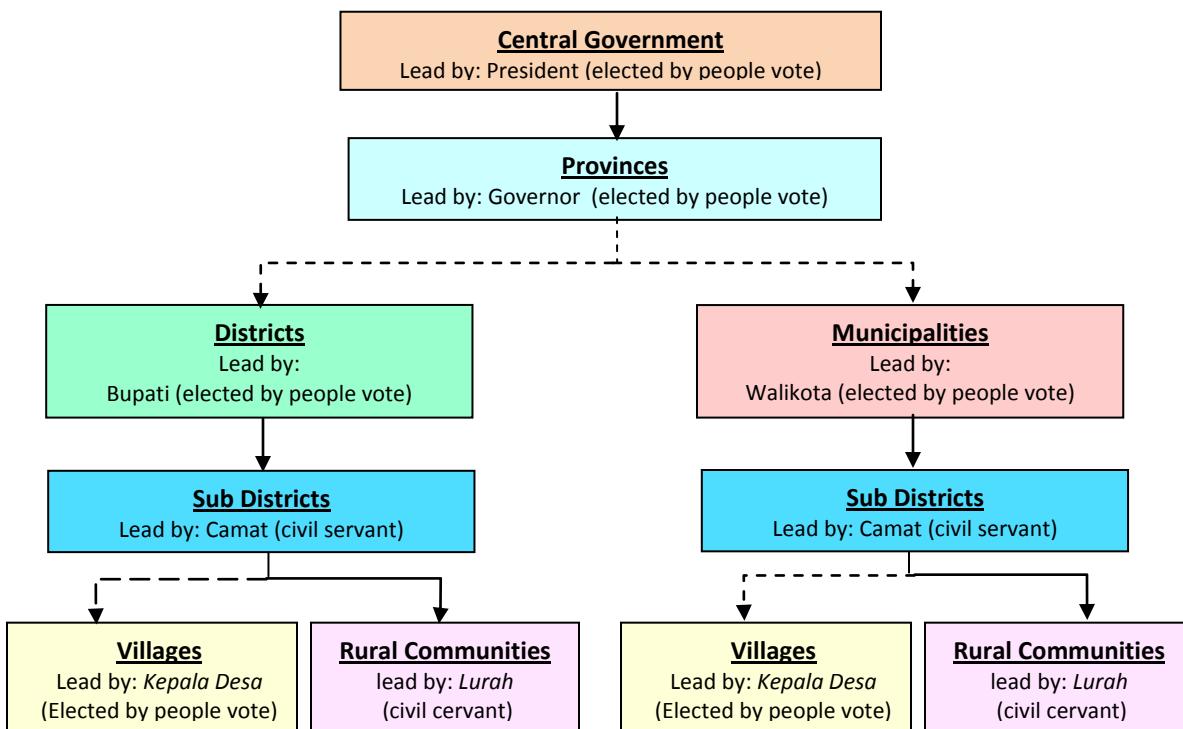
According to Law No. 23/2014 which amend Law No. 32/2004 and Law No. 22/1999 on Local Government, Indonesia is divided into several provinces. Each province made up of districts and municipalities. Districts and/or municipalities comprise subdistricts, and each subdistrict is composed of villages. Provinces, districts, and municipalities have their own parliamentary bodies and local governments.

Central Government is lead by Presidents, assisted by the Ministry. The Central Government is responsible for absolute affairs, which are: foreign affairs, defense, national security, justice, national monetary and fiscal affairs, and religion. The other affairs are being decentralized to the local government.

A province is the second tier of the government under the Ministry of Home Affairs. It is ruled by a governor who is elected by people vote. Each province has its own parliamentary body. The provincial government is responsible for government affairs which involved cross-districts and/ or

cross-municipalities affairs. Districts (*Kabupaten*) and Municipalities (*Kota*) are local government below the provincial level, yet they do not report to the province. They have larger decentralization of affairs than the provincial government. Both districts and municipalities are at the same level. The difference between district and municipality is in the demography characteristic, area size, and economic activities. Generally, district has larger area than municipality. In terms of economic activities, typically municipality has non-agricultural activities and district has agriculture activities. Both district and municipality have their own local government and legislative body. District is governed by *Bupati* whereas Municipalities is lead by *Walikota*. Districts and Municipalities are divided into subdistricts (*Kecamatan*). Subdistrict is lead by a *camat*, who considered as civil servant and responsible to the head of district/municipality. Subdistricts are divided into *desa* (villages) or *kelurahan* (rural communities). Both villages and rural communities are in the same level, however a rural community has less autonomy than a village. Village is ruled by a *kepala desa*, who is elected by people vote, while rural community is lead by a civil servant called *lurah*, who is recruited by the local government and directly responsible to the subdistrict head.

**Figure 2. Hierarchical Structure of Indonesian Government**



Notes:

- solid line —— represent direct responsibility line where the lower hierarchy have to report to the upper party
- dashed line ----- represent indirect responsibility line where the lower party does not report directly to the upper party but they are required to do coordination.

Own construction, source: Law No. 23/2014

### **3.3 Proliferation of Region in Indonesia**

#### **3.3.1 The Rationale**

Decentralization has been followed by the formation of new districts in Indonesia. “Enthusiasm for regional autonomy itself is one factor that has led to the desire for regions to split from their former administrative jurisdictions, the procedures for which are set out in Government Regulation No. 129/2000 concerning Requirements for *Establishment and Criteria for Division, Dissolution and Merging of Regions*” (Bappenas 2008: 1).

From technocratic point of view, according to the Government Regulation No. 129/2000, the objective of government units’ proliferation is to improve public service delivery, to accelerate democratic life, to accelerate local economic development, to accelerate the management of local economic potential, to increase local security, and to improve coordination between central and local government. However, there are also some literatures which argue that government units’ proliferation is merely a political tool.

In his study, Hadiz (2004) present a perspective on decentralization which includes power, struggle, and interest factors. Based on the case study from North Sumatera, he argues that power contests have larger impact than the policy itself, and that Indonesian decentralization has been captured by political motivation which has little concern on technocratic interest. As Santoso (2007: 2) mentioned that “Territory serves as a basis for identity politics. By establishing a new set of local governments, the central government still retains territorial control and, at the same time, local activists also have an opportunity to do so.”. Additionally, Grossman and Lewis (2013) state that local actors also has significant role in the process of government units’ proliferation, considering that the central government has the right to initiate the proposal on the creation of new autonomous region. Accordingly, Kimura (2010) argue that the increasing new district and province in decentralized Indonesia is driven by territorial coalition among various territorial administrative levels. He defined territorial coalition as the alliances of national, regional and local politics which trigger the proliferation phenomena in Indonesia.

This paper acknowledges the political economy motivation on decentralization and government unit proliferation in Indonesia, as argued by previous literatures. However further discussion on political economy factor is beyond the scope of this study, the discussion focuses on whether there are tangible pros and cons underlying government units’ proliferation.

#### **3.3.2 Criteria for creating new Region**

The proliferation of region in Indonesia is only applicable for two levels of the local government, which are: provinces and districts/ municipalities. According to Government Regulation No. 129/2000 the criteria for creating new regions are local economic capacity, local economic potential, socio culture, socio politic, population number, area size, and other considering factors.

Local economic capacity is a reflection of local economic activities which measured form: regional gross domestic product and local own revenue. Whereas local economic potential is indicator on the availability of resources which can be utilized and contribute to the local own revenue. They’re measured by the availability of financial institution, economic infrastructure, education infrastructure, health infrastructure, transportation infrastructure, tourism infrastructure and

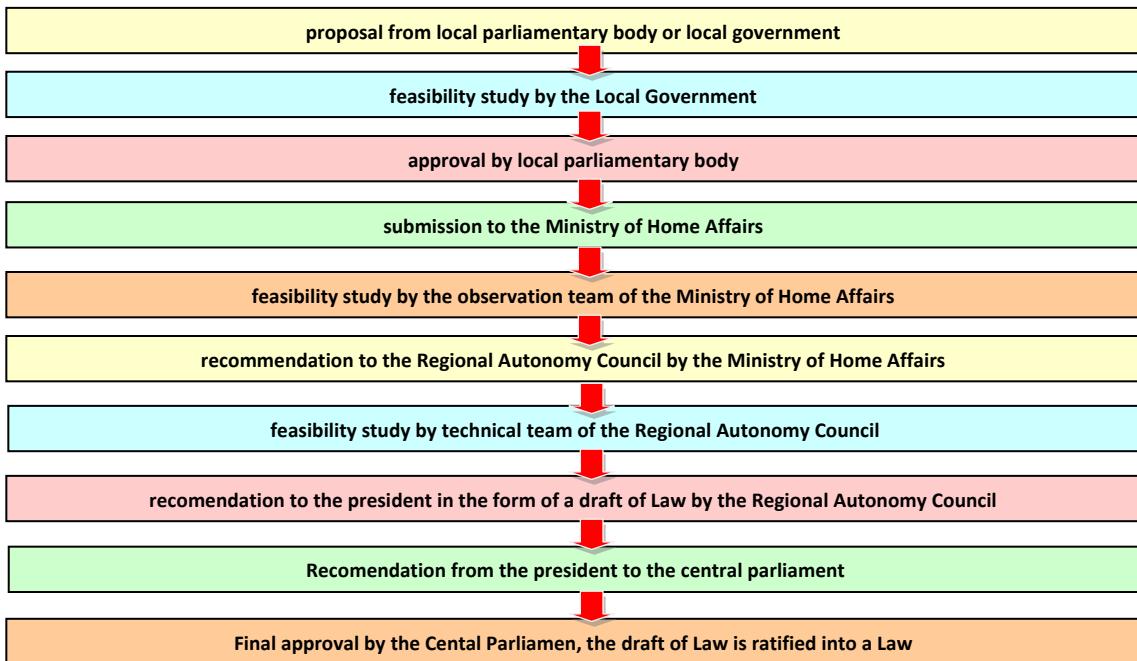
employment. Moreover, socio culture indicator is the social and cultural condition within the region which reflected from the availability of worship place, social and cultural facilities and activities, and sport facilities. Meanwhile, socio politic indicator is social and political conditions within the region which are reflected from public participation in politics arena and the availability of civil society organization. Furthermore, other considering factors for government units' proliferation include: Security and public order, the availability of governance infrastructure, span of control, minimum of three districts and/or municipalities for a new province, minimum of three subdistricts for a new district, and minimum of three subdistricts for a new municipality.

### **3.3.3 Process of creating new Region**

According to Government Regulation No. 129/2000, the process of government units' proliferation started from the recommendation from local parliament body or local government. The proposal then will be followed up by the Local Government (province/ district/ municipality) by doing feasibility study. A feasible proposal needs to be approved by local parliamentary body before submitted to the Ministry of Home Affairs on behalf of the Central Government. Proposal for new province should be approved by the legislative body in provincial level, whereas proposal for new district/ municipality should be approved by both legislative body in district/ municipality level and provincial level. The Ministry of Home Affair will establish observation team to conduct feasibility study, which will be used as the recommendation base to the Regional Autonomy Council. To proceed the recommendation from the Ministry of Home Affairs, the Regional Autonomy Council will assign technical team to perform another feasibility study. In the case Regional Autonomy Council approved the proposal, it will be proposed to the President in the form of a draft of Law. Final approval is given by the Central Parliament, the draft of Law is submitted by the president to the Central Parliament Body to be ratified into a Law.

Within the process of regional proliferation, there is a council which has the mandate to evaluate proliferation proposal. It's called Regional Autonomy Council or *Dewan Pertimbangan Otonomi Daerah* (DPOD). DPOD is responsible to the president and regulated by President Regulation No. 91/2015. The composition of DPOD is made of: Vice President as chairman, Minister of Home Affairs as secretary, Minister of Finance as vice secretary, Other Ministers as member, and representative of Regional Leaders as member which consist of 1 Governor, 1 District head, and 1 Municipality Head. The composition of DPOD is stipulated by presidential decree, while the funding is budgeted under the Ministry of Home Affairs. Figure 3 illustrate the process flow of government units' proliferation.

**Figure 3. Process of Creating New Autonomous Regions in Indonesia**



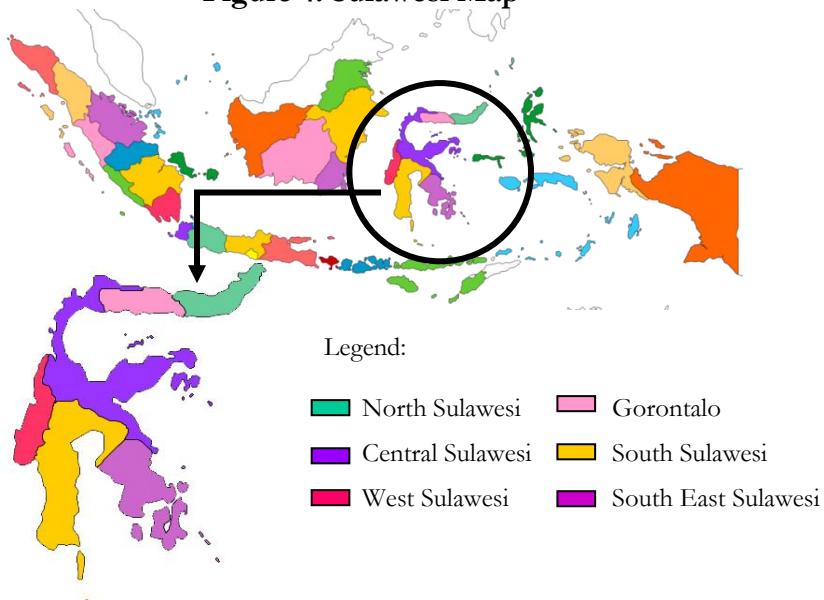
Own construction, source: Government Regulation No. 129/2000

### 3.4 Sulawesi

#### 3.4.1 Geography and Administration

Sulawesi is one of the five biggest islands in Indonesia. With a land area of 188.522 square kilometers, Sulawesi is the fourth largest island in Indonesia. The island consists of 6 provinces: North Sulawesi, Central Sulawesi, South Sulawesi, South East Sulawesi, Gorontalo, and West Sulawesi, where the largest province is Central Sulawesi with the size of 61.841 square kilometers.

**Figure 4. Sulawesi Map**



modified from <http://beta.sonora-network.com/assets/images/map-indonesia.png>

### 3.4.2 Population

According to Population Census Data in 2010, the total population in Sulawesi is 17.371.782 people. Most of the populations in Sulawesi live in rural areas, only 33% of them live in urban area. The densest province is South Sulawesi at 173 people per square kilometers which also has the largest population at the number of 8.034.776 people or 46% of total population in the whole island. Table 3 present population number and population density on provincial based.

**Table 3. Sulawesi Demographic Information**

Province	Estimated Population 2014 (people)	Area Size (square km)	Population Density (people per sq.km)
North Sulawesi	2.386.600	13.852	172
Central Sulawesi	2.831.300	61.841	46
South Sulawesi	8.432.200	46.717	180
South East Sulawesi	2.448.100	38.068	64
Gorontalo	1.115.600	11.257	99
West Sulawesi	1.258.100	16.787	75
<b>TOTAL</b>	<b>18.471.900</b>	<b>188.522</b>	<b>106</b>

Source: BPS-Statistics Indonesia (2014).

### 3.4.3 Decentralization and Regional Proliferation in Sulawesi

At the beginning of Indonesian independence period between the year 1945 to 1960 Sulawesi Island was stand as one province. On 1960 Sulawesi Province was divided into two provinces: South-South East Sulawesi and North-Central Sulawesi. Furthermore on 1964 South-South East Sulawesi province was divided into two provinces: Central Sulawesi and North Sulawesi, whereas North-Central Sulawesi province was divided into South East Sulawesi and South Sulawesi.

Along with decentralization era, there are two new provinces established between the year 2000 and 2004. Gorontalo province was established in the year 2000, while West Sulawesi province was established in the year 2004. Within the period of ten years between 1999 and 2014 there are 38 new autonomous regions in Sulawesi, which is made up of 2 additional provinces, 32 additional districts and 4 additional municipalities as presented in Table 4.

**Table 4. Additional Number of Autonomous Region in Sulawesi 1999-2014**

Year	Province	District	Municipalities	Total
1999	4	38	7	49
2014	6	70	11	87
<b>Additional</b>	<b>2</b>	<b>32</b>	<b>4</b>	<b>38</b>

Own construction, source BPS-Statistics Indonesia (1999, 2014)

By the End of 2014 Sulawesi has 6 Provinces with 70 Districts and 11 Municipalities. The largest number or autonomous region is in South Sulawesi Province with a total of 25 regions. Table 5 show the number of autonomous region in Sulawesi Island by province.

**Table 5. Number of Autonomous Region by Province in Sulawesi, 2014**

Province	Province	District	Municipalities	Total
North Sulawesi	1	11	4	16
Central Sulawesi	1	12	1	14
South Sulawesi	1	21	3	25
South East Sulawesi	1	15	2	18
Gorontalo	1	5	1	7
West Sulawesi	1	6	0	7
<b>TOTAL</b>	<b>6</b>	<b>70</b>	<b>11</b>	<b>87</b>

Own construction, source BPS-Statistics Indonesia (2014).

### 3.4.4 The proliferation of West Sulawesi from South Sulawesi Province

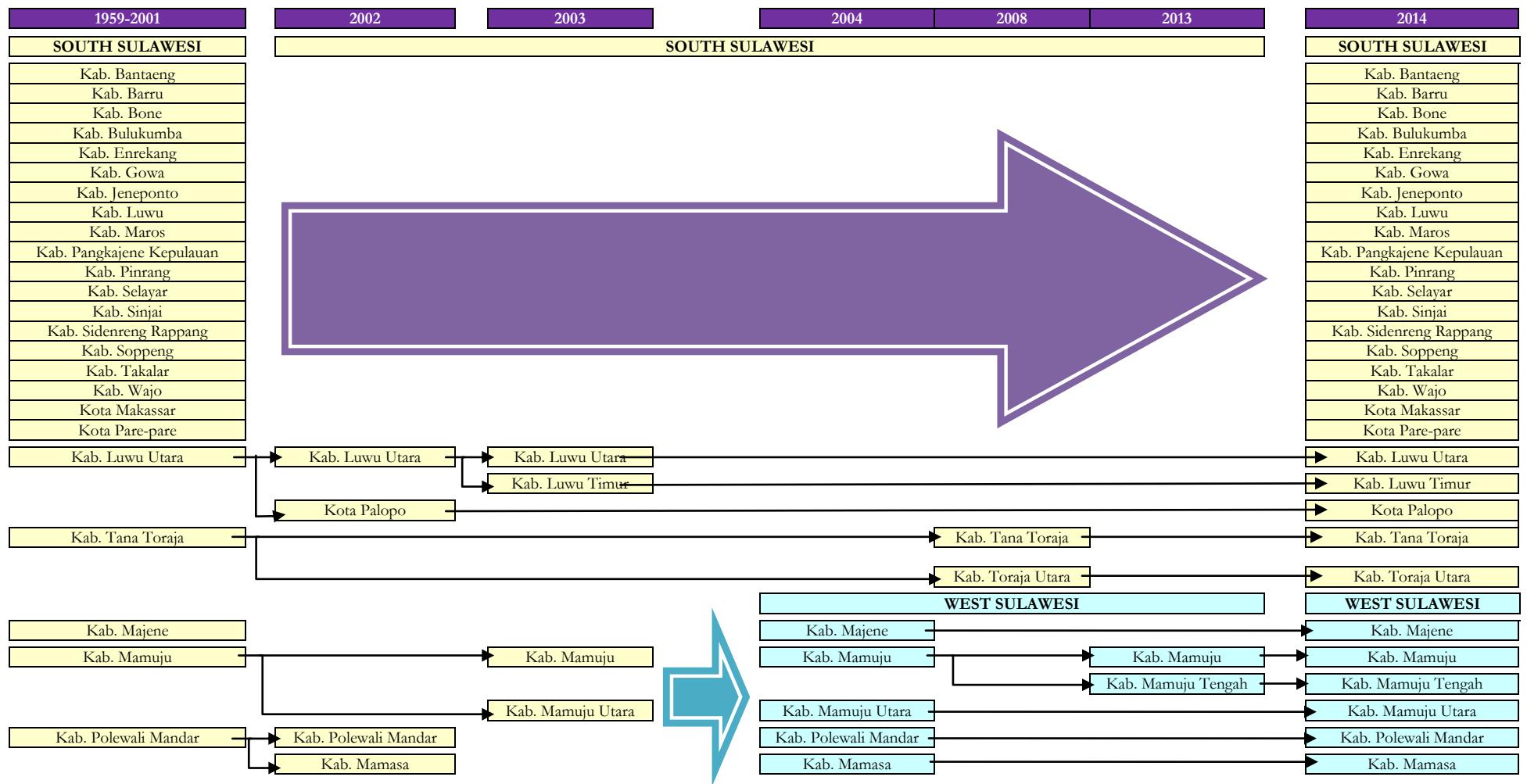
South Sulawesi is one of the oldest provinces in Sulawesi islands. It is founded on 1959. For 42 years between 1959 and 2001 the province consists of 22 district and 2 municipalities. On the year 2004, 4 districts in South Sulawesi were transferred to a new established province: West Sulawesi. This paper attempts to build the flow chart of government units' proliferation process in South Sulawesi and West Sulawesi provinces (Figure 5). The flow chart is prepared based on Minister of Home Affairs Regulation No. 56/2015 on the Code and Data of Administrative Area. The Regulation provides the list of administrative area within the Republic of Indonesia as per 2015 grouped by provincial based. Each province is presented as one document, there are total of 34 documents, this paper focus on two documents: South Sulawesi and West Sulawesi.

Each document from the regulation contains a list of administrative area within a province, including districts, municipalities, subdistricts, rural communities and villages, with additional description on area size, number of population and the legal basis for the establishment of the administrative area.

Using the documents, this study summarizes only the list of district/municipalities and removes other details on municipalities, subdistricts, rural communities, and villages. Furthermore, using the description on the legal basis for establishment, this study tracks the establishment year of each district and municipality. For each district/ municipality which established after 1999 this study track down the establishment Law to define the parents region from which a new district/ municipality is split before being established as a new region. The result is a table which contains the list of districts and municipalities, their establishment year, legal basis of establishment and the origin region from which the split.

The table then being translated into a flow chart which illustrated the regional proliferation process between 1959 and 2014, started with one province: South Sulawesi, with 22 district and 2 municipalities. The flow chart is ended up with two provinces in 2014, South Sulawesi with 21 districts and 3 municipalities; and West Sulawesi with 6 districts. The overall process of government units' proliferation in South Sulawesi Province and West Sulawesi Province is illustrated in Figure 5.

Figure 5. Flow Chart of Government Units' Proliferation in South Sulawesi and West Sulawesi



Own construction, Source: Minister of Home Affairs Regulation No. 56/2015

### 3.4.5 Regional Grouping based on proliferation type

The understanding of the proliferation process is important to determine the grouping of districts and municipalities based on their proliferation type. Based on the process identified in Figure 5, districts and municipalities within the two provinces are grouped into four regions: proliferated region, non proliferated region, parents region, and child region.

Proliferated region is region which experiences regional proliferation either as parent region or as child region. On the contrary, non proliferated region is the region which never encounters proliferation or never being transferred to a new province. Parents region is a region which experience regional split from one region to two or more region, whereas child region is the new region resulted from the split.

Table 6 displays the group of proliferated region and non-proliferated region in both South Sulawesi and West Sulawesi Provinces. There are 10 districts and municipalities within the proliferated group and 20 districts and municipalities within the non-proliferated group.

**Table 6. Regional Grouping: Proliferated and Non Proliferated**

Proliferated Region		Non Proliferated Region	
District/Municipality	Province	District/Municipality	Province
Kab. Luwu Utara	South Sulawesi	Kab. Bantaeng	South Sulawesi
Kab. Luwu Timur	South Sulawesi	Kab. Barru	South Sulawesi
Kota Palopo	South Sulawesi	Kab. Bone	South Sulawesi
Kab. Tana Toraja	South Sulawesi	Kab. Bulukumba	South Sulawesi
Kab. Toraja Utara	South Sulawesi	Kab. Enrekang	South Sulawesi
Kab. Majene	West Sulawesi	Kab. Gowa	South Sulawesi
Kab. Mamuju	West Sulawesi	Kab. Jeneponto	South Sulawesi
Kab. Mamuju Tengah	West Sulawesi	Kab. Luwu	South Sulawesi
Kab. Mamuju Utara	West Sulawesi	Kab. Maros	South Sulawesi
Kab. Polewali Mandar	West Sulawesi	Kab. Pangkajene Kepulauan	South Sulawesi
		Kab. Pinrang	South Sulawesi
		Kab. Selayar	South Sulawesi
		Kab. Sinjai	South Sulawesi
		Kab. Sidenreng Rappang	South Sulawesi
		Kab. Soppeng	South Sulawesi
		Kab. Takalar	South Sulawesi
		Kab. Wajo	South Sulawesi
		Kota Makassar	South Sulawesi
		Kota Pare-pare	South Sulawesi
		Kab Mamasa	West Sulawesi

Own construction, Source: Minister of Home Affairs Regulation No. 56/2015

The proliferated group are being grouped into 2 groups of parents region and child region as presented in Table 7. The total of 10 proliferated regions consists of 4 parent regions and 6 child regions.

**Table 7. Regional Grouping: Parents and Child**

Parents Region		Child Region	
District/Municipality	Province	District/Municipality	Province
Kab. Luwu Utara	South Sulawesi	Kab. Luwu Timur	South Sulawesi
Kab. Tana Toraja	South Sulawesi	Kota Palopo	South Sulawesi
Kab. Mamuju	West Sulawesi	Kab. Toraja Utara	South Sulawesi
Kab. Polewali Mandar	West Sulawesi	Kab. Mamuju Tengah	West Sulawesi
		Kab. Mamuju Utara	West Sulawesi
		Kab. Mamasa	West Sulawesi

Own construction, Source: Minister of Home Affairs Regulation No. 56/2015

The next chapters in this paper utilize the proliferation grouping identified in Table 7 and Table 8 to examine the effect of government's unit proliferation to the allocation of fiscal resource and to the outcome of education service delivery in South Sulawesi and West Sulawesi area. The analysis is conducted by comparing the average of each group.

# Chapter 4: The Cost of Government Units' Proliferation: The Case of South Sulawesi and West Sulawesi

This chapter presents the findings on government units' proliferation impact to the allocation of fiscal resource in South Sulawesi Province and West Sulawesi Province. The chapter is divided into three sections. It will start with the discussion on the findings in the allocation of fiscal resources from the central governments, followed by the next section which will explain the findings on how local government in South Sulawesi and West Sulawesi provinces manage their expenditure. Then the last section will present the findings on the ability of South Sulawesi and West Sulawesi provinces' government to generate local revenue.

## 4.1. Central Government Transfer

With the stipulation of Law 25/1999 on Fiscal Balance between Central and Regional Government, Indonesia has started the implementation of fiscal decentralization. According to Law 25/1999 there are three elements of fiscal transfers between the central and local government which also known as intergovernmental transfer, consist of revenue sharing (*Dana Bagi Hasil*, or DBH), a non-earmarked general allocation fund (*Dana Alokasi Umum*, or DAU), and an earmarked specific allocation fund (*Dana Alokasi Khusus*, or DAK). As a conditional grant, only DAK which has specific allocation, while for DBH and DAU the local government has full autonomy in managing the expenditure allocation. The amount of central government transfer to local government at the provincial and distict/municipal level has increased significantly during the decentralization period. Table 8 present the amount of transfer to regions compare to total amount of national expenditure during 2001 and 2014.

Table 8. National Expenditure (trillion IDR)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Central Government Expenditure	261	224	256	306	359	478	505	693	629	697	884	1.011	1.137	1.231
Transfers to Regions	81	98	120	130	151	221	253	292	309	345	411	481	513	574
Balance Funds	81	95	111	123	143	217	244	279	287	317	347	411	430	477
Revenue Sharing	20	25	31	37	50	60	63	78	76	92	97	112	88	104
General Allocation Funds	60	69	77	82	89	146	165	180	186	204	226	274	311	341
Specific Allocation Funds	1	1	3	4	5	12	16	21	25	21	25	26	31	32
Special Autonomous Region and balancing funds	-	4	9	7	7	4	9	14	21	28	64	69	83	97
Special Autonomous Region funds	-	1	2	2	2	3	4	8	10	9	10	12	13	17
balancing funds	-	2	8	5	5	1	5	6	12	19	54	57	69	80
Total National Expenditure	342	322	377	436	509	699	758	986	937	1.042	1.295	1.491	1.650	1.804

Own construction,

source: BPS-Statistics Indonesia (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014)

The data illustrates a considerable increase of 600 percent in the total amount transferred by central government to the local government over fourteen years. On 2001 central government has transferred a total amount of 81 trillion IDR to the local government which account for about 23,74 percent of Central Government Total Expenditure. The number has grow at the average of 16,6 percent per year. On 2014 Central Government of Indonesia has made transfer to local government at the amount of 574 trillion IDR (31,8 percent of Total Expenditure). Additionally, throughout the periods, the composition illustrate that the intergovernmental transfer is dominate by the DAU. With 15 percent annual increase from 2001, by the end of 2014 the amount of DAU transfer was

341 trillion IDR, accounted for 19 percent of the National Expenditure and 59 percent of the intergovernmental transfer.

DAU is a non-earmarked general allocation grant intended for equalization purpose, to reduce fiscal gap among regions. According to Law 33/2004, DAU is allocated based on a formula which is calculated from basic allocation and fiscal gap. Basic allocation is calculated from civil service wage bill, whereas fiscal gap is calculated from the difference between fiscal capacity and fiscal need of a region. Once a proliferation proposal has been approved the newly established autonomous region is entitled for a DAU, this will create additional burden to the national budget.

Considering the nature DAU, of which local government has significant discretion power to exercise their priority consideration in allocating the DBH and DAU to meet the public interest, it is necessary to examine the relation between the increasing transfer amount and the growing number of additional new autonomous regions. Firman (2009) mention that government units' proliferation has caused the decrease in the average amount of DAU distributed to each regions. He argued that the amount of DAU allocated to the new established region has created additional burden to the central government budget (*ibid.*). Table 9 illustrates the amount of DAU transferred to the regions during 2001 and 2014.

**Table 9. DAU National Distribution 2001 – 2014 (billion IDR)**

Year	DAU amount	No. of Region	Average Distribution
2001	60.517	421	144
2002	69.114	421	164
2003	76.978	470	164
2004	82.131	473	174
2005	88.766	473	188
2006	145.664	473	308
2007	164.787	498	331
2008	179.507	516	348
2009	186.518	530	352
2010	203.571	530	384
2011	225.533	530	426
2012	273.814	530	517
2013	311.139	545	571
2014	340.919	548	622

Own construction, data source: BPS-Statistics Indonesia<sup>1</sup>

Table 10 shows that in 2001, on the beginning of the fiscal decentralization period, central government of Indonesia distributed a total amount DAU of IDR 60 trillion for 421 regions. By the end of 2014, the amount has become five times larger at 341 trillion IDR for 548 regions. This paper agree with the claim that additional number of regions has increased the required DAU amount to be transferred by the central government (Firman, 2009), however further examination finds that

<sup>1</sup> The table is summarized from annual publication of BPS Indonesia Statistics: Statistical Yearbook of Indonesia. It is constructed from 14 different books, namely Statistical Yearbook of Indonesia 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014. DAU amount and No. of region information are taken from the publication, meanwhile average distribution is own calculation by the author.

not only has the total amount increased, but the average distribution per region also increasing from 144 million IDR per region in 2001 to 622 million per region in 2014. The finding is contradicted with the claim by Firman (2009) on the decreasing amount of DAU distributed to each region.

This paper finds that additional number of autonomous region did not reduce the individual distribution amount received by each region. It indicates further that the creation of new region gives additional liability to the national budget, not only because the additional number of the region but also because of the additional amount distributed for each region.

In the context of South Sulawesi and North Sulawesi province, Table 10 illustrates the amount of DAU received by districts and municipalities in both provinces during 2001 and 2014. It can be seen that the DAU received by districts and municipalities in both province is continuously increasing.

**Table 10. DAU, South Sulawesi and West Sulawesi 2001 – 2014 (billion IDR)**

Year	General Allocation Fund		No Of Region		Average Distribution	
	South Sulawesi	West Sulawesi	South Sulawesi	West Sulawesi	South Sulawesi	West Sulawesi
2001	2.799	-	27	-	104	-
2002	3.562	-	27	-	132	-
2003	4.163	-	29	-	144	-
2004	4.376	-	24	6	182	-
2005	4.776	-	24	6	199	-
2006	6.586	1.326	24	6	274	221
2007	7.352	1.468	24	6	306	245
2008	8.096	1.688	25	6	324	281
2009	8.263	1.768	25	6	331	295
2010	9.314	1.922	25	6	373	320
2011	9.844	2.084	25	6	394	347
2012	12.034	2.591	25	6	481	432
2013	13.755	2.996	25	7	550	428
2014	15.187	3.299	25	7	607	471

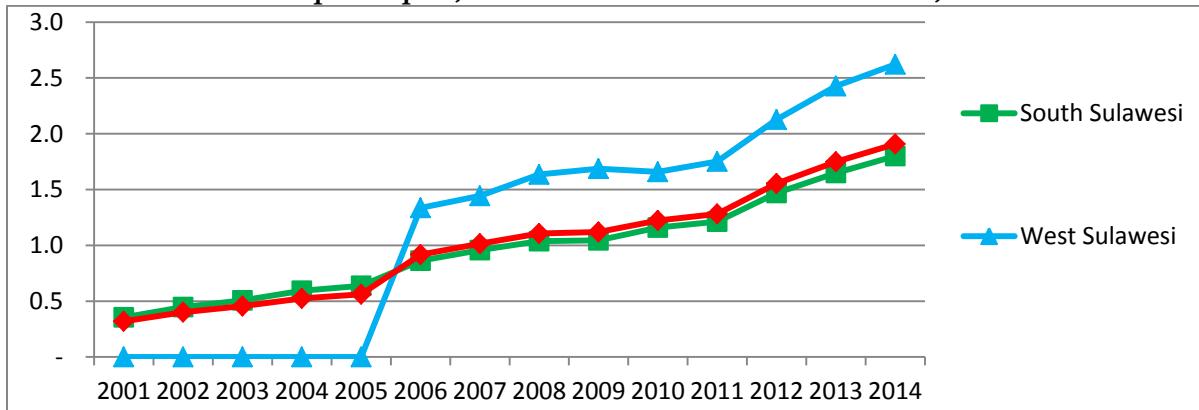
Own construction, data source: Ministry of Finance; BPS- Statistics Indonesia<sup>2</sup>

As the number of population become one of the variable used in the formulation of DAU (World Bank, 2010), this paper examine further on DAU per capita amount. The investigation show that although south Sulawesi has highest DAU per capita than West Sulawesi, the proportion has been continuously increasing in both provinces (Chart 2). In 2001 DAU per capita of South Sulawesi province was 0,4 million IDR per person, the amount has grow into 5 times, by the end of 2014 South Sulawesi has a DAU per capita at the amount of 1,8 million IDR per person. Whereas West Sulawesi as a new province started receiving its DAU on 2006 with DAU per capita at the amout of 1,3 million IDR per person. The number has become twice in the end of 2014 at the amount of 2,6

<sup>2</sup> The amount of general allocation fund per province is taken from Ministry of Finance data, , and Data on the amount of DAU per province is collected from Ministry of Finance (2008, 2009, 2011a, 2011b, 2013), number of region is taken from BPS-Statistics Indonesia (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014), meanwhile average distribution amount is own calculation by the author

million IDR per person. It is also revealed that DAU per capita in West Sulawesi is higher than the total combined DAU per capita of both provinces, meanwhile South Sulawesi has lower DAU per capita than the combined amount.

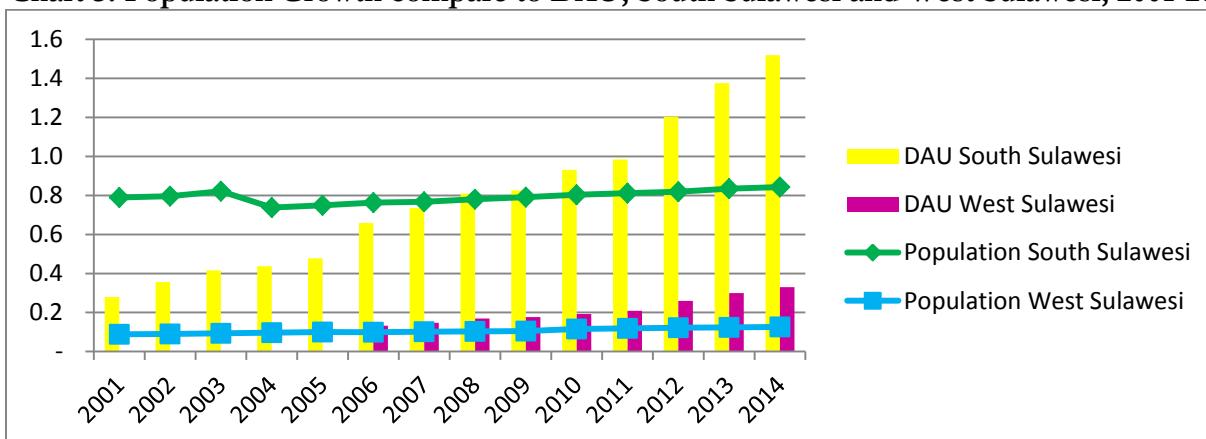
**Chart 2. DAU per Capita, South Sulawesi and West Sulawesi, 2001 – 2014**



Own construction, data source: Ministry of Finance; BPS- Statistics Indonesia<sup>3</sup>

However, although total DAU amount and DAU per capita amount are increasing, population trend show a steady growth in both provinces. Chart 3 illustrates population growth compare to DAU. Between 2001 and 2014 population number in South Sulawesi Province only increase by 7 percent, meanwhile the amount of DAU transfer increase by 443 percent. Similarly, in West Sulawesi province, population number between 2006 and 2014 increase only by 27 percent, while DAU amount between those periods increase by 127 percent. This indicates that the increase in DAU amount is not caused by the increase in population number in both provinces.

**Chart 3. Population Growth compare to DAU, South Sulawesi and West Sulawesi, 2001-2014**



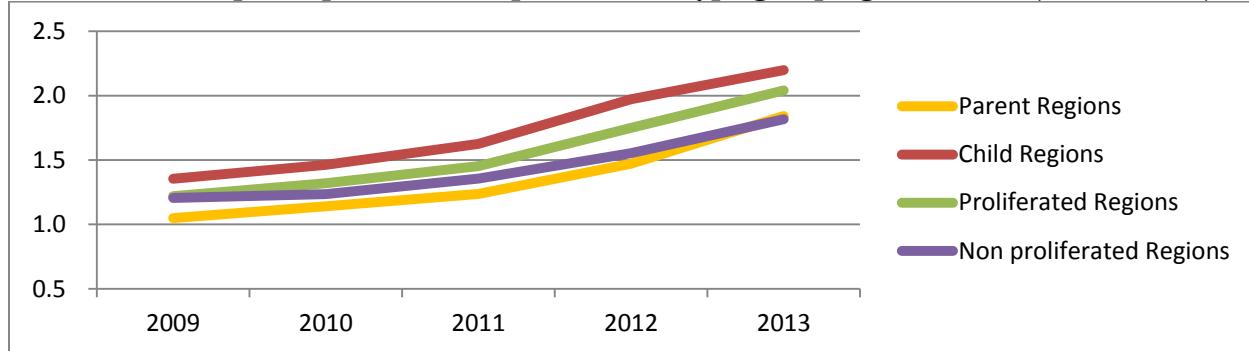
Own construction, data source: Ministry of Finance; BPS- Statistics Indonesia<sup>4</sup>

<sup>3</sup> Data on the amount of DAU per district is collected from Ministry of Finance (2008, 2009, 2011a, 2011b, 2013), meanwhile data for number of population per district is collected from annual statistic publication of province data, in total the data is summarized from 10 different books, namely Sulawesi Selatan in Figures (2009, 2010, 2011, 2012, 2013) and Sulawesi Barat in Figures (2009, 2010, 2011, 2012, 2013)

<sup>4</sup> See footnote No. 3

Further examination on DAU is done by proliferation grouping type. The result show that between 2009 and 2013 proliferated region has slightly higher DAU per capita amount than non proliferated region, meanwhile child regions have considerably higher DAU dan the parent regions (see Chart 4).

**Chart 4. DAU per Capita based on proliferation type grouping, 2009-2013 (million IDR)**



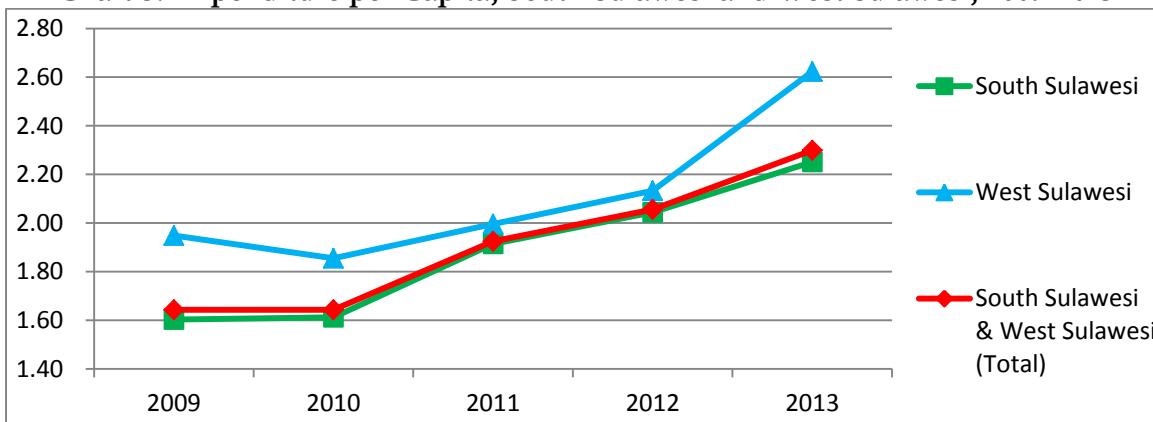
Own construction, data source: Ministry of Finance; BPS- Statistics Indonesia<sup>5</sup>

This indicate that Child regions are required more DAU transfer from the central government, therefore they are likely to be financially dependent to the central government. As indicated by Bahl (2001) local government has issues on the mismatch of assigned revenues and expenditure, where expenditure responsibility is larger than the revenue. This paper will examine further on expenditure management and revenue generating ability of the local government.

#### 4.2. Local Government Expenditure

Examination on Expenditure per Capita in both provinces has indicated that the amount has been continuously increasing between 2009 and 2013 (Chart 5). Expenditure per capita in West Sulawesi is considerably higher compare to South Sulawesi, also compare to the total combined expenditure per capita in both provinces. Meanwhile, South Sulawesi expenditure per capita amount only slightly higher that the total combined amount in both provinces.

**Chart 5. Expenditure per Capita, South Sulawesi and West Sulawesi, 2009-2013**

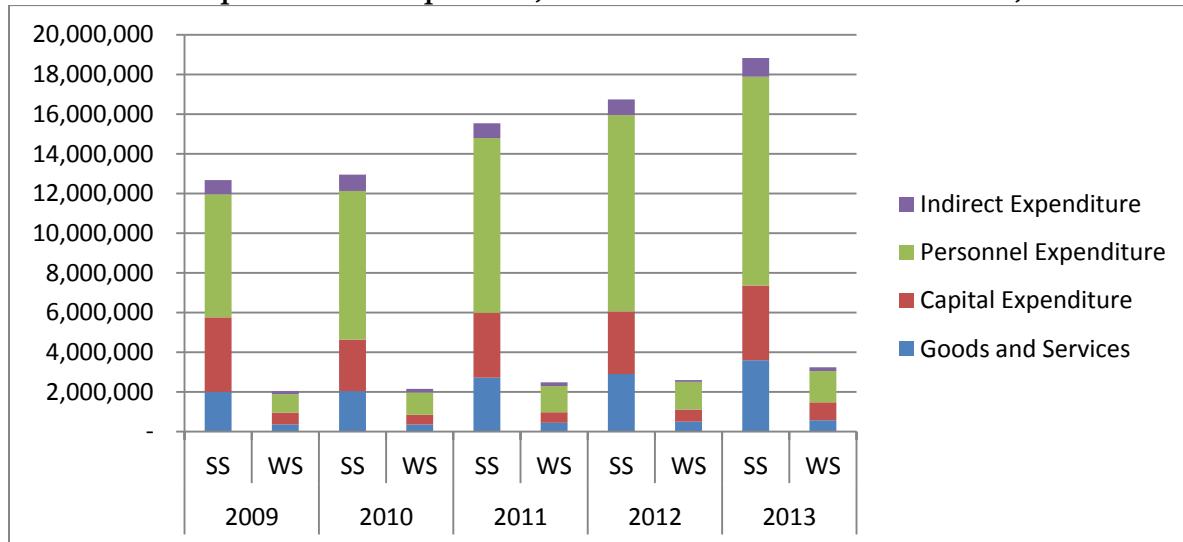


Own construction, data source: Satu Data Indonesia (n.d); BPS- Statistics Indonesia (2009, 2010, 2011, 2012, 2013)

<sup>5</sup> See footnote No. 3

Further examination on the composition of local government expenditure in both province shows that almost 50 percent of the budget is spent for personnel expenditure (Chart 6). In 2009 West Sulawesi (WS) spent 45 percent on personnel expenditure, while South Sulawesi (SS) spent 49 percent. The amount has grown by 4 percent in West Sulawesi and 7 percent in South Sulawesi. In 2013 West Sulawesi spent 49 percent on personnel expenditure, while South Sulawesi spent 56 percent.

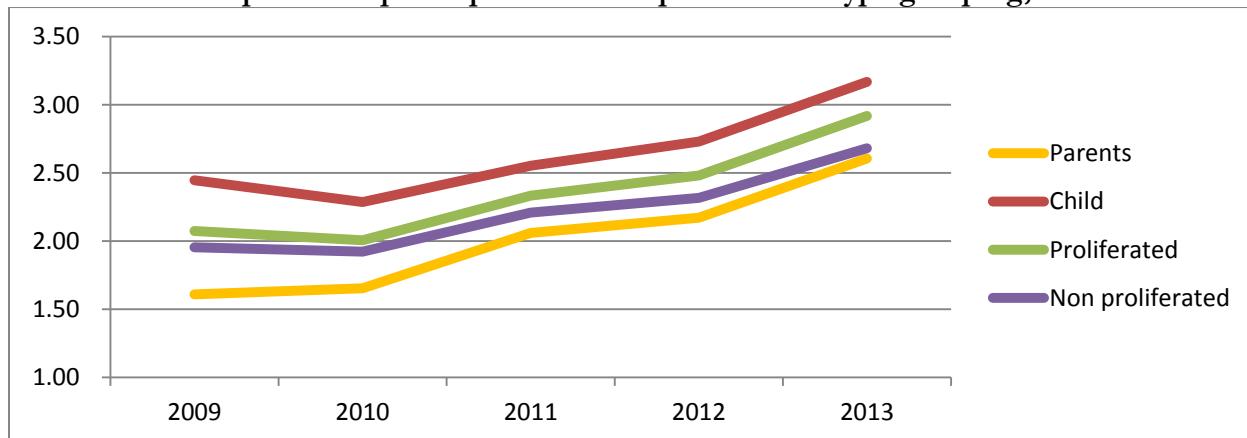
**Chart 6. Expenditure Composition, South Sulawesi and West Sulawesi, 2009 to 2013**



Own construction, data source: Satu Data Indonesia (n.d.)

Examination on expenditure per capita based on proliferation grouping show that Child region has higher expenditure per capita than parents region, as well as the proliferated region compare to non proliferated region (Chart 7).

**Chart 7. Expenditure per Capita based on proliferation type grouping, 2009-2013**

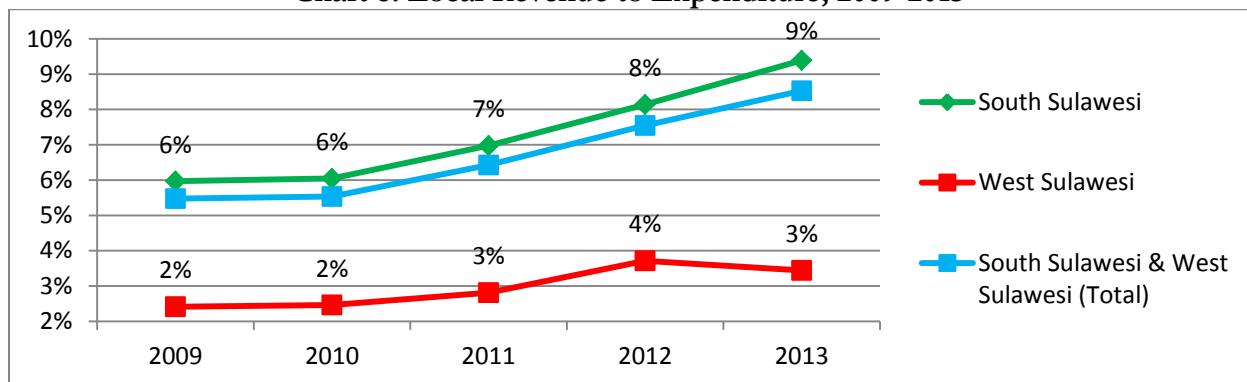


Own construction, data source: Satu Data Indonesia (n.d.); BPS- Statistics Indonesia (2009, 2010, 2011, 2012, 2013)

### 4.3. Local Government Revenue

As mentioned in the report by Bappenas (2008), due to the incapability to develop the same degree of local revenue as the parent regions, new autonomous regions has been constantly being more fiscal dependent than the control and parent regions. This paper tries to examine revenue generating capacity of the local government in South Sulawesi and West Sulawesi area. Analysis on local revenue indicates that percentage of local revenue to total expenditure in West Sulawesi is lower than South Sulawesi. West Sulawesi's capability to generate its own local revenue is no more than 4% of its expenditure, meanwhile South Sulawesi able to generate local revenue at the range of 6% to 9% from its total expenditure between 2009 and 2013 (Chart 8).

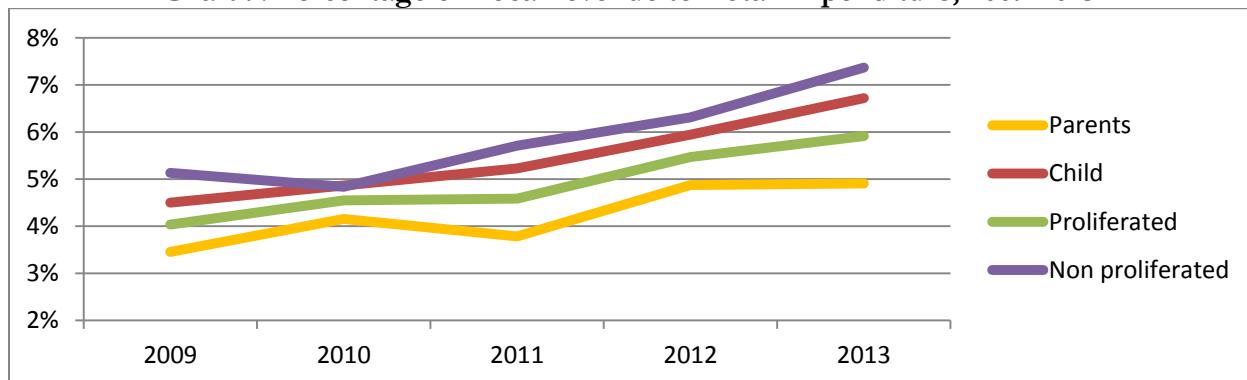
**Chart 8. Local Revenue to Expenditure, 2009-2013**



Own construction, data source: Satu Data Indonesia (n.d.)

Further examination based on proliferation type grouping shows that the percentage of local revenue to total expenditure between 2009 and 2013 in the child region is higher than the parents region, ranging from 4% to 6 %, meanwhile non proliferated region has higher percentage of local revenue compare to the proliferated region, at the range of 5% to 7% from their total expenditure (Chart 9)

**Chart 9. Percentage of Local revenue to Total Expenditure, 2009-2013**



Own construction, data source: Satu Data Indonesia (n.d.)

#### **4.4 Summary**

It can be seen that government units' proliferation in South Sulawesi and West Sulawesi has created cost both to the local government and central government. The higher amount of DAU per capita in the proliferated region compare to the non proliferated region, as well as in the child region compare to the parent region indicate that government units' proliferation has created more burden to the national government with the increasing amount of DAU transfer to the proliferated region, specifically to the new/child region. In the other hand it can be seen also that government units' proliferation does not reduce the dependency of the parents of the proliferated region, this is indicated from the increasing amount of DAU transfer in the parents region even after the proliferation happened. Further examination denote that the increase in DAU amount is not caused by increasing number in population, the finding correspond with the study result by Bappenas (2008) that the increasing amount of expenditure is not followed by increasing ability to generate local revenue, therefore the proliferated region tend to be fiscal dependent.

# Chapter 5

## Government Units' Proliferation and Education Service Delivery in Indonesia: The Evidences from South Sulawesi and West Sulawesi

This chapter presents the findings on the effect of government units' proliferation to the outcome of education service delivery in South Sulawesi Province and West Sulawesi Province. The chapter comprises three sections. The first section gives illustration on the education system in Indonesia, followed by the next section which discusses decentralization and government responsibility within the context of education service delivery. The last section presents the findings on the effect of government units' proliferation to the outcome of education service delivery in South Sulawesi Province and West Sulawesi Province.

### 5.1. Education System in Indonesia

According to World Bank (2014), Indonesian education system is the fourth largest in the world. Data from BPS-Statistics Indonesia show that for the academic year of 2013/2014 Indonesia has 51,9 million students and 2,3 million teachers in more than 255.116 schools (Table 11).

**Table 11. Number of Schools, Teachers, and Students in Indonesia, 2013/2014**

Level of School	Number of Schools	Number of Teachers	Number of Students
Elementary School	171.950	1.801.909	29.794.400
Junior High School	51.771	862.367	12.532.230
Senior High School	31.395	597.389	9.591.311
<b>Total</b>	<b>255.116</b>	<b>3.261.665</b>	<b>51.917.941</b>

Own construction, summarized from BPS-Statistics Indonesia (2015: 126-140)

Indonesian education system which consists of basic, secondary and higher level education has encountered four time changes from Law No. 4/1950, Law No. 12/1954, Law No. 2/1989 and Law No. 20/2003. According to Law No. 20/2003, Central and Local Government of Indonesia has the mandate to ensure the provision of basic education which consists of six years of elementary school and three years of junior secondary school. Responsibility for basic education is under the authority of two institutions: Ministry of Education and Culture (MoEC) and Ministry of Religious Affairs (MoRA), with 81 percent of schools are under the supervision of MoEC and the remaining 19 percent are administered by MoRA (Table 12).

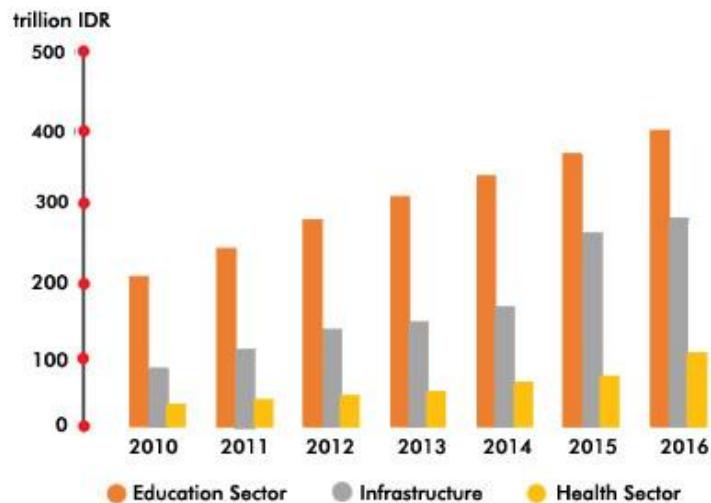
**Table 12. Number of Schools by the administering Ministry, 2013/2014**

Level of School	Administer by MoEC	Administer by MoRA	Total
Elementary School	148.272	23.678	171.950
Junior High School	35.488	16.283	51.771
Senior High School	24.135	7.260	31.395
<b>Total</b>	<b>207.895</b>	<b>47.221</b>	<b>255.116</b>

Own construction, summarized from BPS-Indonesia Statistic (2015: 126-140)

Education is one of the main development agenda for Indonesian Government. The commitment was declared in the third Constitution Amendment and Law No. 20/2003 which gave emphasis on the right to education for all Indonesian citizens, that central and regional governments are required to provide free service for basic education and the government is instructed to allocate at least 20 percent of its annual budget for the education sector. During the last 6 years, the national budget on education was significantly higher than other sector, as illustrated in Chart 10.

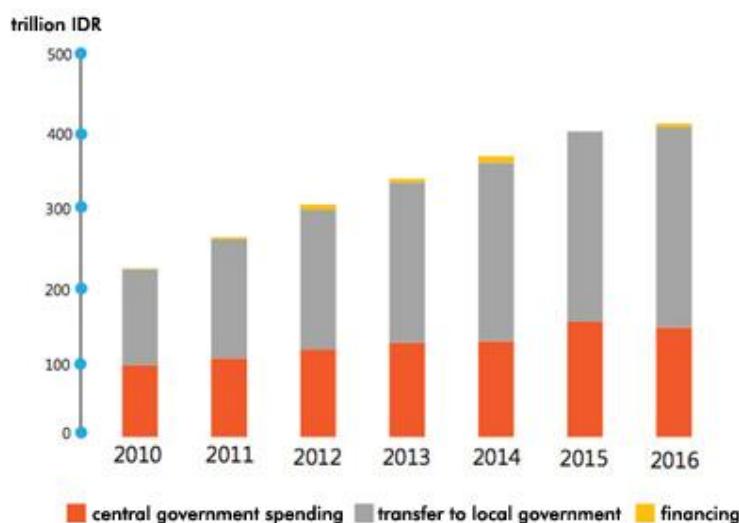
**Chart 10. National Budget composition per sector, 2010 to 2016**



Source: Ministry of Finance (2016: 26)

Based on Ministry of Finance (2016: 26) the distribution of budget for education sector mostly goes through the Local Government as shown in Chart 11. It can also be seen that the amount of transfer to local government within education sector is continuously increasing.

**Chart 11. Distribution of National Budget on Education Sector, 2010 to 2016**



Source: Ministry of Finance (2016: 26)

## **5.2. Decentralization and Government Responsibility within the context of Education Service Delivery**

The need to enhance education quality is one of the arguments on education decentralization in Indonesia. Usmaedi and Jalal and Supriadi argue that in the centralized government, education system in Indonesia is mostly macro-oriented (Raihani 2007). Education policy is designed based on macro analysis where all school have similar treatment, therefore individual difference in the requirement of each school is hardly addressed (ibid.). Central government controlled all aspect of the decision making, while local authorities only involve in the implementation phase, consequently institutional arrangement for education system in Indonesia become ineffective (World Bank 1998). The premise that decentralization will promote redistribution of power, increased efficiency, and greater sensitivity to local culture has become the motivation for education decentralization (Bjork 2003). As decentralization started in Indonesia with the stipulation of Law No. 22/1999 and Law No. 25/1999 central government delegates most of its authorities to the Local Government, including the responsibility for public service delivery. The central government of Indonesia has transferred not only administrative but also fiscal responsibility for education service delivery to local government. Furthermore, decentralization in Indonesian education is defined in Law No. 20/2003 on National Education System.

In terms of administrative responsibility, the decentralization only applied for basic and secondary education in the public school which previously under the authority of MoEC, meanwhile higher education are still under the authority of MoEC, whereas basic and secondary education in the religious school remains centralized under the control of MoRA. The transfer of administrative responsibility includes the function for staff recruitment and management, finance and resource management, school facilities maintenance. Under decentralization policy, local government is fully responsible for the hiring and paying the teachers. However, public school teacher is considered as civil servant, and the salary rate for civil servant is in the domain of the central government, therefore salary rate for teacher is also under the authority of central government.

In terms of finance, decentralization has changed the flow of fiscal resources between central government and local government, including the allocation of public spending on education sector. Under decentralization reform, local government have to be responsible for teacher salary and school operational cost including building maintenance cost. Before the decentralization, education financing process is done through subsidy and transfer mechanism from central government to local government. Following the decentralization, according to Arze del Granado et al. (2007) district and municipality share 60 percent of the financing responsibility, central government cover 35 percent, and the remaining 5 percent is provided by provincial government. District and municipality spending are mainly limited to routine expenditures, such as teacher salary which is allocated from DAU, Local revenue or revenue Sharing from central government. Meanwhile, the financing for development expenditures such as new school construction is transferred from central government in the form of an earmarked grant called DAK.

Following the administrative and fiscal decentralization, government of Indonesia also implement several reforms in the education system targeted at the school level. The first is the initiation of School Operation Fund (*Bantuan Operasional Sekolah* or BOS) in 2005 to facilitate the school in

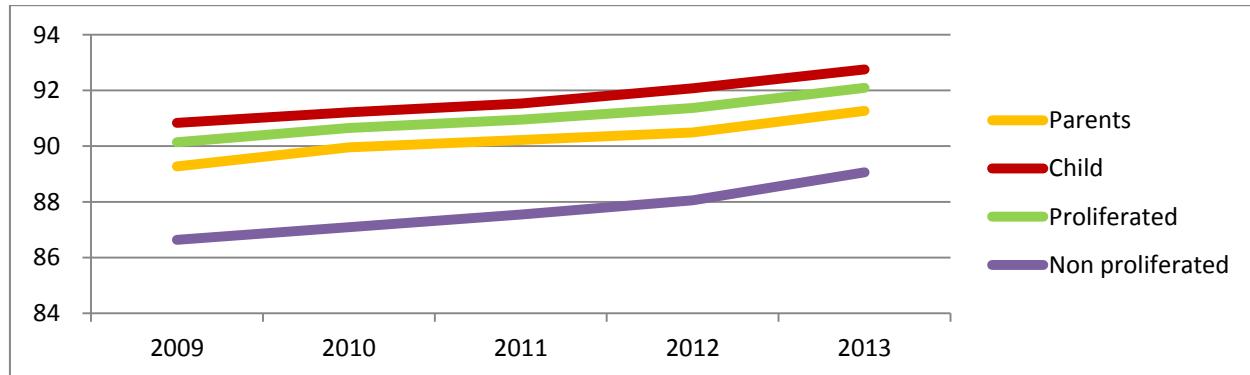
providing free basic education as mandated in Law No. 20/2003. Start from 2005, all elementary and senior high school obtain annual BOS fund, which is calculated per-pupil basis and directly allocated to schools (Barrera-Osorio et al. 2009). The provision of BOS funds is aimed to cover routine expenditures such as student registration and tuition, textbooks, learning materials extracurricular activities, and student examination fees (Arze del Granado et al. 2007). The second reform is the stipulation of Law 14/2005 which initiates the requirement for teacher certification in order to enhance the quality of education. As a consequence, the central government provides teacher certification incentive fund, which is transferred to the local government. As a result, start from 2005 other than DAU and DAK, the central government also transfers two more other funds to the local government: BOS fund and teacher incentive fund.

### 5.3. Government Units' Proliferation and Education Service Delivery: Evidence from South Sulawesi and West Sulawesi Province

#### 5.3.1. Literacy Rate

According to data from 2009 to 2013 in South Sulawesi and West Sulawesi Province, analysis based on the proliferation status grouping shows that child regions have a higher average of literacy rate compare to its parents region and the average of proliferated regions also greater than the non-proliferated regions as illustrated in Chart 12.

**Chart 12. Literacy Rate by proliferation type grouping**



Own construction, data source: BPS-Indonesia Statistic

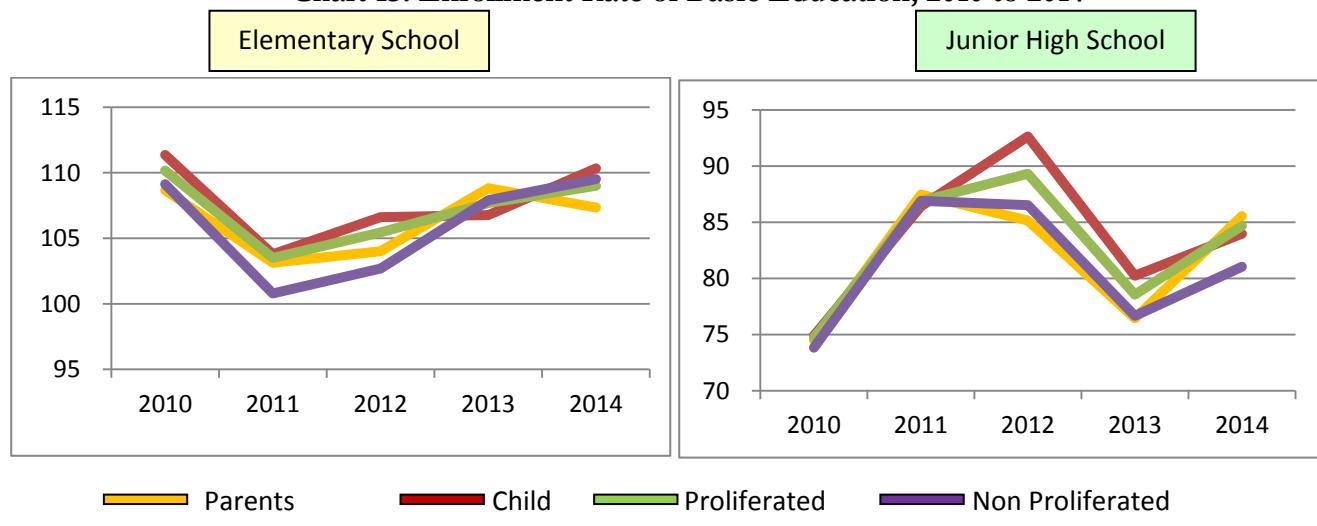
This finding corresponds with the claim of previous studies that literacy rates improve after the decentralization reform in Indonesia (Simatupang 2009). Moreover, the finding also indicates that the proliferated regions have better outcome than the non proliferated region, more specifically in the child regions. Faguet (2004) find that during the decentralization period in Bolivia, investment increase in the region with higher illiteracy rate, which implies the sensitivity of local government in accommodating the local needs.

### 5.3.2. Enrollment Rate

Generally enrollment rate at elementary school was decreasing in 2011, but then the rate tends to increase each year from 2011 to 2014. Meanwhile, enrollment rate at junior school and senior high school fluctuate.

For basic education, over the period child region always has higher enrollment rate in both in elementary school and junior high school, compare to parents region (Chart 13). There is opposite direction on the movement trend of parent region and child region from 2011 to 2014. Meanwhile, the gap between proliferated and non proliferated region is getting smaller each year

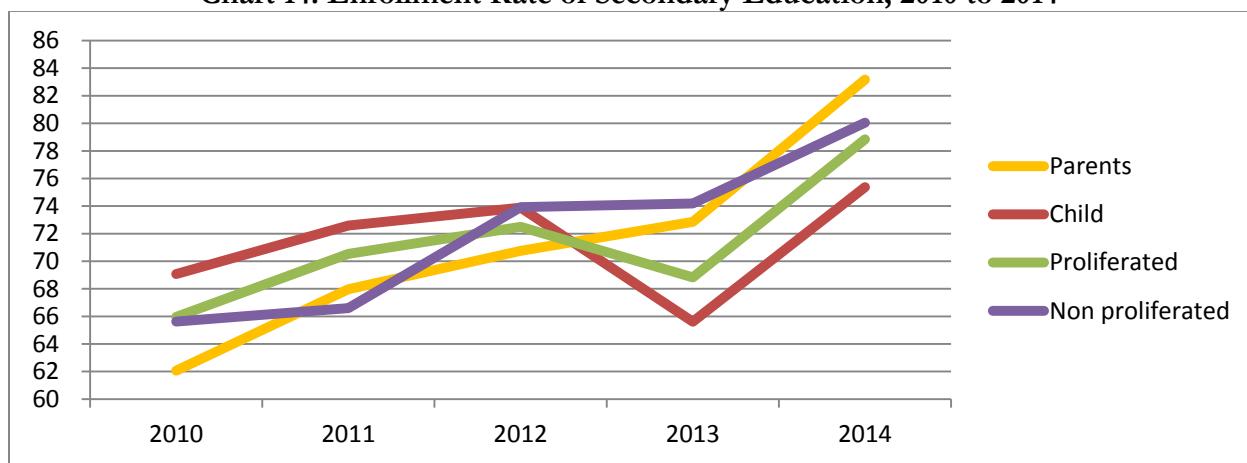
**Chart 13. Enrollment Rate of Basic Education, 2010 to 2014**



Own construction, data source: BPS-Indonesia Statistic

For secondary education, initially from 2010 to 2012 proliferated region has higher enrollment rate compare to the non proliferated region, as well as the child region compare to parent region (Chart 14). However, the last two years from 2012 to 2014 enrollment rate in proliferated regions is getting lower in the proliferated regions, especially in the child region.

**Chart 14. Enrollment Rate of Secondary Education, 2010 to 2014**



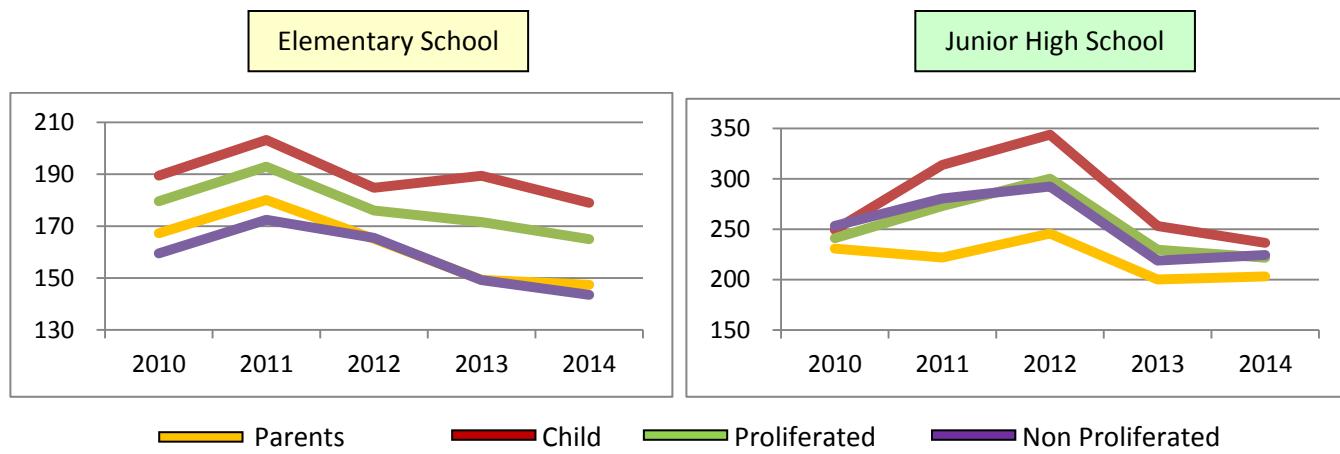
Own construction, data source: BPS-Indonesia Statistic

The finding is consistent with Faguet and Sánchez (2008) study result, which show that public school enrollment in Columbia increase with the growth in the share of own resources compares to total education expenditure. Meanwhile, the different trend in secondary education, where proliferated region, especially the child region has lower enrollment rate with high fluctuation may indicate that the child region put priority more to elementary school and junior high school, since they are mandated as obligatory basic education which should be provided. This may further indicate that child region has the choice in the decision making to prioritize basic education than secondary education. As mentioned by Simatupang (2009) that local government makes better decision after the decentralization period, indicated by increasing allocation of resource to the regions with lower average number of school.

### 5.3.3. Student per School Ratio

Data from 2010 to 2014 show that for basic education proliferated region always has higher student per school ratio than the non proliferated region. Furthermore, within the proliferated region, the child continuously show higher student per school ration than the parent region. (Chart 15).

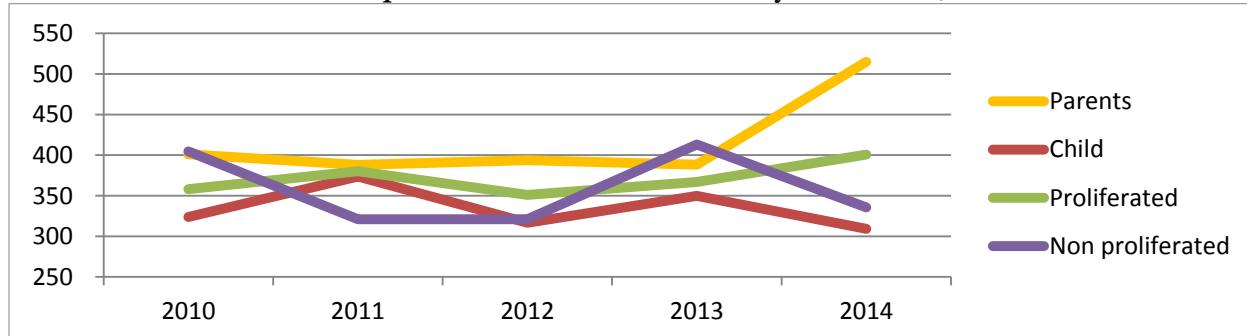
**Chart 15. Student per School Ratio of Basic Education, 2010 to 2014**



Own construction, data source: BPS-Indonesia Statistic

On the contrary, for secondary education, although student per school ratio in the proliferated regions is more fluctuating compare to the non proliferated regions, child regions consistently show lower student per school ratio (Chart 16).

**Chart 16. Student per School Ratio of Secondary Education, 2010 to 2014**



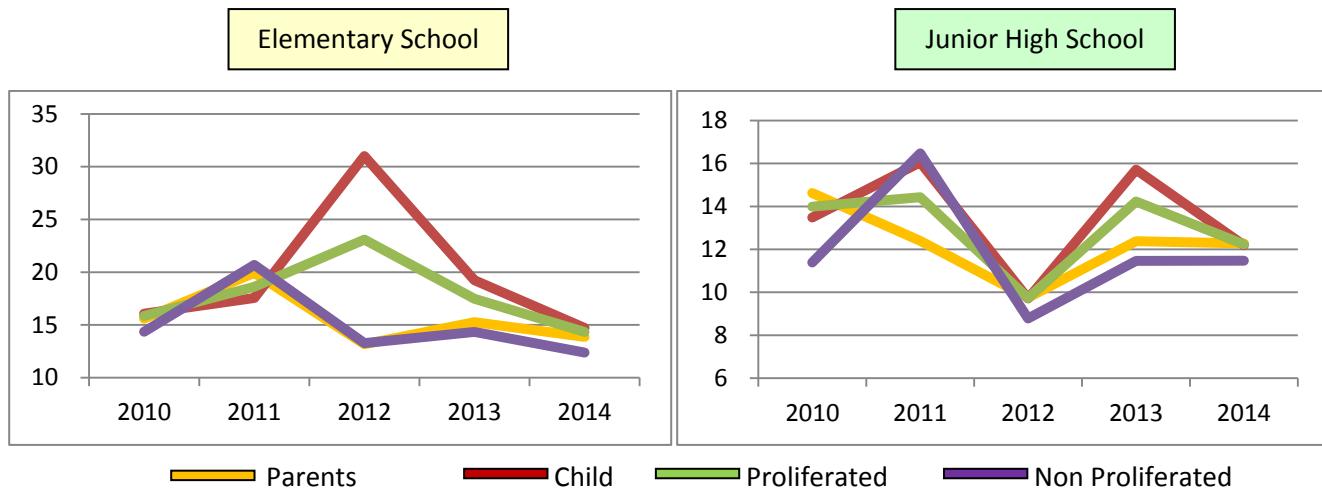
Own construction, data source: BPS-Indonesia Statistic

The finding in student per school ratio is in line with previous the previous finding in enrollment rate where proliferated region, especially the child, perform better in basic education but not for secondary education. This paper agrees with Faguet and Sánchez (2008) that decentralization have positive correlation with enrolment rates, due to the increasing number of students attending the school.

#### 5.3.4. Student per Teacher Ratio

On the student per teacher ratio, data exploration shows that even though the gap fluctuates widely during the period of 2010 to 2014, proliferated region consistently show higher student per teacher ratio compare to the non proliferated region, as well as the child region compare to parent regions (Chart 17).

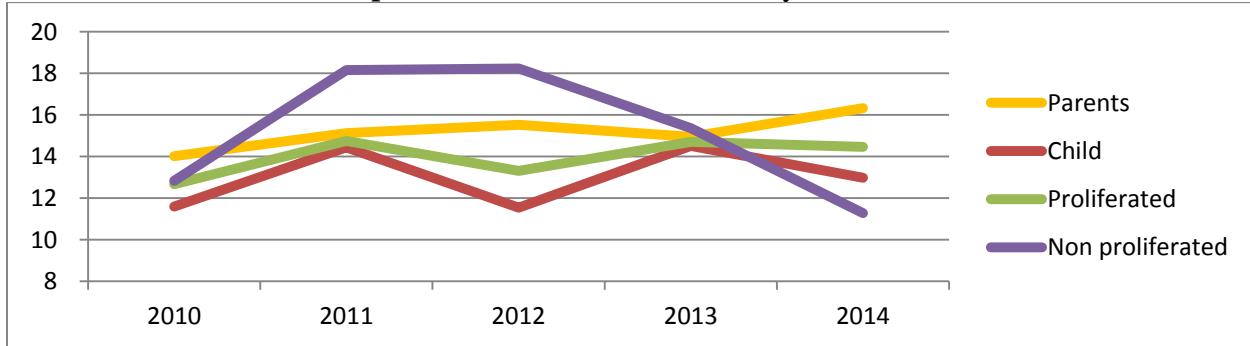
**Chart 17. Student per Teacher Ratio of Basic Education, 2010 to 2014**



Own construction, data source: BPS-Indonesia Statistic

Meanwhile, for secondary education, the non proliferated regions perform better than the proliferated region, as well as parent region compare to the child region (Chart 18).

**Chart 18. Student per Teacher Ratio of Secondary Education, 2010 to 2014**



Own construction, data source: BPS-Indonesia Statistic

The finding put more highlight on the different trend between basic and secondary education. Moreover, the high fluctuation may indicate that local government does not have specific preference in teacher recruitment strategy. This may relate to the fact that although local government has full control in hiring and paying the teacher, however the rate of the salary is decided by central government. Therefore, local government does not have total autonomy in the decision making for teacher recruitment.

## 5.4 Discussion

General finding on literacy rate has demonstrated that proliferated regions perform better than the non proliferated regions. This finding is supported by data on the enrollment rate, school per student ratio and school per teacher ratio in basic education. For those three indicators, Proliferated regions consistently show better outcome compare to the non proliferated region within the scope of basic education. (Simatupang 2009, Faguet 2004, Faguet and Sánchez 2008). Accordingly, the performance in child regions also demonstrates better outcome than the parents region. These may indicate that proliferation has positive impact on the outcome of education service delivery in West Sulawesi and South Sulawesi Province. As it can be seen, other than improving the condition in the proliferation region, the gap between the proliferated and non proliferated region also getting smaller, this indicates regional disparity is getting smaller. Local governments within West Sulawesi and South Sulawesi Province make better decision after the decentralization period (Simatupang 2009), they become more sensitive to the local needs Faguet (2004), thus promote allocative efficiency in public provision. (Oates 1972, Tiebout, 1956).

The findings on secondary education indicate that there is different priority in the allocation of resources between the proliferated and non proliferated region. It can be assumed that new region seems to have more focus on basic education because it is obligatory according to Law No. 20/2003. It may also indicate that decentralization does give a chance to the local government to manage their resources based on local needs and preferences because they have better information on the local condition (Maddick 1963, Rondineli 1983).

Furthermore, the vast gap in the student per teacher ratio indicates that it may be the result of central government intervention in the setting salary rates of the civil servants, this includes teacher salary. Even though local government is given the mandate to manage the recruitment, but they have minimum control on the salary rate, therefore local government is not fully independent in managing teacher recruitment in their area due to budget constrain. To be able to maximize the benefit of decentralization, there are necessary conditions required, including clear division of power and responsibility among central and local governments (World Bank 2004).

## Chapter 6

### Conclusion

Within the last decades, countries around the world are decentralizing the responsibilities of its central governments to lower level governments. Indonesia, like many of those countries, has been attempting to decentralize its central governments' authorities to the liability of its subnational governments. However, Indonesia's decentralization has shifted to the devolution process to cities and districts which also well-known as the 'big bang' decentralization (Smoke 2015) resulting in a total of 548 autonomous local governments by the end of 2014. Decentralization is claimed to improve public service provision. It is believed to enhance public service delivery through increasing efficiency in the distribution of resources. (Maddick 1963, Rondineli 1983, Tiebout 1956, Fitranji et al. 2005) However, the transfer of public service delivery to local government together with the process of government units proliferation is argued to lead some challenges in the Fiscal Balance and administrative capacity of the local government (Bahl 2001, Grossman and Lewis 2014, Hoffman and Kaiser 2002). Moreover, some studies mention about the political motivation behind decentralization and district proliferation (Hadiz 2004; Awortwi and Helmsing 2014). This study tries to investigate that apart from any political motives behind proliferation process in Indonesia, there may be cost and benefit outcome produced by the policy.

The primary objective is to evaluate government units' proliferation implementation as part of decentralization process in Indonesia, to examine the effect of government's unit proliferation to the allocation of fiscal resource and to the outcome of education service delivery in South Sulawesi and West Sulawesi area, by comparing the conditions of the proliferated region compare to the non proliferated region and the child region compare to the parent region. The proposed hypothesis is that creating more districts bring the service closer to the people and improve service delivery outcome in South Sulawesi Province and West Sulawesi Province.

By examining the intergovernmental fiscal relationship, local expenditure management and the ability to gain local revenue, this study tries to investigate the impact of government units' proliferation to the allocation of fiscal resource in South Sulawesi Province and West Sulawesi Province. Additionally, using four indicators: literacy rate, school enrollment rate, student per school ratio, and student per teacher ratio, this study investigates the effect of governments' unit proliferation on the outcome of education service in South Sulawesi Province and West Sulawesi provinces.

Under a limited comparative and exploratory research, relied on secondary data, this paper tries to answer three sub-questions:

First question: '*In what ways government units' proliferation affected fiscal resource allocation in South Sulawesi Province and West Sulawesi Province?*'. This study finds that government units' proliferation in South Sulawesi and West Sulawesi has created cost both to the local government and central government. Central government burden is caused by both the growing number of new regions and the increasing amount of DAU transfer to the region. Further analysis shows that the increase in DAU is caused by the increasing amount of expenditure which not followed by increasing ability to

generate local revenue. This finding supports previous argument on the fiscal balance issue of local government (Bahl 2001), where the assigned revenue functions for local governments' is smaller than their expenditure responsibility.

Second question: '*To what extent government units' proliferations improve education service delivery outcome in South Sulawesi Province and West Sulawesi Province?*' The descriptive statistics in this study suggest that government units' proliferation goes hand in hand with the increase in the literacy rate in West Sulawesi and South Sulawesi Province. This demonstrated by higher literacy rate in the proliferated regions, especially in the child regions. This relationship is consistent with the study by Simatupang (2009) that literacy rates improved after the decentralization reform in Indonesia. Additionally, findings on enrollment rate, student per school ratio and student per teacher ratio in basic education also consistent with previous studies by Faguet and Sánchez (2008) which find that decentralization has positive correlation with enrolment rates, due to the increasing number of students attending the school.

Third question: '*To what extent government units' proliferations effects in education service delivery outcome vary across basic educations and upper secondary education in South Sulawesi Province and West Sulawesi Province?*' This study finds that there are different outcome between basic education and upper secondary education in South Sulawesi and West Sulawesi Provinces. The finding on student per school ratio and teacher per school ratio indicate that proliferated region specifically the child region put more priority on basic education rather than upper secondary education. This correspondence with the study by Faguet (2004) which find that during the decentralization investment increased in the region with higher illiteracy rate. In the case of South Sulawesi and West Sulawesi provinces, this paper purpuses an argument that the mandate of Law 20/2003 which requires local government to provide free education at the basic level may drive the choice of proliferated and child region to prioritize basic education than secondary education. This paper agrees with the previous study that local government makes better decision after the decentralization period with (Simatupang 2009), and that local government more sensitive in accommodating the local needs (Faguet 2004)

In summary, although such results are not conclusive, the findings on literacy rate, enrollment rate, student per school ratio, and student per teacher ratio do demonstrate that apart from any political motives behind government units' proliferation process in Indonesia, there is the potential that new district creation may enhance service delivery by increasing the sensitivity to local need.

Stronger conclusions are not possible due to the limitation of this research, due to the incapability of this paper to handle causality issue. However, the results of this study indicate that creating more districts has the potential to bring the service closer to the people in South Sulawesi Province and West Sulawesi Province, with additional remarks that such benefit comes together with additional cost for both local government and central government.

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