

**DECENTRALISATION AND CORRUPTION:
AN EMPIRICAL ANALYSIS OF REGIONAL AUTONOMY IN
INDONESIA**

by:

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Abstract

The nexus between decentralisation and corruption remains a subject of considerable scholarly debate, with empirical findings often varying due to differences in methodological approaches, measurement, and contextual factors. Indonesia's post-1998 transition from an authoritarian, highly centralised regime to a decentralised democratic polity—enacted through the so-called 'big bang' reforms—offers a critical case for examining this complex relationship. These reforms, comprising sweeping fiscal, administrative, and political decentralisation, fundamentally reconfigured the governance landscape, particularly at the district and city levels. Despite the scale and significance of these changes, there exists a notable paucity of single-country, subnational analyses of the decentralisation–corruption nexus in Indonesia, a gap this thesis seeks to address.

Drawing on qualitative case studies from two provinces (South Sumatra and Lampung) and two districts (Banyuasin and Gunungkidul), this research interrogates how the various dimensions of decentralisation—political, administrative, and fiscal—interact to shape the propensity for corruption among local officials. The study employs a robust methodological framework, integrating semi-structured interviews with key stakeholders, documentary analysis, and triangulation of primary and secondary data, underpinned by Principal-Agent, Collective Action, and New Institutional Economics theories.

The findings reveal that, contrary to the normative expectation that decentralisation would curtail corruption by bringing government 'closer to the people' and enhancing accountability, Indonesia's experience has been more ambivalent. Decentralisation has, in practice, redistributed rather than reduced corruption, shifting opportunities for rent-seeking from the centre to the peripheries. Political decentralisation, through the introduction of direct local elections and increased autonomy for local executives and legislatures, has facilitated elite capture and the entrenchment of political dynasties. Weak party institutionalisation, limited capacity for oversight within local legislatures, and underdeveloped civil society participation have collectively undermined mechanisms of vertical and horizontal accountability.

Administrative decentralisation, particularly the devolution of personnel management, has enabled local leaders to consolidate patronage networks, with recruitment, promotion, and remuneration processes frequently subject to political interference, nepotism, and non-meritocratic practices. Incomplete reforms and the retention of central control over certain bureaucratic functions have further exacerbated inefficiencies and provided fertile ground for corruption.

Fiscal decentralisation has granted local governments greater discretion over expenditure, but revenue-raising policy remains largely centralised, resulting in a persistent reliance on central transfers and a mismatch between responsibilities and resources. This fiscal imbalance, coupled with weak internal controls and audit capacity, has created opportunities for budgetary manipulation, procurement fraud, and collusion between local officials and private interests.

The study concludes that Indonesia's decentralisation reforms, while expanding democratic space and local autonomy, have not inherently reduced corruption. Instead, they have produced new modalities and loci of corrupt practices at the local level, shaped by persistent institutional weaknesses, legacy structures of centralisation, and the adaptive strategies of entrenched elites. Effective anti-corruption strategies must therefore move beyond formal institutional design to address underlying political, administrative, and fiscal vulnerabilities. Key policy recommendations include strengthening the independence and capacity of oversight institutions such as the Supreme Audit Agency (BPK) at the local level; reforming political finance to reduce the influence of money politics and elite capture; depoliticising bureaucratic appointments through merit-based recruitment and transparent promotion systems; and enhancing fiscal transparency by mandating public disclosure of budgets and procurement processes. Furthermore, empowering civil society and fostering meaningful citizen participation are essential to building resilient, accountable local governance.

Keywords:

Decentralisation, corruption, local governance, political finance, regional autonomy, Indonesia.

Dedication

To :

my beloved wife, “Dinda” Ria,

my lovely children ‘Mbak’ Aisha, ‘Mas’ Dheo and ‘Adek’ Athar

also

My ‘late’ Father (Bapak Supardi),

My Mother (Ibu Istanti Rahayu) and My Mother in-law (Mama Baqiah)

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In the name of Allah, the Most Gracious, the Most Merciful.

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Notes on Transliteration and Language

Most of the research in this project was conducted in the Indonesian language. All translations from Indonesian language are my own. Interviews were transcribed into Indonesian and, after analysing them, translated for quotation in this thesis. The original words added in italic are usually in Indonesian language.

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Glossary of Terms and Abbreviations

Terms and Abbreviation	Definition
APBD	- <i>Anggaran Pendapatan dan Belanja Daerah</i> (Regional Revenue and Expenditure Budget)
APIP	- <i>Aparat Pengawasan Intern Pemerintah</i> (Government Internal Supervisory Apparatus)
APBN	- <i>Anggaran Pendapatan dan Belanja Negara</i> (State Revenue and Expenditure Budget)
ASN	- <i>Aparatur Sipil Negara</i> (State Civil Apparatus)
BAPERJAKAT	- <i>Badan Pertimbangan Jabatan dan Kepangkatan</i> (Ranking and Position Advisory Board)
BAPPENAS	- <i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
Bakesbangpol	- <i>Badan Kesatuan Bangsa dan Politik</i> (National and Political Unity Agency)
BKN	- <i>Badan Kepegawaian Negara</i> (National Civil Service Agency)
BPK	- <i>Badan Pemeriksa Keuangan</i> (Supreme Audit Agency)
BPKAD	- <i>Badan Pengelola Keuangan dan Aset Daerah</i> (Regional Financial and Asset Management Agency)
BPKP	- <i>Badan Pengawasan Keuangan dan Pembangunan</i> (Financial and Development Supervisory Agency)
BPS	- <i>Badan Pusat Statistik</i> (Indonesian Statistics Bureau)
CA	- Collective Action
CEC	- Corruption Eradication Commission
CPI	- Corruption Perception Index
DAK	- <i>Dana Alokasi Khusus</i> (Special Allocation Fund)
DAU	- <i>Dana Alokasi Umum</i> (General Allocation Fund)
DBH	- <i>Dana Bagi Hasil</i> (Revenue Sharing Fund)
DPR	- <i>Dewan Perwakilan Rakyat</i> (People's Representative Council)
DPRD	- <i>Dewan Perwakilan Rakyat Daerah</i> (Regional People's Representative Council)
HDI	- Human Development Index
ICRG	- International Country Risk Guide
KEMENPAN-RB	- <i>Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi</i> (Ministry of Administrative and Bureaucratic Reform)

KPK	- <i>Komisi Pemberantasan Korupsi</i> (Corruption Eradication Commission)
KPU	- <i>Komisi Pemilihan Umum</i> (General Election Commission)
LKPD	- <i>Laporan Keuangan Pemerintah Daerah</i> (Local Government Financial Report)
NIE	- New Institutional Economics
NGOs	- Non-Governmental Organisations
PAD	- <i>Pendapatan Asli Daerah</i> (Local Own-Source Revenue)
Pilkada	- <i>Pemilihan Kepala Daerah</i> (Local Head Election)
PNSD	- <i>Pegawai Negeri Sipil Daerah</i> (Regional Civil Servants)
PPh	- <i>Pajak Penghasilan</i> (Income Tax)
PPP	- Public Private Partnership
PPN	- <i>Pajak Pertambahan Nilai</i> (Value Added Tax)
PP	- <i>Peraturan Pemerintah</i> (Government Regulation)
PPPK	- <i>Pegawai Pemerintah dengan Perjanjian Kerja</i> (Government Employees with Work Agreements)
SAP	- <i>Standar Akuntansi Pemerintahan</i> (Government Accounting Standards)
SIS	- <i>Sistem Informasi Statistik</i> (Statistical Information System)
SKPD	- <i>Satuan Kerja Perangkat Daerah</i> (Regional Work Units)
SPIP	- <i>Sistem Pengendalian Intern Pemerintah</i> (Government's Internal Control System)
TKD	- <i>Tunjangan Kinerja Daerah</i> (Regional Performance Allowance)
Tukin	- <i>Tunjangan Kinerja</i> (Performance Allowance)
TPP	- <i>Tambahan Penghasilan Pegawai</i> (Additional Employee Income)

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Indonesia's transition from a highly centralised authoritarian regime to a decentralised democratic system in 1999 marked a pivotal shift in governance. Catalysed by the 1998 Reformasi movement and the Asian Financial Crisis, the decentralisation initiative aimed to address deep-seated structural issues in governance, enhance local autonomy, improve service delivery, and foster democratic participation (Nordholt, H., 2005). Through the rapid enactment of Law No. 22/1999 and Law No. 25/1999, Indonesia implemented what is often termed 'big bang decentralisation', transferring extensive political, administrative, and fiscal authority to regional governments¹ (Sutiyo & Maharjan, K., 2017).

However, decentralisation has produced mixed results. While it has enabled greater citizen participation and regional autonomy, it has also contributed to the proliferation of corruption at local levels. The post-reform decentralisation process created new centres of power among local political elites who often lacked sufficient institutional capacity and oversight. Decentralisation fragmented governance structures and weakened central oversight, enabling elite capture and rent-seeking at the local level (Hadiz, 2010). Empirical evidence suggests that fiscal decentralisation in Indonesia has

¹ At initial, fiscal decentralisation was introduced in Indonesia through Law 22/1999 on Regional Government, as in times there are several amendments to the Law with the last amendment is Law 23/2014. One amendment in 2004, Law 32/2004 contains regulation on Direct Election by the people to elect their head of regions (Governor and Head of District)

had a paradoxical effect, leading to increased local government corruption in certain cases due to weak institutional controls (Lewis, 2023).

The Corruption Perception Index (CPI), published by Transparency International, provides an important national-level indicator of perceived corruption. Indonesia's CPI score improved from 20/100 in 1998 to 38/100 in 2023, reflecting progress in anti-corruption efforts despite persistent challenges (Transparency International, 1998; 2023). However, this aggregate improvement masks fundamental shifts in corruption patterns. Prior to decentralisation (1966–1998), corruption was highly centralised, concentrated in Jakarta and the central government, with key actors being central elites and the military. After decentralisation (1999–2021), corruption became significantly decentralised to local governments, with main actors shifting to district heads, local legislators, and regional elites. This is evidenced by a sharp rise in the number of local officials prosecuted for corruption, including over 72 regional heads convicted between 2001 and 2017 (Viva News, 2017).

The nature of corrupt practices has also evolved. Whereas the pre-decentralisation era was characterised by rent extraction, collusion, and nepotism at the central level, the post-decentralisation period has seen the emergence of political bribery, patronage, procurement fraud, and licensing abuse at the local level. Table 1.1 summarises these shifts in corruption dynamics before and after decentralisation.

ERA / INDICATOR	PRE-DECENTRALISATION (NEW ORDER, 1966–1998)	POST-DECENTRALISATION (1999–2021)
CPI SCORE	20/100 (1998)	38/100 (2023)
CORRUPTION LOCUS	Centralised (Jakarta/central gov't)	Decentralised (local gov'ts)
MAIN ACTORS	Central elites, military,	District heads, local legislators, local elites
NUMBER OF LOCAL OFFICIALS PROSECUTED	Low	Sharp increase (e.g., >72 regional heads convicted 2001–2017)
FORMS OF CORRUPTION	Rent extraction, collusion, nepotism	Political dowries, patronage, procurement fraud, licensing abuse

Sources: Transparency International 1998 & 2023, CEC Annual Report 2017

Table 1-1 Shift of Corruption Dynamic Pre- and Post-Decentralisation in Indonesia

Beyond CPI, the Worldwide Governance Indicators (WGI) provide a broader assessment of governance quality through six key dimensions: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Data up to 2023 indicate the following trends in Indonesia:

WGI Indicators	Review of Indonesia (1998-2023)
Voice and Accountability	Significant improvement following the 1998 Reformasi.
Political Stability	Fluctuating, with periods of instability.
Government Effectiveness:	Improved, though bureaucratic challenges persist.
Regulatory Quality:	Moderate improvement, especially in public policy reform.
Rule of Law:	Strengthened overall, but enforcement remains weak in some regions.
Control of Corruption:	Improved, yet corruption remains a major concern.

Table 1-2 Review on WGI Indicators for Indonesia Post-Reformation

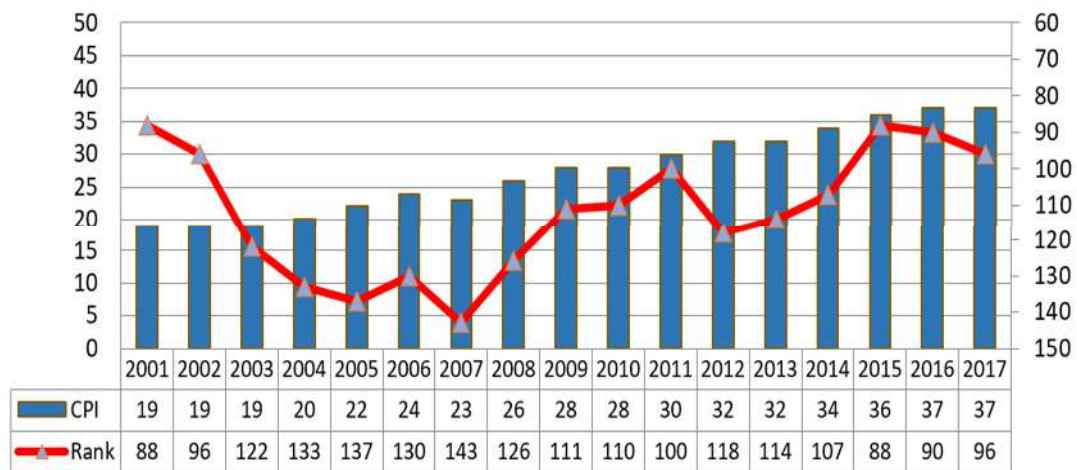
These indicators demonstrate progress in governance, particularly in political voice and anti-corruption efforts, but highlight ongoing challenges in law enforcement and political stability that affect government effectiveness.

While CPI and WGI are valuable for macro-level assessment, both have limitations. According to Budsaratragoon and Jitmaneeroj (2020), CPI, being perception-based, relies heavily on elite assessments and may reinforce stereotypes that do not fully mirror actual corruption conditions, especially at subnational level. In contrast, the WGI aggregate multiple subjective indicators and are better viewed as high-level entry points for understanding governance rather than detailed diagnostic tools for specific policy interventions (Kaufmann, Kraay, & Mastruzzi, 2024). Therefore, more granular and context-specific analyses, such as the present study, are necessary to understand local governance and corruption dynamics in Indonesia.

Between 2001 and 2017, more than 72 regional heads were convicted of corruption (Viva News, 2017). According to data from the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi* - KPK), in 2017 alone, there were 576 recorded corruption cases in Indonesia, resulting in financial losses of approximately Rp. 6.5 trillion. The majority of these cases were concentrated at the regional government level, including regencies (222 cases), villages (106 cases), and cities (45 cases) (KPK, 2023).

Figure 1 exhibits the Corruption Perception Index (CPI) of Indonesia for the period 2001–2016. As illustrated, the indicator shows a general upward trend, suggesting an improvement in perceived corruption levels. However, in reality, corruption cases have proliferated within Indonesia's newly empowered regional governments since 2001.

This paradox highlights the complexity of decentralisation's impact on corruption, where formal improvements in governance indicators do not necessarily reflect the realities of corruption at the local level (Transparency International, 2017).



Source: Transparency International

Figure 1-1 Corruption Perception Index Indonesia (2001-2017).

The decentralised system in Indonesia operates across three core dimensions: political, administrative, and fiscal. Political decentralisation introduced democratic processes at the local level, such as direct elections, the strengthening of local parliaments, and the empowerment of local political parties. However, challenges such as money politics, vote-buying, and the entrenchment of political dynasties have diluted its democratic promise (Andi Rahmat Hidayat et al., 2025). Administrative decentralisation granted local governments the authority to manage public services and personnel, yet disparities in capacity have undermined service quality (Setiawan et al, 2022). Fiscal decentralisation transferred expenditure responsibilities without matching revenue authority, increasing reliance on central transfers and weakening budget management (Nasution, 2017).

Despite the issues outlined above, research on the impact of decentralisation on corruption in single-country case studies remains relatively scarce, particularly in the Indonesian context. As far as can be ascertained, no study has explicitly compared the impact of decentralisation on corruption between two levels of local government in Indonesia². Interestingly, decentralisation has shifted the hierarchical structure of local government into an unstructured framework, further complicating governance structures. Moreover, studies on this subject using Indonesia as a case study are predominantly quantitative, rarely elaborating on the broader factors of decentralisation that influence corruption at the local level. Most studies have examined fiscal and expenditure decentralisation, neglecting the influence of political and administrative decentralisation on corruption (Lessmann & Markwardt, 2010). Moreover, Treisman (2007) argues that analysing political and fiscal decentralisation together is essential to understand their impact on corruption. Their research suggests that existing literature has largely concentrated on fiscal decentralization, creating a misalignment in how corruption dynamics are understood and addressed. The lack of empirical examination into the political aspects of decentralization thus constrains the scope of analysis in understanding governance.

The literature offers two main theoretical perspectives through which these dynamics can be interpreted. The Principal-Agent Theory posits that corruption arises due to asymmetric information and weak accountability between principals (citizens or the

² Most research on decentralisation and corruption in Indonesia cases used provincial level data; meanwhile, Indonesia's decentralisation assigned more authorities to district level rather to the provincial level. Haryanto and Astuti (2017) and Suprayitno and Pradiptyo (2017) employed provincial data to investigate the impact of fiscal decentralisation on local corruption, implemented the numerous of cancelled local regulation and numerous of Supreme Court's cassation on corruption case, respectively, as the local corruption indicator. Other research, such as Kuncoro (2002) analysed descriptive statistical data of firm data from several districts (less than 60 districts).

state) and agents (public officials) (Klitgaard, 1988). From this perspective, decentralisation should ideally reduce corruption by bringing governance closer to the people, thereby increasing oversight. However, in practice, weak accountability mechanisms have led to adverse outcomes. On the other hand, the Collective Action Persson et al. (2013) argue that systemic corruption, once entrenched as a social norm, cannot be resolved through institutional reforms alone but requires collective societal change. This suggests that in contexts where corruption is pervasive, decentralisation may merely redistribute opportunities for corrupt practices rather than reducing them.

Thus, the analysis in this study seeks to bridge these gaps by examining how different dimensions of decentralisation influence corruption at the local government level in Indonesia. By exploring these issues, it will provide a more nuanced understanding of the complexities of governance reform and its unintended consequences.

1.2 Research Objectives

This research aims to investigate the impact of decentralisation on corruption in Indonesia, with a particular focus on its political, administrative, and fiscal dimensions. It examines how varying degrees of local government autonomy influence corrupt practices at the provincial and district levels. Furthermore, it explores the role of countervailing institutions, such as external auditors, internal auditors, and civil society, in mitigating corruption within a decentralised governance framework.

To achieve these objectives, the research undertakes a comprehensive assessment of the legal, historical, and institutional evolution of decentralisation in Indonesia. It analyses the effects of political decentralisation on elite capture and electoral corruption, scrutinises administrative factors such as civil service recruitment and

promotion, and evaluates the role of fiscal decentralisation in promoting budget transparency. Ultimately, the research seeks to offer policy recommendations to enhance governance and mitigate corruption within Indonesia's decentralised system.

1.3 Research Questions

The research question that will be addressed in this research is:

How does the regional autonomy, in the form of decentralisation system, in Indonesia impact on corrupt practice of bureaucrats at different levels of local government (provincial and district)?

This research question is investigated using three sub-questions which each focuses on a different aspect of local autonomy:

- a) *What is the impact of political autonomy in local regions on the corrupt behaviour of local officials at different levels of local government in Indonesia?*
- b) *What is the impact of administrative autonomy in local regions on the corrupt behaviour of local officials at different levels of local government in Indonesia?*
- c) *What is the impact of fiscal autonomy in local regions on the corrupt behaviour of local officials at different levels of local government in Indonesia?*

1.4 Methodology Overview

This research employs a qualitative research design to capture the complexity and context-specific nature of corruption in decentralised governance. Adopting a multiple-case study approach, it examines selected provinces and districts that exhibit varying levels of governance performance and corruption. Case selection was purposive,

based on factors such as the strength of local institutions, past corruption cases, and socio-political diversity.

Data collection methods include semi-structured interviews with key stakeholders, including local government officials, civil society actors, journalists, and academics. These interviews provide nuanced insights into local governance practices, institutional weaknesses, and corruption risks. Document analysis complements the interview data, drawing on government regulations, audit reports from Supreme Audit Agency, corruption case records from Corruption Eradication Commission, and local development plans.

To enhance the reliability of findings, triangulation is employed, enabling cross-verification of information from multiple sources. The research is underpinned by a robust theoretical framework, integrating Principal-Agent and Collective Action theories to interpret the empirical findings. Qualitative data coding and thematic analysis are conducted using NVivo software, facilitating systematic comparison across cases.

By combining descriptive, analytical, and comparative techniques, this research seeks to uncover not only patterns of corruption but also the institutional enablers and constraints within Indonesia's decentralised governance structure.

1.5 Significance of the Study

This research offers significant theoretical and practical contributions. Theoretically, it advances scholarly understanding of the decentralisation–corruption nexus in developing countries, particularly within non-hierarchical, multi-tiered governance structures such as that of Indonesia. Whereas most extant research concentrates on

national or cross-country analyses, this study offers a detailed investigation at the local level (Smoke, 2003).

Furthermore, by integrating Principal-Agent and Collective Action frameworks, this study provides a more holistic explanation for the persistence of corruption under decentralisation. It demonstrates how institutional design, political incentives, and societal norms interact to shape corrupt practices locally (Bardhan & Mookherjee, 2006). This theoretical contribution is particularly valuable for policymakers and scholars addressing inconsistencies in literature.

Practically, the findings provide evidence-based insights for enhancing governance at the subnational level. By identifying specific weaknesses in political accountability, administrative control, and fiscal oversight, the research contributes to the development of more targeted anti-corruption strategies. The comparative analysis of provinces and districts further aids in understanding variations in corruption risks and institutional resilience across regions.

Moreover, the research informs ongoing policy debates on decentralisation reform, particularly regarding electoral system design, public finance management, and bureaucratic professionalism. In doing so, it lays the groundwork for strengthening democratic governance and improving service delivery across Indonesia's diverse regional landscape.

1.6 Scope and Limitations

This research examines the period from 2001 until 2021, encompassing the implementation and evolution of key decentralisation laws. It focuses on provincial and district governments in Indonesia, excluding village-level governance. The study

acknowledges certain limitations, including potential constraints in accessing comprehensive data on local corruption cases, the subjectivity inherent in qualitative analysis, and the challenges of generalising findings from selected case studies to all regions. Nevertheless, the study enhances its validity and relevance through the use of triangulated data, robust theoretical frameworks, and case variation. While it does not seek statistical generalisability, it provides valuable analytical generalisations that can inform future research and policy reform.

1.7 Structure of the thesis

This thesis is structured into eight chapters, each contributing to a comprehensive examination of the relationship between decentralisation and corruption in Indonesia. Chapter 1 serves as an introduction, outlining the background and context of the study, research objectives, key research questions, significance, scope, and limitations. It also provides an overview of the methodological approach and the overall structure of the thesis. Chapter 2 presents the conceptual and theoretical framework, critically reviewing existing literature on decentralisation and corruption while drawing on key perspectives such as Principal-Agent Theory and Collective Action Theory. In addition, this chapter examines empirical studies on the impact of decentralisation on corruption across different governance contexts, identifying gaps in the current research and positioning this study within the broader academic discourse.

Chapter 3 provides an in-depth analysis of Indonesia's decentralisation framework, tracing its historical development, legal foundations, and institutional structures. It further assesses how governance shifts have influenced corruption dynamics at various levels of government. Chapter 4 details the research methodology, including

the rationale for adopting a qualitative multiple-case study approach, data collection methods, and analytical techniques. This chapter also discusses data triangulation to enhance reliability and validity, while addressing methodological limitations and ethical considerations.

The empirical findings of the study are presented across Chapters 5, 6, and 7, each focusing on a distinct dimension of decentralisation. Chapter 5 explores political decentralisation, particularly the impact of local elections, elite capture, and electoral accountability on corruption. Chapter 6 examines administrative decentralisation, assessing how local bureaucratic structures, civil service recruitment, and capacity-building initiatives influence corruption risks. Chapter 7 investigates fiscal decentralisation, analysing the extent to which budget autonomy, intergovernmental transfers, and fiscal transparency shape corruption patterns in local governance.

Finally, Chapter 8 synthesises the key findings of the study, offering policy recommendations and reflecting on the broader implications for governance reform in Indonesia. It also suggests potential avenues for future research on decentralisation and corruption. By structuring the thesis in this manner, the study ensures a systematic and comprehensive analysis of the decentralisation-corruption nexus, contributing to both academic knowledge and policy discussions on governance in Indonesia.

CHAPTER 2

MAJOR CONCEPTS AND LITERATURE REVIEW

2.1 Overview of the Chapter

This chapter critically examines key concepts and the literature on corruption, decentralisation, and their interconnections, providing a conceptual framework for understanding the dynamics of corruption in decentralised governance systems. It explores whether decentralisation mitigates or exacerbates corruption, addressing the factors influencing these outcomes across political, administrative, and fiscal dimensions. The primary aim is to analyse the major theories and empirical findings related to corruption and decentralisation, identifying the mechanisms through which decentralised governance may either promote accountability or create opportunities for corrupt practices. The chapter introduces a theoretical framework to guide the empirical analysis, focusing on corruption at the local level and laying the foundation for subsequent research methodology.

The literature reveals two contrasting views. On one hand, decentralisation is regarded as a mechanism for improving governance by enhancing local accountability, thereby reducing corruption through competition between jurisdictions and direct citizen oversight. Scholars such as Tiebout (1956) and Fisman & Gatti (2002) argue that this competition acts as a natural check on corruption. Conversely, critics like Shleifer and Vishny (1993) contend that decentralisation can fragment authority, weaken oversight, and increase the risk of corruption. These divergent perspectives underscore the

complexity of the decentralisation-corruption relationship, which is shaped by institutional capacity, political leadership, and the broader political environment.

The research framework presented in this chapter draws on New Institutional Economics, Principal-Agent Theory, and Collective Action Theory. It emphasises the role of information asymmetry and transaction costs, suggesting that corruption flourishes when agents (public officials) are not held accountable due to insufficient information or high monitoring costs. The chapter explores how decentralisation can either reduce or exacerbate corruption, depending on the presence of effective institutions such as audit agencies, transparent governance structures, and active civil society participation.

The chapter is structured as follows: Section 2.2 reviews corruption, including its definitions, types, causes, and consequences from economic, institutional, and societal perspectives. Section 2.3 discusses decentralisation in its political, fiscal, and administrative forms, examining its theoretical and practical implications for governance and corruption. Section 2.4 provides a historical case study of Indonesia's regional autonomy, analysing its impact on local governance and corruption. Section 2.5 reviews the literature on the decentralisation-corruption relationship, identifying research gaps. Section 2.6 outlines the research framework, detailing the variables and hypotheses for the empirical study. Ultimately, this chapter sets the foundation for understanding the dynamics between decentralisation and corruption, underscoring the importance of context-specific approaches to governance reform.

2.2 The Corruption

Corruption has been defined in a variety of ways across academic literature, practitioner discourse, and legal frameworks. This section will explore the terminology of corruption, drawing from the literature, and deconstruct the economic and non-economic variables that can be identified as determinants of corruption, alongside its adverse consequences for development.

2.2.1 Concept and Typology of Corruption

Corruption is not a recent phenomenon; it has been prevalent throughout the history of governance (Klitgaard, 1988). Klitgaard (1988) also notes that approximately 2,300 years ago, the Brahman Prime Minister of Chandragupta compiled a list of "at least forty ways" to embezzle funds from the government. Similarly, in ancient China, officials were provided with an additional allowance called *Yang-lien* (nourish incorruptness). However, such incentives or preventive measures often fail to achieve their intended goals. Corruption is a deeply entrenched issue that is difficult to eradicate, frequently surfacing alongside the rise and fall of power throughout history. In *The Laws*, Plato (427 BC - 347 BC) captured this notion when he declared, "The servants of the nation must provide their services without receiving gifts. Those who disobey must, if found guilty, be killed without ceremony" (Langseth et al., 1997).

As academic discourse on governance has evolved, discussions on corruption have gained prominence, especially over the past century. The increasing prevalence of corruption across nations and heightened attention from international institutions have driven research, particularly in developing countries. A crucial area of study focuses on the role of international institutions in both exacerbating and combating corruption

(Andvig et al., 2000). Scholars argue that country-specific studies of nations that have successfully mitigated systemic corruption can provide transferable insights into anti-corruption strategies applicable to other contexts.

Two prominent international institutions have articulated distinct definitions of corruption. The World Bank characterises corruption as "the abuse of public power for private benefit" (Tanzi, 1998). This encompasses actions whereby public officials exploit their positions for personal advantage, including accepting or soliciting bribes, or enabling private actors to offer bribes in exchange for favourable policies or procedures. Beyond direct bribery, corruption may also manifest through patronage, nepotism, or the misappropriation of public funds (Morris, 2011). Transparency International similarly defines corruption as "the use of public power for private gain," encompassing bribery, kickbacks, and the embezzlement of public resources. As Johnston (2005) observes, terms such as "abuse," "public," "private," and "benefit" are inherently contested and often ambiguous, varying significantly across different cultural and societal contexts.

Globally, corruption is generally categorised as an unlawful act, though the definition varies based on local norms and laws (Heidenheimer & Johnston, 2011). Typically, these norms are grounded in legal rules, judicial decisions or the judgment of political elites (Heidenheimer & Johnston, 2011). However, these elite perspectives are often shaped by specific cultural and historical contexts, making their universal application challenging. For instance, norms governing corruption in Africa may differ significantly from those in Western democracies.

A key academic distinction lies in the typology of corruption. Corruption is commonly categorized into two forms: petty (bureaucratic) and grand (political). Petty corruption involves low-level public officials breaching laws and regulations for personal benefit (Heywood, 2009). This form, often manifested in minor transactions such as bribes for issuing driver's licenses or passports, generally has limited societal impact (Lewis, 2017). Conversely, grand corruption—also termed political or structural corruption—entails the illicit diversion of public resources by high-ranking officials for private gain (Heidenheimer & Johnston, 2011). Grand corruption typically produces extensive and detrimental effects on society, as it implicates senior political actors and the manipulation of formal institutions and public wealth (Gerring & Thacker, 2004; Shleifer & Vishny, 1993).

As noted earlier, the definition of corruption can vary across different countries. In Indonesia, for example, corruption is defined under Law No. 20/2001 as an act of enriching oneself, another person, or a corporation by misusing authority, opportunities, or means available due to one's position, thereby potentially harming the state's finances or economy. The law categorises corruption into seven distinct groups: (1) actions causing state financial losses, (2) bribery, (3) embezzlement, (4) extortion, (5) cheating, (6) conflicts of interest, and (7) receiving unreported gratuities.

Scholars have identified various forms of corruption characterized by common features such as rent-seeking, illegal campaign financing, kickbacks, law purchasing, party patronage, pork-barrel politics, and state capture (Heywood, 2009). While corruption is distinct from clientelism and patronage, these phenomena are frequently interconnected. Kopecký and Mair (2012) define patronage as the allocation of public

office or benefits in exchange for political support. Political parties employ patronage strategically to build networks and sustain influence, often by appointing loyal supporters to public sector positions (Meyer-Sahling, 2006; Kopecký & Scherlis, 2008).

Clientelism, by contrast, refers to a reciprocal relationship between a "patron" (a politician or influential figure) and a "client" (someone of lower social status) wherein resources or advantages are exchanged for political support (Green & Ward, 2004). Pork-barrel politics and political clientelism further illustrate the intertwined nature of corruption and political favours, with politicians directing government funds to select groups in return for electoral support (Kopecký, 2006; Alvarez Rivadulla, 2012; Hopkin, 2006).

State capture represents another form of corruption in which private interests subvert public institutions to gain unlawful benefits (Kaufmann & Hellman, 2001; Jensen, 2002). This type of corruption typically arises in states where government agencies possess vast discretionary power and are susceptible to private influence due to the lack of adequate checks and balances (Graycar & Villa, 2001; Sonin, 2008).

In sum, variations in definitions and theoretical perspectives have led to diverse findings regarding the relationship between decentralisation and corruption. Political and bureaucratic corruption are commonly examined in relation to local governance, and their manifestation can vary depending on country-specific norms and legal frameworks.

2.2.2 Causes of Corruption

In the search for the root causes of corruption, Robert Klitgaard, an American economist, proposed an insightful formula: "Corruption equals Monopoly plus

Discretion, minus Accountability" (Klitgaard, 1988). Klitgaard (1998) elaborated on this equation, suggesting that when an official holds monopoly power over a service or good, possesses the discretion to determine the extent of provision to clients, and lacks accountability, the system becomes vulnerable to bribery and extortion.

Although these variables contribute to the persistence of corruption, the universal application of this formula remains problematic, as there is a lack of comprehensive theories and empirical studies to fully support it. While this debate remains unresolved and is beyond the scope of this study, it introduces three key factors that scholars frequently explore: institutional, economic, and societal.

From an institutional perspective, scholars analyze the role of formal institutions and political systems in facilitating corruption. Weak or dysfunctional public institutions often create opportunities for political corruption. The "theory of redistributive corruption" (Amundsen, 1999) posits that when governmental institutions fail to govern effectively, informal groups—such as clans, interest groups, and political parties—may assume decision-making, resource allocation, and regulatory functions typically reserved for public institutions (Andvig et al., 2001). This phenomenon is particularly evident in conflict-prone societies, where public institutions are weaker and less capable of curbing corruption. Emil Bolongaita (2005) notes that dysfunctional public institutions generate "extraordinarily high opportunities and low risks for corruption."

The theory of redistributive corruption also introduces the concept of "feudalisation," which describes a scenario where the government loses control over critical sectors like the economy and military, ceding power to informal arrangements (Amundsen, 1999). In such contexts, checks and balances are weak, and officials are less

accountable, often exercising discretionary power that breeds corruption (Rose-Ackerman, 1978). Many political economists agree that the discretionary power of bureaucrats and the demand for the resources they control are central to corruption (Warner, 2015).

An alternative perspective, the "theory of extractive corruption," posits the state itself—not informal groups—as the dominant actor and primary beneficiary of corrupt practices. In this view, powerful political elites manipulate state institutions to appropriate resources from society, while institutions and civil society remain too weak to enforce accountability (Amundsen, 1999). Both this and the opposing theory converge on the necessity of a well-institutionalised government and effective civil society oversight to curb corruption. In post-conflict contexts, establishing robust checks and balances—such as a free press, an independent judiciary, and a vibrant civil society—is critical for fostering institutional guardianship (Sung, 2002).

Many scholars argued that consolidated democracy can serve as a constraint on corruption. Empirical evidence indicates a negative correlation between high levels of democracy and low levels of corruption (Amundsen, 1999; Lambsdorff, 2006). While most low-corruption countries are democratic, and highly corrupt states tend to be undemocratic, this relationship is not absolute. For example, Italy, a well-established democracy with a strong economy, has long struggled with corruption (Johnston, 2009). Moreover, certain less democratic regimes, such as Singapore and Hong Kong, have effectively curbed corruption (Sindzingre, 2009). These exceptions suggest that the quality of democracy—particularly the degree of accountability within democratic institutions—is crucial to reducing corruption (Rothstein & Teorell, 2015).

Political parties play a crucial role in shaping corruption dynamics. In contexts with weak public institutions, parties may exacerbate corruption, particularly in conflict-prone regions. Conversely, in transitional societies, the development of political parties is essential for strengthening democratic institutions and advancing anti-corruption efforts (Le Billon, 2008; Curtis & De Zeeuw, 2009). A well-institutionalised party system can act as a check on ruling parties, thereby mitigating corruption (Hicken, 2009). However, for this mechanism to be effective, political competition must be both robust and institutionalised (O'Dwyer, 2004).

The economy is also central to understanding corruption. Economic development is widely regarded as a key precondition for reducing corruption, with empirical evidence often revealing a negative correlation between wealth and corruption: wealthier countries generally exhibit lower levels of corruption, whereas poorer countries experience higher levels (Haque & Kneller, 2009). Nonetheless, this relationship is complex, as demonstrated by cases such as South Korea, where corruption persisted despite rapid economic growth (Park, 2004).

Another important variable is the state's involvement in the economy. As long as the government maintains control over goods and services, opportunities for corruption persist (Budak & Goel, 2004; Montinola & Jackman, 2002). While some scholars advocate for privatisation as a solution, others caution that without strong regulatory frameworks, corruption may simply shift from the public to the private sector (Lambsdorff, 2006). This has been observed in countries like the Philippines, where corruption spread to the private sector following privatisation (Gonzalez & Mendoza, 2004).

Lastly, societal factors also play a role in perpetuating corruption. A phenomenon known as the "social trap" occurs when individuals lose trust in public officials and believe that their actions cannot make a difference in a corrupt society (Rothstein & Teorell, 2015). In such cases, people justify corrupt behaviour by reasoning that "if everyone else is doing it, why shouldn't I?" (Xin & Rudel, 2004). Over time, corruption becomes ingrained in the social fabric, as seen in countries like Nigeria, where it has become part of everyday life (Smith, 2010).

In conclusion, the persistence of corruption is influenced by a combination of institutional, economic, and societal factors. While solutions such as stronger public institutions, economic development, and political accountability can mitigate corruption, addressing these issues requires a comprehensive and multi-faceted approach.

2.2.3 Conceptualising Approach to Understanding Corruption

Comprehending corruption requires an examination through multiple perspectives, as no singular framework encapsulates its complexity. Corruption can be viewed as a failure of governance, wherein agents violate the trust of principals, as well as a broader societal issue rooted in collective behaviours. Consequently, integrating diverse approaches facilitates a more nuanced understanding of the drivers and manifestations of corruption. This section explores two significant frameworks for understanding corruption: the Principal-Agent theory and the Collective Action approach, each offering unique insights into the persistence of corruption and potential solutions.

2.2.3.1 Principal-Agent

The economic analysis of corruption's causes has traditionally been framed within the Principal-Agent Theory (Becker, 1968; Huther & Shah, 2000). This theory posits that the "principal," understood as the citizens (voters) or the highest levels of government, bears ultimate responsibility for overseeing a nation. The principal delegates authority to government officials or local authorities—referred to as "agents"—who are entrusted to act in the public's best interest when managing resources (Becker, 1968; Rose-Ackerman, 1978; Klitgaard, 1988). The principal's objective is to ensure that agents perform their duties with integrity, making responsible decisions regarding the use of public resources. However, this dynamic also highlights the potential for corruption, particularly when agents act in their own self-interest rather than for the common good.

The Principal-Agent Theory, heavily influenced by the work of Rose-Ackerman (1978) and Robert Klitgaard (1988), views corruption as a product of interactions between public entities and private actors. It is grounded in rational choice theory, where individuals—both agents and principals—are presumed to make decisions based on maximising their personal benefits. Corruption, therefore, thrives when accountability mechanisms are weak, oversight is minimal, and agents are granted significant discretionary powers.

For decades, the Principal-Agent model has been a dominant framework in understanding corruption, as evidenced by numerous studies examining corruption's impact on economic growth. A meta-analysis by Rocha Menocal et al. (2015) revealed that all 15 studies analysing corruption's influence on growth adhered to a Principal-Agent framework, underscoring the theory's prevalence in academic discourse

(Marquette & Peiffer, 2015). Furthermore, Persson et al. (2013), through their empirical analysis of anti-corruption initiatives, found that most programmes were designed around the Principal-Agent understanding of corruption, further entrenching the model's influence.

Within this framework, corruption is primarily attributed to information asymmetry, where agents possess more knowledge than the principals. This imbalance enables agents to act in their self-interest, often to the detriment of the public good (Persson et al., 2013). Booth (2012) argues that, when combined with the monopoly power and discretionary authority granted to public officials, this information gap creates a fertile environment for corruption. The theory suggests that corruption can be mitigated by strengthening institutional monitoring, reducing monopolistic control, and promoting competition within government systems.

Klitgaard's (1988) famous formula—Corruption (C) = Monopoly + Discretion - Accountability—distils the essence of this theory. According to this model, reducing corruption requires limiting monopoly power, curtailing discretionary authority, and enhancing accountability mechanisms. This aligns with broader calls for institutional reforms, such as implementing transparent governance practices, introducing strict regulatory frameworks, and establishing internal checks and balances that restrict public officials' ability to act without oversight.

In environments where principals (the public or elected officials) cannot hold agents accountable, corruption is likely to flourish. Agents may exploit their positions for personal gain, using public services or resources as bargaining chips for private rent or favours. Furthermore, democratically elected leaders often struggle to exert

adequate control over civil servants, leading to weak oversight and exacerbating corruption risks (Marquette & Peiffer, 2015). This misalignment between agent incentives and public welfare is one of the critical weaknesses that the Principal-Agent Theory seeks to address (Mungiu-Pippidi, 2006).

However, a fundamental assumption of the Principal-Agent model is that "principals are principled," meaning that voters, elected officials, and oversight bodies are inherently motivated to combat corruption (Klitgaard, 1988). The theory assumes that if principals had access to sufficient information, they could effectively hold agents accountable (Rocha Menocal, 2016; Heywood, 2017). This assumption has shaped many anti-corruption strategies, which focus on modifying agent behaviour by reducing their decision-making latitude and increasing transparency (Olken & Pande, 2013).

The principal-agent model has been a dominant framework in corruption studies, highlighting the relationship between principals (citizens or oversight bodies) and agents (public officials) who may deviate from the public interest for private gain. Grounded in rational choice theory, this model attributes corruption to information asymmetry, discretionary power, and weak accountability (Klitgaard, 1988; Rose-Ackerman, 1978). It assumes that principals, if properly informed, can uphold integrity by monitoring agents—leading to anti-corruption strategies focused on transparency, institutional checks, and the reduction of monopolistic control (Persson et al., 2013; Marquette & Peiffer, 2015). However, this perspective assumes that principals are inherently principled and capable of enforcing accountability, an ideal often undermined in contexts where corruption is systemic (Mungiu-Pippidi, 2006; Rocha Menocal, 2016).

It is argued that the principal-agent model oversimplifies corruption by overlooking its collective dimensions. In deeply corrupt systems, corruption functions as a collective action problem, where individuals perceive no incentive to act ethically if others continue exploiting the system (Persson et al., 2012; Marquette & Peiffer, 2017). Traditional principal-agent solutions—such as monitoring and punitive measures—often fail to address these systemic causes, as corruption becomes ingrained in social norms and institutional cultures (Rauch & Evans, 2000; Tacconi & Williams, 2020). Consequently, scholars advocate for the integration of collective action theory and institutional analysis to design more comprehensive anti-corruption strategies, recognising that effective reform requires addressing both individual incentives and broader societal dynamics (Nieto-Morales & Ríos, 2021; Martinsson, 2021).

2.2.3.2 Collective Action Approach

The collective action approach represents a significant paradigm shift in the study of corruption, moving beyond the traditional principal-agent model that emphasizes individual incentives and accountability. Instead, this perspective frames corruption as a systemic, group-based problem, where the behaviors and expectations of individuals are deeply influenced by their social context and the collective norms that prevail within society (Booth & Cammack, 2013; Ostrom, 1998; Persson et al., 2013). In this framework, all actors—rulers, bureaucrats, and citizens alike—are seen as rational and self-interested, making decisions based on their expectations of how others will act (Ostrom, 1998). When corruption is widespread and perceived as the norm, individuals are less likely to resist it, even if they recognize the long-term societal harm, because the immediate personal costs of acting with integrity can be prohibitively high (Persson et al., 2013; Rocha Menocal, 2016).

A central insight from collective action theory is that corruption becomes self-reinforcing and resilient when it is widely expected and practiced. In such environments, the risks of being the first to act ethically are significant, while the benefits of reduced corruption are diffused across society. This dynamic creates multiple possible equilibria: even within similar institutional frameworks, different levels of corruption can exist, depending on the collective behaviors and expectations of actors (Della Porta, 2012; Persson et al., 2013). The result is that corruption is not merely the product of a few bad actors but is often embedded within the very fabric of the political and social landscape (Mungiu-Pippidi, 2011; Gurgur & Shah, 2005).

From a collective action perspective, formal anti-corruption institutions cannot be understood in isolation from informal norms and social expectations. Where corruption is widely perceived as “how things are done”, formal rules are often subverted by informal practices of gift-giving, patronage, and reciprocity that make refusal costly for individual officials, even when they personally endorse official ethical standards. Bardhan’s broader work on institutions emphasises how distributive conflicts and social heterogeneity shape these informal arrangements and help explain why dysfunctional institutions persist in many developing countries (Bardhan, 2005).

In Indonesia, diverse cultural norms around kinship obligations, reciprocity, and communal solidarity intersect with decentralised political structures to shape the behaviour of public office holders. Studies of local governance and political dynasties show that kin-based political networks and expectations to share resources with family, clan, or community can blur the line between legitimate social support and abusive use of public office, reinforcing systemic corruption despite the existence of formal

oversight bodies (Pertiwi, 2019). Empirical work on Indonesian clientelism and local political finance similarly documents how informal patron–client networks and party financing needs encourage vote buying, bureaucratic patronage, and budget manipulation, illustrating that informal norms can significantly weaken the effectiveness of formal anti-corruption institutions in a decentralised setting (Aspinall & Berenschot, 2019).

Empirical research has highlighted how group dynamics, shared grievances, and collective emotions—such as anger or indignation—can catalyze collective resistance to corruption. For instance, community-led discussions and the mobilization of collective identities have been shown to shift social norms and encourage reporting of corrupt practices (Köbis et al., 2019; Blair et al., 2019). These findings suggest that successful anti-corruption strategies must focus not only on penalizing individuals but also on altering the broader social environment in which corrupt behavior is normalized (Bauhr, 2016; Mungiu-Pippidi, 2013).

Furthermore, case studies from diverse contexts demonstrate the effectiveness of collective action strategies in combating corruption, especially when they are tailored to local socio-political realities (Marquette & Peiffer, 2017; Tacconi & Williams, 2020). For example, participatory policies that promote collective monitoring and transparency have been found to foster trust between citizens and institutions, leading to sustained engagement and reductions in corrupt behaviors (Bauhr & Grimes, 2013; Villamil et al., 2022). Additionally, heightened public awareness of corruption can spur civic engagement, such as protests or community organizing, further reinforcing the power of collective mobilization (Bazurli & Portos, 2019; Markussen et al., 2021).

The collective action approach thus complements the principal-agent model by providing a more nuanced understanding of how corruption becomes entrenched and how it can be effectively challenged. While principal-agent theory is valuable for addressing issues of oversight and accountability, the collective action perspective reveals the importance of shifting social norms and group dynamics to disrupt the status quo. This dual approach is essential, as it recognizes both the individual and systemic dimensions of corruption and informs the design of more holistic and context-sensitive anti-corruption interventions (Peiffer & Alvarez, 2015; Mutuma & Jambawo, 2017).

In summary, the emerging literature suggests that both approaches are necessary to develop a more comprehensive understanding of corruption. Each framework offers unique insights into the dynamics of corruption and the incentives that drive it. The collective action approach enriches our understanding of corruption by highlighting its social and systemic roots. It underscores the need for anti-corruption strategies that go beyond individual punishment to foster collective resistance, reshape societal expectations, and empower communities. By integrating psychological, social, and political dimensions, this approach paves the way for innovative and sustainable solutions to corruption's persistent challenges.

2.3 The Decentralisation

Decentralisation has become a pivotal concept in governance, promoting the allocation of power from central authorities to local or regional bodies. This process seeks to improve public service delivery by aligning governance with citizens' needs and preferences, thus enhancing efficiency and accountability. The different types of

decentralisation—political, fiscal, and administrative—underscore the complex nature of this reform, each carrying unique consequences for governance and public welfare. Comprehending these dimensions is crucial for assessing the efficacy of decentralisation across various contexts, including its capacity to mitigate or intensify governance issues such as corruption. This document will examine the typologies and methodologies of decentralisation, emphasising their theoretical underpinnings and practical implementations.

2.3.1 Concept and Typology of Decentralisation

Decentralisation has garnered growing attention as a mechanism to enhance the provision of public goods and services, as reforming public service delivery has emerged as a priority on the policy agenda (World Development Report, 2004). The principal economic rationale driving this interest is the potential for efficiency improvements to enhance citizens' welfare (Tanzi, 1995). The argument asserts that by addressing residents' distinct interests and preferences, local governments can provide public goods and services that more accurately reflect the desires of the local populace, thereby improving satisfaction and welfare.

The concept of decentralisation typically denotes the distribution of authority across various tiers of government—national, state, and local—each possessing different degrees of autonomy. Some political scientists argue that authentic federal systems, characterised by distinct levels of government holding separate jurisdictions, are rare, with only a limited number of countries (e.g., the U.S., Canada, Switzerland) fully embodying such a structure. The literature on decentralisation lacks a consensus on its precise definition, illustrating the concept's complex and multifaceted nature.

The term “decentralisation” encompasses a variety of definitions, but at its core, it refers to the delegation of power from a central authority to subordinate levels of government. The World Bank defines decentralisation as the transfer of authority and responsibility for public functions from the central government to quasi-independent government organisations or the private sector. In another interpretation, decentralisation is viewed as expanding local autonomy through transferring powers and responsibilities away from national bodies (Heywood, 2017).

From an economic standpoint, Wallace E. Oates (1972) posits that a federal system of government offers the most promising framework for organising the public sector to address essential economic functions—allocation, distribution, and stabilisation. Oates categorises government systems into two extremes:

1. **Complete Centralisation (Unitary Government):** Where the central government holds full responsibility for the public sector's economic functions, with no involvement from other levels of government.
2. **Total Decentralisation:** A theoretical scenario where local governments undertake virtually all economic functions, leaving the central government devoid of any significant responsibility—a situation that would be unrealistic in practice.

Oates suggests that while a unitary government excels at resolving macroeconomic issues like stabilisation and distribution, decentralised governments are better suited to catering to the specific preferences of local people by providing public goods and services. Federalism, according to Oates, strikes a balance between these two systems by enabling different levels of government to focus on the tasks they are best equipped to handle, thus mitigating the shortcomings of both extreme forms.

In Oates' view, decentralisation (particularly fiscal decentralisation) offers several advantages for certain functions compared to a fully centralised decision-making system. He emphasises that from an economic perspective, the distinction between delegated and constitutionally guaranteed authority is less significant than in political science. As a result, federalism should be understood in relative terms, with different degrees, rather than as a fixed system.

Decentralisation is a multidimensional concept encompassing political, administrative, and fiscal aspects, and it can take various forms, such as devolution, deconcentration, and delegation. These dimensions and forms combine to create a spectrum of decentralisation scenarios, each with distinct implications for governance and development outcomes.

1. **Political Decentralisation** involves transferring political decision-making power to lower levels of government. This includes shifting legislative authority and increasing the accountability of local governments to citizens through elections or other mechanisms. Sometimes referred to as "democratic decentralisation," this form aims to give citizens or their elected representatives greater influence over public decision-making (Pandey, 2005; World Bank, 2000; European Commission, 2007).
2. **Fiscal Decentralisation** refers to the provision of resources that enable lower levels of government to exercise decentralised powers. This involves granting subnational entities the autonomy to determine expenditures and generate revenue, thereby giving them control over budgeting and financial decisions (World Bank, 2000; Fedelino. A, 2010).

3. **Administrative Decentralisation** involves transferring managerial responsibilities for public functions to lower levels of government or non-state entities.

Administrative decentralisation can take several forms:

- **Deconcentration:** Redistributing decision-making within the central government to regional or local offices.
- **Delegation:** Transferring responsibilities to semi-autonomous organisations not fully controlled by the central government.
- **Devolution:** Transferring powers to autonomous subnational governments.

These dimensions are further refined by scholars like Cai and Treisman (2006), who highlight distinctions between political, administrative, and fiscal decentralisation and emphasise the different roles and powers that subnational entities can hold.

Prud'homme (1994) proposes a typology that distinguishes between spatial, market, and administrative decentralisation:

- **Spatial Decentralisation** refers to the dispersal of populations and activities from large urban centres to smaller ones.
- **Market Decentralisation** involves creating conditions for the market to provide goods and services.
- **Administrative Decentralisation** (subdivided into deconcentration, delegation, and devolution) refers to the distribution of authority within the government hierarchy.

Other scholars, such as Vito Tanzi (1996), differentiate between deconcentration and decentralisation. Tanzi defines deconcentration as the delegation of administrative

control to lower levels within the central government, while decentralisation involves genuine independent decision-making power for subnational governments.

Bird and Vaillancourt (2006) offer a widely recognised classification of decentralisation, consisting of deconcentration, delegation, and devolution. This typology remains influential in contemporary discussions of decentralisation.

James Manor (1999) presents a comprehensive framework for understanding decentralisation by combining its dimensions and forms into three categories:

1. **De-concentration/Administrative Decentralisation:** The dispersal of central government agents into local arenas. While this can increase efficiency, it does not necessarily enhance local autonomy if unaccompanied by democratic reforms.
2. **Fiscal Decentralisation:** The downward transfer of fiscal resources, allowing local governments to exercise more control over budgets. Fiscal decentralisation without concurrent democratisation, however, risks perpetuating central control.
3. **Devolution/Democratic Decentralisation:** The transfer of resources, authority, and responsibility to local governments that are largely autonomous from higher levels and are, to some extent, democratic.

The typology of political, administrative, and fiscal decentralisation is employed in this research to investigate the impact of decentralised governance on the propensity of local officials to engage in corruption. It is essential to comprehend the diverse dimensions and forms of decentralisation in order to evaluate the extent to which various forms of decentralisation can either reduce or increase the risk of corrupt behaviour among local authorities. For instance, fiscal decentralisation may grant local governments greater control over financial resources; however, it may also introduce

new risks of misallocation or misuse of funds if accountability mechanisms are inadequate. In the same vein, if electoral accountability is insufficiently robust, political decentralisation that improves local autonomy may increase the likelihood of rent-seeking. Therefore, this study endeavours to discover how decentralisation affects the quality of governance and the probability of corruption at the local level by investigating the various dimensions of decentralisation.

2.3.2 Conceptualising Approach to Understanding Decentralisation

The dimensions and form of decentralisation were discussed in the preceding section. The combination of these dimensions and forms generates a variety of potential decentralisation systems or scenarios, which may have an impact on numerous aspects. In order to gain a more comprehensive understanding of the implications for development outcomes, it is crucial to disaggregate these. There are two primary theoretical frameworks that can be employed to comprehend decentralisation reforms:

2.3.2.1 Fiscal Federalism

The foundation of the first approach can be derived from public choice and public economics. It examines the effects of decentralisation on the government's allocation, distribution, and stabilisation roles (Oates, 1989). Public financial management literature also refers to these roles as technical efficiency, allocative efficiency, and macroeconomic stabilisation or fiscal discipline (World Bank, 1998; Allen & Tommasi, 2001). In this method, a great deal of time and energy is spent pondering the "assignment problem," or the question of how best to divide government duties among different levels of government to achieve desired results.

It is preferable to have a centralised authority handle stabilisation tasks like managing the money supply. In contrast, varying degrees of "fiscal federalism" is more helpful for allocation and distribution purposes. This idea is encapsulated in Wallace Oates' "decentralisation theorem" (1972), which states that different spatial characteristics of public goods mean that local jurisdictions will better provide some. Defence and goods with large economies of scale are two examples of this. In contrast, goods that benefit only certain regions (have few externalities) or are subject to preferences that vary from region to region are best produced at the national level. For these issues, decentralisation may help with allocation and efficiency, and inter-jurisdictional competition may help boost efficiency (Tiebout, 1956). It makes no sense to tax transient factors at the local level, so property taxes provide a great local revenue source (Tanzi, 1995).

This method yields a prescriptive and sequential model for decentralisation, which begins with the duties of each tier of government, moves on to the optimal distribution of tax revenue among them, and finally calculates the optimal allocation of transfer and borrowing resources to close any funding gaps that may arise (Steffensen, 2010). The term "First Generation Fiscal Federalism" has been coined to describe this method (Weingast, 2014). It positions decentralisation within principal-agent relationships as a means to boost public sector efficiency. This aligns closely with the principal-agent approach to corruption described earlier in this chapter and suggests that principal-agent analysis is the primary tool for understanding the relationship between decentralisation and outcomes like corruption.

2.3.2.2 Political Economy

A second approach to decentralisation adopts a political economy perspective and relaxes the assumption of a benevolent principal. As Oates (2008) notes, this approach “views public officials as conventional utility-maximising entities with their own objective functions, who operate within a constellation of incentives and constraints that depends on existing political and fiscal institutions.” This perspective not only considers the interests of those who initiate or drive decentralisation movements, but also those who are directly affected by them. Rarely does decentralisation commence through a methodical policy process (Smoke, 2015); rather, its evolution is shaped by the prevailing political context. Although the adoption of decentralisation has been a prominent feature of the late twentieth and early twenty-first centuries, this overarching trend masks considerable variation in both the motivations for, and approaches to, reform. For instance, the backdrop of separatism, fiscal crises, and democratic transition is inextricably linked to the advantages and disadvantages of Indonesia’s rapid decentralisation across a wide array of governmental functions. Similarly, the current system in Nigeria cannot be understood without reference to the country’s enduring struggles with nationalism, diversity, and national unity, as well as the imperative to manage the rents generated by its abundant natural resources. Colonial legacies, legal origins, and related factors also play a significant role in shaping the trajectory of decentralisation.

Consequently, the manifestation of decentralisation varies according to its underlying causes. Approaches that highlight this diversity enable us to distinguish between different forms of decentralisation and to assess their potential implications. Depending on the political economy driving the process, one or more dimensions of

decentralisation—be they political, administrative, or fiscal—may become particularly salient. This perspective suggests, and in some cases explicitly asserts, that decentralisation is unlikely to function effectively if its various dimensions are excessively imbalanced (Boex, n.d.). For example, extensive “revenue-led” fiscal decentralisation may result in the transfer of resources without adequate capacity for planning, budgeting, or oversight. Conversely, decentralisation driven primarily by political considerations may produce unfunded mandates, whereby responsibilities are devolved to lower tiers of government without corresponding increases in budgetary support. Furthermore, administrative decentralisation in the absence of robust accountability mechanisms may embolden local officials to engage in predatory behaviour. Recognising the heterogeneity of decentralisation thus provides a valuable framework for distinguishing between its various forms and understanding their distinct consequences.

2.4 The Dynamics of Regional Autonomy in Indonesia

Indonesia is a vast archipelago of over 17,000 islands, spanning 5,245 km from Sabang to Merauke, approximately the same as the distance between London and Baghdad. It is home to more than 1,300 ethnic groups and boasts a linguistic diversity of over 700 languages. Despite the diverse nature of Indonesia, the country's founding fathers unanimously agreed that Indonesia is a "unitary state," as explicitly stated in the 1945 Indonesian Constitution. This designation has remained unchanged, even after four further amendments to the Constitution. The status of Indonesia as a unitary state is clearly defined in Article 1 paragraph (1) of the 1945 Constitution, which states that "Indonesia is a unitary state, with a Republican form of government." As a unitary state, the central government holds the ultimate authority. Still, it has the discretion to

delegate or withhold certain powers to the regions, depending on their level of autonomy. Nevertheless, throughout Indonesian history, the practice of decentralisation and bestowing regional autonomy upon local administrations has been a consistent strategy under every regime. The application of decentralisation and centralisation in Indonesia is not a dichotomous issue but rather exists on a continuum, with the country having adopted regional autonomy policies at various points in its history.

2.4.1 Post-independence and the Old-Order Era³ (1945-1966)

Many believe that the implementation of regional autonomy in Indonesia began concurrently with the decentralisation implemented in 1999, following the issuance of Law No. 22 of 1999 on Regional Government. However, that is incorrect. The initial legislative measure that governed regional governance subsequent to the proclamation of independence was Law Number 1 of 1945. The implementation of this legislation was prompted by a range of factors pertaining to the governance practices observed in the monarchies and during the colonial era. The law highlights aspects of the principles of democratic sovereignty by establishing guidelines for the establishment of representative institutions in each region, even though the application is not as it is. This law establishes three types of autonomous regions: residency, district, and city. This law has a very limited duration, resulting in a lack of government regulations regarding the transfer of responsibilities (decentralisation) to the regions over the past three years, as it was repealed by Law Number 22 of 1948. (Arthur, 2012)

³ The first President of the Republic of Indonesia assumed office between 1945 and 1966, a time span colloquially referred to as the Old Order Era.

Law Number 22 of 1948 aims to establish guidelines for the structure of democratic regional government. This legislation establishes two distinct categories of self-governing regions: ordinary autonomous regions and special autonomous regions. Additionally, it designates three hierarchical levels for these regions: provinces, districts (and large cities), and villages (and small cities). The government has taken notice of the transfer of certain government responsibilities to the regions, as stipulated in Law Number 22 of 1948. Law No. 22 of 1948 aimed to give Regional Governments broad autonomy. The system was characterised by the existence of a Regional Representative Council (*Dewan Perwakilan Rakyat Daerah*, DPRD), which wields substantial political power. In addition, this legislation recognises genuine autonomy (self-governing communities) at the village level in Indonesia. However, the implementation of this law was hampered by the political and social situation at the time. The era of regional autonomy in Indonesia following the enactment of Law Number 22 of 1948 witnessed the introduction of various legislations concerning regional governance in the Old Order regime era, namely Law Number 1 of 1957 (as the initial comprehensive regulation that was uniformly applicable nationwide), and Law Number 18 of 1965 (which emphasised a higher decentralised autonomy system than the older arrangements).

2.4.2 The New-Order⁴ Regime Era (1966-1998).

In contrast to the Old Order era, which had numerous laws governing regional governments, the New Order era had only one, Law No. 5 of 1974. This legislation introduces a new dimension in the governance of regional autonomy: absolute and

⁴ The term "New Order" refers to the reign of Indonesia's second president, Suharto, who succeeded the previous president, Soekarno. The New Order began with the issuance of an Order on March 11, 1966. The New Order had occurred from 1966 to 1998.

responsible autonomy. The implementation of regional autonomy governance is adapted to the "New-Order development trilogy", which includes political stability, relatively high economic growth and an equitable distribution of development activities and outcomes. According to Kaloh, J. (2002), the development trilogy influenced Law No. 5 of 1974 by first concentrating power in the executive body (Regional Head) and secondly by abolishing the Daily Executive Body as a representative of political parties in the Regional Government. Third, the DPRD's right to an inquiry is not exercised, which may jeopardise the Regional Head's integrity; fourth, the Regional Head is directly responsible to the President rather than the DPRD; and fifth, the Regional Head only provides the DPRD with information about government and development implementation once a year.

Law No. 5 of 1974 has three basic principles: decentralisation, deconcentration and assistance tasks. Ideally, these three basic principles are complementary and work in balance in regulating central and regional relations. However, in its implementation, the principle of deconcentration dominated, as can be seen in the centralisation of the New Order government, which withdrew regional affairs into deconcentration matters without going through transparent procedures and the placement of more and more deconcentration officers in the region (Kaloh, J. 2002), for example, in regional head elections. Even though the DPRD chooses, the final decision rests with the President through the Minister of Home Affairs. Regional heads' accountability reports are also submitted to the President through the Minister of Home Affairs, not the DPRD. The same thing happens at the policy level, where everything is uniformly prepared by the Central Government without taking into account the needs, regional characteristics, and culture of the regions in Indonesia (Hoessein, B. 1995). The implication of this is

that regional space is limited, and regions are burdened by the costs of deconcentration activities financed by the APBD

During the New Order era, the government system was structured in stages, with provinces becoming Level I Regions and districts/municipalities as Level II Regions. A sub-district is an administrative area that oversees several villages (at the district level) and sub-districts (at municipal and administrative city levels). To maintain development stability, the New Order government placed the military as regional heads at regional levels I and II down to the smallest level of government, the village. The New Order government's policy regarding regional autonomy was still coloured by a colonial flavour. (Anderson, 1983)

On this basis, the autonomy introduced by Law No. 5 of 1974 is not genuine. With limited authority for regions to prepare and implement regional policy planning, as well as the President's strong dominance over Regional Heads (Ginting, 2014), decentralisation is only in the formal legal stage at the moment. The central government had significant influence over the selection of local officials and the allocation of funds (Sagala et. al, 2016). In practice, the principle of concentrating power in the hands of the Central Government (President) is the guiding principle in the pattern of relations between the Centre and the Regions during this period.

2.4.3 Current Application of the Regional Autonomy in the Post-Reform Era (1999-now).

Following over three decades of consolidating power in an autocratic regime, a movement emerged in 1998, amid Indonesia's complex crisis, to grant greater autonomy to local regions. This shift was triggered by the perceived inequities

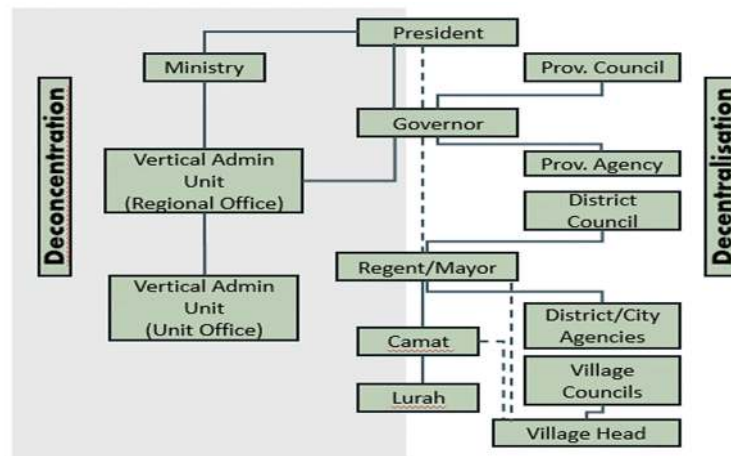
experienced by regions rich in natural resources, owing to the dominance of the New Order government over political, administrative, and fiscal authority. Moreover, President Soeharto's monolithic political system led to widespread disappointment and growing calls for greater autonomy in managing regional affairs.

The New Order administration was eventually overthrown due to a broad-based desire for reforms across all aspects of national governance. In 1998, the Special Session of the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat*, MPR) issued MPR Decree Number XV/MPR/1998, which addressed the implementation of regional autonomy, equitable allocation, distribution, and utilisation of national resources, and the harmonisation of central and regional finances within the framework of the Unitary State of the Republic of Indonesia. Subsequently, Law No. 22/1999 on Regional Government and Law No. 25/1999 on Financial Balance between the Central and Regional Governments were enacted, marking the beginning of a new era of autonomy.

Regional autonomy, as defined in Article 1, Paragraph 8 of Law No. 22/1999, refers to the legal entitlement, power, and responsibility of autonomous regions to control and oversee governmental affairs and the welfare of local populations through legal provisions. The law specifies that the decentralisation principle—comprising comprehensive, genuine, and accountable autonomy—underpins the granting of autonomy to regions and districts/cities.

One of the most notable differences between Law No. 5 of 1974 and Law No. 22 of 1999 lies in the fundamental shift in the structure of regional autonomy and the substance of decentralisation. Under the former, decentralisation during the New Order

era leaned towards a model of deconcentration, whereas the reforms of the post-1998 era introduced a devolution-style system, emphasising the autonomy of regencies and cities.



Source: Law No. 22/1999

Figure 2-1 The Distribution of the Deconcentration and Decentralisation Structure based on Law No. 22/1999

From the perspective of provinces, there have been no significant shifts. The Governor continues to serve as the central government's representative and as the regional head, while the Vertical Unit—functioning as a government instrument—remains in place. However, the Governor (*Gubernur*) no longer holds control over the Regent(*Bupati*)/Mayor(*Walikota*). The emphasis on autonomy at the Regency/City level signifies that these governments are independent and not subject to central intervention, a marked departure from the prior system where intervention occurred through the dual roles of the Head of the Autonomous Region and the Head of the Administrative Region, both of whom acted as central representatives.

Furthermore, Law No. 22/1999 not only granted districts and cities substantial autonomy but also opened avenues for political participation. Noteworthy

developments include the direct election of the Regent/Mayor and the establishment of the Village Representative Body. The Regent and Mayor are elected by the Regency/City DPRD, without involvement from provincial or central governments.

Simultaneously, the enactment of Law No. 25/1999, addressing the Financial Balance between the Centre and the Regions, brought about changes in regional finances. These provisions established a financial framework for local governments and prioritised local decision-making on financial matters. Law No. 25/1999 enhanced regional financial resources at the macro level, in line with the principle of balance, allowing regions to retain 70%–85% of the revenue generated from managing their natural resources, which could be reinvested into local development.

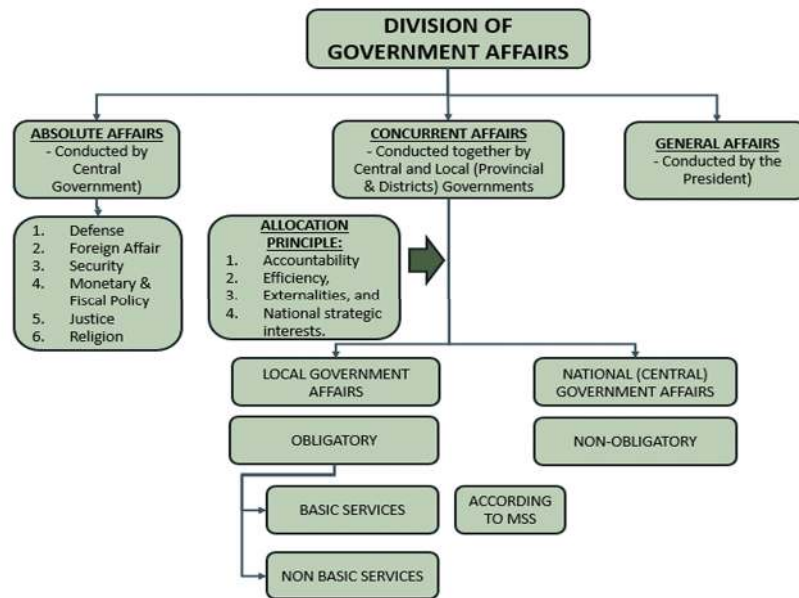
Law No. 32 of 2004, enacted on 15 October 2004, superseded Law No. 22 of 1999. While it largely retained the provisions of its predecessor, it further refined the concept of regional authority. Under Law No. 22 of 1999, regional authority was defined as the jurisdiction over all government areas except foreign policy, defence and security, justice, monetary and fiscal matters, religious affairs, and other specified fields. Law No. 32 of 2004 provided a more detailed specification of regional authority and introduced a key change in the selection process for regional heads. Under Law No. 22 of 1999, regional heads were elected by the DPRD, whereas Law No. 32 of 2004 stipulated that regional heads should be directly elected by the people, adhering to the principle of one person, one vote. This reform meant that elected regional heads were

directly accountable to the public (constituents) as well as to the Central Government (through reporting) and the DPRD (through information provision).

Source: Law No. 23/2014

Figure 2-2 The Division of Government Affairs based on Law 23/2014

Finally, Law No. 32 of 2004 was revoked and replaced by Law No. 23 of 2014, which



introduced significant changes in the distribution of governmental affairs between the Central Government, Provincial Regional Governments, and Regency/City Regional Governments, as depicted in the diagram above. Notably, this new law consolidated authority over natural resource planning and administration, transferring substantial powers from lower levels of government (districts and cities) to higher levels (provinces and ministries). Endi Jaweng (2014) argues that the central government's enhanced ability to closely monitor environmental and political matters provides it with a strategic advantage in securing profitable natural resource rights.

2.5 Literature Studies of The Linkage of Decentralisation and Corruption.

The association between decentralisation and corruption has been extensively examined in both theoretical and empirical studies. Scholars have examined multiple mechanisms by which decentralisation may either diminish or exacerbate corruption, but the results remain inconclusive. Decentralisation is perceived as a mechanism to bring government closer to the local people, thereby improving accountability and reducing opportunities for corruption. Conversely, critics argue that decentralisation may result in fragmented authority and weakened oversight, potentially fostering an environment prone to corruption. The literature encompasses diverse perspectives, featuring theoretical models that propose both beneficial and detrimental outcomes, as well as empirical studies aimed at quantifying these effects across various regions and contexts. This section explores theoretical and empirical findings to offer an extensive overview of how decentralisation may affect corruption.

2.5.1 Theoretical Studies

Over the last decade, numerous theoretical models have been developed to explore the question of whether decentralisation leads to more or less corruption. While this literature has contributed to highlighting some of the critical variables, the theoretical studies point in divergent directions and provide only ambiguous conclusions regarding the impact of decentralisation on corruption. Some views suggest that decentralisation is expected to reduce corruption, with several mechanisms proposed to explain how this reduction might occur.

First, due to inter-jurisdictional competition among tiers of government (both horizontal and vertical), decentralisation discourages local governments from implementing

heavily interventionist policies. This is because local governments fear the flight of mobile factors of production to jurisdictions with fewer interventionist policies (Jin et al., 1999). The emerging forces of political and inter-jurisdictional competition, coupled with the enhanced role of local governments, are argued to lead to a reduction in corruption (Tiebout, 1956; Fisman and Gatti, 2002).

A second possible mechanism, framed within the Neo-Institutional Economics (NIE) perspective, suggests that decentralisation brings local government closer to the people, thereby improving monitoring and direct accountability. This is because local citizens typically possess higher levels of information, which enhances transparency, lowers transaction costs, and strengthens countervailing institutions, such as auditing bodies and law enforcement agencies (Boadway and Shah, 2009). Carbonera (2000) suggests that this mechanism also reduces the expected gains from rent-seeking behaviour and increases the probability of detecting and punishing such activities.

Conversely, some scholars argue that decentralised systems may be more susceptible to corruption than centralised ones. One such claim is based on the idea that decentralisation leads to a fragmentation of decision-making power within government. The breakdown in coordination between bureaucrats can contribute to excessive rent extraction (Shleifer and Vishny, 1993). Bardhan and Mookherjee (2000) argue that increased local discretion may result in interest groups becoming more cohesive at the local level, which, in turn, leads to greater state capture and the substitution of private transfers for public services.

Another mechanism concerns the competence and bureaucratic quality of local governments. Prud'homme (1995) argues that the limited capacity of local bureaucrats

to deliver public goods and services may prevent the realisation of the potential benefits of decentralisation. Moreover, from a monitoring perspective, relying on the principal-agent model, central and local bureaucrats exhibit different characteristics and responsibilities. Local bureaucrats (agents) are typically less diligent in monitoring compared to their central counterparts, as their incentives to reduce corruption are lower (Tabellini, 2000).

Thus, several elements explain the relationship between decentralisation and corruption. These include (a) inter-jurisdictional competition; (b) monitoring and direct accountability; (c) decision-making discretion; and (d) local bureaucratic competence and quality (Fisman and Gatti, 2000). The first two elements suggest that decentralisation may reduce corruption, while the latter two suggest that decentralisation may exacerbate it.

An influential theoretical paper by Shleifer and Vishny (1993) posits that both highly centralised and highly decentralised countries may suffer less from the detrimental effects of corruption than those with an intermediate level of institutional centralisation. A more moderate stance holds that whether decentralisation encourages or discourages bureaucratic rent-seeking depends on whether the devolution of revenue generation is accompanied by expenditure decentralisation to local governments (Smoke and Lewis, 1996).

2.5.2 Empirical Studies

Empirical research on the relationship between decentralisation and corruption yields inconclusive findings. Numerous studies have sought to assess the effects of decentralisation from various perspectives, encompassing fiscal, political, and administrative dimensions. The results often vary depending on the context, the

methodology employed, and the specific form of decentralisation under consideration. Some studies underscore the potential of decentralisation to mitigate corruption by enhancing local accountability and transparency. In contrast, others emphasise the risk of increased corruption due to local power dynamics, fragmented governance, and disparities in institutional capacity. This section examines multi-country studies and case analyses, evaluating the empirical evidence regarding the interaction between decentralisation and corruption across different political and economic contexts.

2.5.2.1 Multi-country analyses

Empirical research on the impact of decentralisation on corruption predominantly employs datasets from multiple countries; however, the results remain inconsistent. The findings appear to be contingent upon various factors, including the specific conditions, the dimensions of decentralisation considered, the datasets utilised, and the methodologies employed. Freille, Haque, and Kneller (2008) examine the empirical relationships between decentralisation and corruption using a large dataset encompassing 174 countries. They assess several dimensions of decentralisation and find that fiscal decentralisation is associated with lower levels of corruption, while political decentralisation is linked to higher levels of corruption. Spatial decentralisation, however, does not seem to exhibit a significant relationship with corruption (Freille et al., 2008). Fiscal decentralisation is represented by sub-national government expenditure and revenue as a percentage of total government expenditure (or revenue). Constitutional decentralisation refers to whether the structure of the relationship between different government units is based on federal or unitary principles according to legal frameworks. Political decentralisation pertains to granting citizens more power in public decision-making, encompassing institutions such as

pluralistic politics, the election of local (state/provincial) governments, and whether senators represent provincial constituencies. Finally, spatial decentralisation concerns the vertical (number of tiers) and horizontal (number of jurisdictions within each tier) dimensions. Fan et al. (2009) also found that a greater number of government or administrative tiers (political decentralisation) was associated with higher corruption, while a larger share of GDP in revenue (fiscal decentralisation) was associated with lower corruption.

Certain studies have concentrated on a single dimension of decentralisation. For instance, in the fiscal dimension, Fisman and Gatti (2000) used a dataset of 59 countries and the corruption index from the International Country Risk Guide (ICRG). Their findings suggest that fiscal decentralisation in government expenditure is associated with lower levels of perceived corruption (Fisman and Gatti, 2000). Additionally, Huther and Shah (1998), using a dataset of 80 countries, and Arikan (2004), with a dataset comprising up to 40 countries, both reported that a higher sub-national share of public expenditure was associated with lower levels of perceived corruption. In the political dimension, Goldsmith (1999), Treisman (2000), and Kunicová and Rose-Ackerman (2005), all employing multi-country data, found that decentralised structures were associated with higher perceived corruption. Based on long-standing political science theories, political devolution is considered essential for enhancing accountability at lower levels (Ames, 1994; Samuels, 2000). However, the empirical evidence remains inconclusive and often contradictory, as demonstrated above.

2.5.2.2 Case Studies

The literature demonstrates a growing body of empirical research on decentralisation and corruption through cross-country analyses. However, research focused on single-country contexts remains relatively sparse. Li'an and Jing (2009) and Ko and Zhi (2013) employed provincial-level data from China in a panel data model to explore the relationship between decentralisation and corruption. Li'an and Jing (2009) found that the rate of corruption was positively correlated with government size, with the effect intensifying as the size of the core department increased. Their study also investigated the impact of various social and economic factors, such as government scale, privatisation, openness, and education, on local corruption. Meanwhile, Ko and Zhi (2013) tested whether fiscal decentralisation exacerbates corruption within China's local governments. They found that fiscal decentralisation, when accompanied by vigorous law enforcement, serves to deter corruption, whereas the opposite relationship is observed when law enforcement is weak.

In the case of the United States, Fisman and Gatti (2002) analysed state-level data from 1976 to 1987 in a panel data framework, concluding that larger federal transfers were associated with higher rates of conviction for abuse of public office.

Single-country case studies on decentralisation rarely focus explicitly on corruption. For instance, Faguet (2001), using municipal data from Bolivia, reports that the 1994 decentralisation significantly improved public services in education, clean water, and sanitation across three-quarters of all municipalities, with investments aligning with local needs. In India, Foster and Rosenzweig (2001), employing panel data from 234 villages, investigated the consequences of democratisation and fiscal decentralisation. They found that an increase in the demographic weight of landless households in a

village under decentralisation positively affected the allocation of public resources to road construction, but had a negative impact on irrigation facilities. Galasso and Ravallion (1998) found that decentralisation in Argentina generated substantial inequality in public spending between poor and rich provinces, exacerbating poverty in the former. Similarly, Zhang and Zou (1998), utilising provincial data from China in an OLS regression, examined the effect of fiscal decentralisation on provincial growth and found that fiscal decentralisation contributed to lower growth. However, these studies did not explicitly test for the effects of corruption.

In the context of Indonesia, research on decentralisation, particularly with regard to corruption in local governments, remains limited. Kuncoro and Henderson (2009) investigated whether perceptions of corruption were influenced by institutional transformations introducing local democratisation, and by the party composition of local assemblies, using survey data from firms in 30 districts (2001) and 87 districts (2004). They found that perceived corruption declined between 2001 and 2004, though the decline was less pronounced in districts with a higher proportion of secular party representatives in the local assemblies, and more pronounced in districts dominated by Islamic party representatives. Earlier, Kuncoro (2002) explored the immediate impact of the implementation of the Laws of Regional Decentralisation (Law No. 22/1999 on Regional Government and Law No. 25/1999 on the Fiscal Balance between the National Government and the Regions) on business uncertainty and rent extraction by local government officials. His findings indicated regional variation, with positive and statistically significant coefficients for bribery (corruption) in off-Java regions, suggesting that bureaucrats in these areas were more likely to exercise discretionary power over local regulations.

More recent quantitative studies examining whether fiscal decentralisation has affected corruption in Indonesia have been conducted by Haryanto and Astuti (2017) and Suprayitno and Pradiptyo (2017). Both studies utilised provincial-level data on fiscal decentralisation and corruption. Haryanto and Astuti (2017) used the number of cancelled local regulations as an indicator of corruption and the sub-national share of total government spending as an indicator of fiscal decentralisation. They found a strong and consistent positive association between the two variables across a sample of regions. Suprayitno and Pradiptyo (2017) used Indonesian Supreme Court verdicts on corruption cases as indicators of corruption at the provincial level and balancing funds in local government budgets as indicators of fiscal decentralisation. Their findings similarly indicated a positive relationship between fiscal decentralisation and corruption, as well as between population size and the level of corruption.

2.5.3 Current Decentralisation Studies: Knowledge/Research Gap

The theoretical literature on decentralisation and corruption presents conflicting claims: decentralisation may either reduce corruption by increasing local accountability or exacerbate it by providing greater discretion to local officials and weakening oversight. The existing literature remains inconclusive and ambiguous about the net impact of decentralisation on corruption. Some scholars argue that decentralisation can reduce corruption by fostering inter-jurisdictional competition and direct accountability, while others suggest that decentralisation may increase corruption due to the misuse of decision-making powers and the limited capacity of local bureaucrats to enforce accountability. Furthermore, certain theoretical frameworks propose that decentralisation may worsen corruption when governance structures are not

sufficiently robust, or when decentralisation is neither too centralised nor too decentralised, but instead falls within a medium range.

Empirical studies on decentralisation and corruption generally adopt a multi-country approach (see, for example (Freille et al., (2008); Fan et al. (2009); Treisman (2000); Fisman and Gatti (2000); Huther and Shah (1998)). Other research has focused on provinces or state governments within a country (see, for instance, Fisman and Gatti (2002))⁵, and some studies applied small-scale areas (such as districts or villages) as units of analysis. These studies often focus on fiscal decentralisation or public service provision rather than directly addressing corruption. Some studies focus on provincial or state governments, such as those of Fisman and Gatti (2002), while a few research efforts target smaller-scale areas, such as districts or villages. However, a notable gap remains: few studies specifically focus on decentralisation and corruption at the local government level, particularly within municipalities. Research such as Faguet (2001) examined small numbers of local governments, but no significant studies have fully addressed the direct effects of decentralisation on corruption at the local or district levels.

While multi-country studies offer large datasets and long periods of analysis, they have been criticised for not adequately accounting for unobserved heterogeneities—such as cultural and institutional differences between countries—that may lead to biased estimates. Kruse et al. (2012) argue that these studies might misestimate the relationship between decentralisation and its effects due to country-specific factors, such as historical context and institutional settings, which are not controlled for.

⁵ Bardhan (2002) for example explains that data below provincial government level is often very scarce, and that most quantitative studies of decentralisation do not address issues at local community level.

Additionally, Helliwell and Huang (2008) emphasise that multi-country studies overlook the fact that decentralisation performance is heavily shaped by a country's unique political, institutional, economic, and social context, which is far more similar within a single country than across multiple countries. As Manor (1999) notes, decentralisation is context-dependent, and the dynamics of reform at the local government level—particularly in countries such as Indonesia—are more relevant at the local or district administration level, rather than at the provincial or village level.

Another gap arises from the tendency to focus on only one dimension of decentralisation in many studies. While some research has explored fiscal or political decentralisation in isolation, it is essential to consider the interplay of all three dimensions—fiscal, political, and administrative decentralisation—to gain a comprehensive understanding of decentralisation's impact on corruption. In Indonesia, fiscal decentralisation has increased the financial autonomy of local governments, but political decentralisation and administrative decentralisation are also critical in shaping the overall governance dynamics at the local level. Many existing studies primarily employ quantitative approaches, which provide valuable insights but may fail to capture the nuanced, contextual factors that influence how decentralisation impacts corruption in practice. This gap is addressed in the current study, which adopts a qualitative approach to better understand how decentralisation and corruption manifest at the local level in Indonesia.

This research will fill these gaps by focusing on the local and district-level impacts of decentralisation and corruption, considering all three dimensions of decentralisation (fiscal, political, and administrative). By focusing on the shift in decentralised authority

between the provincial and district levels in Indonesia, this study will offer a nuanced understanding of how decentralisation reforms at different tiers of government influence local corruption. The combination of qualitative methods with a focus on local governance structures will provide deeper insights into the mechanisms behind the decentralisation-corruption relationship in Indonesia.

Research Gap	Existing Literature/Studies	Gap Identified	How This Study Fills the Gap
<i>Lack of Single-Country Case Studies</i>	Multi-country analyses (Freille et al., 2008; Fan et al., 2009; Fisman & Gatti, 2000)	Multi-country studies fail to capture country-specific context and variations.	Focuses on the Indonesian context, providing a single-country case study.
<i>Absence of Research on Multiple Tiers of Local Government</i>	Studies at the provincial or state level (Fisman & Gatti, 2002); limited research at district level	Lack of focus on the dynamics at the local government or district levels in decentralisation.	Examines decentralisation effects at both the provincial and district levels, considering their distinct experiences.
<i>Limited Focus on All Three Dimensions of Decentralisation</i>	Studies focus on fiscal or political decentralisation (Fisman & Gatti, 2000; Freille et al., 2008)	Limited consideration of all three dimensions (fiscal, political, and administrative) of decentralisation.	Explores the combined impact of fiscal, administrative, and political decentralisation on corruption.
<i>Over-reliance on Quantitative Approaches</i>	Primarily quantitative studies (Bardhan & Mookherjee, 2003; Foster & Rosenzweig, 2001)	Qualitative insights into how decentralisation affects corruption at the local level are missing.	Adopts a qualitative approach to better understand the practical, real-world impacts of decentralisation on corruption.

Source: Author's compilation

Table 2-1 Research Gap of the Decentralisation and Corruption Studies

2.6 Research Framework

This section explores the theoretical perspectives on decentralisation and corruption. Following a comprehensive review of the literature, the framework presented below has been developed to guide and inform the analysis of how various aspects of decentralisation influence local corruption. This framework serves as a pivotal tool for

understanding the relationship between decentralisation processes and their impact on corrupt practices at the local level.

2.6.1 Decentralisation, Governance, and Corruption: Theoretical Perspectives and Institutional Challenges.

Decentralisation plays a nuanced role in governance and development, particularly concerning corruption. On the one hand, it can reduce bureaucracy, enhance citizen participation, and improve accountability by bringing government closer to the people. On the other hand, it presents risks such as weakened collaboration and increased burdens on resource-constrained local governments. In contexts where institutions are weak and accountability fails, decentralisation may give rise to more localised forms of corruption (Booth & Fritz, 2008). These tensions suggest that the impact of decentralisation is context-dependent, with both positive and negative effects operating simultaneously, and with varying strength depending on the specific circumstances (Fan, Lin, & Treisman, 2009).

Several theoretical frameworks provide useful insights into how decentralisation impacts corruption, with a particular focus on incentives, accountability, and governance:

Principal-Agent Theory.

The principal-agent theory offers a valuable framework for analysing the relationship between decentralisation and corruption within public administration. In a decentralised system, the principal's ability to monitor and control the agent is diminished, thereby increasing opportunities for corruption. This is because decentralisation often concentrates decision-making power at the local level, making it easier for officials to

engage in bribery and embezzlement without effective oversight, while the fragmentation of authority means that those seeking to corrupt the system need only influence a segment of government rather than an entire centralised administration (Treisman, 2000).

Nevertheless, the relationship between decentralisation and corruption is far from straightforward and remains highly context-dependent. Some studies suggest that decentralisation can actually mitigate corruption by fostering competition among local governments and bringing decision-making closer to citizens, thereby enhancing transparency and accountability (Fisman & Gatti, 2002; Treisman, 2006). Ultimately, while principal-agent theory is instrumental in highlighting issues of accountability and incentive structures in decentralised systems, its explanatory power is shaped by local institutional and political arrangements, and it may need to be supplemented by collective action perspectives for a more comprehensive understanding.

Collective Action Theory

Collective action theory holds that individuals' perceptions of others' behaviour can undermine their willingness to pursue the common good, even when all would benefit. This contrasts with the principal-agent approach, which focuses on individual incentives for corruption at a given time. The collective action perspective highlights how societal dynamics can entrench corrupt practices.

Moreover, it suggests that increasing transparency in highly corrupt contexts may foster resignation rather than outrage, as people become more aware of the pervasiveness of corruption and feel less inclined to resist it (Persson et al., 2012). Thus, collective action theory provides a more nuanced understanding of corruption,

emphasising the importance of context and collective perceptions, which are often overlooked by principal-agent frameworks (Marquette & Peiffer, 2017).

New Institutional Economics (NIE)

The New Institutional Economics (NIE) framework underscores the role of institutions in shaping economic behaviour, particularly in relation to corruption (Shah, 2006). It posits that corruption flourishes when public officials act opportunistically due to weak accountability systems and high transaction costs, which hinder citizens' ability to monitor and hold officials accountable. This aligns with the principal-agent problem, wherein officials exploit discretionary power for personal gain at the expense of public welfare. Klitgaard's (1988) seminal formulation—Corruption (C) = Monopoly (M) + Discretion (D) – Accountability (A)—captures this dynamic: while decentralisation may reduce monopoly power, it can simultaneously increase discretion, creating new opportunities for corruption unless robust accountability mechanisms are established.

The NIE framework further suggests that decentralisation can mitigate corruption when information asymmetry is reduced, equipping citizens with the tools to monitor local officials effectively. However, decentralisation alone is insufficient if not accompanied by strong oversight systems. As Holzhacker et al. (2015) argue, public officials are more likely to act ethically when properly incentivised, resourced, and held directly accountable for their decisions.

By emphasising institutional quality, enforcement mechanisms, and local accountability arrangements, the NIE framework provides a robust lens for analysing corruption in decentralised systems. Comparative approaches, such as those proposed by Kuhlmann and Wayenberg (2016), further enable the assessment of how

different decentralisation models and institutional reforms shape governance outcomes at subnational levels.

These are captured in the following summary of key theories and behavioural challenges:

Approach	Theories	Main Behavioural Challenges for Decentralisation	Solutions Implied by Decentralisation
New-Institutional Economics	• Agency theory • Transaction cost theory • Asset specificity	• Moral hazard • Information asymmetry • Accountability through monitoring and sanctioning	• Interest alignment • Decision space
Collective Action Theory	• Overcoming systemic corruption	• Corruption as a socially tolerated norm	• Empowerment of citizens and civil society

Source: Holzhacker et al. (2015)

Table 2-2 New-Institutional Economics Approach to Governance

Effective decentralisation requires the implementation of robust monitoring, control, and sanctioning mechanisms to mitigate corruption risks. Holzhacker et al. (2015) argue that decentralisation should be accompanied by countervailing institutions, including:

- **Vertical Accountability (Audit Reports):** The role of vertical accountability systems in providing oversight through audits and monitoring at higher levels of government.
- **Social Accountability (Citizen Participation):** Citizen involvement in monitoring the actions of local officials can reduce corruption by making officials more responsive to public scrutiny.
- **Horizontal Accountability (Audit Capacity):** Local governments must have strong internal auditing mechanisms to monitor and deter corrupt practices.

The relationship between decentralisation and corruption is complex and context-dependent. While decentralisation can reduce corruption by improving accountability, increasing citizen participation, and fostering competition, it can also exacerbate corruption if local officials gain excessive discretion and accountability mechanisms are weak. Therefore, decentralisation must be accompanied by robust monitoring systems, effective incentives for public officials, and mechanisms for citizen engagement to prevent corruption.

Theoretical frameworks such as Principal-Agent Theory, New Institutional Economics, and Collective Action Theory offer valuable insights into the mechanisms through which decentralisation influences corruption, underscoring the critical importance of institutional design, accountability, and citizen participation.

2.6.2 Research Framework on Investigating Corruption through the Factors of Decentralisation

This research examines the impact of Indonesia's decentralised system on local bureaucratic corruption, focusing on three key dimensions: political, administrative, and fiscal decentralisation. Political decentralisation establishes the legal framework for decentralisation, redistributing authority across government tiers in accordance with the subsidiarity principle.

Yilmaz et al. (2010) and Vezbergaite (2016) underscore the necessity of distinguishing between fiscal, administrative, and political decentralisation, as these dimensions may exert divergent—and occasionally contradictory—effects on governance quality. Grounded in New Institutional Economics (NIE), decentralisation can align incentives, streamline decision-making, and improve accountability by reducing information

asymmetries. Principal-Agent (PA) theory further suggests that decentralisation may mitigate corruption risks by empowering local agents with decision-making authority while holding them accountable. However, without robust oversight, such discretion may also enable local officials to pursue personal gain (Bardhan & Mookherjee, 2001).

Gooderham et al. (2018) argue that incentive alignment can be achieved through contingent remuneration or promotion systems, coupled with performance evaluations—a mechanism particularly pertinent to administrative decentralisation, where personnel management is devolved. Similarly, fiscal decentralisation enhances accountability by granting local governments greater autonomy over revenue and expenditure, as locally generated taxes and fees foster more direct accountability than centralised transfers (Bardhan & Mookherjee, 2001).

While political decentralisation strengthens accountability, it may also intensify political competition, inadvertently fostering corruption by eroding the distinction between political and petty corruption (Albornoz & Cabrales, 2013). This duality underscores the complexity of decentralisation's relationship with corruption.

An influential strand of the democracy–corruption literature models how democratic institutions reshape rent-seeking incentives. Mohtadi and Roe (2003), using a formal political-economy framework, show that democratisation simultaneously expands opportunities for corrupt rent extraction and introduces electoral competition that can discipline politicians' behaviour. In their model, observed corruption in young democracies may initially rise, both because previously hidden practices become more visible and because a larger set of actors gains access to public office, before competitive pressures and institutional consolidation gradually reduce corruption.

Rock (2007), in a UN DESA working paper on corruption and democracy, complements this theoretical perspective with comparative evidence from countries such as Indonesia and Thailand. He argues that democratisation often leads to a shift from centralised, highly coordinated forms of corruption under authoritarian regimes to more fragmented and decentralised “free-for-all” corruption in the early democratic period. Over time, however, corruption tends to decline as democratic institutions of transparency, trust, and accountability strengthen, producing an inverted-U relationship between democracy and corruption. These findings are particularly relevant for Indonesia’s post-authoritarian experience, where the move to competitive local elections and decentralised governance has initially been associated with the proliferation of local-level corruption cases before more recent efforts to institutionalise oversight and enforcement.

Bardhan’s (2005) analysis of corruption in developing countries further underscores the role of institutional weaknesses and distributive conflicts in sustaining corrupt equilibria. In the corruption chapter of *Scarcity, Conflicts, and Cooperation*, he argues that corruption persists not simply because of individual moral failings, but because powerful groups benefit from dysfunctional institutions and block reforms that would enhance accountability and collective welfare. This perspective complements the New Institutional Economics view adopted in this thesis by highlighting how entrenched interests, inequality, and coordination failures can lock societies into high-corruption equilibria, particularly where state capacity is weak and enforcement is selective.

The following section elaborates on the theoretical underpinnings of this research, particularly NIE, PA, and Collective Action (CA) theories, while exploring the political,

institutional, and social factors that shape decentralisation's influence on local corruption.

The table below summarises the conceptual framework guiding this research:

Dimensions & Factors	Opportunities to Corrupt	Countervailing	Aspects	Approaches
Political Decentralisation: Political Representation	• Local Legislators: Political favoritism and rent-seeking. • Regional Heads: Misuse of decision-making power. • Political Party Affiliation: Collusion and self-interest.	• Civil Society Participation: Empowered citizens expose corruption.	• Political: Citizens' participation ensures accountability. • Institutional: Political bodies like parliaments ensure oversight. • Social: Civil society reduces corruption.	• NIE: Aligning interests through institutions. • PA: Information asymmetry between officials (agents) and citizens (principals). • CA: Civil society's role in holding officials accountable.
Administrative Decentralisation: Local Management	• Local Government's Absence: Community self-help. • Local Government's Presence: Patronage politics and corruption.	• Local Government's Oversight: Local government's oversight.	• Institutional: Auditing bodies ensure government's accountability. • Social: Public participation ensures government's accountability. • Political: Local government's oversight.	• NIE: Local government's oversight. • PA: Local government's oversight. • CA: Local government's oversight.
Fiscal Decentralisation: Fiscal Discretion	• Local Budget: Misuse of budgeting discretion. • Local Taxation Power: Corruption in tax collection. • Local Expenditure: Misallocation of resources due to weak oversight.	• Audit Result (Opinion): Independent audits expose corruption.	• Institutional: Clear fiscal management frameworks reduce corruption. • Social: Civic involvement promotes fiscal transparency. • Political: Oversight by higher authorities ensures accountability.	• NIE: Strong institutions reduce corruption in fiscal matters. • PA: Fiscal discretion increases corruption without oversight. • CA: Public participation ensures fiscal accountability.

Table 2-3 The Summary of Research Framework

1) Political Decentralisation

Political decentralisation refers to the transfer of authority and decision-making power to democratically elected local institutions, based on the premise that

proximity to citizens enhances both accountability and responsiveness (H. Arends et al., 2023). At its core, decentralisation is grounded in democratic ideals, particularly the belief that locally elected officials are more directly accountable to their constituents. This restructuring of governance aims to empower local governments, improve transparency, and enhance the legitimacy of public decision-making processes. However, political decentralisation is not without its risks. In contexts characterised by weak institutional checks and balances, it may create opportunities for elite capture, patronage networks, and political corruption (Yilmaz et al., 2013). From a Principal–Agent (P/A) perspective, decentralisation may enable local politicians (agents) to exploit information asymmetries and insufficient citizen oversight (principals) in pursuit of personal or partisan interests. New Institutional Economics (NIE) suggests that high transaction costs and fragile enforcement mechanisms undermine system efficiency, making corruption more difficult to detect and sanction. Collective Action (CA) theory posits that in settings where corruption is widespread and socially tolerated, citizens may lack the coordination or incentive to hold officials accountable, even when formal democratic structures are in place. This study explores three interrelated dimensions of political decentralisation that influence corruption risks: political representation through local legislatures, political representation via the direct election of regional executives, and political affiliations among regional executives, legislators, and political parties. These factors are examined through political, institutional, and social lenses to understand how decentralisation interacts with local corruption dynamics. Civil society participation is identified as a critical

countervailing force—empowering citizens to monitor, engage, and hold leaders to account from the bottom up.

Local legislatures, such as regional parliaments or councils, are foundational to politically decentralised systems. They are tasked with legislating, approving budgets, and overseeing executive actions. Principal-Agent theory posits that decentralisation empowers local agents—namely, local legislators—by reducing the distance between constituents and their representatives, which can enhance both accountability and responsiveness. However, empirical findings indicate that this relationship is complex and non-linear. In certain contexts, increased local autonomy has created greater opportunities for corruption, as local elites may manipulate the decentralisation process to serve their own interests, thereby undermining collective accountability and governance (Spina, 2013; Cheeseman et al., 2016). Collective Action theory further elucidates the difficulties inherent in decentralisation. It suggests that local communities possess the potential to combat corruption effectively when mobilised to demand transparency and accountability. Yet, such mobilisation is frequently obstructed where local legislatures are dominated or ‘captured’ by entrenched vested interests, leading instead to a proliferation of corrupt practices (Blunt et al., 2012). Moreover, successful collective action requires robust institutional frameworks, which are often underdeveloped or weak within decentralised systems, limiting the community’s capacity to counteract corruption effectively (Gaynor, 2014). New Institutional Economics emphasises the critical role of institutional arrangements in mitigating corruption. It advocates that decentralisation must be supported by strong governance structures and clear legal frameworks that delineate the roles

and responsibilities of local governments and parliaments (Martínez-Vázquez et al., 2015). Empirical evidence from contexts such as post-Soeharto Indonesia demonstrates that in the absence of these institutional safeguards, decentralisation can exacerbate corruption rather than alleviate it (Blunt et al., 2012; Asthana, 2012). This interplay highlights the necessity for a multidimensional analytical approach to understanding decentralisation's impact on corruption, one that integrates institutional quality, local political dynamics, and community engagement.

The direct election of regional heads is a key mechanism in operationalising political decentralisation, as it links electoral accountability with administrative autonomy. From the Principal-Agent perspective, elected officials are viewed as accountable agents whose actions are directly monitored by voters, thereby reducing agency slack and potentially curtailing corruption (Kurniawan et al., 2020). This variable captures the institutional design that grants citizens the authority to sanction or reward regional leadership based on performance. In addition, Collective Action theory explains that systemic corruption arises when individual or group interests subvert the effectiveness of collective governance. Direct elections reshape incentives by aligning the self-interest of regional heads with public accountability, which can mitigate collusive behaviours among local elites (Persson et al., 2012). In this respect, incorporating direct elections into the study of decentralisation offers analytical leverage to explore how political mobilisation and collective pressures can counteract corrupt practices (Marquette & Peiffer, 2017). New Institutional Economics underscores the role of formal institutions in shaping incentive structures and economic performance. The

introduction of direct electoral processes for regional heads represents a significant institutional reform that reduces opportunities for rent-seeking and strengthens local accountability mechanisms. Thus, applying this theoretical framework alongside Principal-Agent and Collective Action theories offers a comprehensive approach to understanding how decentralisation can influence corruption outcomes (Cheeseman et al., 2016; Persson et al., 2019).

Political alignment among local executives, legislators, and political parties

is a critical variable in understanding the impact of political decentralisation on corruption. Through the principal-agent lens, such alignment can minimise information asymmetries and agency conflicts by synchronising incentives and accountability mechanisms across different tiers of government (Miller, 2005; Strøm, 2000). Empirical studies indicate that the anticorruption outcomes of decentralisation are significantly influenced by these aligned interests (Fan et al., 2009). From a collective action perspective, fragmented interests often hinder effective collaboration against corruption. In contrast, political alignment fosters cooperative monitoring and sanctioning, which can reduce rent-seeking incentives that lead to systemic corruption (Persson et al., 2012). This unified political front is essential for overcoming coordination failures in decentralised contexts (Persson et al., 2019). New Institutional Economics highlights that institutional arrangements and transaction costs substantially shape the outcomes of decentralisation. Aligning political actors can decrease bureaucratic inefficiencies and enhance monitoring frameworks, thus mitigating corruption through more effective local governance (Fan et al., 2009; Alfano et al., 2019). This integrative approach

underscores the importance of political alignment as a variable in decentralisation research.

Civil society plays a pivotal role in promoting transparency and accountability within decentralised governance structures. It enables citizens, media, and civil society organisations (NGOs) to monitor government performance, advocate for reform, and expose corruption. Civil society participation represents the intermediary role between citizens and government. This involvement enhances accountability by addressing principal-agent issues, with civil society groups acting as watchdogs to ensure government responsiveness (Rumbul, 2016; Persson et al., 2012). From the perspective of collective action theory, decentralisation creates opportunities for citizens to mobilise against corruption. Systemic corruption is often perpetuated by fragmented citizen engagement, while active civil society participation fosters collective efforts to monitor and challenge corruption, transforming citizen discontent into societal accountability (Bauhr, 2016; Persson et al., 2012). New Institutional Economics reinforces this approach by highlighting that institutional quality shapes decentralisation outcomes. Effective civil society participation, supported by robust institutional frameworks, correlates with reductions in corruption and improved state–citizen interactions. Historical and structural analyses show that the evolving role of civil society is critical in negotiating decentralised power dynamics and curbing corruption (Mlambo et al., 2019; Neshkova & Kalesnikaite, 2019).

In conclusion, political decentralisation presents a complex interplay of opportunities and risks for local governance. While it has the potential to strengthen accountability and citizen participation, it simultaneously introduces new avenues

for corruption. The roles of local legislatures, directly elected executives, and political affiliations are central to understanding how decentralisation shapes corruption dynamics. Through a multidimensional analysis encompassing political, institutional, and social perspectives, it becomes evident that political decentralisation may either foster good governance or entrench corrupt practices.

2) Administrative Decentralisation

Administrative decentralisation refers to the delegation of tasks and decision-making authority to subnational government entities with the goal of improving the effectiveness, efficiency, and transparency of service delivery. By bringing decision-making closer to local populations, decentralisation aims to enhance responsiveness and accountability. However, its success is contingent upon the capacity of local governments, particularly the competence and integrity of local officials. In this context, administrative decentralisation presents both opportunities for improved governance and risks of heightened corruption, especially when local institutions are weak. This section examines three critical factors influencing local governance under administrative decentralisation: (1) local leadership, (2) local personnel management (including recruitment, remuneration, and promotion/transfer), and (3) local audit capacity. These factors are analysed through the lenses of Principal-Agent theory, New Institutional Economics (NIE), and the Collective Action approach, considering political, institutional, and social dimensions.

The **local leadership integrity** is one of central to analysing the impact of administrative decentralisation on corruption. Effective local leadership can alleviate the principal-agent dilemmas inherent in decentralisation by fostering

greater transparency and accountability. As O'Hare and Makuta (2015) argue, decentralisation initiatives—such as budgetary devolution, community participation, and transparency in contracting—can reduce corrupt practices, demonstrating that decentralisation can produce beneficial outcomes if implemented with integrity and strong institutional support. From the perspective of Collective Action theory, local leaders are instrumental in mobilising citizens to combat corruption. Dartey-Baah (2016) highlights the role of transformational leadership in harmonising individual and communal interests, which is essential for nurturing accountability within local governance. Conversely, the absence of leadership integrity often precipitates adverse outcomes such as clientelism and elite capture. Asthana (2012) emphasises that without robust oversight and institutional checks, decentralisation may inadvertently facilitate corrupt behaviours. Similarly, Yilmaz and Venugopal (2013) demonstrate how local power asymmetries contribute to elite capture, undermining transparency and governance accountability. Hence, the nexus between local leadership integrity and decentralised governance presents a nuanced yet vital framework for understanding corruption dynamics at the local level.

Personnel management is critical in shaping the ethical landscape of local governance under decentralisation. Local personnel management—encompassing discretionary authority over recruitment, remuneration, and promotion or transfers—constitutes a pivotal variable in analysing the relationship between decentralisation and corruption. From a Principal-Agent standpoint, decentralised human resource decisions grant local officials' significant autonomy to align personnel policies with local interests, which may diverge from central

government objectives. This discretion, when coupled with weak accountability frameworks, increases the risk of corrupt practices (Lameck, 2017). Collective Action theory further elucidates how such local discretion can foster entrenched patronage networks and cronyism, as evidenced in teacher management in Nepal, where both centralised and decentralised approaches facilitated favouritism and internal dissent (Khanal, 2011). Additionally, the New Institutional Economics perspective highlights that the institutional environment surrounding decentralised personnel management critically shapes incentive structures and behavioural outcomes. Empirical findings from Indonesia demonstrate that inadequately managed decentralised personnel systems impair administrative effectiveness and exacerbate opportunities for corruption (Turner et al., 2009). Therefore, integrating local personnel management as a key variable is essential for comprehensively understanding the complex dynamics linking decentralisation to corruption.

Local audit capacity plays a crucial role within the framework of administrative decentralisation, significantly impacting corruption levels in governmental institutions. From a Principal-Agent perspective, internal audits function as key mechanisms to align the incentives of various actors, thereby enhancing accountability and mitigating corruption risks inherent in decentralised governance (Ma'ayan & Carmeli, 2015). This perspective underscores the necessity of auditor capacity—including professional expertise and managerial support—to effectively counterbalance the potential adverse effects of decentralisation on institutional integrity (Endaya & Hanefah, 2016). Furthermore, Collective Action theory highlights the role of local audit systems in fostering cooperation across

administrative units, promoting transparency and reinforcing ethical standards within decentralised settings (Maravić, 2007). Conversely, inadequate or poorly designed audit frameworks can inadvertently transfer corruption vulnerabilities to decentralised public entities, thereby exacerbating opportunities for corrupt practices (Maravić, 2007). Through the lens of New Institutional Economics, the implementation of robust internal audit structures is fundamental not only for improving administrative efficiency but also for institutionalising integrity within decentralised governance, ultimately contributing to the reduction of corruption (Cohen & Sayag, 2010). Therefore, strengthening local audit capacity emerges as an essential strategy for safeguarding good governance and accountability in decentralised systems.

In conclusion, while administrative decentralisation seeks to improve local governance, it can also increase the propensity for corruption among local officials if not effectively managed. The quality of local leadership, the transparency and fairness of personnel management, and the strength of local audit institutions are crucial factors in determining whether decentralisation curbs or fosters corruption.

3) Fiscal Decentralisation

Fiscal decentralisation provides local governments with the autonomy to manage their own financial resources, including taxation, budgeting, and spending decisions. By granting local authorities control over tax bases and the ability to allocate expenditures according to local needs, fiscal decentralisation seeks to enhance efficiency, responsiveness, and accountability at the local level. However, as Gurgur and Shah (2005) observe, increased fiscal autonomy also amplifies the discretion of local governments, potentially creating opportunities for corruption,

especially when institutional safeguards are weak. Klitgaard (1998) argues that discretion is directly correlated with corruption, positioning fiscal discretion as a critical concern in fiscal decentralisation. This section explores four key aspects of fiscal decentralisation: (1) local budgeting formulation, (2) expenditure discretion, (3) revenue and taxation powers, and (4) national audit oversight. These elements are analysed through the lenses of Principal-Agent theory, New Institutional Economics (NIE), and Collective Action theory, with particular attention to their political, institutional, and social dimensions.

Local budgeting formulation constitutes a critical variable in analysing the nexus between fiscal decentralisation and corruption. Principal-Agent theory provides a useful framework to understand the relationship between local governments (agents) and their constituents (principals). Within this framework, local officials possess discretionary authority over budget allocations, which can create opportunities for the misuse of public resources for personal or political gain. The pronounced information asymmetry inherent in local budgeting processes often restricts taxpayers' visibility into financial decisions, thereby enabling agents to divert resources to benefit themselves or their affiliates (Kwon, 2012). Collective Action theory further elucidates the consequences of decentralised budget formulation on corruption. When citizens perceive pervasive corruption, their trust in local authorities diminishes, resulting in political disengagement and diminished participation in budgetary oversight. This withdrawal undermines collective efforts to demand accountability, thereby perpetuating a cycle in which corrupt practices flourish unchecked (Fatoni, 2020). From the perspective of New Institutional Economics, the integrity of local budget formulation is fundamentally shaped by

the institutional environment. Weak or underdeveloped institutional frameworks can amplify corruption risks by failing to enforce transparency and accountability in budgetary procedures. Empirical evidence suggests that although fiscal decentralisation may enhance accountability by bringing governance closer to citizens, it simultaneously expands opportunities for corruption where oversight mechanisms are inadequate or ineffective (Fatoni, 2020; Hanif et al., 2020).

Expenditure authority constitutes a pivotal variable in analysing the effects of fiscal decentralisation on corruption, informed by several complementary theoretical frameworks. From a Principal-Agent perspective, local governments vested with expenditure authority operate as agents who may exploit discretionary control over public funds for private benefit, particularly in environments characterised by weak accountability and oversight mechanisms (Sousa & Monte, 2021). Such discretion, absent effective institutional checks and balances, creates fertile ground for corrupt misallocation of resources. Collective Action theory further highlights that entrenched corruption undermines citizen trust and participation, prompting disengagement from local governance processes and tax compliance. This withdrawal reduces civic oversight and responsibility, perpetuating a cycle of under-resourced public services and increasing opportunities for corrupt conduct by officials (Hanif et al., 2020; Huynh & Tran, 2020). In this context, diminished citizen involvement hampers effective accountability for public expenditure, enabling rent-seeking and opportunistic behaviour. Additionally, New Institutional Economics emphasises that decentralised expenditure authority, when unsupported by strong regulatory institutions, tends to generate inefficiencies and corruption. Local officials may form collusive relationships with private interest

groups, directing expenditures towards favoured sectors or actors at the expense of broader public welfare (Khan et al., 2021). This phenomenon is particularly acute in regions with limited institutional capacity, where patronage and preferential allocation exacerbate social inequalities and economic disparities (Melnyk et al., 2018). Collectively, these theoretical perspectives elucidate the multifaceted impact of expenditure authority within fiscal decentralisation, underscoring its significance in corruption dynamics.

Revenue authority denotes the scope of powers vested in local governments to generate revenue through taxation and other fiscal instruments, thereby shaping their capacity to implement effective governance and respond to community needs. From a Principal-Agent theoretical standpoint, the relationship between local governments (agents) and taxpayers (principals) is characterised by a pronounced asymmetry of information and power. Local officials exercise considerable discretion over tax policies and collection mechanisms, creating fertile ground for corrupt practices in the absence of stringent accountability and oversight (Alfada, 2019). This discretionary power inherent in revenue authority can facilitate rent-seeking behaviour, where officials prioritise personal or political gain at the expense of public interest, thus compromising the objectives of fiscal decentralisation. Collective Action theory further clarifies the detrimental effects of entrenched corruption on citizen engagement and tax compliance. As argued by Kwon (2012), pervasive corruption within decentralised fiscal systems may erode public trust and diminish the likelihood of collective resistance to exploitative taxation. This environment fosters citizen disengagement, as taxpayers perceive the system to be unfair and unaccountable. Additionally, corrupt local officials may

exploit their revenue authority to enact regressive tax policies that disproportionately burden lower-income groups, thereby exacerbating social inequities. From the perspective of New Institutional Economics, the structural weaknesses endemic to many decentralised revenue systems undermine the effective enforcement of tax policies and equitable resource allocation. Empirical studies reveal a strong association between decentralised fiscal arrangements lacking robust institutional frameworks and increased corruption (Hanif et al., 2020). Weak governance capacities often lead local officials to prioritise private gains, such as soliciting bribes, over their mandated public responsibilities.

National audit oversight is a critical mechanism for ensuring that local governments manage public resources responsibly. Independent audits provide essential external assessments of local financial management, increasing the likelihood that corrupt practices will be detected and sanctioned. From a Principal-Agent theory perspective, audit institutions serve as an important mechanism to reduce information asymmetry between local officials (agents) and the public (principals). Effective audits help hold local leaders accountable by exposing mismanagement, fraud, or corruption (Xiting Wu et al., 2020). NIE highlights that strong, independent audit lower transaction costs by institutionalising regular reviews of public financial management, thereby strengthening enforcement and promoting transparency (Ó. Gutiérrez et al., 2021) According to the Collective Action approach, audits are most effective when audit findings are made public and subject to scrutiny. In regions with strong civic engagement, citizens can use audit results to demand accountability and press for necessary reforms. However, in areas where corruption is pervasive or where there is little trust in government

institutions, audit findings may be ignored or manipulated to protect corrupt officials (Berkovich, 2015). Politically, the independence of audit bodies is crucial to ensuring audits are credible and impartial. When audits are influenced by local political leaders, their effectiveness is significantly diminished. Institutionally, the capacity of audit institutions must be strengthened to conduct thorough and timely audits. Without adequate resources, legal authority, or professional expertise, audits cannot fulfil their function as a deterrent to corruption (Jeppesen, 2019). Socially, transparency in audits builds public trust and ensures that citizens have access to the information needed to hold local officials accountable. When audit results are made public, they provide a valuable tool for civic oversight and political pressure, ensuring greater accountability in fiscal decentralisation.

In conclusion, the relationship between fiscal decentralisation and corruption is shaped by political, institutional, and social factors. Local budgeting formulation, expenditure discretion, revenue and taxation powers, and national audit oversight are key elements in determining how local governments exercise fiscal autonomy. While decentralisation can enhance accountability and efficiency, it also creates opportunities for corruption if safeguards are not properly established.

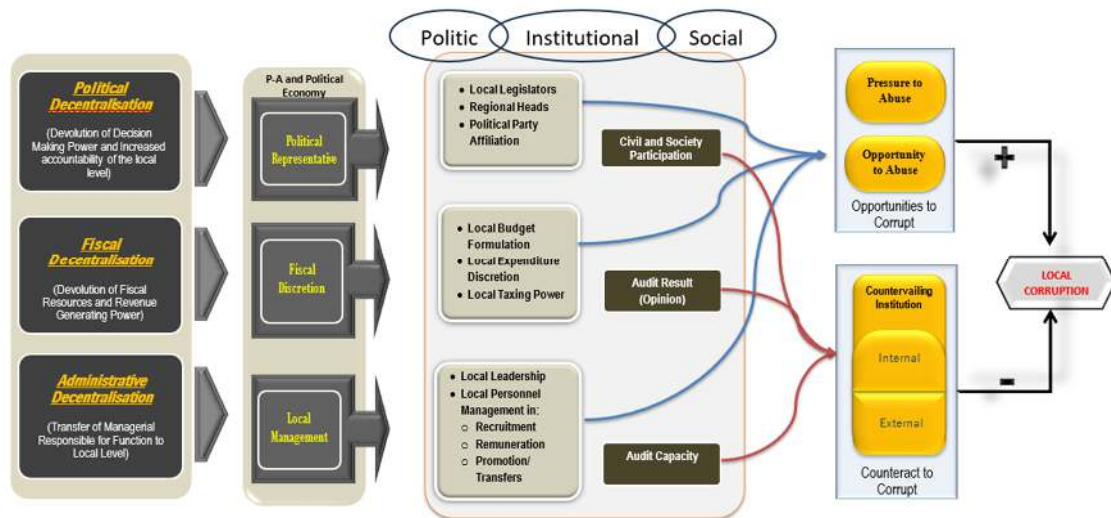


Figure 2-3 Research Framework

2.7 Chapter Summary

This chapter has critically examined the theoretical and empirical foundations of decentralisation and corruption, with a specific focus on Indonesia's post-reform governance system. By synthesising key concepts from New Institutional Economics (NIE), Principal-Agent (PA) theory, and Collective Action (CA) theory, it established a framework to analyse how political, administrative, and fiscal decentralisation influence local bureaucratic corruption. Political decentralisation enhances accountability but risks elite capture and costly electoral competition. Administrative decentralisation, while improving service delivery, can exacerbate corruption if oversight mechanisms are weak. Fiscal decentralisation grants financial autonomy but may enable misuse without robust auditing.

The literature review revealed divergent perspectives on whether decentralisation mitigates or exacerbates corruption, underscoring the need for context-specific analysis. Empirical studies highlighted Indonesia's unique challenges, including fragmented authority, weak institutions, and uneven regional capacity. The chapter

also identified research gaps, particularly the lack of local-level studies integrating all three decentralisation dimensions.

The theoretical and conceptual foundations laid in this chapter will inform the empirical analysis in next chapter, which investigates how Indonesia's decentralised system operates in practice. Using qualitative case studies, Chapter 3 will assess the interplay between political, administrative, and fiscal decentralisation and local corruption, testing hypotheses derived from this chapter's framework. The subsequent chapters will further explore these dynamics through methodological rigour and empirical findings, ultimately evaluating decentralisation's impact on governance and corruption in Indonesia.

CHAPTER 3

OVERVIEW OF DECENTRALISATION SYSTEM AND LOCAL CORRUPTION IN INDONESIA

3.1 Overview of The Chapter

Before analysing the impact of Indonesia's decentralisation system on local bureaucratic corruption, it is essential to establish a clear understanding of the regulatory framework, implementation, and key variables of this study—regional autonomy and corruption. This chapter provides an overview of Indonesia's decentralisation system, examining how political, administrative, and fiscal autonomy influence local governance and corruption. By situating these issues within a historical and legal context, it lays the groundwork for the empirical analysis that follows.

The chapter is structured into key sections. Section 3.2 traces the evolution of Indonesia's post-reform decentralisation, detailing political, administrative, and fiscal changes in governance, elections, public service, and financial autonomy. It highlights challenges such as elite capture, money politics, nepotism, and inefficiencies. Section 3.3 examines corruption trends in local governance, including electoral fraud, the mismanagement of public funds, and procurement-related corruption. It also reviews anti-corruption efforts led by institutions such as the Corruption Eradication Commission (KPK) and the Supreme Audit Agency (*Badan Pemeriksa Keuangan* - BPK), alongside legislative reforms aimed at enhancing transparency and accountability. This discussion serves as a critical foundation for assessing the relationship between decentralisation and corruption in Indonesia.

This chapter connects the theoretical background to the empirical analysis. Chapter 4 outlines the research methodology, data sources, key variables, case selection, and statistical techniques. Chapter 5 presents the findings through case studies and an analysis of decentralisation's impact on corruption in Indonesia. Thus, Chapter 3 establishes the conceptual and historical framework for the study.

3.2 Overview of Post-Reform Decentralised System in Indonesia

Indonesia's adoption of decentralised governance at the close of the twentieth century arose from mounting domestic demands to dismantle the discriminatory and corrupt legacies of Soeharto's three-decade authoritarian regime. The 1997 Asian Financial Crisis precipitated widespread unrest, culminating in Soeharto's resignation in May 1998 and ushering in a period of systemic reform (Robison & Hadiz, 2004). Under President B.J. Habibie, significant political reforms were enacted, notably decentralisation and electoral restructuring, to stabilise the state and support democratic transition.

The legal basis for decentralisation was established by People's Consultative Assembly (MPR) Decree No. XV/MPR/1998, and further codified through Law No. 22/1999 and Law No. 25/1999. Implemented from 7 May 1999, these statutes initiated Indonesia's "big-bang decentralisation"—a rapid and comprehensive transfer of administrative and fiscal authority to subnational governments. Despite the expansion of local fiscal autonomy, control over major revenue streams, particularly from natural resources, remained centralised (Hofman & Kaiser, 2004; Kis-Katos & Sjahrir, 2014).

Dimension of Decentralisation	Pre-Law No. 22 and 25/1999	Post-Law No. 22 and 25/1999
Political Decentralisation	National and regional heads of government are elected indirectly through the legislature.	The people directly elect national and regional heads of government, as well as legislative members.
Administrative Decentralisation	Centralistic, whereas the Central Government has extensive authority, while the authority of districts/cities is restricted.	Regional governments have more extensive authority, whereas the central government has limited authority.
	In 1999, there were approximately 0.7 million regional civil servants.	The number of regional civil servants in 2020 is enormous, reaching 3.3 million.
	The number of regions is relatively constant. Until 1999, there were 292 districts and 27 provinces.	There was a large <i>pemekaran</i> of territory. In 2020 the number of regions was 514 districts/cities and 34 provinces.
Fiscal Decentralisation	The allocation of APBN to regions is severely restricted, amounting to approximately 14.93% of total state expenditure in 2000.	The allocation of APBN funds for transfers to regions has consistently grown, with an average proportion of 32.06% of total state expenditure from 2001 to 2020.
	Limited authority to collect taxes for the regions, including tax objects	Increased regional authority in tax collection, and delegation of several tax objects from the centre to the regions.

Source: Author compilation from Indonesian Laws.

Table 3-1 The Comparison of Indonesia's Pre- and Post-Decentralisation Government Systems

Table 3.1 compares Indonesia's governance structures before and after decentralisation, highlighting the evolving relationship between central and regional authorities. A persistent challenge has been the limited institutional capacity at the local level, a legacy of both colonial rule and prolonged centralisation, particularly in fiscal management, administration, and political governance (Booth, 2003; Hofman & Kaiser, 2004). Indonesia's decentralised system operates across three key dimensions:

1. **Political Decentralisation** – The devolution of authority to elected regional governments is intended to enhance local representation and public participation. However, the process has often been undermined by elite capture and insufficient democratic oversight, which remain persistent challenges in Indonesia's decentralisation reforms (World Bank, 2004).

2. **Administrative Decentralisation** – The delegation of administrative functions to regional authorities in Indonesia has been constrained by significant disparities in local governance capacity, which in turn have impeded the effective delivery of public services (World Bank, 2003).
3. **Fiscal Decentralisation** – While subnational expenditure responsibilities have expanded, the limited capacity for local revenue generation and continued reliance on central government transfers remain persistent challenges (Buehler & Roesad, 2023).

Together, these dimensions seek to reduce regional development disparities and improve governance, though variations in regional capacities continue to impede their effectiveness.

3.2.1 Political Decentralisation.

Political decentralisation, also referred to as democratic decentralisation, entails the transfer of authority and resources to sub-national governments that operate with significant or full autonomy from the central government. These local governments, typically elected through democratic processes, are widely regarded as enhancing governance by ensuring that decision-making is closer to local communities and more reflective of their aspirations (Putnam, 1993). This shift empowers citizens to participate more actively in electing local officials and shaping development policies. Indonesia's post-reform period marked a significant transition towards political decentralisation with the enactment of Law No. 22/1999 on Regional Government, which formally delegated substantial authority to local governments. This reform strengthened local decision-making and promoted a participatory governance model. Active public engagement in

policy formulation and regional development planning remains a core aspect of Indonesia's decentralisation framework.

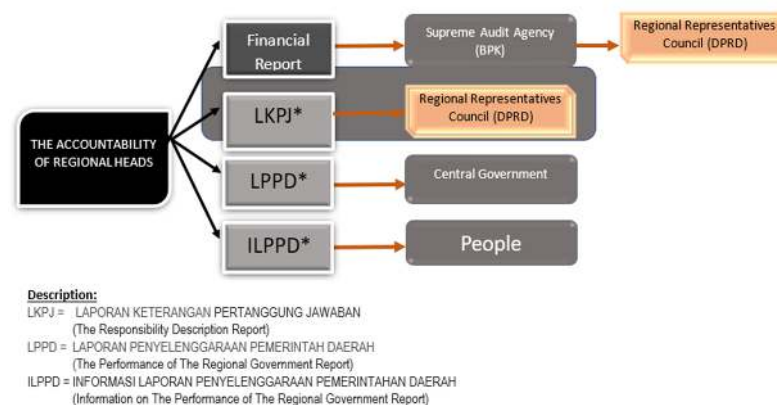
The implications of political decentralisation in Indonesia are far-reaching, particularly in shaping local governance structures and political dynamics. The reform introduced institutional mechanisms to enhance democratic accountability and community empowerment. Key elements include the role of the Regional Representative Council (DPRD), direct elections for regional heads, the influence of local political parties, and local civic participation. Collectively, these components define the framework of political decentralisation, reinforcing local autonomy and democratic governance.

3.2.1.1 The Regional House of Representative

Indonesia's Regional Representative Council (DPRD) has evolved significantly, reflecting broader political and administrative transformations. Under the New Order era (1966–1998), the DPRD functioned as a subordinate body to the central government. Law No. 5/1974 granted it only a formal role in regional governance, with no substantive legislative authority. The DPRD largely functioned as a rubber stamp, approving draft regulations prepared by the executive and lacking substantive independent policy-making authority (Buehler, 2010). Regional heads were appointed by the central government, typically through the Ministry of Home Affairs, and were accountable exclusively to central authorities (World Bank, 2003). Golkar's political hegemony, entrenched through Law No. 3/1975 on Political Parties and Golongan Karya, effectively subordinated the DPRD to central control, thereby marginalising opposition and consolidating the regime's authority (Aspinall, 2005; Liddle, 1996). Fiscal oversight at the regional level remained notably weak, as the DPRD typically

endorsed executive budget proposals without substantive authority to scrutinise, amend, or reject them (World Bank, 2003). residential decrees and centralised regulations ensured that the DPRD functioned primarily as an instrument for regime stability, substantially constraining democratic representation and accountability (Mietzner, 2013).

The 1999 decentralisation reforms significantly restructured regional governance. Laws No. 22/1999 and No. 25/1999 expanded the DPRD's powers, allowing it to elect regional heads, draft regional regulations (*Perda*), and oversee governance and budgeting. However, these reforms also created opportunities for misuse of authority (Hofman & Kaiser, 2004). To mitigate corruption and conflicts of interest, Law No. 32/2004 introduced direct elections for regional heads, thereby removing their previous accountability to the DPRD, which nonetheless retained legislative, oversight, and budgetary functions, albeit with reduced authority. The law also established interpellation and inquiry mechanisms to strengthen transparency (see Tarbawi, 2021; Masyarakat Indonesia, 2012). The figure below illustrates the accountability mechanisms for regional heads, including their accountability to the DPRD.



Source: Author compilation from Indonesian Laws.

Figure 3-1 The Accountability of the Regional Heads

Subsequent reforms, most notably Law No. 23/2014 on Regional Government, further delineated the DPRD’s authority by clarifying its legislative and supervisory functions. Nevertheless, persistent institutional weaknesses and ongoing political dynamics have continued to impede the DPRD’s effectiveness in promoting accountability and transparency (Neliti, 2023). Law No. 27/2009 formally defines the DPRD’s functions as legislation, budget formulation, and oversight, underscoring its role in maintaining essential checks and balances for good governance. The DPRD’s electoral system has also undergone significant transformation. During the New Order, a closed proportional system (regulated by Law No. 15/1969 and Law No. 3/1985) required voters to select political parties rather than individual candidates, consolidating power within dominant parties like Golkar. Decentralisation reforms in Indonesia introduced an open-list proportional representation system, initially through Law No. 12/2003 and subsequently refined by Law No. 8/2012 and Law No. 7/2017. This system enabled voters to select individual candidates rather than merely political parties, thereby enhancing electoral accountability and public participation. However, these changes have also been associated with increased campaign expenditures and the proliferation of money politics (see: Cost of Politics in Indonesia, 2024). These changes reflect Indonesia’s broader democratic transition, balancing voter empowerment with the complexities of decentralised governance.

Aspect	New Order Era (Closed Proportional)	Decentralisation Era (Open Proportional)
Voting Focus	Political party	Individual candidates and political party
Voter Influence	Limited (party list determines representatives)	Greater (voters select individual candidates)
Accountability	To the party	To the electorate
Dominance	Single dominant party (Golkar)	Diverse parties, with more open competition
Legal Framework	Law No. 15/1969, Law No. 3/1985	Law No. 12/2003, Law No. 7/2017

Table 3-2 The Summary of the Shifting Aspects from Closed Proportional System to Open Proportional System

The DPRD's transformation from a passive body under centralised rule to a more autonomous entity in the decentralisation era reflects Indonesia's democratic progress. However, corruption, weak institutional capacity, and limited political will still constrain its legislative, oversight, and budgetary roles. Despite reforms to redistribute power and improve transparency, its effectiveness in representing regional interests remains an ongoing concern.

3.2.1.2 Regional Governance and Elections in Indonesia

Under the New Order (1966–1998), Indonesia's governance was highly centralised, with regional heads—governors, regents (*bupati*), and mayors—acting as representatives of the central government rather than autonomous leaders. Law No. 5/1974 reinforced this structure, assigning regional heads the primary responsibility of implementing national policies, such as the *Repelita* (Five-Year Development Plans), and maintaining political stability in coordination with the military. The *Repelita* served as a blueprint for national development, with a focus on economic growth and infrastructure, and was designed and enforced from Jakarta, the capital of Indonesia. Appointments of regional heads were controlled by the Ministry of Home Affairs, with no local democratic participation. Scholars such as Malley (1999) observe that this centralised structure ensured the accountability of regional executives to Jakarta rather than to local legislatures (DPRD), thereby constraining regional autonomy and inhibiting local innovation.. The *dwifungsi* (dual function) doctrine, which granted the military both security and governance roles, further reinforced centralised control.

The fall of Soeharto in 1998 marked the beginning of the Reformasi era, ushering in extensive governance reforms aimed at decentralising power. Law No. 22/1999 on

Regional Government granted substantial autonomy to local governments, allowing them to manage key sectors such as education, health, and infrastructure. This reform sought to enhance the responsiveness of local administrations by making them accountable to the DPRD rather than the central government. However, the rapid decentralisation process also introduced governance challenges, including corruption, administrative inefficiencies, and disparities in regional capacities.

A significant reform followed with Law No. 32/2004, which introduced direct elections for regional heads (*Pemilihan Kepala Daerah - Pilkada*), replacing the previous system of DPRD appointments. The aim was to enhance democratic accountability and reduce elite-driven political bargaining. Subsequent amendments, including Law No. 23/2014, further clarified the distribution of authority between central, provincial, and local governments, redefining governors as central government representatives responsible for overseeing regency and municipal administrations. This law also introduced performance-based accountability measures, assessing regional heads based on measurable governance outcomes. The transition to direct regional head elections began in June 2005, initially in local governments where the terms of office had ended. By 2009, all local governments in Indonesia had implemented the *Pilkada* system. For example, in 2005, elections took place in seven provinces, 174 districts, and 32 cities, marking a major milestone in Indonesia's democratic transition. By 2020, concurrent regional elections were conducted on a much larger scale, covering nine provinces, 224 districts, and 37 cities.

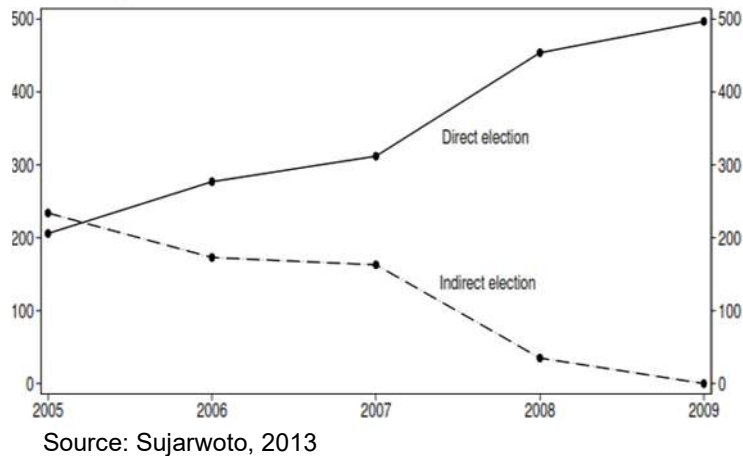


Figure 3-2 Local Direct Elections in Indonesia 2005-2009

Despite these democratic advancements, several challenges persist within the *Pilkada* system. The dominance of major political parties has created barriers to competition, as candidates are required to secure at least 20% of DPRD seats or 25% of valid votes from previous legislative elections to run for office. This has limited opportunities for smaller parties and independent candidates, raising concerns about inclusivity and the entrenchment of political elites.

Furthermore, vote-buying, corruption, and financial inequalities remain prevalent in regional elections. In Lampung province, for instance, research has demonstrated that despite high voter participation rates, electoral manipulation through mass mobilisation and the distribution of financial incentives remains pervasive (Sari, 2023). The high costs of running for office, combined with limited public funding, often lead candidates to seek financial support from private donors, increasing the risk of political corruption.

To address these issues, Law No. 12/2008 permitted independent candidates (*calon independen*) to contest elections, reducing dependency on political parties. However, practical barriers—such as stringent verification requirements, high campaign costs,

and logistical difficulties—have limited the effectiveness of this reform, particularly in remote regions. Additional regulations, such as Permendagri No. 9/2008, sought to improve verification processes, yet challenges in implementation remain.

Law No. 12/2008 (Government Regulation No. 49/2008)		
The Candidacy from Political Party	The Independent Candidacy (People)	
	For Province (Governor)	For Regency/City (Regent/Mayor)
Political parties or coalitions of political parties may register pairs of candidates if they meet the requirements for obtaining votes of at least 15% of the total number of seats in the DPRD or 15% of the accumulated valid ballots in the election for DPRD members in that region (20% of the total number of seats in the DPRD or 25% of valid votes) in the most recent regional election law.	Individual candidate pairs can register as governor and vice governor candidates if they meet the support requirements: a. provinces with a population of up to 2,000,000 (two million) people must be supported by at least 6.5% (six point five percent) of the total population; b. provinces with a population of up to 6,000,000 (six million) people must be supported by at least 5% (five percent) of the total population; c. provinces with a population of up to 12,000,000 (twelve million) people must be supported by at least 4% (four percent) of the total population; d. provinces with a population of more than 12,000,000 (twelve million) people must be supported by at least 3% (three percent) of the total population; The amount of support must be distributed across over fifty percent of the province's districts/cities.	Individual candidate pairs can register as regent/vice regent or mayor/vice mayor candidates if they meet the support requirements: a. districts/cities with a population of up to 250,000 (two hundred and fifty thousand) people must be supported by at least 6.5% (six point five percent) of the total population; b. districts/cities with a population of more than 250,000 (two hundred and fifty thousand) up to 500,000 (five hundred thousand) people must be supported by at least 5% (five percent) of the total population; c. districts/cities with a population of more than 500,000 (five hundred thousand) up to 1,000,000 (one million) people must be supported by at least 4% (four percent) of the total population; d. districts/cities with a population of more than 1,000,000 (one million) people must be supported by at least 3% (three percent) of the total population ; The amount of support as referred to above must be spread across more than 50% (fifty percent) of the number of sub-districts in the district/city in question.

Source: Government Regulation No. 49/2008

Table 3-3 The Recruitment Process for Candidates In Direct Regional Head Elections

Further legislative developments, including Law No. 1/2015 and Law No. 10/2016, integrated *Pilkada* into the broader national electoral framework and introduced stricter regulations to combat vote-buying and election-related corruption. Nevertheless, the *Pilkada* system continues to face structural challenges. Empirical evidence from Lampung province demonstrates that, despite comparatively high voter turnout, practices such as vote-buying and the mass mobilisation of voters by political actors remain widespread (Mimbar, 2018).

Financial and logistical constraints have also posed significant challenges. *Pilkada* funding is primarily sourced from local budgets (*Anggaran Pendapatan dan Belanja Daerah* or *APBD*), as stipulated in Article 62 of Law No. 32/2004. However, regions

with limited fiscal capacity often experience delays in fund disbursement, affecting electoral quality. Although subsequent regulations, such as Permendagri No. 44/2015, permitted additional financial support from the state, concerns persist over the efficient allocation of public funds. Between 2004 and 2019, corruption in campaign financing further exacerbated governance challenges, with over one hundred regional heads implicated in corruption cases during this period (Indonesia Corruption Watch, 2019; Komisi Pemberantasan Korupsi, 2019).

The evolution of Indonesia's local governance system reflects a broader trend towards democratisation. The introduction of *Pilkada* has enhanced public participation and accountability, yet persistent governance, financial, and electoral integrity challenges continue to undermine these gains.

3.2.1.3 The Local Political Party Affiliation

Political parties serve as essential pillars of democracy, facilitating political representation and governance at both national and local levels. In Indonesia, they play a critical role in democratic consolidation, particularly within the framework of regional autonomy. Law No. 2/2011, which amended Law No. 2/2008, defines a political party as a national organisation formed by Indonesian citizens who voluntarily share common political goals. Their primary functions include advocating for and safeguarding members' political interests, representing society, and upholding the integrity of the Republic of Indonesia, based on Pancasila and the 1945 Constitution. This aligns with Neumann's classic definition, which conceptualises a political party as the articulate organization of society's active political agents, those who are concerned with the

control of governmental power and who compete for popular support with another group or groups holding divergent views (Neumann, 1956).

During the New Order era (1966–1998), political parties were tightly controlled by President Soeharto's regime. Under Law No. 3/1975 on Political Parties and Golongan Karya, political parties were largely relegated to supporting government policies, with their activities and ideological scope strictly circumscribed. Article 7 of the law mandated that all parties safeguard Pancasila and the 1945 Constitution, thereby institutionalising ideological uniformity. Political representation was limited to three organisations: the United Development Party (PPP), the Indonesian Democratic Party (PDI), and Golongan Karya (Golkar). Of these, Golkar operated as the principal vehicle of state power, functioning more as an extension of the regime than as an independent political party. This arrangement effectively suppressed political opposition and eliminated genuine electoral competition, thereby stifling democratic processes (Aspinall, 2005). While this centralised system contributed to political stability, it significantly curtailed political accountability and participation.

The collapse of the New Order in 1998 catalysed political reforms that transformed the regulation of political parties. Law No. 2/1999 on Political Parties provided a legal basis for party autonomy and broader participation, allowing for the unrestricted formation of parties so long as they adhered to Pancasila. This measure dismantled the previous three-party system, fostering political pluralism and a multiparty democracy, though it also resulted in greater legislative fragmentation (Aspinall, 2005).

Regarding party financing, substantial changes were introduced through Law No. 31/2002 and its amendment in Law No. 2/2008. Article 34 of Law No. 2/2008 permits

political parties to receive funding from membership fees, third-party donations, and state financial assistance. State funding, allocated through the State Budget (APBN) and the Regional Budget (APBD), is intended to support political education and operational activities. However, the implementation of these regulations has encountered significant challenges, particularly concerning financial transparency and accountability. Studies indicate that many political parties fail to submit financial reports in accordance with legal requirements, creating opportunities for corruption and the misuse of public funds for partisan purposes (Mietzner, 2015). Furthermore, state subsidies often fall short of covering operational expenses, compelling parties to seek additional funding from private donors, raising concerns about undue influence from business interests and elite capital owners.

The funding mechanism is further outlined in Article 34 of Law No. 2/2011, which prioritises state subsidies for political education and party operations. However, the actual income of political parties remains substantially lower than their operational needs, particularly in the context of election campaigns. Table 3.4 summarises the primary sources of political party funding as stipulated in Law No. 2/2011:

Source of Funding	Details
Membership Contributions	Regular fees collected from party members.
Third-Party Donations	Donations from individuals or groups, regulated by contribution limits.
State Financial Assistance	Allocated based on the number of votes won in elections (Rp. 100–1,000/vote/seat).

Table 3-4 Main Sources of Political Party Funding as Outlined in Law No. 2/2011

Political parties receiving state funding are required to submit accountability reports to the Supreme Audit Agency (BPK). However, weak oversight mechanisms and

inadequate enforcement often render these regulations ineffective, allowing financial mismanagement and illicit fundraising practices to persist.

The decentralisation reforms in Indonesia have amplified the role of political parties in regional governance. Law No. 32/2004, which superseded Law No. 22/1999, authorised parties to nominate candidates for regional executive positions through direct local elections (Pilkada). Article 56 of Law No. 32/2004 stipulates that parties or coalitions must control 15–25% of seats in the DPRD, or a comparable share of votes, to nominate candidates (Buehler, 2007). While these provisions have increased party influence at the local level, they have also facilitated the dominance of major parties and fostered practices such as money politics, undermining the integrity of local elections (Kumoro, 2009). The substantial financial burden associated with running for office has further marginalised smaller parties and independent candidates, reinforcing the dominance of established elites.

Although decentralisation has strengthened the role of political parties in regional governance, issues of accountability and transparency remain pressing concerns. The multiparty system has enriched Indonesia's political landscape but has also contributed to legislative fragmentation and inefficiencies in decision-making. Moreover, the lack of transparency in party funding has exacerbated the risk of political corruption, undermining public trust in the democratic system. Strengthening Indonesia's democracy and promoting more inclusive governance require further reforms aimed at enhancing financial transparency, improving accountability mechanisms, and reducing the disproportionate dominance of larger parties in local politics. Such measures are

essential for fostering greater public trust and participation, ensuring that political parties fulfil their role as pillars of democracy and instruments of good governance.

3.2.1.4 The Local Civil Participation

During the New Order era, local non-governmental organisations (NGOs) in Indonesia operated under significant restrictions, as the government exercised strict control over civil society activities. Law No. 8/1985 on Social Organisations (Ormas) required all NGOs to register with the government, thereby limiting their autonomy and granting authorities the power to dissolve groups deemed oppositional. Consequently, NGOs were largely confined to state-approved development initiatives, while environmental and human rights organisations faced intense scrutiny and the threat of dissolution. Civil participation during this period was largely symbolic. The government adopted a paternalistic approach, treating the public as passive beneficiaries rather than active decision-makers. Ministerial Regulation No. 9/1982 on urban infrastructure development provided only superficial engagement opportunities, offering no real influence over policymaking.

Following the fall of the New Order in 1998, Indonesia transitioned into an era of decentralisation, initiated by Law No. 22/1999 on Regional Government, later revised by Law No. 32/2004 and Law No. 23/2014. These reforms granted regional governments greater autonomy, including the authority to engage civil society in development processes. As a result, local NGOs gained new opportunities to collaborate with regional administrations in policy advocacy, community empowerment, and governance oversight.

Local non-governmental organisations (NGOs) have been instrumental in enhancing transparency and accountability within regional governance in Indonesia. The participatory development planning forum, *Musrenbang*, mandated by Law No. 25/2004 on the National Development Planning System, provides a formal avenue for NGOs to express community aspirations at the local level. This mechanism has facilitated active community participation in determining regional development priorities (see Liverpool University Press, 2022). Many NGOs work to enhance community capacity through training, education, and economic empowerment initiatives, thereby fostering public participation in governance. NGOs also play a role in monitoring local government policies and budgets. For example, some organisations have overseen the implementation of the Regional Health Insurance Programme (Jamkesda) to support the effective provision of free healthcare to disadvantaged groups (World Health Organization, 2017).

In the decentralisation era, NGOs have accessed funding from various sources, including international donors, regional government budgets, and self-generated revenue. Many NGOs remain heavily reliant on international funding, such as grants from bilateral and multilateral organisations. While these funds are essential, they may limit NGOs' responsiveness to local needs due to donor priorities. Some regional governments allocate funds from local budgets (*Anggaran Pendapatan dan Belanja Daerah*, APBD) to support NGO activities, although these allocations often depend on the political dynamics between NGOs and local authorities. Progressive regions with strong commitments to civic engagement provide dedicated budgets for NGO-led initiatives. Additionally, some NGOs have adopted social enterprise models to reduce reliance on external donors and enhance financial sustainability.

Despite these advancements, decentralisation has introduced new challenges in NGO oversight. Law No. 17/2013 on Social Organisations established a regulatory framework for NGOs, including requirements for registration, financial reporting, and accountability. However, enforcement at the regional level has been inconsistent due to capacity constraints within local governments, ambiguous regulations, and political factors. Some regional governments lack the resources or expertise to comprehensively monitor NGO activities, while certain legal provisions remain open to varied interpretations. According to respondents, these ambiguities have, at times, been exploited by regional authorities to restrict critical NGOs. Furthermore, close relationships between NGOs and political elites have created conflicts of interest, with some NGOs compromising their independence by engaging in political activities or obtaining government contracts for programme delivery (Wever et al., 2012).

Decentralisation has expanded the role of local NGOs in regional development. However, their effectiveness depends on factors such as local government commitment, NGO institutional capacity, donor relations, and regulatory clarity. Regions with strong leadership and a commitment to good governance tend to foster more constructive NGO participation in development initiatives. Well-established NGOs with robust institutional frameworks are better positioned to influence policy and promote transparency. Meanwhile, clear and consistently enforced regulations are essential to ensuring that NGOs operate independently while remaining accountable. Ultimately, decentralisation has created greater space for local NGOs to contribute to democratic governance and regional development. However, addressing challenges related to funding, oversight, and government relations remains crucial for maximising their impact.

<i>Aspect</i>	<i>New Order Era</i>	<i>Decentralisation Era</i>
Regulation	Strict government control, Law No. 8/1985	More autonomy under Laws No. 22/1999, 32/2004
Public Participation	Symbolic participation, paternalistic approach	Active role in <u>Musrenbang</u> and policy advocacy
Funding Sources	Government-controlled funding, limited donor support	Diverse funding from donors, regional budgets, and social enterprises
Role in Governance	Restricted to state-approved programmes	Policy advocacy, transparency, budget monitoring

Table 3-5 Comparison of NGO Roles in the New Order and Decentralisation Eras

3.2.2 Administrative Decentralisation

Administrative decentralisation in Indonesia involves the delegation of authority to provincial and district governments while the central government retains control over key sovereign functions, including defence, security, justice, foreign affairs, monetary and fiscal policy, and religion (Law No. 32/2004, Article 10). Local governments are responsible for all other functions, including personnel management.

Law No. 32/2004 on Regional Government governs regional personnel management, encompassing recruitment, training, remuneration, promotions, and disciplinary measures. Article 21 grants regional governments autonomy in managing their administrative apparatus, while Article 129(1) ensures central oversight within a unified civil service framework. This decentralised structure allows regional governments to administer civil service affairs while remaining subject to central supervision.

The effectiveness of this decentralisation framework depends on the integrity of local leadership, the efficiency of personnel management, and the robustness of oversight institutions. The following sections examine these key components: local leadership integrity, personnel management—including recruitment, remuneration, transfers, and promotions—and the role of oversight institutions. These factors are crucial in shaping

governance and addressing corruption within Indonesia's regional autonomy framework.

3.2.2.1 Local Leadership Integrity

Indonesia's transition from the centralised governance of the New Order era (1966–1998) to a decentralised administrative system following Suharto's fall in 1998 brought significant changes to local governance, particularly in leadership integrity. Under Suharto's authoritarian regime, regional leaders—such as governors, regents, and mayors—were appointed centrally, prioritising political loyalty over merit or democratic legitimacy. While this system facilitated strict control over local administrations, it also entrenched corruption at the national level, largely protected within the ruling elite (Prabowo, 2017).

The advent of the Reformation era introduced direct local elections (*Pilkada*) to enhance democratic accountability. However, this shift also led to new challenges, including increased corruption, clientelism, and the entrenchment of political dynasties. While decentralisation was intended to empower local governments, it has inadvertently facilitated rent-seeking behaviour among regional leaders. Since the introduction of *Pilkada* in 2005, the Corruption Eradication Commission (KPK) has reported that over 400 regional heads—including governors, mayors, and regents—have been implicated in corruption cases (KPK, 2023).

A significant factor contributing to this endemic corruption is the financial burden of local elections. Aspinall and Sukmajati (2016) demonstrate that campaign expenditures for regent elections in Indonesia are often substantial, regularly exceeding tens of billions of rupiah. As a result, candidates frequently depend on financial support from business

elites, which in turn perpetuates patronage politics and increases the risk of policy capture. Unlike the New Order era, when corruption was centralised and systematic, contemporary decentralisation has dispersed corruption across multiple levels of government, complicating enforcement efforts.

To address these challenges, the Indonesian government has established a regulatory framework to uphold the integrity of regional leaders. Law No. 10/2016 on Regional Elections outlines several prerequisites for candidacy, including:

- No prior conviction for a criminal offence, except in cases of political activism where rehabilitation has been granted.
- Disclosure of a wealth report (LHKPN).
- A minimum percentage of support from a political party or independent backers.
- No direct familial relationship with the incumbent leader unless a five-year gap has elapsed.

However, enforcement remains weak, allowing political dynasties to persist. For instance, in Banten, the family of Ratu Atut Chosiyah has maintained political dominance despite multiple corruption scandals.

While most regions follow the standard local election framework, certain provinces operate under unique governance arrangements. Yogyakarta retains a monarchical structure, with the Sultan of Yogyakarta—currently Sri Sultan Hamengkubuwono X—automatically assuming the role of governor without an electoral process. This arrangement, legally enshrined in Law No. 13/2012 on the Special Status of Yogyakarta, eliminates electoral corruption risks but raises concerns about transparency and democratic accountability.

Similarly, Aceh enjoys special autonomy under Law No. 11/2006, allowing the implementation of Syariah law and the participation of independent candidates without political party endorsement. Papua, governed by Law No. 21/2001, receives special autonomy status and additional financial allocations from the central government. However, persistent governance challenges remain, exemplified by the 2023 corruption scandal involving former governor Lukas Enembe.

A comparative analysis of leadership integrity across these governance models reveals distinct patterns. The New Order era was characterised by rigid, centralised control mechanisms that restricted local leaders' autonomy while institutionalising corruption at the national level. In contrast, the post-decentralisation period has expanded regional leaders' authority but has also exposed them to electoral vulnerabilities and financial dependencies that incentivise corruption.

Transparency International Indonesia's Corruption Perception Index (CPI) reflects these trends, with Indonesia's CPI score declining from 38/100 in 2019 to 34/100 in 2023, indicating growing concerns over decentralised corruption (Transparency International Indonesia, 2023). While the New Order regime-maintained corruption within a structured, hierarchical system, the contemporary decentralised framework has dispersed corruption across multiple tiers, creating a more fragmented governance landscape.

Indonesia's decentralised governance system has democratised leadership selection but has also introduced new integrity risks, exacerbated by high election costs, entrenched political patronage, and persistent political dynasties. Despite legal

safeguards, enforcement remains inconsistent, allowing rent-seeking behaviour to thrive.

In contrast, special autonomous regions such as Yogyakarta, Aceh, and Papua operate under distinct governance models, each presenting unique advantages and accountability challenges. Strengthening anti-corruption mechanisms, enhancing transparency, and reforming electoral financing regulations are crucial to improving the integrity of local leadership within Indonesia's decentralised system.

3.2.2.2 Local Personnel Management in Decentralised Era

Indonesia's civil service system has undergone significant transformation following the implementation of decentralisation and regional autonomy. Previously governed by Law No. 8 of 1974, which centralised civil service management, the system was later reformed by Law No. 43/1999 to promote greater decentralisation and democratic governance. Before these reforms, personnel management was strictly controlled by the central government, ensuring efficiency in staff allocation but often leading to imbalances that prioritised national interests over regional needs.

With the introduction of decentralisation, regional governments gained authority over personnel management, enabling them to tailor civil service policies to local requirements. While the central government continues to establish norms, standards, and procedures related to appointments, transfers, dismissals, and remuneration, regional governments are responsible for implementing these policies, including recruitment, training, and welfare management.

Several key institutions play a role in shaping personnel management at the national and regional levels:

- **Ministry of Administrative and Bureaucratic Reform (KEMENPAN-RB):** Formulates national policies and coordinates civil service management.
- **State Civil Service Agency (BKN):** Maintains civil servant records, oversees competency development, and ensures policy compliance.
- **State Administration Institute (LAN):** Conducts research and training to enhance civil service skills and governance.
- **Regional Personnel Agencies (BKD):** Manage personnel affairs at the regional level, ensuring compliance with national standards while addressing local needs.

3.2.2.2.1 Recruitment

The recruitment of local civil servants in Indonesia has evolved significantly, reflecting broader administrative decentralisation policies. Under the New Order regime, civil servant recruitment was highly centralised, with all appointments requiring approval from the National Civil Service Agency (BKN) and the Ministry of Home Affairs. This system prioritised political loyalty over merit, with recruitment decisions often based on allegiance to the ruling Golkar party rather than professional qualifications. Consequently, local governments had minimal control over personnel decisions, leading to inefficiencies and entrenched corruption.

The fall of Suharto in 1998 marked a pivotal shift towards decentralisation, significantly influencing local civil servant recruitment. The enactment of Laws No. 22/1999 and No. 25/1999 granted local governments greater autonomy, including control over civil servant hiring. This reform aimed to enhance efficiency by transferring authority from the central government to regional administrations. However, the transition presented significant challenges, with over 2.5 million civil servants transferred from central to

regional governments, complicating personnel management and financial sustainability (Transparency International, 2008).

A key reform was the establishment of Regional Civil Service Agencies (BKD), responsible for recruiting, managing, and evaluating local civil servants. This marked a shift from the previously centralised system, allowing local governments to tailor recruitment to their specific needs. However, the abrupt decentralisation also led to increased nepotism, corruption, and inefficiencies. Reports noted widespread bribery in civil servant recruitment, where positions were often obtained through unofficial payments rather than merit (Prabowo, 2017). Political elites exploited their autonomy by appointing loyalists over qualified candidates.

The introduction of Law No. 32/2004 further altered the recruitment process by allowing the direct election of governors, regents, and mayors from 2005 onwards, a significant departure from the New Order era, in which regional leaders were centrally appointed. While this reform strengthened democratic participation, it also facilitated *money politics*, with wealthy candidates leveraging financial resources to influence elections. Additionally, decentralisation exacerbated disparities in civil service quality, as wealthier regions attracted more qualified candidates, whereas less developed areas struggled with skills shortages. Many local governments expanded their bureaucracies by hiring excessive staff, often as a form of political patronage, further undermining efficiency. In response, the government introduced Law No. 5/2014 on State Civil Apparatus (ASN) to enforce stricter recruitment regulations and promote a merit-based selection process.

Since 2014, Indonesia has continued refining its civil servant recruitment system, emphasising transparency, professionalism, and efficiency. The ASN framework introduced a merit-based selection process through the Computer-Assisted Test (CAT), standardising recruitment nationwide. This reform significantly reduced political interference by ensuring that candidates were selected based on competitive examinations rather than political connections. Additionally, the National Civil Service Agency (BKN) and the State Civil Apparatus Commission (KASN) have been granted broader oversight to promote fair recruitment in local government. Nevertheless, regional disparities persist, with some local administrations in Indonesia still facing issues of favouritism and weak human resource management, which undermine the quality of local governance (Nurmandi & Kim, 2018).

To introduce greater flexibility in civil service employment, the government implemented a contract-based employment system under the Government Employees with Work Agreements (PPPK), regulated by Government Regulation No. 49/2018. This policy aimed to provide more adaptable hiring mechanisms for professionals in specialised roles while reducing the long-term financial burden of permanent civil service employment. Despite these improvements, recruitment quality remains uneven, with resource-rich areas attracting better-qualified candidates, while underdeveloped regions continue to face shortages. Furthermore, the ongoing reliance on temporary or honorary staff has fuelled debates regarding their integration into the permanent workforce.

The legal framework governing civil servant recruitment has also evolved. Article 132 of Law No. 32/2004 stipulates that *the determination of the formation of provincial,*

district, and city civil servants each fiscal year is carried out by the Minister for Administrative Reform based on the recommendation of the Governor. Additionally, Law No. 5/2014 mandates that government agencies determine civil servant requirements through position and workload analysis over a five-year period. Recruitment is coordinated by the Ministry of Administrative and Bureaucratic Reform (KEMENPAN-RB), which sets national hiring priorities while allowing local authorities to manage selection processes within established guidelines.

The introduction of Computer-Assisted Testing (CAT) in 2013, regulated by Ministerial Decree No. B-2432/M.PAN.RB/7/2013, further enhanced transparency and fairness in civil servant recruitment. By eliminating manual test assessments—previously confidential and susceptible to manipulation—CAT ensured real-time test results that could not be altered, significantly reducing corruption and nepotism. While these reforms have strengthened meritocracy and accountability, political interference and regional disparities in recruitment quality remain pressing concerns.

In summary, Indonesia's civil servant recruitment system has transitioned from a highly centralised, politically driven model under the New Order to a decentralised yet still politically influenced framework. While recent reforms have enhanced meritocracy and transparency, persistent regional inequalities and political interference continue to pose significant challenges.

3.2.2.2.2 Remuneration

The remuneration system for local civil servants (PNSD) in Indonesia has undergone significant changes, particularly following the early 2000s decentralisation reforms.

These reforms, alongside political and fiscal transitions, have shaped a structure that blends central oversight with local autonomy.

During the New Order period, Indonesia's highly centralised governance system limited local governments' financial autonomy. Civil servant salaries were standardised nationwide under Government Regulation No. 6/1976, without accounting for regional cost-of-living variations. This led to modest remuneration, with minimal local incentives, contributing to low motivation and inefficiency in the bureaucracy (Turner et al., 2003).

The decentralisation laws of 1999 (Laws No. 22/1999 and No. 25/1999) marked a significant shift by granting local governments greater control over budgets, including remuneration policies. This allowed for the introduction of regional incentives (TKD) to supplement salaries; however, wealthier regions could offer higher incentives, while poorer areas remained reliant on central transfers. By 2008, civil service salaries accounted for the largest share of local budgets, raising concerns about fiscal sustainability as many regions prioritised salaries over development programmes (World Bank, 2007).

Law No. 43/1999 emphasised fair remuneration aligned with workload and responsibilities, aiming to enhance productivity and financial security. Civil servants receive additional allowances, such as the Additional Employee Income (TPP) and Performance Allowance (*Tukin*), determined by performance, attendance, workload, and local fiscal capacity. Government Regulation No. 12/2019 provides the framework for these allowances.

For example, DKI Jakarta offers higher allowances to attract skilled personnel. A study found that a transparent, performance-based TPP system significantly improved

employee satisfaction and performance (Basuki R. P., 2025). However, implementing performance-based allowances remains challenging, with reports of inequitable TPP distribution in some regions. Performance assessments, governed by Government Regulation No. 30/2019, are tailored to local needs, with DKI Jakarta using an IT-based system (*e-kinerja*) for transparency (Setiawan, 2020). Despite technological advancements, issues such as resource constraints and institutional resistance persist. Performance evaluations also influence career progression, including promotions and transfers.

Since 2010, remuneration policies have sought to balance decentralisation with fiscal discipline. Government Regulation No. 11/2017 introduced performance-based salaries while maintaining national standards, and Law No. 5/2014 institutionalised a merit-based framework. The 2020 Job Creation Law further aimed to improve efficiency. Currently, remuneration consists of a base salary (determined by rank and tenure), performance-based incentives (TKD), and additional benefits (e.g., housing subsidies). While disparities persist, particularly with Jakarta offering the highest allowances, the shift towards performance-based pay has strengthened administrative accountability. Many local governments have adopted digital monitoring systems to ensure salary increments and bonuses are objectively evaluated.

Indonesia's civil service remuneration has evolved from a rigidly centralised model to a decentralised, performance-oriented system. While local governments now have greater flexibility, fiscal disparities remain a challenge. Recent reforms aim to balance merit-based pay with financial sustainability, yet achieving equity and efficiency in local expenditure continues to be an ongoing issue.

3.2.2.2.3 Transfer and Promotion

The system of transfer and promotion for local civil servants (PNSD) in Indonesia has undergone significant transformations, shaped by political shifts and administrative decentralisation. These changes span the New Order era, the early decentralisation period, and the current merit-based system, reflecting the country's evolving governance framework.

During the New Order (1966–1998), Indonesia's bureaucracy was highly centralised, with the central government exercising strict control. Under Law No. 5 of 1974, career progression was largely determined by the Ministry of Home Affairs and the National Civil Service Agency (BKN). Transfers and promotions were politically driven, prioritising loyalty to the Suharto regime over merit. Local governments had little discretion, as civil service appointments were designed to maintain centralised control. The absence of a merit-based system fostered inefficiencies and stagnation within the bureaucracy.

The collapse of the New Order in 1998 and the enactment of Law No. 22 of 1999 on Regional Governance marked a turning point. Administrative powers, including civil service management, were decentralised, granting local governments greater autonomy. Law No. 43 of 1999 reinforced this shift, though coordination with BKN remained. However, the transition introduced new challenges, including bureaucratic fragmentation and political interference. Respondents noted that local political leaders frequently appointed or promoted civil servants based on political or personal affiliations rather than merit, a practice commonly referred to as bureaucratic politicisation. This led to inefficiencies, job instability, and frequent politically motivated transfers. While

the legal framework, including the State Civil Apparatus Law, outlined career development procedures, the absence of a standardised promotion system enabled subjective decision-making, often prioritising seniority or political loyalty over competency. Although the Position and Rank Advisory Body (Baperjakat) played a role in promotions, political considerations frequently influenced its decisions.

Significant reforms were introduced with the enactment of Law No. 5 of 2014 on the State Civil Apparatus (ASN Law), which sought to professionalise the civil service. The establishment of the State Civil Service Commission (KASN) provided oversight to ensure transparency in recruitment, promotion, and transfer processes. Key reforms included an open selection for senior positions (Echelon II and above) and the introduction of competency-based assessments, as mandated by Government Regulation (PP) No. 11 of 2017. Presidential Regulation (*Perpres*) No. 3 of 2018 further required that interregional transfers be coordinated between local governments, BKN, and KASN to prevent politically motivated job rotations.

Despite these reforms, challenges persist. Mirayanti et. al. (2025) highlight that while many regions have adopted merit-based practices, nepotism and political favouritism remain prevalent in some local governments. Additionally, the Job Fit system, designed for performance-based transfers, has been criticised for being misused to sideline civil servants perceived as politically misaligned with local administrations.

Indonesia's transfer and promotion system has evolved from a centralised, politically controlled structure to a more decentralised, merit-based framework. While decentralisation initially granted greater local autonomy, it also facilitated political patronage and bureaucratic fragmentation. Today, efforts to ensure meritocracy and

professionalism continue, supported by regulatory frameworks such as Law No. 5 of 2014, PP No. 11 of 2017, and *Perpres* No. 3 of 2018. However, full adherence to merit-based principles remains an ongoing challenge.

3.2.2.3 Local Supervision Institutions

Indonesia's decentralisation reforms have reshaped governance structures, particularly in the supervision of local governments. With increased autonomy, ensuring transparency and accountability at the regional level has become paramount. Currently, regional government performance is monitored through both external and internal mechanisms.

The Supreme Audit Agency (BPK) plays a critical role in ensuring regional governments manage finances in compliance with statutory regulations. Authorised to audit financial management, the BPK assesses compliance, effectiveness, and efficiency. Under Article 87(1) of Law No. 23/2014 on Regional Government, the BPK audits regional finances, a mandate reinforced by Article 5(1) of Law No. 15/2004 on the Examination of Management and Responsibility of State Finances, which extends to all levels of government. Through its audits, the BPK identifies inefficiencies, financial mismanagement, and corruption, providing recommendations to improve governance and accountability.

At the regional level, the Government Internal Supervisory Apparatus (*Aparat Pengawasan Intern Pemerintah*, APIP) monitors local government performance. APIP comprises:

- Provincial Government Inspectorate – Under the Governor's authority, overseeing provincial government activities and regulatory compliance.

- Regency/City Government Inspectorate – Reporting to the Regent or Mayor, supervising the respective local government's performance.

APIP enhances governance efficiency, guides regional administrations in achieving their objectives, and acts as a key anti-corruption mechanism. Over time, regulatory reforms have strengthened its institutional capacity.

Initially, regional oversight was weak, lacking independent monitoring capacity. However, amendments to regional governance laws, particularly Law No. 32/2004 (later replaced by Law No. 23/2014), clarified the Regional Inspectorate's role as the primary institution responsible for evaluating budget management and governance performance.

A key milestone was Presidential Regulation No. 60/2008 on the Government's Internal Control System (*Sistem Pengendalian Intern Pemerintah*, SPIP), which provided a structured framework for internal audits. Further reinforcement came with Government Regulation No. 12/2017 on Regional Financial Management, expanding inspectorates' responsibilities in auditing financial transactions, preventing corruption, and improving governance.

Beyond internal mechanisms, external oversight bodies—including the Corruption Eradication Commission (KPK), BPK, and the Financial and Development Supervisory Agency (*Badan Pengawasan Keuangan dan Pembangunan*, BPKP)—collaborate with regional inspectorates to enhance financial report reliability, mitigate corruption risks, and ensure adherence to national standards.

Despite these developments, challenges persist, particularly political interference. Many regional inspectorates remain under local political leaders' influence, raising concerns about their independence, especially in cases involving high-ranking officials. This dependence limits their ability to conduct impartial investigations and enforce accountability. While legal reforms have sought to strengthen inspectorates' autonomy, further measures are needed to minimise political influence and ensure they function independently.

The Regional Inspectorate has evolved significantly—from a centralised monitoring tool under the New Order to a decentralised but institutionally weak oversight body in the early decentralisation period. Today, it is more structured and independent, tasked with promoting transparency, accountability, and good governance in local administrations. However, its effectiveness still depends on political will, institutional capacity, and legal reforms that safeguard its independence. Strengthening its role as an autonomous internal audit institution is crucial for enhancing governance, preventing corruption, and improving regional government performance.

3.2.3 Fiscal Decentralisation.

Fiscal decentralisation in Indonesia, defined as the transfer of financial authority from the central government to local governments, marked a pivotal shift in governance. This process gained momentum after the 1998 financial crisis and subsequent political reforms, culminating in the enactment of Law No. 22/1999 on Regional Government and Law No. 25/1999 on Fiscal Balance. These laws granted local governments greater autonomy over revenue generation and expenditure decisions.

Prior to decentralisation, local governments had minimal fiscal control, relying heavily on central transfers, with budgetary decisions dictated by Jakarta. The reforms aimed to empower local governments by granting them financial independence. However, institutional weaknesses and administrative capacity constraints emerged as significant challenges in managing increased fiscal responsibilities.

The decentralisation framework, intended to promote equitable resource distribution while maintaining Indonesia's unitary state, underwent several amendments. Law No. 22/1999 was replaced by Law No. 32/2004 and later Law No. 23/2014, while Law No. 25/1999 was revised as Law No. 33/2004, which remains the basis for fiscal relations between the central and regional governments.

Initially, regional income sources comprised Local Own-Source Revenue (PAD), transfer funds, regional loans, and other lawful revenues. Transfer funds were further classified into the Revenue Sharing Fund (DBH), General Allocation Fund (DAU), and Special Allocation Fund (DAK). These mechanisms provided local governments with a stable financial base for public service delivery and regional development. Over time, Law No. 23/2014 introduced additional instruments, including inter-regional transfers and special autonomy funds. The Village Fund, established under Law No. 6/2014, further decentralised fiscal resources to the village level.

To incentivise effective governance, the government introduced the Regional Incentive Fund (DID) in 2010, rewarding regions demonstrating sound fiscal management. Despite these measures, persistent challenges remain. Many local governments struggle with inefficiencies, misallocation of resources, and delays in project implementation, particularly in underdeveloped areas with limited financial expertise.

In response, the central government has introduced regulations to improve fiscal management, covering budget planning, taxation, and financial oversight. The table below summarises the key legislation underpinning Indonesia's fiscal decentralisation framework and their respective amendments.

Year	Legal Basis	Main Description
1999	» Law No. 22/1999 on Regional Government » Law No. 25/1999 on Fiscal Balance	Implementation of regional autonomy with greater emphasis on democratic principles, community participation, equality and justice, as well as paying attention to regional potential and diversity. Source of Local Revenues: a. Local Own-source Revenue, yaitu: (1) Local Taxes; (2) Regional Levies; (3) Revenue of Regional Owned Company, and Local own source asset; dan (4) Other Lawful Local Revenue; b. Fiscal balance transfers; c. Regional Loans; dan d. Other Lawful Local Revenue. The Fiscal balance transfers consists of: (1) The regional share of Land Taxes and natural resources revenues; (2) General Allocation Fund
2000	» Law No. 34/2000 on the amendment of Law No. 18/1997 on Local Taxes and Charges	» Taxes outside the law can be collected (<i>open list</i>) » Provincial taxes (4 types) and district/city taxes (7 types) » Regional levies (general services, business services and certain permits)
2003	Law No. 17/2003 on State Finance	» Preparation and determination of the APBN » Preparation and determination of the APBD » Fiscal relations between the Central Government and the Central Bank, Local Government/Foreign Institutions » Fiscal relationships between the government and State/Regional/Private companies, and Public Fund Management Agencies » Implementation of State and Local Budget (APBN and APBD) » Accountability for the implementation of State and Local Budget (APBN and APBD)
2004	» Law No. 32/2004 on Regional Government	» Providing broad authority to regions accompanied by granting rights and obligations to implement regional autonomy within a unified state government administration system. » Implementation of Government Affairs, which falls under regional authority, regional governments exercise the most significant possible autonomy to regulate and manage government affairs themselves based on the principles of autonomy and assistance duties.
	» Law No. 33/2004 on Fiscal Balance	» Fiscal balance transfers include: 1) Revenue Sharing Fund (DBH); 2) General Allocation Fund (DAU); (3) Special Allocation Fund (DAK)
2009	» Law No. 28/2009 on Local Taxes and Charges	» Taxes that can be collected are only in compliance with the law. (<i>closed list</i>) » Provincial taxes (5 types) and district/city taxes (11 types)

Year	Legal Basis	Main Description
2014	» Law No. 23/2014 on Regional Government	» The administration of Government Affairs in the regions is conducted in accordance with the principles of decentralisation, deconcentration, and assistance tasks. » The governor serves as the representative of the central government » The sources of regional income include: • Local Own-source Revenue include: 1) local taxes; 2) local levies; 3) result of Local own source assets; dan 4) Other Lawful Local Revenue; • transfer revenue; dan • Other Lawful Local Revenue • Transfer Revenue, include: » Central Government Transfer: 1) Transfer Fund; 2) Special Autonomy Fund; 3) Specialty Fund; dan 4) Village Fund; » Inter-regional transfers consisting of: 1) revenue sharing fund; dan 2) Financial Aid
	» Law No. 6/2014 on Village	» Providing clarity on the status and legal certainty of villages in the constitutional system of the Republic of Indonesia » Strengthening village communities as subjects of development » Village Funds will begin to be allocated in the 2015 state budget

.Table 3-6 The Legal Basis of Fiscal Decentralisation 1999-2014

Over time, Indonesia's fiscal decentralisation has transitioned from a highly centralised model to one granting local governments greater financial autonomy. Despite a comprehensive legal and institutional framework, challenges persist in ensuring the efficient and effective use of funds. This evolution underscores the complexities of balancing local autonomy with national coherence, highlighting the need for capacity-building at the regional level to strengthen decentralisation outcomes.

Fiscal decentralisation in Indonesia remains an ongoing process, requiring enhanced accountability and fiscal discipline at the local level. Local governments must comply with regulations on budget formulation, revenue collection, and expenditure management, while being subject to oversight from both local and national bodies, including the Supreme Audit Agency (*BPK*). The following sections examine Indonesia's fiscal decentralisation framework, focusing on local budget formulation, revenue and expenditure assignments, and the role of audit opinions.

3.2.3.1 Local Budget Formulation

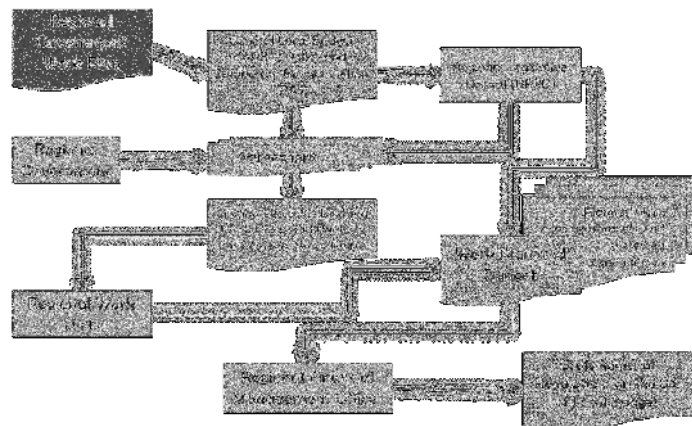
Fiscal decentralisation in Indonesia is closely tied to local budgets (*Anggaran Pendapatan dan Belanja Daerah*, APBD), which underpin regional development. Their effective management significantly impacts decentralisation outcomes and governance efficiency. Under the New Order regime, local governments had minimal budgetary control, with allocations dictated by Jakarta. The Ministry of Finance determined budget size and purpose, while regional parliaments (DPRD) functioned as advisory bodies without independent approval powers. This centralised approach often resulted in inefficiency, mismanagement, and a disconnect from local priorities (World Bank, 2003).

The enactment of Law No. 22/1999 on Regional Governance marked a pivotal shift, granting local governments greater financial autonomy and enhancing DPRD's role in budget formulation. However, in the early decentralisation phase, local governments struggled with limited financial expertise and weak institutional capacity. Budgetary disputes often emerged between executives (governors, regents, and mayors) and the legislature, while oversight mechanisms, especially those led by the regional Inspectorate, remained insufficiently developed (Stapenhurst, R, 2008)

Despite decentralisation, the Ministry of Finance and the National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*, BAPPENAS) retained significant influence to align local budgets with national objectives. Law No. 25/1999 on Fiscal Balance reinforced this by increasing local revenue shares, though fiscal capacity remained uneven, disproportionately benefiting wealthier regions (Ministry of Finance of the Republic of Indonesia, 2022).

By the mid-2000s, regulatory refinements—Law No. 33/2004 on Financial Balance and Government Regulation No. 58/2005 on Regional Financial Management—established a more structured and transparent budgetary process. Local governments gained greater control over revenue and expenditure, while DPRD's authority in budget approval and oversight was strengthened. Budgets were now required to align with national fiscal policies and incorporate transparency and public participation. While local executives retained drafting authority, DPRD was empowered to amend and approve budgets, ensuring checks and balances.

Currently, local budgets must be formulated based on strategic development plans and financial projections, subject to DPRD approval. Public consultations and stakeholder engagement are integral to the process, fostering democratic participation. Audit mechanisms ensure compliance with national standards, with financial reporting closely monitored. However, budget formulation remains influenced by the political dynamics between local executives and DPRD, often resulting in tensions and inefficiencies. The procedure for local budget preparation is outlined in the following figure:



Source: UU No. 17/2003 on State Finance
 Figure 3-3 The Procedure for Preparing the Local Budget

Local financial autonomy is primarily supported by the General Allocation Fund (DAU) and the Specific Allocation Fund (DAK), both allocated by the central government under strict regulations to finance regional development projects (OECD, 2017). Despite progress, significant challenges persist. Budgetary inefficiencies and regional disparities remain, particularly in underdeveloped areas with limited administrative capacity. DPRD plays an increasingly critical role in ensuring public funds are managed effectively and in the public interest. Indonesia's budget formulation process has evolved from centralised control to greater local autonomy. The current framework—shaped by Law No. 33/2004 and Government Regulation No. 58/2005—has enhanced transparency, accountability, and participation. However, persistent challenges, including institutional weaknesses, inefficiencies, and political interference, continue to impede full fiscal decentralisation.

3.2.3.2 Revenue Assignment in Local Fiscal Decentralisation

Indonesia's fiscal decentralisation has transitioned from a highly centralised revenue system to one granting local governments greater financial autonomy. During the New Order era, the central government exercised strict control over revenue sources, with local governments relying primarily on transfers from Jakarta, such as the General Allocation Fund (DAU) and the Specific Allocation Fund (DAK). Law No. 18/1997 limited the types of local taxes and fees, granting some autonomy to local governments but retaining strong central control over tax policy. This constrained local revenue generation and contributed to regional disparities, as wealthier areas received greater transfers, while less-developed regions faced difficulties funding essential services (OECD, 2012).

The enactment of Law No. 22/1999 on Regional Governance and Law No. 25/1999 on Fiscal Balance marked the formal start of decentralisation in Indonesia, broadening local fiscal authority and enabling regions to levy taxes such as property and vehicle taxes, thereby diversifying their own-source revenue (Kelly, 2003). The open list system enabled local governments to levy taxes beyond national provisions, increasing flexibility. However, limited technical and administrative capacity often resulted in inefficient tax management and unequal revenue collection. Aligning local fiscal autonomy with national objectives remained a persistent challenge (IMF, 2025).

The next phase of fiscal decentralisation began with Law No. 33/2004 on Financial Balance and Law No. 28/2009 on Local Taxes and Levies, which established a more structured revenue framework. While local governments gained greater autonomy, key revenue sources remained under central control to ensure national coherence and equitable development. The introduction of the closed list system under Law No. 28/2009 restricted local governments to taxes explicitly permitted by national regulations, aiming to prevent conflicts and enhance transparency. Local governments could impose taxes such as property, hotel, restaurant, mining, and vehicle taxes while continuing to receive DAU, DAK, and Revenue Sharing Funds (DBH) to address fiscal disparities (Ministry of Finance, 2022).

Central government transfers, including DAU and DBH, remain crucial for balancing fiscal capacity among regions, ensuring all local governments can finance essential services. Under the revenue-sharing system, local governments now retain a greater share of national taxes, such as Value Added Tax (VAT) and Income Tax (PPh), increasing financial independence. Additionally, local parliaments (DPRD) play a

growing role in budget approval and oversight, while the Supreme Audit Agency (BPK) monitors tax collection and fund allocation to enhance transparency. Table 3.7 summarises Indonesia's regional levies and tax reforms.

UU No. 13 Tahun 1997	UU No. 34 Tahun 2000	UU No. 28 Tahun 2009
Reform	Reform	Reform
The rationalization of Local Taxes and Charges (PDRB) involves categorizing them into 9 distinct types of taxes, including 3 types at the provincial level and 6 types at the district/city level. Additionally, there are 30 types of levies.	Established 11 types of taxes (4 types of provincial taxes and 7 types of district/city taxes), as well as 27 types of levies.	Established 16 categories of local taxes (5 types of provincial taxes and 10 types of district/city taxes), and 39 types of local levies.
The enactment of new tax types through a government regulation. A new PDRB office has been implemented: the Motor Vehicle Fuel Tax.	Regions have the authority to establish new types of regional taxes and levies that adhere to the stated criteria.	Types of regional taxes are specified in the law. The Rural and Urban Land and Building Tax, as well as the Acquisition Duty of Right on Land and Building, are included as district/city taxes, and a new tax, the Cigarette
Establish the highest rate for district/city taxes and a uniform rate for provincial taxes.	Establish the highest rate for district/city taxes and a uniform rate for provincial taxes.	Set the highest rate for each type of tax, with the exception of the motor vehicle tax, which has both the lowest and highest rate limits; and the uniform cigarette tax rate.

Table 3-7 The Outline of Indonesia's Regional Levies and Tax Reform

Indonesia's fiscal decentralisation has progressed through distinct phases, evolving from a centralised system with minimal local fiscal authority to a structured framework allowing greater financial autonomy. This transition has strengthened local governance by enabling regions to manage their finances more effectively and address specific development needs. However, persistent challenges—including inefficiencies in tax collection, disparities in fiscal management, and the need for capacity-building—must be addressed to maximise the benefits of decentralisation.

3.2.3.3 Expenditure Assignment in Local Fiscal Decentralisation

Fiscal decentralisation in Indonesia has primarily involved devolving expenditure responsibilities to local governments while the central government retains control over revenue generation. This shift has transformed governance, shaped by political transitions, legal reforms, and the need to address local development challenges. The transition from the centralised New Order era to post-reform decentralisation significantly expanded local governments' role in fiscal management.

During the New Order period (1966–1998), governance was highly centralised, with local governments exercising minimal financial discretion. Fiscal decisions, including revenue collection and expenditure allocation, were tightly controlled by the central government. Under Law No. 5/1974 and Law No. 32/1956, local governments functioned primarily as policy implementers, dependent on centrally regulated subsidies and transfers. Limited financial resources constrained their ability to provide basic public services (World Bank, 2003).

The passage of Law No. 22/1999 on regional governance and Law No. 25/1999 on fiscal balance initiated Indonesia's "Big Bang" decentralisation, driven by the 1998 crisis and calls for democratic reform. These laws conferred significant fiscal autonomy to local governments, with decentralised expenditure rising from 10.5% in 2000 to 25.5% in 2001 (Ahmad & Mansoor, 2002), fostering a more balanced fiscal structure.

To support local service delivery, the central government introduced Transfers to Regions and Village Funds (*TKDD*), comprising:

- **General Allocation Fund (DAU):** A horizontal equalisation mechanism ensuring that regions with lower fiscal capacity can finance essential services.

- **Profit-Sharing Funds (DBH):** Allocating a portion of revenue from natural resources and other sectors to local governments.
- **Special Allocation Funds (DAK):** Divided into *physical* (infrastructure and development) and *non-physical* (administrative and policy-related expenses).
- **Regional Incentive Fund (DID):** Rewarding sound fiscal performance.
- **Special Autonomy Funds:** Targeted at regions with special status, such as Aceh and Papua.
- **Village Fund:** Empowering village-level governance and development.

By 2020, fiscal transfers had reached Rp762.54 trillion, a significant increase from Rp81.05 trillion in 2001, reflecting the central government's commitment to decentralisation despite persistent dependency issues (*Badan Kebijakan Fiskal*, 2021).

Decentralisation has progressively expanded local governments' authority over public expenditure. While DAU and DBH remain crucial, the introduction of earmarked revenue-sharing mechanisms under Law No. 33/2004 has added complexity, limiting fiscal flexibility. Local governments must adhere to central directives on fund utilisation, particularly in sectors such as education, health, and infrastructure (Lewis & Smoke, 2018).

Despite greater autonomy, local governments remain fiscally dependent on central transfers, limiting financial independence. By 2007, subnational expenditure exceeded 30%, comparable to levels in the United States (40%) and Norway (39%) (OECD, 2014). However, a substantial portion of local revenue continues to originate from central contributions, limiting full fiscal autonomy. The central government plays a dominant role in shaping Indonesia's fiscal landscape through various transfer

mechanisms, balancing local autonomy with fiscal equalisation to ensure adequate public service provision.

Expenditure priorities have also evolved. In 2001, personnel costs accounted for 70.13% of local budgets, but this share declined to 33.27% by 2020 as spending shifted towards goods, services, and development (*Badan Kebijakan Fiskal*, 2021). Expenditure on goods and services increased from 10.55% in 2001 to 27.54% in 2020, reflecting a stronger emphasis on operations and service delivery. However, capital expenditure has constituted a relatively small portion of regional budgets, averaging just over 21% during the past two decades (Ministry of Finance, 2022).

Fiscal decentralisation has reshaped spending patterns, particularly in education, healthcare, and infrastructure. Education, legally mandated to receive at least 20% of local budgets (BPS, 2020), remains underfunded in some areas. By 2020, 94 regencies/cities and two provinces (Kalimantan Utara and Papua) had yet to meet this requirement. Indonesia's average Programme for International Student Assessment (PISA) scores declined between 2015 and 2018, underscoring ongoing challenges in education quality (OECD, 2019). Similarly, while district and city governments have generally fulfilled the 10% healthcare budget allocation, provincial expenditure remains below the target, averaging approximately 8.7% (World Bank, 2016).

Infrastructure investment varies widely. West Java recorded the lowest provincial infrastructure spending at 3.25%, while Jakarta allocated 16.70%. At the district level, Temanggung spent only 4.12% on infrastructure, whereas Penukal Abab Lematang Ilir allocated 33.26% (*Badan Kebijakan Fiskal*, 2021).

Fiscal decentralisation has significantly reshaped Indonesia's governance, granting local governments greater control over public expenditure. Over the past two decades, local spending has expanded, with increased efficiency and prioritisation of essential services. However, continued reliance on central transfers limits fiscal autonomy, posing challenges to achieving fully independent local governance.

3.2.3.4 Audit by Supreme Audit Agency (BPK)

In Indonesia, local governments must produce Financial Reports (*Laporan Keuangan Pemerintah Daerah*—LKPD) to ensure transparency and accountability in public fund management. These reports, detailing financial activities, are audited by the Supreme Audit Agency (BPK), an independent institution overseeing fiscal performance. However, financial reporting alone is insufficient. Effective governance requires a robust, legally sound accountability system, rigorously implemented and evaluated to prevent corruption, collusion, and nepotism.

Under Law No. 17/2003, central and local governments in Indonesia are required to submit financial reports, which are audited by the BPK prior to submission to representative councils. In accordance with Law No. 15/2004, the BPK issues audit opinions ranging from unqualified to qualified, adverse, or disclaimer, reflecting compliance with financial regulations (BPK, 2004; World Bank, 2018).

During the New Order, Indonesia's centralised governance restricted local financial autonomy. The BPK focused mainly on auditing the central government, with minimal oversight of regional authorities. Local governments functioned largely as administrative arms of the centre, lacking independent financial management. This lack of accountability fostered inefficiency and pervasive corruption (World Bank, 2003).

Audits had minimal impact, as BPK reports were often inaccessible and lacked enforcement authority.

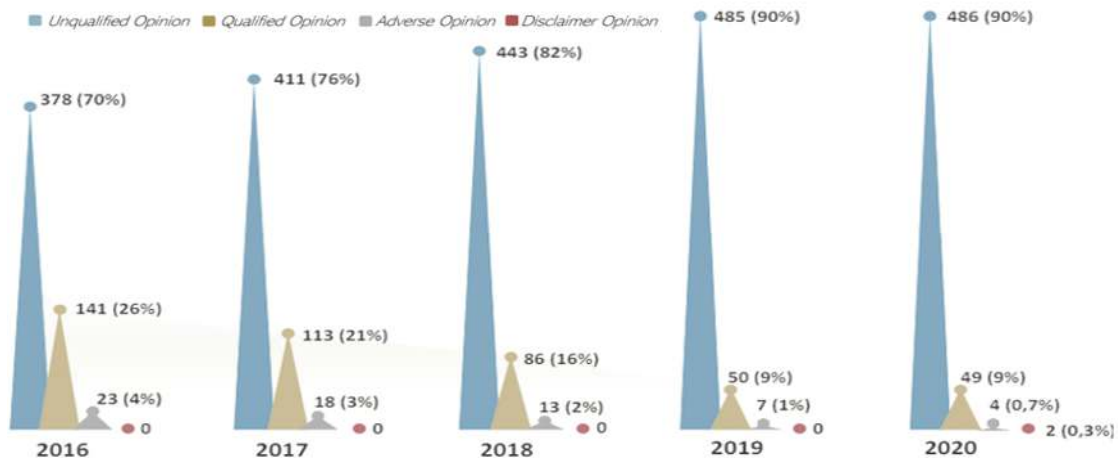
The collapse of the New Order regime in 1998 triggered political and economic reforms. Decentralisation, formalised under Laws No. 22/1999 and No. 32/2004, granted local governments greater political and financial autonomy, including control over budgets, revenues, and expenditures. Consequently, the BPK's mandate expanded to include audits of local government financial reports.

However, initial decentralisation efforts faced challenges. Many local governments lacked institutional capacity for effective financial management. Despite increased BPK audits, findings frequently revealed weak financial governance, misreporting, and corruption, leading to numerous qualified and adverse opinions. These issues highlighted governance deficiencies and the urgent need for capacity-building initiatives (Wardoyo, 2024). While financial management remained weak in several regions, this period marked a shift towards enhanced accountability.

By 2004, fiscal decentralisation was more firmly established, granting local governments greater financial independence. Revisions to key laws, including the 2003 Law on State Finance, strengthened BPK oversight. Local governments faced stricter accountability standards, and BPK audits became central to ensuring compliance.

In contemporary Indonesia, an Unqualified Opinion (clean audit) from the BPK signifies sound financial management, enhancing local government credibility and attracting investment. Conversely, Qualified or Adverse Opinions indicate mismanagement, corruption, or non-compliance with financial standards. Since many audit reports are publicly accessible, they promote public scrutiny and encourage accountability.

In response to heightened oversight, numerous local governments have improved financial systems and reporting practices. While these efforts have led to gradual improvements, challenges persist, particularly in regions with entrenched corruption and weak institutional capacity.



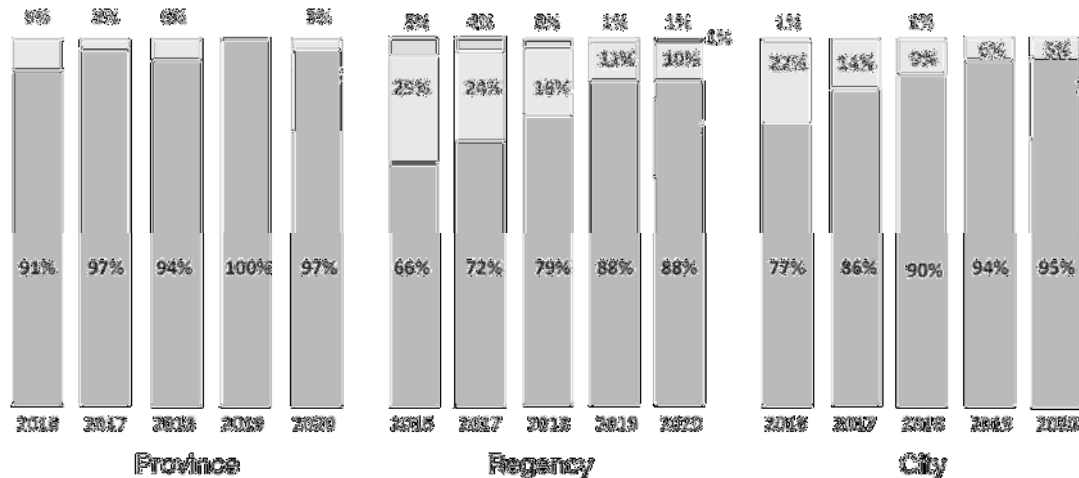
Source: 2021 Summary of BPK Audit Report

Figure 3-4 Audit Opinion on Regional Government Audit Report 2016-2020

BPK audit opinions have had a significant impact on local governance. Positive evaluations enhance public trust, while negative findings increase pressure on officials to implement reforms. Continuous financial monitoring by the BPK has encouraged many regions to adopt more transparent and accountable financial practices, ensuring responsible allocation of public funds. Additionally, BPK audits reinforce good governance principles by promoting ethical and efficient resource management. The agency plays a crucial role in advancing decentralisation objectives by ensuring accountability and adherence to legal standards among local governments.

Recent BPK data indicate improvements in regional financial management. Between 2016 and 2020, the percentage of Unqualified Opinions for regional governments

increased from 70% to 90%, reflecting enhanced financial reporting. This trend corresponds with a decline in Qualified and Adverse Opinions, suggesting growing compliance with financial management standards.



Source: 2021 Summary of BPK Audit Report

Figure 3-5 Trend of Audit Opinion Based on Level of Regional Government 2016-2020

Audit outcomes vary by administrative level, with provincial governments generally achieving better results than district and city governments. This suggests that smaller local governments face greater challenges related to resources and financial oversight capacity.

The role of the BPK has evolved significantly with Indonesia's decentralisation. From an institution focused on central government audits during the New Order era, it has become a key player in decentralised governance. BPK audits now serve as crucial instruments for promoting transparency, accountability, and improved financial management at the local level.

Despite progress, challenges persist, particularly in remote regions where corruption and financial mismanagement remain obstacles to effective governance. Nonetheless,

BPK audits continue to strengthen financial integrity, supporting the broader objective of good governance in Indonesia.

3.3 Local Corruption Issue in Indonesia and Anti-Corruption Initiatives

During President Suharto's regime, corruption, collusion, and nepotism (*Korupsi, Kolusi, dan Nepotisme* – KKN) were deeply entrenched in Indonesia's political and economic systems. Power was centralised in Jakarta, enabling Suharto's family and allies to exploit government contracts, state procurement, and public enterprises. Regional officials also engaged in financial misconduct to secure and retain their positions (MacIntyre, A., 1991).

Despite the establishment of anti-corruption measures, such as the Corruption Eradication Team (1967) and Law No. 3/1971, weak enforcement allowed embezzlement to persist. The judiciary and the People's Representative Council (DPR) remained under regime control, rendering oversight bodies ineffective. Locally, corruption mirrored national trends, with appointments based on political loyalty rather than competence, fostering bribery, favouritism, and patronage. Java was prioritised for development, while outer provinces remained economically marginalised.

The fall of Suharto in 1998 ushered in the Reformasi era, marked by democratic transition and decentralisation. Law No. 22/1999 on Regional Government—later revised as Law No. 32/2004 and Law No. 23/2014—transferred power and financial autonomy to local governments to enhance public participation, regional development, and bureaucratic efficiency.

However, rather than curbing corruption, decentralisation fragmented and expanded it. With increased autonomy over budgets and resources, local officials in Indonesia often

engaged in corrupt practices due to limited oversight (Prabowo & Cooper, 2019). A spatiotemporal analysis of post-1999 corruption trends suggest corruption, once concentrated in Jakarta, spread nationwide, particularly in regions with weak governance structures (Yunan, Freyens, & Vidyattama, 2023).

Between 2004 and 2015, 343 regional heads faced legal proceedings for corruption, mostly related to budget embezzlement, procurement fraud, and illicit financial transactions (Kompas, 2015). Several factors contributed to this trend:

- **Costly Electoral Campaigns:** Direct elections for governors, mayors, and regents have necessitated substantial campaign funds, prompting candidates to seek illicit financing from business elites. Consequently, government contracts and projects are frequently allocated based on political favour rather than merit (Prabowo, 2017).
- **Expanded Financial Autonomy:** Increased regional fiscal control at the regional level has often enabled officials to manipulate budgets with inadequate oversight, resulting in embezzlement and the misallocation of development funds (International Monetary Fund, 2023).
- **Weak Institutional Oversight:** Political interference and insufficient law enforcement fostered a culture of impunity (Transparency International, 2013).

By September 2018, the State Personnel Agency (BKN) reported that 2,357 civil servants were implicated in corruption, including 2,259 regional officials across 33 provinces (National Civil Service Agency, 2018). The retention of convicted public officials highlights ongoing shortcomings in enforcement mechanisms and the enduring nature of political protectionism (Bertelsmann Stiftung, 2024).

Aspect	New Order Era (1966–1998)	Decentralised Era (1999–Present)
Power Structure	Highly centralised in Jakarta	Decentralised, with regional autonomy
Corruption Pattern	Concentrated in central government (ministries, SOEs)	Fragmented across local governments, spreading regionally
Economic Disparities	Favoured Java, marginalised outer provinces	Budget allocations extended to outer regions, but mismanagement persists
Forms of Corruption	Collusion (KKN), patronage politics, nepotism	Budget embezzlement, procurement fraud, election bribery
Legal Oversight	Judiciary and DPR controlled by Suharto's regime	Weak law enforcement due to regional autonomy loopholes

Source: Author's compilation

Table 3-8 Comparative Analysis: Corruption Before and After Decentralisation

Following *Reformasi*, Indonesia implemented several anti-corruption measures. Under President Abdurrahman Wahid (*Gus Dur*), the People's Consultative Assembly (MPR) issued Decree No. XI/MPR/1998, reaffirming the commitment to eradicating KKN. His administration also established the National Ombudsman Commission and the State Officials Wealth Audit Commission to enhance accountability.

The most consequential reform occurred during President Megawati Sukarnoputri's administration with the establishment of the Corruption Eradication Commission (KPK) through Law No. 30/2002. The KPK quickly became renowned for prosecuting high-profile corruption cases and securing convictions against numerous officials. However, amendments to the law in 2019 significantly curtailed its independence, prompting widespread concern regarding its continued effectiveness (Yuzuru, S., 2024).

Under President Susilo Bambang Yudhoyono (SBY), additional measures, including Presidential Instruction No. 5/2004 and the National Action Plan for Corruption Eradication (RAN) for 2004–2009, aligned national anti-corruption efforts with

international frameworks. Despite these initiatives, corruption remains widespread, particularly among local government officials involved in financial scandals.

While decentralisation aimed to improve governance, it has paradoxically facilitated corruption at the local level. Addressing this issue requires not only stronger legal enforcement but also greater political commitment to dismantling entrenched corruption networks. Without substantial reforms, corruption will continue to undermine Indonesia's democratic progress, economic development, and public trust.

3.4 Chapter Summary

In conclusion, this chapter has provided a comprehensive overview of Indonesia's decentralisation, tracing its evolution from the highly centralised New Order regime to the multifaceted system of regional autonomy that characterises the post-Reformasi era. The analysis has systematically examined each principal dimension of decentralisation—political, administrative, and fiscal—highlighting both the transformative opportunities and enduring challenges that have emerged in the wake of these reforms.

Political decentralisation has fundamentally reconfigured the locus of power, shifting authority from the centre to directly elected regional governments. This process has fostered greater local representation, public participation, and democratic accountability, as evidenced by the expanded legislative and oversight functions of the Regional House of Representatives (DPRD) and the introduction of direct regional head elections (Pilkada). Nevertheless, these advances have been accompanied by new risks: the proliferation of money politics, elite capture, and the high costs of electoral competition have entrenched the dominance of wealthy and politically connected

actors, while persistent weaknesses in party financing and civil participation continue to undermine democratic integrity at the local level.

Administrative decentralisation has devolved significant responsibilities to local governments, empowering them to manage personnel, formulate policies, and oversee public services. The transition to local control over recruitment, remuneration, and promotion has been instrumental in tailoring governance to regional needs. However, the fragmentation of authority has also dispersed corruption, previously concentrated at the national level, and exacerbated challenges such as nepotism, political favouritism, and regional disparities in bureaucratic quality. While oversight institutions—including the Supreme Audit Agency (BPK) and Regional Inspectorates—have been strengthened, their effectiveness remains constrained by political interference and limited institutional capacity.

Fiscal decentralisation has granted local governments increased financial autonomy through diversified revenue streams, including the General Allocation Fund (DAU), Revenue Sharing Fund (DBH), Special Allocation Fund (DAK), and the Village Fund. These mechanisms were designed to promote equitable development and enhance local service delivery. Yet, chronic mismanagement, over-reliance on central transfers, and pervasive corruption have hampered fiscal effectiveness, particularly in regions with limited administrative expertise. While the introduction of performance-based incentives, such as the Regional Incentive Fund (DID), has sought to encourage sound fiscal management, substantial challenges in budgetary efficiency, transparency, and accountability persist.

This chapter has thus established the conceptual, historical, and institutional foundations necessary for a nuanced understanding of the interplay between decentralisation and local corruption in Indonesia. By critically engaging with the legal framework, implementation dynamics, and empirical trends across all dimensions of decentralisation, it provides a robust platform for the subsequent stages of this thesis.

In sum, while decentralisation in Indonesia has undoubtedly expanded democratic space and strengthened regional autonomy, it has also introduced complex governance risks that demand continued scholarly scrutiny and policy innovation. The following chapters will address these issues in depth, offering empirical insights and policy recommendations to ensure that decentralisation realises its potential as a vehicle for equitable and accountable local development.

CHAPTER 4

RESEARCH DESIGN AND METHOD

4.1 Overview of the Chapter

The previous chapters discuss the general outlines and key interconnections within the thematic development of the thesis, leading to the identification of research questions that have driven the direction of the study. The critical review of the most important literature highlights a knowledge gap in the subject of the study, which the research aims to address.

Building on the outcomes of this review, this chapter presents a discussion of the research approach, design, and methodological techniques adopted to tackle the issues raised by the research questions and to achieve the research objectives. In line with the objectives outlined in the previous chapter, a combination of research techniques is employed, incorporating various forms of primary (interviews) and secondary research. This includes an extended period of fieldwork conducted in Indonesia during the third year of the research. The chapter also explores how the data collected through these techniques are analysed. Finally, it addresses questions of positionality and ethics in research, discussing how these issues are managed within the project—issues that are of even greater significance within the notorious ethical, legal, and methodological challenges associated with the study of corruption.

This chapter is organised into nine sections, covering four main topics. Sections 4.2 and 4.3 provide an overview of the research approach, discussing methodological considerations in research on corruption, the case study research design, and the case

(sample) selection method. Sections 4.4 to 4.5 describe the data collection strategies, including both primary and secondary data used in this research, such as official documents and press reports. Section 4.6 discusses data organisation and the data analysis approach. Section 4.7 covers positionality and ethical considerations in the research. Finally, Section 4.8 concludes the chapter by summarising the key points discussed.

4.2 Research Approach

This section discusses and elaborates on the research strategy that will take place in this research. The philosophy of the research is explained in the research paradigm, the application of the case study as the research study design, and the utilisation of qualitative methods for the data collection and analysis strategy.

4.2.1 Research Paradigm

This research investigates the connection between Indonesia's decentralisation system since 1999 and local corruption, particularly corruption by local bureaucrats. It examines how corrupt practices at different levels of local government are influenced by the three dimensions of decentralisation—political, administrative, and fiscal. Given the study's objective to explore causal relationships while acknowledging the complexity and contextual nature of corruption and governance structures, the most appropriate research paradigm is post-positivism with an institutional approach.

Post-positivism extends traditional positivist thinking by recognising that knowledge is never absolute but is shaped by context, bias, and evolving social structures (Phillips & Burbules, 2000). This resonates with post-positivist policy analysis, where iterative methods address such biases (Fischer, 1998). While this study examines causal links

between decentralisation and corruption, it recognises that institutional and political structures mediate these relationships. This aligns with the New Institutional Economics (NIE) framework, which highlights how institutional constraints, transaction costs, and information asymmetries shape governance outcomes (North, 1990; Williamson, 2000). Additionally, Principal-Agent Theory is utilised to elucidate how decentralisation reshapes accountability structures and alters the incentives of local officials, thereby generating new agency problems (Groot, 1988; Tommasi & Weinschelbaum, 2006).

This paradigm enables a structured yet flexible research approach, integrating qualitative case studies, document analysis, and semi-structured interviews. Unlike strict positivism, which assumes objective and universally applicable laws, post-positivism recognises that corruption is deeply embedded within historical, political, and socio-economic contexts. Consequently, empirical results should be interpreted within their institutional and structural environments, rather than as immutable generalisations (Guba & Lincoln, 1994). This approach is particularly relevant for corruption research, where hidden networks, informal power structures, and discretionary decision-making often escape purely quantitative measurement.

Furthermore, post-positivism is well-suited to studying governance and corruption, as it accommodates complexity, institutional variation, and the interaction between formal and informal systems. Post-positivist inquiry, as outlined by Creswell and Creswell (2017) and Clark (1998), emphasises empirical evidence while acknowledging researcher bias and contextual factors, making it a suitable framework for examining the effects of decentralisation on local corruption in Indonesia. By employing thematic

analysis and triangulation between primary and secondary data sources, this study ensures a rigorous yet context-sensitive examination of corruption dynamics within Indonesia's decentralised framework.

4.2.2 Research Design

The design of a research project is fundamental to ensuring that data collection and analysis are systematic and aligned with the study's objectives. As de Vaus (2001) explains, research design's primary function is to provide a structured framework for addressing the research questions as precisely as possible with the evidence collected. Bryman (2016) asserts that a research design provides the overall structure for a study, directing both the collection and analysis of data. He categorises research designs into five major types: experimental, cross-sectional, longitudinal, case study, and comparative designs, each with its distinct application depending on the research goals. In a similar vein, Creswell (2014) delineates five principal qualitative research designs—narrative, phenomenology, grounded theory, ethnography, and case study—each offering distinct methodological perspectives for examining the research subject.

McNabb (2017) contends that rigid adherence to a single research design is unnecessary; accordingly, this study employs a case study approach to examine how Indonesia's decentralisation system influences local bureaucratic corruption at various government levels. The case study design is particularly well-suited for understanding the intricate and multifaceted nature of the research topic, providing a rich, detailed picture of the complexities inherent in the decentralisation process and its relationship with corruption. Yin (2018) defines a case study as an empirical inquiry examining a

contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are unclear.

The case study design is valued for its ability to combine multiple data collection methods—such as interviews, document analysis, and observations—within a bounded context (Creswell & Creswell, 2018; Yin, 2018). Bryman (2016) notes that case studies often focus on a single instance, though the "case" may encompass events, organisations, or social interactions. Yin (2018) further emphasises its suitability for examining complex phenomena, including policy implementation and institutional change.

Despite its merits, the case study method is occasionally criticised for its perceived lack of rigour and limited generalisability (Yin, 2018). However, Saunders et al. (2019) argue that well-conducted case studies can produce credible and insightful findings, offering in-depth understanding of complex phenomena. In response to concerns about generalisation, case studies emphasise the exploration of a particular case's unique context and the detailed understanding it offers rather than aiming for broad generalisations. Flyvbjerg (2006) contends that case studies excel in examining contextual intricacies, even when statistical generalisation is unattainable.

Moreover, Yin (2018) and Denscombe (2017) argue that case studies achieve generalisability through *analytical generalisation*, whereby findings inform theoretical propositions beyond the immediate cases studied. Through detailed, context-rich analysis, case studies offer valuable lessons that can be applied to similar settings, even if they are not directly transferable to other contexts.

Given the nature of the research questions, which seek to explore the impact of Indonesia's decentralisation system on local corruption, a case study design is essential for gaining a comprehensive understanding of the topic. Gilgun (1994) contends that a case study functions as both the research subject and analytical unit, elucidating the mechanisms underlying the phenomenon. This design allows for a detailed exploration of the decentralisation system and its direct impact on corruption in local government, making it the most suitable methodology for this research.

4.2.3 Research Strategy

This study employs a qualitative approach within a post-positivist framework (Creswell & Creswell, 2018), integrating New Institutional Economics (North, 1990) and principal-agent theory (Jensen & Meckling, 1976) to examine how decentralisation reforms shape local corruption in Indonesia. The analysis draws on Hadiz's (2010) institutional power structures to assess regional autonomy's impact on governance.

Post-positivism advocates qualitative methodologies to examine complex, context-bound social phenomena like corruption, which involve multiple interdependent factors (Guba & Lincoln, 2005). Rejecting positivism's assumption of objective universals, post-positivism treats knowledge as interpretively constructed, making qualitative approaches vital for analysing governance and corruption dynamics (Creswell & Poth, 2018). This paradigm enables rigorous empirical inquiry while addressing the subjective dimensions of institutional conduct (Maxwell, 2012). A qualitative approach aligns with post-positivist principles by emphasising in-depth case studies, semi-structured interviews, and document analysis to examine the mechanisms and variations of corruption across different local governance structures.

A qualitative approach is most suitable for this research, as it enables an in-depth exploration of corruption and decentralisation. Corruption is a complex and context-dependent phenomenon that cannot be fully captured through surveys or perception-based indexes alone. Survey data often reflect subjective opinions rather than objective corruption levels, while court records may present a selective and distorted image of corruption.

Additionally, corruption perception surveys can be influenced by external factors unrelated to actual corruption levels. To address this limitation, this study employs qualitative case studies, semi-structured interviews, and document analysis to examine institutional structures and individual behaviour within decentralised governance. These methods allow for an in-depth exploration of governance systems, bureaucratic decision-making, and institutional constraints (Stake, 2005; Yin, 2017). Case study methodology is particularly valuable for examining complex phenomena within their real-world contexts (Baxter & Jack, 2008).

This research utilises multiple sources of secondary data to supplement primary interview data and enhance analytical rigour. Official reports, budget and audit documents, and corruption investigation records help shape the selection of case study regions and the development of interview questions. Furthermore, secondary data sources contribute to data triangulation, ensuring that findings from interviews are validated against official records and statistical reports. By integrating qualitative methods with institutional analysis, this study ensures a robust examination of corruption dynamics within Indonesia's decentralised governance framework.

The diagram below illustrates the research strategy, emphasising the integration of primary and secondary data in this study:



Figure 4-1 Research Strategy

By combining a post-positivist qualitative approach with robust secondary data analysis, this research ensures a comprehensive investigation into how decentralisation affects corruption in Indonesia's local bureaucracies. The strategy enables a deeper understanding of the causal relationships between decentralisation and corruption while maintaining analytical flexibility to account for institutional variations and governance complexities.

4.3 Case Study (Sampling) Selection

This study follows a two-step sampling approach, as detailed in Appendix B, involving purposive and typical sampling to capture representative cases for both provincial and district levels. First, purposive sampling ensures that both provincial and district levels are represented, selecting provinces and districts based on factors such as local expenditure, population, and Human Development Index (HDI), utilising the smallest

absolute aggregate deviation as a selection criterion (Appendix B, Table 2, Table 3). For instance, South Sumatra Province and Banyuasin Regency were chosen for their high incidence of corruption cases. At the same time, Lampung Province and Gunung Kidul Regency were selected as “clean” cases with no reported corruption, as detailed in Appendix B (Table 4). The next step employs a cross-case method for case selection, utilising the Diverse Case Method and the Typical Case Method, as proposed by Seawright and Gerring (2008). The Diverse Case Process focuses on cases representing variance in corruption (Variable Y), while the Typical Case Method aims to identify cases that exemplify stable, cross-case relationships (Variable X), including local expenditure, population, and HDI (Appendix B, Tables 4 and 5). Based on the conditions in 2017, there are 34 provinces and 514 districts in Indonesia. Due to the large population, therefore, this study needs to select a sample that can represent that population. It is often impossible for a researcher to observe an entire population's behaviour, particularly in macro-level research, where there are a great number of individuals involved. Therefore, sampling is an important consideration in research.

As detailed in Appendix B, the research follows a purposive sampling method to ensure that both provincial and district levels are represented. Provinces and districts are selected based on variables such as local expenditure, population, and the Human Development Index (HDI), using the smallest absolute aggregate deviation as a selection criterion. For instance, South Sumatra Province and Banyuasin Regency were selected for their significant corruption cases, while Lampung Province and Gunung Kidul Regency were selected as 'clean' cases with no local bureaucrats involved in corruption (Appendix B, Tables 2, 3, and 4). Bryman (2016) defines

sampling as a selection method of a segment or subset of a population for investigation. Similarly, Grafström and Schelin (2014) emphasise that the use of appropriate sampling techniques is essential to ensure representativeness, thereby enhancing the validity of empirical findings.

The purposive sampling will be executed through a cross-case method of case selection and analysis (Seawright & Gerring, 2008) to select the most relevant provinces and districts as a sample for the case study in this research. Two methods of the cross-case methods of case selection that will be assigned to select the sample are The Diverse Case Method and The Typical Case Method. The Diverse Case Process is a case selection technique whose primary purpose is to achieve maximum variance along related dimensions. It involves the collection of several cases - at least two – that are intended to represent the full range of values that define X, Y, or some particular X/Y relation. (Seawright and Gerring, 2008). Meanwhile, the Typical Case Method The typical case study focuses on a case that exemplifies a stable, cross-case relationship. By construction, the typical case may also be considered a representative case, according to the terms of whatever cross-case model is employed (Seawright & Gerring, 2008). The summary of the application of the case selection method is shown as follows:

CASE SELECTION METHOD	DETERMINATES ON
Diverse Method	Variable Y (Local Corruption Case)
Typical Method	Variable X (Local Expenditure, Population, and Human Development Index)

Table 4-1 Summary of Case Selection Method

In line with the data provided in Appendix B, the typical case selection method utilises the decentralisation variable to represent fiscal, political, and administrative decentralisation. This process identifies local governments with the closest average characteristics in each group by calculating the absolute aggregate deviation of decentralisation variables (Appendix B, Table 6). The corruption variable is a basic variable to classify the local governments in accordance with the incidence of local corruption in a regional government. It is represented by the presence or absence of local bureaucrats from a local government who are suspected in a local corruption case. There will be two groups of local governments in every tier of local government; the first group is the group of the local government with their local bureaucrats suspected in local corruption cases, and the second group is the "clean" local government where there is no local bureaucrat of them suspected in local corruption cases. The sample, as the case study, will be selected from those respective groups of every level of local government.

The next step will apply the Typical Case Selection Method by introducing the Decentralisation Variable as the basis for the selection. These Decentralisation variables (names as Variable X_x) represent the three decentralisation dimensions as the framework of this research: fiscal decentralisation, political decentralisation and administrative decentralisation. The decentralisation variables are:

- 1) Local Expenditure (X_1), as the representation of the Fiscal Decentralisation dimension. Indonesia's fiscal decentralisation has predominantly involved expenditure devolution rather than revenue autonomy (Firman, 2003; Vidyattama, 2022), a pattern consistent with broader decentralisation literature (Ebel & Yilmaz, 2002; Shah, 2004). The data is based on the respective local budget in 2017 from

the Ministry of Finance.

2) Population (X_2), as the representation of Political Decentralisation dimension.

Citizen participation is a central element of political decentralisation, with population size frequently employed as a proxy for participatory potential in empirical studies (Bergh, 2004; Spina, 2014). The data is based on the national census 2010 - the latest.

3) Human Development Index (X_3), as the representation of Administrative

Decentralisation. The Human Development Index (HDI) serves as a comprehensive indicator of educational and social outcomes in a region, and is widely used to assess the effectiveness of local public service delivery (Lind, 2019).

The data is for 2017 and is gathered from the Indonesia Statistics Bureau (BPS).

The application of the Typical Case Selection Method and utilisation of the decentralisation variable as the basis of the formulation will select the local government (province and district), which has the average characteristic represented by the population of each group of local governments classified by the diverse method.

4.4 Methods of data collection (Semi-structured interviews)

Interviews are one of the most widely utilised methods in qualitative research, offering the unique ability to gather rich, nuanced data in a flexible and informal setting (DiCicco-Bloom & Crabtree, 2006; Kvale, 1996). Unlike surveys, interviews allow researchers to explore participants' perspectives in depth, revealing nuanced insights that structured questionnaires may overlook (Knott et al., 2022). The interview format can vary, ranging from structured and semi-structured to unstructured approaches. Structured interviews employ standardised questions and fixed response options to

increase objectivity and facilitate the quantification of responses (Levashina, Hartwell, Morgeson, & Campion, 2014). Semi-structured interviews, on the other hand, employ a flexible approach, whereby the researcher outlines key topics yet adapts questions and their sequence in response to participants' answers (DeJonckheere & Vaughn, 2019; Adams, 2015). This adaptability is particularly valuable for probing complex behaviours within social contexts, as it avoids rigid categorisation and fosters a more natural exchange (Longhurst, 2009). Unstructured interviews allow for flexibility, as the discussion evolves organically, with questions emerging during the interaction (Brinkmann, 2020). Though advantageous for exploratory research, this approach has limitations, including potential biases and reduced comparability (Chauhan, 2019).

Given the nature of this study, a semi-structured interview approach is selected as the most appropriate method for addressing the research questions. The semi-structured format allows the researcher to explore key themes while adapting the flow of the interview to capture the depth and complexity of respondents' views. This method is particularly valuable for gathering insights into the multifaceted and sensitive issue of corruption, as it allows participants to provide candid and reflective responses.

4.4.1 Semi-Structured Interview

The interviews will use a semi-structured approach, guided by thematic questions addressing each main research issue. This approach is well-aligned with the post-positivist paradigm of the research, which acknowledges that understanding the complex relationship between decentralisation and corruption requires an exploration of the subjective experiences, interpretations, and contextual factors that influence individuals' perceptions. Post-positivism asserts that knowledge is always mediated by

context and bias, and thus, data must be analysed within the frameworks of the individuals' lived realities (Phillips & Burbules, 2000). Interviews facilitate the co-construction of meaning, where both the interviewer and interviewee shape interpretations of the research issues (Edwards & Holland, 2013, p. 128). The resulting data represents a negotiated reality, contingent on participants' experiences and the researcher's analytical engagement (Rapley, 2001).

A semi-structured interview was chosen for this study for several important reasons. First, it allows for flexibility in clarifying, expanding, or condensing specific questions based on respondents' answers, which helps to uncover deeper insights into their experiences and perceptions of decentralisation and corruption. This flexibility is crucial when dealing with complex, multifaceted issues such as corruption, where participants may possess varied and detailed insights that cannot easily be captured by more rigid, structured methods (DiCicco-Bloom & Crabtree, 2006). Second, compared to unstructured interviews, the semi-structured format is more time-efficient, which is essential in this research as it involves interviews with high-profile public officials and key figures in institutions that monitor local bureaucrats and prevent corruption. Time efficiency is critical when dealing with busy professionals and decision-makers in Indonesia's decentralisation system.

In this research, the use of semi-structured interviews provides respondents with sufficient time and opportunity to express their views on decentralisation and corruption, ensuring a rich and comprehensive understanding of their perceptions. The interviews consist of open-ended questions that encourage spontaneous responses from a total of 22 interviewees, allowing them to articulate their unique perspectives in

their own words. This method is particularly suited for exploring the complexities of decentralisation and corruption, as it enables the researcher to capture the diverse experiences, knowledge, and opinions of individuals engaged in governance processes at the local level in Indonesia.

4.4.2 Interview Framework

According to the research question, this study examines the effects of decentralisation on opportunities for local bureaucrats to engage in corrupt practices across three dimensions: political, administrative, and fiscal. These dimensions are investigated through three key aspects: political representation, local personnel management, and fiscal discretion.

Political representation consists of three elements: local legislation (Regional House of Representatives - DPRD), regional heads (Governors, Regents, Mayors), and political party affiliation. Local personnel management includes two elements: local leadership integrity and personnel management. Fiscal discretion comprises three elements: local budget formulation, local expenditure discretion, and local taxing power.

Each of these elements contributes to the broader analysis of corruption in decentralised Indonesia. Political decentralisation examines political representation and civil society participation, particularly the influence of non-governmental organisations (NGOs) as countervailing institutions. Administrative decentralisation evaluates local leadership integrity, the ethical conduct and accountability of regional heads, their authority over bureaucratic appointments, and the presence of patronage networks. Additionally, it assesses personnel management, including recruitment,

remuneration, and promotion policies, alongside institutional oversight capacity, particularly the role of local audit institutions in curbing corrupt practices. Fiscal decentralisation explores local budget formulation, analysing budget preparation, approval processes, and the involvement of political actors in influencing allocations for personal or political gains. It also investigates local expenditure discretion and the autonomy of local governments in revenue generation, assessing their impact on corruption risks.

To achieve a comprehensive analysis, the study collects data from national and subnational institutions, including key stakeholders in the decentralisation process. At the national level, the study focuses on the Supreme Audit Agency (BPK) as the primary institution overseeing financial accountability. At the subnational level, four selected case study areas—two provincial governments and two district governments—are examined. The study focuses on three key local government institutions: the Regional Financial and Asset Management Agency (BPKAD) for financial aspects, the Regional Personnel Agency (BKD) for personnel management, and the National and Political Unity Agency (Bakesbangpol) for political aspects. Additionally, local legislative bodies (DPRD) are assessed for their oversight role. Civil society organisations and academics specialising in decentralisation and governance provide data through their interviews, offering insights that enhance the overall analysis. Their responses help contextualise findings and supplement the primary data collected from government institutions. The research employs structured and semi-structured interviews with representatives from these institutions to capture diverse perspectives on how decentralisation affects corruption dynamics in Indonesia.

4.4.3 Targeted Sectors or Group

The respondents come from both the provincial and local levels, representing various sectors and groups that align with the three aspects of decentralisation—political representation, local personnel management, and fiscal discretion—which influence local corruption. These sectors and groups include the Supreme Audit Agency (BPK) at the national level, local government as the executive authority, legislative bodies, and civil society organisations. The selected participants are senior officials or key figures within their respective institutions or organisations. At the national level, the Supreme Audit Agency (BPK) serves as the primary institution responsible for financial accountability and oversight, given its role in monitoring fiscal decentralisation and ensuring transparency in local government financial management. At the provincial and local levels, respondents include representatives from key government institutions responsible for political representation, personnel management, and fiscal discretion. The combination of national and subnational interviews ensures a comprehensive analysis of decentralisation's impact on corruption by capturing insights from those directly involved in policy implementation and oversight. The details of the targeted respondents at each level are outlined in Table 4.2.

Level	Region/Sector	Institutional Group	Entity
National Level	National Audit	Audit	Supreme Audit Board (BPK)
	Academic	Expert	Academia
Local Level	South Sumatra Province	Local Government	Regional Financial and Asset Management Agency (BPKAD)
			Regional Personnel Agency (BKD)
		Local Legislative	National and Political Unity Agency (Bakesbangpol)
			Regional House of Representatives (DPRD)
		Local Civil Society	Local NGOs
	Lampung Province	Local Government	Regional Financial and Asset Management Agency (BPKAD)
			Regional Personnel Agency (BKD)
		Local Legislative	National and Political Unity Agency (Bakesbangpol)
			Regional House of Representatives (DPRD)
		Local Civil Society	Local NGOs
	Banyuasin Regency	Local Government	Regional Financial and Asset Management Agency (BPKAD)
			Regional Personnel Agency (BKD)
		Local Legislative	National and Political Unity Agency (Bakesbangpol)
			Regional House of Representatives (DPRD)
		Local Civil Society	Local NGOs
	Gunungkidul Regency	Local Government	Regional Financial and Asset Management Agency (BPKAD)
			Regional Personnel Agency (BKD)
		Local Legislative	National and Political Unity Agency (Bakesbangpol)
			Regional House of Representatives (DPRD)
		Local Civil Society	Local NGOs

Table 4-2 List of Institutions of the Respondents

- Provincial/Local Legislative Bodies: Legislative institutions serve as a key check-and-balance mechanism within the government system. Under decentralisation, their role at the regional level expands. Legislators represent the Principal in the Principal-Agent Theory and are responsible for overseeing regional agents. The study interviews legislators from opposition parties that do not support the regional head to assess the effectiveness of opposition mechanisms in promoting accountability.
- Provincial/Local Government: Decentralisation grants financial and personnel management authority to local governments, both of which are core themes of this study. The study focuses on three key local government institutions: the Regional Financial and Asset Management Agency (BPKAD) for fiscal discretion, the Regional Personnel Agency (BKD) for personnel management, and the National and Political Unity Agency (Bakesbangpol) for political aspects.
- Local Audit and Monitoring Institutions: Monitoring at the regional level involves both internal and external oversight. This research examines the role of internal supervision conducted by the Regional Inspectorate at the Provincial/District Inspectorate Office, which monitors local government operations and bureaucratic conduct. External oversight is conducted by the Regional BPK, a provincial representative of the Supreme Audit Agency, responsible for auditing both provincial and district governments.
- Local Civil Society: Citizen participation is essential for ensuring direct accountability and aligning government policies with public needs. Regional non-governmental organisations (NGOs) focusing on anti-corruption efforts provide

critical insights into the role of civil society in decentralisation, governance, and corruption prevention.

4.4.4 Recruiting Respondents

The process of recruiting respondents for the semi-structured interviews is carefully managed to ensure ethical compliance and clarity. Initially, an official letter requesting research permission is sent to the head of the relevant unit within the selected institutions or organisations. This letter outlines the research background, objectives, and the specific information expected from the respective institution. To provide further context, an interview guide is also included. Once the institution reviews the request, it designates a respondent and schedules the interview. This formal protocol—applied uniformly to national and subnational (provincial/local) participants—ensures transparency and adherence to ethical guidelines (Bryman, 2016; Tansey, 2007). The formal nature of this process fosters trust and clarity regarding the research’s aims and methods.

In practice, the recruitment process involved several stages of formal authorisation. Initial permission was obtained through the Ministry of Home Affairs, as research involving regional governments in Indonesia requires central government approval and notification. Following this, separate research permit applications were submitted to each of the four selected regional governments: the Provincial Government of South Sumatra, the Provincial Government of Lampung, the District Government of Banyuasin, and the District Government of Gunungkidul. These applications were directed to senior officials and key staff in core governance institutions in each jurisdiction, including the Regional Financial and Asset Management Agency (BPKAD), the Regional Personnel Agency (BKD), the National and Political Unity

Agency (Bakesbangpol), and the Regional House of Representatives (DPRD), as well as selected civil society organisations. In each location, potential respondents were first contacted through formal letters sent to institutional heads, after which named officers were invited individually and provided with an information sheet and consent form. After receiving approval, selected respondents are approached and invited to participate. Interviews are arranged at times and locations convenient to participants, ensuring respect for their availability and enhancing data quality. Such flexibility is vital in obtaining robust information from key stakeholders, including public officials and institutional representatives engaged in decentralisation and corruption oversight (Creswell & Creswell, 2018).

Of the four research sites, permit applications in three were submitted manually, with letters delivered to officials at Bakesbangpol or the Investment and One-Stop Service Office (DPMPTSP). Conversely, the application process for the Gunungkidul District Government was conducted electronically via the DPMPTSP Gunungkidul's online platform (<https://simpler.gunungkidulkab.go.id>), with permits typically issued within a maximum of five working days. Applications for research permits involving the DPRD were submitted manually to the Secretariat of each respective DPRD within the research areas. Regarding engagement with local non-governmental organisations (NGOs), guidance was provided by Bakesbangpol, which recommended several active local NGOs as suitable research subjects. Throughout the data collection phase, a liaison officer was appointed to facilitate communication and coordination with all local government institutions involved in the research, thereby ensuring procedural efficiency. Some challenges were encountered during data collection at the Banyuasin District Government, where difficulties arose in securing participation from certain

respondents. Furthermore, a distinctive experience occurred during interviews concerning personnel matters at the Provincial Government of Lampung, where the institution requested that interviews be conducted collectively with 6 (six) echelon 3 officials, thereby resembling a focus group discussion. Overall, the execution of data collection and research activities at both central and regional government levels in Indonesia proceeded smoothly, supported by the cooperation of various stakeholders within the relevant governmental institutions.

Participants in this study include key individuals representing specific organisations, associations, or communities. Given that some respondents hold high-ranking positions, their identities could potentially be revealed. However, in accordance with ethical guidelines, all research outputs ensure respondent anonymity by removing any personally identifiable information. Prior to each interview, confidentiality is discussed with the respondent, and a consent form is presented. The consent form includes an option for respondents to anonymise not only their identity but also their organisation's name, location, and descriptive information. This decision is documented in the consent form and confirmed verbally. If the respondent consents, their position and institutional affiliation may be referenced in the research outputs. This approach follows standard ethical protocols for protecting participant confidentiality in sensitive research (Bryman, 2016).

4.4.5 Face-to-face Interview and Online Interview

The COVID-19 pandemic presented unprecedented challenges to fieldwork across all selected case study locations, yet it also provided an opportunity to demonstrate the resilience and adaptability of the research design. Conducting this research during a

global health crisis required innovative methodological responses that not only maintained research rigour but also showcased the researcher's commitment to completing high-quality data collection despite extraordinary circumstances. While face-to-face interviews remained the preferred method due to their ability to foster engagement, build trust, and facilitate richer data collection, the study successfully adapted to pandemic-induced mobility restrictions and lockdown measures by strategically combining in-person and online interview modalities. This flexible, multi-modal approach enabled the research to proceed without compromising participant safety or data quality, ultimately strengthening the study's methodological robustness and demonstrating that rigorous qualitative research can be sustained even under the most challenging conditions.

Conducting interviews online presents several challenges that must be addressed to ensure the effectiveness of data collection. Respondents may be less open and forthcoming in an online setting, as the lack of physical presence can create a more formal or detached atmosphere. Additionally, technical issues such as unstable internet connections or unfamiliarity with the platform can disrupt the flow of discussions. Furthermore, prior research suggests that Indonesian government officials are generally more comfortable with face-to-face interactions, particularly when discussing sensitive topics such as corruption. This preference for in-person engagement can impact the depth and candidness of responses (Creswell & Creswell, 2018).

To mitigate these limitations, the researcher will employ strategies to enhance rapport and engagement during online interviews. Pre-interview communication will be used

to establish trust and ensure that respondents are comfortable with the format. Respondents will receive clear instructions on how to access and use Zoom, along with guidelines on how the interview will be conducted. Efforts will also be made to create a conversational atmosphere to encourage openness and active participation. Additionally, technical support will be available to address any connectivity or software issues that may arise during the interviews.

The implementation of this dual-mode interview strategy during the pandemic reflects a broader commitment to research excellence under adversity. The researcher's ability to navigate complex logistical challenges—including coordinating permissions across multiple government levels during lockdowns, adapting to rapidly changing health regulations, and maintaining consistent communication with respondents facing their own pandemic-related pressures—demonstrates exceptional flexibility and determination. Moreover, the willingness of senior government officials and civil society representatives to participate in this research during such a demanding period underscores the enduring significance of governance and anti-corruption issues in Indonesia, even amid a global health crisis. This collaborative resilience—between researcher and participants—not only ensured the completion of fieldwork but enriched the study with insights from stakeholders who remained engaged with critical policy questions despite unprecedented disruptions to normal working conditions. The pandemic context thus adds a positive dimension to the research, highlighting both methodological adaptability and the sustained commitment of Indonesian governance actors to transparency and institutional improvement.

Despite the challenges associated with online interviews, they provide a practical solution for maintaining continuity in research during the pandemic. The flexibility offered by Zoom allows respondents to participate from their preferred locations, reducing logistical constraints and ensuring that data collection remains feasible. Regardless of the mode of interview, all sessions will follow the same structured approach, using a standardised set of guiding questions to maintain consistency and comparability in responses.

Ultimately, the research methodology remains adaptable to the circumstances imposed by the COVID-19 pandemic, ensuring that high-quality data can still be obtained while prioritising the safety and convenience of all participants.

4.5 Secondary Data

This study employs a qualitative research strategy, with primary data derived from semi-structured interviews conducted with various stakeholders, including local governments, monitoring and audit institutions, and civil society organisations. In addition to these primary data sources, secondary data plays a critical role in shaping interview questions, enhancing the robustness of the data, and facilitating triangulation in the analysis (Creswell & Poth, 2018; Yin, 2018). This dual-data strategy ensures a nuanced exploration of governance dynamics under regional autonomy.

The secondary data for this study is drawn from three key categories. The first category includes legal and official documents that provide a foundational understanding of Indonesia's decentralisation framework and anti-corruption measures. These documents consist of laws, regulations, and government reports from institutions such as the Ministry of Home Affairs, Ministry of Finance, Supreme Audit Agency (BPK),

and the Corruption Eradication Commission (CEC). They also include audit reports detailing financial oversight and instances of fraud, which serve as indirect proxies for corruption. Additionally, budget and expenditure reports are instrumental in assessing the implementation of fiscal discretion at the local level. These official documents not only inform the formulation of interview questions but also contribute to a broader understanding of policy designs, anti-corruption strategies, and fiscal management in Indonesia.

The second category of secondary data is academic literature and publications, which provide essential context for understanding the dynamics of corruption and decentralisation in Indonesia. This includes peer-reviewed journal articles and books focusing on governance, decentralisation, and corruption. Regional studies and case-specific analyses, which highlight governance challenges at the provincial and district levels, are also included. These academic sources offer theoretical insights, comparative analyses, and empirical findings that support the study's interpretation of the interview data, helping to contextualise the findings within the broader academic discourse.

The third category comprises media reports and press publications, which supplement primary data by offering contextual information and corroborating findings from the interviews. These sources include press releases, investigative journalism on corruption cases at both local and national levels, and historical records of corruption-related incidents in the case study regions. Although media reports provide valuable perspectives, they are cross-validated with official records to mitigate potential biases, ensuring the integrity of the data used in the study.

Each category of secondary data plays a distinct yet complementary role in the research. For example, case study selection relies on investigation data from the Corruption Eradication Commission (CEC) covering a twelve-year period (2006–2017), supplemented by statistical data from Indonesia's Statistics Agency (BPS) to enhance the selection process. This helps ensure the selection of case studies based on reliable corruption data at the provincial and district levels. The development of interview material is guided by the analysis of laws, audit reports, and official documents, all of which help formulate relevant and context-specific interview questions. Descriptive statistical data drawn from secondary sources is also used to quantitatively represent corruption levels in the regions under study.

To strengthen the validity of the research findings, triangulation is employed through the integration of audit reports and regional statistics. This process allows for a thorough validation or challenge of the findings obtained from the semi-structured interviews, enhancing the credibility and reliability of the study's conclusions (Creswell & Creswell, 2018).

By combining primary interview data with a diverse range of secondary data sources, this study ensures a well-rounded, empirically validated analysis of corruption within Indonesia's decentralised governance framework. The use of multiple sources of data also ensures that the research is not only informed by qualitative insights but also underpinned by the most reliable corruption data available. Even though purposive sampling is applied in the case study selection, this multi-source approach helps maintain the strength and validity of the findings, providing a thorough examination of decentralisation and corruption in Indonesia.



Figure 4-2 Secondary Data and Their Functions

The diagram above illustrates the expected function of each type of secondary data in this research. While case selection is based on the most reliable corruption data available at the provincial and district levels, secondary data also plays a crucial role in shaping interview material, providing descriptive statistical data, and ensuring the robustness of primary data analysis through triangulation.

4.6 Data Organising and Data Analysis

To ensure effective research conduct, the process of transcribing and translating interviews into English began immediately after the first interview was completed during the fieldwork. As Poland (1995) observes, transcription is a particularly demanding and labour-intensive aspect of qualitative research, while Temple and Young (2004) highlight the complexities inherent in translating qualitative data. There are two primary options for transcription and translation: whether the interviews should be fully transcribed and translated verbatim or whether a partial transcription and translation approach should be employed. While many consider transcription to be highly time-consuming, it is an invaluable step, as it deepens familiarity with the interview material and enhances the overall quality of the analysis.

In this study, a total of 22 interviews were conducted, and the transcription and translation process spanned several months to complete, as all interviews were conducted in Bahasa Indonesia. For most interviews, the transcriptions and translations were conducted in full. However, to ensure efficiency, certain interviews where the responses were excessively lengthy or tangential to the core research questions were partially transcribed. In these instances, the researcher first listened to the interview recordings to identify the main areas of interest. Only relevant sections of the interviews were transcribed in full, while less relevant content was summarised. This process involved both partial and full transcriptions, depending on the nature of the responses.

The data interpretation and analysis process began immediately after all interviews had been transcribed, numbered, named, and dated. There are various methods for analysing qualitative data, and this research applied thematic analysis, which is a widely used technique for examining qualitative audio data. According to Bryman (2012), thematic analysis refers to the process of identifying key themes within data, although the approach can be somewhat diffuse with few universally agreed principles for defining core themes. King and Horrocks (2010) argue that a theme represents a pattern in the data that reveals something of interest regarding the research topic. Braun and Clarke (2006) further define thematic analysis as a fundamental method for qualitative analysis.

A valid theme, as defined by Braun and Clarke (2006), must meaningfully address the research question and reflect recurring patterns in the data. The researcher's interpretative judgement is central to identifying such themes (Braun & Clarke, 2006).

The choice of thematic analysis in this study was informed by the need to examine the research questions, which are organised around three main aspects of decentralisation—direct accountability, fiscal discretion, and local capacity management. The interview responses were categorised into these themes, making the analysis a thematic exercise that addresses the central issues of the study.

The process of establishing themes and sub-themes in the respondents' interviews is crucial. Thematic analysis of interview responses requires careful identification of meaningful themes. Braun and Clarke (2006) emphasise that a theme should capture significant patterns in the data relevant to the research question and outline key criteria for theme development. The first criterion involves the significance of the theme in relation to the research question rather than merely its frequency in the data. The second criterion is the researcher's involvement in selecting which topics should be considered as themes and which should be discarded. Therefore, identifying themes is not an entirely objective process but involves subjective judgment based on the relevance of topics to the research. The third criterion stresses that themes should be distinct from each other, although some overlap between themes is inevitable. To ensure distinctiveness, it is important to provide detailed and nuanced accounts of each theme.

The next stage of the analysis involved **coding**, a systematic process of categorising interview data under predetermined themes and sub-themes. Coding facilitates a structured examination of all relevant references to address the research questions effectively. According to Braun and Clarke (2006), coding entails assigning labels—typically words or short phrases—to segments of data to identify patterns and

meanings. This approach ensures a rigorous and transparent organisation of qualitative material for subsequent thematic analysis. To extract the codes, the transcripts were read thoroughly to highlight key passages that were important for understanding the interviewees' views, experiences, and perceptions of the themes of democratic accountability, fiscal discretion, and local capacity in Indonesia's decentralisation system, as well as their implications for the corrupt behaviour of local bureaucrats.

After reading the transcripts multiple times, keywords and phrases were labelled, and ideas related to the research topics were developed alongside. This allowed the identification of specific and relevant codes within the interview passages, representing simple and repeated patterns in the data. To further distinguish between candidate themes and sub-themes, NVivo software was used to facilitate the process. This software allowed the researcher to organise the codes, themes, and sub-themes systematically. Interviews conducted at national, provincial, and local levels were analysed together, and themes were generated accordingly. However, not all candidate themes became formal themes or sub-themes. Researchers have different ways of presenting themes, such as using tables, tree diagrams, or simply mapping out the main theme and linking it to the sub-themes.

The next stage involved refining the themes and sub-themes to ensure they aligned with the study's aims and research questions. After establishing a coherent thematic framework, the researcher mapped the emergent themes onto the three analytical dimensions of decentralisation and local corruption. These themes were further refined in NVivo to prioritise contextual interpretation of participants' accounts, in line with

qualitative analytical best practices. As Braun and Clarke (2006, p. 81) emphasise, thematic analysis should focus on "identifying, analysing, and reporting patterns (themes) within the data" while maintaining fidelity to participants' meanings rather than imposing external judgments. This approach aligns with Morris's (2015) assertion that qualitative analysis should centre on "understanding the situated perspectives of actors" (p. 352) within their institutional and social contexts.

The final stage involved determining how themes would be organised within the data chapters. Drawing on King and Horrocks (2010), themes were structured to reflect their analytical relationships, ensuring that broader themes encompassed relevant sub-themes where appropriate. This hierarchical arrangement helped maintain clarity while preserving the complexity of the qualitative data. Ultimately, all overarching themes and sub-themes were mapped to link them with the two key variables of decentralisation and local corruption in Indonesia, ensuring coherence in the study and linking all elements together. Throughout the data analysis process, both primary and secondary data were integrated to provide depth and clarity. This research contributes to the literature by exploring the unique forms of the relationship between decentralisation and corruption as experienced in Indonesia, and it aims to understand how and why these phenomena occur.

4.7 Reflexivity Issues and Ethical Consideration

This section will contain and also elaborate on the positionality issues of the researcher that might predispose the reliability of the research. Another area to be covered in this section is the ethical consideration, which includes the potential risk and the mitigation plan for those risks for the researcher and the respondents.

4.7.1 Researcher Positionality and Reflexivity

Researcher positionality refers to the reflexive consideration of how the researcher's social identity, background, and subjective perspectives shape the research process, including data collection, interpretation, and outcomes (Berger, 2015; Merriam & Tisdell, 2016). While these factors do not determine research findings in a deterministic manner, they inevitably influence interactions with participants and analytical frameworks. As Yanow (2009) notes, a researcher's "education, experience, and personal history" inform their epistemological stance and methodological choices. In qualitative research, explicit engagement with positionality is essential to mitigate biases and enhance transparency, particularly when interpreting narratives from fieldwork (Dwyer & Buckle, 2009).

A key consideration in this research is the researcher's position as an insider. Robson (2002) defines an insider as a researcher "studying a setting in which they are already involved." Given the personal nature of interviews—particularly in sensitive research—ethical considerations are paramount (Patton, 2002). Many social researchers address positionality through reflexivity, clarifying their motivations and roles (Etherington, 2004). This often involves situating oneself as an "insider" or "outsider" in relation to the research context (Bonner & Tolhurst, 2002). In general, an insider researcher shares key characteristics (e.g., nationality, ethnicity, or cultural background) with the studied group, whereas an outsider researcher lacks such familiarity (Griffith, 1998). However, researcher positioning is rarely binary; identities can be fluid, intersecting, and context-dependent (DeVault, 1996).

In the case of this field experience, being an Indonesian citizen and a national government employee facilitates the researcher's ability to interview government officials, many of whom are from both national and subnational levels of government. Fluency in both Bahasa Indonesia and English is also advantageous, as many local officials in Indonesia, particularly at the local authority level, may not have adequate proficiency in English. However, the researcher's position as a male researcher from a foreign university place them in an "in-between" position, straddling the roles of both insider and outsider. This ambiguous status may lead participants to question the researcher's identity and the purpose of the research, highlighting the complexities inherent in the insider-outsider continuum (Dwyer & Buckle, 2009).

While the researcher's position as a government employee may facilitate access to participants within national institutions, insider status does not guarantee unproblematic entry (Mercer, 2007). As Dwyer and Buckle (2009) argue, the dynamic between insider and outsider roles in research remains complex, often requiring careful navigation. The researcher must still follow the standard procedures for obtaining data records, arranging interviews, and meeting respondents. Scheduling interviews with legislative members, for example, requires considerable time and effort due to multiple layers of gatekeeping.

While being an insider offers advantages, such as familiarity with the context and language, which aids in obtaining first-hand information and primary data, it also has drawbacks. The sensitive nature of the research topic—corruption—means that the researcher may be perceived with suspicion by some respondents, particularly those within the government. Some participants may view the researcher as an insider

affiliated with the government system, potentially exacerbating their reluctance to discuss sensitive issues. To address this, the researcher will take a self-reflective approach to ensure the research maintains objectivity and impartiality. The focus of the research will be on the local government system, its design and application, as well as its monitoring and enforcement mechanisms, rather than on individuals or specific cases of corruption. This approach aims to avoid making respondents uncomfortable and ensures that they feel safe to participate. Confidentiality will be emphasised as a central element of the data collection process to ensure that respondents' identities remain protected.

To enhance the validity of the research, the researcher will maintain a certain distance from the participants in several ways, including using formal language, specifically formal Bahasa Indonesia, and adopting a professional demeanour during the interview process. Additionally, the questions will centre on the system itself, avoiding personal questions or interactions that might breach professional boundaries. Kanuha (2000) contends that insider researchers must carefully balance their familiarity with participants and settings by engaging in reflexivity and maintaining appropriate boundaries to ensure research objectivity.

Another technique the researcher will employ to maintain this distance is ensuring that the respondents, particularly from local institutions, are located far from the researcher's home and work base (around Jakarta and Banten). Furthermore, the respondents will mostly be individuals the researcher has met previously or those whose professional roles are connected to their previous or current work. While the majority of the respondents will not know the researcher personally, factors such as

personality differences and the sensitive nature of the research (corruption) mean that the researcher will assume the role of an outsider to a significant extent during the interviews.

4.7.2 Ethical Consideration

In a society still struggling to eradicate corruption, researching this subject raises numerous ethical considerations. The researcher is ethically responsible and accountable for the data collected on the corrupt behaviour of local bureaucrats in Indonesia. This responsibility includes the duty to protect respondents' identities and ensure confidentiality and privacy. Furthermore, researchers should maintain objectivity and minimise bias in empirical analysis (Gough & Madill, 2012; Roulston & Shelton, 2015). An additional duty is to avoid pressuring respondents into making statements with which they are uncomfortable. Several strategies are employed to address these responsibilities: for example, respondents are informed in detail from the outset about the purpose of the research to encourage participation. Similarly, they are not asked to discuss matters that would make them uncomfortable, such as personal questions or specific cases in which they may have had direct involvement or knowledge. The issue of confidentiality is paramount throughout the research process; respondents who wish to remain anonymous will be treated as such, and any references to identifiable details will be removed. Furthermore, this research excludes corruption types that may pose significant risks to both the researcher and respondents, particularly corruption involving politicians, which remains a sensitive issue in Indonesia.

Ethical considerations also arise during the recruitment of potential interviewees. Respondents are recruited through a formal process, beginning with an official letter requesting research permission, which is sent to the head of the relevant unit within the selected institutions or organisations. The letter outlines the background and objectives of the research, as well as the type of information sought from the institution. Additionally, an interview guide is attached to the letter. The institution or organisation then decides who will participate, as well as the time and location for the interview.

Participants' consent is essential in two ways: first, respondents are advised about the risks and benefits of participation and data sharing; second, they are provided with a fair and free environment in which to make their decision. To ensure consent, a paper-based (signed) consent form will be obtained from each interviewed participant. Consent is sought after the researcher explains the research background, objectives, and how the data will be processed. The researcher also assures participants that the data will remain confidential, accessible only to the researcher, and that no identifiable data will be published without consent. All information will be presented in culturally and linguistically appropriate formats. Details about the research, including anonymity, confidentiality, and other ethical considerations, will be presented in the invitation and reiterated prior to the interview. This information will be provided both in written and verbal form before the interview to allow participants to decide whether to continue or withdraw. The information will also cover issues such as withdrawal, anonymity, on-record/off-record interviews, and details about the researcher's institution, funders, and supervisors.

Given the sensitive nature of corruption research, it is particularly important to ensure the anonymity and protection of participants' identities. Therefore, respondents' data will be kept confidential by assigning an ID code to each interview, which will be known only to the main researcher. The file containing the ID code structure will be stored in a separate partition on the hard drive, distinct from all other research data. This partition and the associated folder will be encrypted and password-protected. Participants will also be asked whether the name, location, and descriptive information about their respective organisations can be used in the thesis or if these details should also be anonymised. Both the anonymity of the participant and their organisation will be addressed in the consent form and confirmed verbally. The identity and position of individual participants and their organisations may be used in the research outputs if consent is given.

Another ethical consideration pertains to the use of tape recordings during interviews and the protection of respondents' identities. To ensure accuracy, interviews will be audio-recorded with participants' prior consent, following methodological best practices for qualitative research (Rutakumwa et al., 2019). Although respondents will be assured of their anonymity, some may still feel reluctant to be recorded, especially due to concerns about the potential leakage of their oral testimonies. If a respondent refuses to be recorded, the researcher will take notes instead. Following Beamer's (2002) recommendation, after the interview, key phrases from unrecorded respondents will be added to the notes to prevent memory loss that could lead to interviewer bias. Reflecting on this, recording an interview is generally preferable to taking notes as it ensures a more accurate and comprehensive record of the conversation.

4.8 Chapter Summary

This chapter has outlined the research design and methodology employed in this study, providing a comprehensive discussion on the research approach, case study selection, data collection methods, and ethical considerations. It has justified the choice of a qualitative research strategy within a post-positivist paradigm, which is particularly suited to exploring the relationship between decentralisation and corruption in Indonesia's local governance system. The case study design is selected as the most appropriate approach, allowing for an in-depth examination of governance structures and corruption mechanisms at the local level.

The case selection process is based on the Corruption Eradication Commission (CEC) investigation data over a twelve-year period (2006–2017), supplemented by statistical data from Indonesia's Statistics Agency (BPS). The research employs a purposive sampling technique and applies the Diverse Case Method and Typical Case Method (Seawright & Gerring, 2008) to ensure the selection of representative cases. These methods allow for the identification of local governments that reflect both high and low corruption levels, enabling a comparative analysis of decentralisation's impact on corruption.

The chapter has also elaborated on the data collection methods, which include semi-structured interviews with key stakeholders such as government officials, members of local legislative bodies, representatives from civil society organisations, and oversight institutions. The research integrates primary data from interviews with secondary data obtained from official government documents, audit reports, policy papers, and media

sources. These sources provide contextual depth and facilitate data triangulation, enhancing the reliability of the findings.

Given the challenges posed by the COVID-19 pandemic, this study has adopted a hybrid approach to data collection, incorporating both face-to-face and online interviews to ensure flexibility while maintaining methodological rigour. The limitations associated with virtual interviews, such as reduced engagement and potential connectivity issues, have been addressed through pre-interview communication, clear guidance on using online platforms, and strategies to foster a conversational atmosphere.

The chapter has further discussed the data organisation and analysis techniques, outlining the thematic analysis approach used to code and interpret qualitative data. The integration of NVivo software has facilitated systematic data management, enabling the identification of key themes related to decentralisation and corruption. The study applies triangulation between primary interview data and secondary sources, ensuring that the findings are both empirically robust and contextually grounded.

Ethical considerations have also been addressed, particularly in relation to researcher positionality, confidentiality, and participant anonymity. The study has taken careful measures to protect respondents' identities, particularly given the sensitive nature of corruption research. Ethical approval and informed consent procedures have been meticulously followed to ensure transparency, voluntary participation, and compliance with academic research ethics standards. The resume of the research methodology of this research is concluded, as shown in the below table.

Research Component	Approach/Methodology
Research Philosophy	Post-Positivist
Research Strategy	Qualitative (Primary) Quantitative (Case Selection)
Research Design	Case Study
Sampling technique	Purposive Sampling
Data Collection	Semi-Structured Interview Documentary Analysis
Data Form and Type	Primary (in-depth interview) Secondary (documents)
Data Source	National and Local Level Agencies' Documents
Data Analysis	Thematic Analysis Explanation-Building Technique

Table 4-3 Research Method

The following three chapters will present the research findings, analysing the ways in which political, administrative, and fiscal decentralisation influence corruption dynamics in Indonesia's local governance system.

CHAPTER 5
***POLITICAL DECENTRALISATION: POLITICAL REPRESENTATION
AND CIVIL PARTICIPATION TOWARD LOCAL CORRUPTION IN
DECENTRALISED INDONESIA***

5.1 Overview of the Chapter

Political decentralisation, often referred to as political devolution, is a system designed to empower citizens or their elected representatives to make public decisions. It can be better understood by examining the presence of political representation in both the executive and legislative branches of government. This analysis seeks to explore the relationship between political decentralisation in Indonesia and the likelihood of local officials engaging in corruption. Additionally, informal civil society—comprising a network of social groups—offers an alternative means of representation. Non-governmental organisations (NGOs), as the most common form of these groups, function as countervailing institutions to formal representation.

This chapter is the first empirical chapter, addressing the first sub-question: what is the impact of political decentralisation (autonomy) in Indonesia on the propensity of local bureaucrats to engage in corruption? It examines the structural and functional changes brought about by decentralisation, exploring how these institutional changes influence the incentives for local officials to engage in corrupt practices.

Political decentralisation, characterised by local-level political representation in both the executive and legislative branches, is often regarded as a mechanism to enhance governance responsiveness and accountability (Schneider A., 2003). Local

governments, equipped with the authority to make political decisions, manage resources, and formulate policies specific to their constituencies, are better positioned to address local needs. However, this decentralisation may also foster an environment conducive to corruption, especially in the absence of robust checks and balances (Fisman & Gatti, 2002).

Beyond formal representation through political processes, local citizens—organised as social groups—form an informal civil society that provides an alternative channel for representation. Civil society in this context is often embodied by NGOs, which act as counterweights to formal representation. This chapter employs both formal and informal forms of representation (or participation) as key political institutional variables to examine their relationship with corruption in Indonesia's local governments.

The chapter is structured into three main subchapters. The first subchapter focuses on political representation mechanisms, specifically those within the legislative and executive branches, and their interplay. It examines the role and function of the Regional Representative Council (DPRD) as the legislative representatives of Indonesia's local populations, considering their impact on incentives for local officials to engage in corruption. The role of the regional head, representing the people in the executive branch, is also analysed. This includes an exploration of the election process, the significant changes it has undergone, and how these have influenced the corrupt behaviour of local officials.

The second subchapter delves into the relationship between political parties and these two institutions, a critical aspect of representing the local population in a democratic state. It investigates the evolution of political affiliations between local political parties

and representative institutions in the decentralised era following Indonesia's political reforms, analysing how these changes have shaped the propensity for corruption among local officials.

The third subchapter explores the role of civil society participation, particularly through NGOs, as informal countervailing institutions that increase the accountability of local officials and reduce their likelihood of engaging in corrupt practices. The chapter concludes by synthesising the analyses from these sections, drawing on the findings to answer the research question regarding the influence of political decentralisation on corruption among local officials in Indonesia.

5.2 Political Representation in Indonesia's Decentralised System and Local Corruption.

Political decentralisation, or political devolution, is a fundamental aspect of a decentralised system that empowers citizens and their elected representatives to participate more actively in public decision-making. At the local government level, the implementation of public policies is carried out by formal representatives of the people serving in both the executive and legislative branches. Political representation involves articulating citizens' voices, opinions, and perspectives in public policymaking, ensuring these processes align with the best interests of the populace. In democratic nations like Indonesia, this representation is realised through the election of official representatives who act in the local population's interest.

According to Rondinelli, Nellis, and Cheema (1983), political decentralisation requires the creation of local representative institutions and the election of regional leaders by the local populace. This subchapter examines the mechanisms of political

representation in Indonesia, focusing on how these mechanisms operate through the election of members of the local parliament (DPRD) and local executive officials. These systems provide the foundation for implementing "exit" and "voice" mechanisms at the local level, facilitating accountability and citizen participation.

The executive and legislative branches are intricately linked, with both relying heavily on the support of local political parties. As a result, party affiliation significantly influences the selection process for these representatives and continues to shape their roles after they are elected. However, party affiliation is often associated with increasing pressure on government officials—both executive and legislative—to engage in corrupt practices. This influence, as observed in regions such as Lampung and Banyuasin, frequently obscures the boundaries between governance and political loyalty. For instance, the dominance of the PDIP in Lampung, holding 19 seats in the DPRD, underscores its role in driving political agendas, occasionally at the expense of public interest (Appendix C). This dynamic illustrates how party politics can exacerbate the risks of corruption among local officials. As noted by Hadiz and Robison (2017), the presence of alliances with political parties demonstrates the prevalence of fraud and the misappropriation of public funds.

5.2.1 The Role and Function of the Regional House of Representatives in Decentralised Indonesia and the Propensity of Local Officials to Corrupt.

The reforms implemented during Indonesia's decentralisation era have fundamentally reshaped the role and function of the Regional House of Representatives (DPRD). Under the New Order regime, the DPRD primarily served as an extension of the central

government, overseeing regional operations and selecting candidates for regional leadership. However, in the decentralisation period, the DPRD assumed broader responsibilities, sharing governance with regional administrations and undertaking legislative, budgetary, and supervisory functions. Additionally, the electoral process transitioned from a closed to an open proportional system, enhancing the accountability of local legislators and strengthening their ties with constituents.

The hypothesis proposed in this subchapter is that changes in the role of the DPRD and the implementation of a direct election system, adopting the open proportional method, are expected to positively impact the reduction of corruption at the local level.

The introduction of the *Pilkada* system, which enhances the accountability of local legislators to their constituents, alongside the revised functions of the DPRD, is anticipated to facilitate governance practices characterised by greater transparency and accountability. However, while *Pilkada* and the revised functions of the DPRD theoretically promote accountability, practical challenges remain. For example, in South Sumatra, the DPRD, dominated by Golkar with 13 seats, has faced issues of internal collusion, which have undermined its supervisory effectiveness. These structural dynamics illustrate the persistent tension between theoretical models of accountability and the practical realities of governance.

During the New Order era, the DPRD was largely passive, often criticised as a "rubber stamp" institution that refrained from challenging executive authority. By contrast, the decentralisation era has strengthened the DPRD's oversight role, enhancing government accountability and curbing unilateral executive actions (World Bank, 2003). Initially, under Law No. 22/1999, the DPRD was granted significant powers,

including the authority to elect and dismiss regional leaders. However, subsequent revisions under Law No. 32/2004 curtailed these powers, transforming the DPRD from a legislative body to a component of regional government administration. Its supervisory role was reduced to making recommendations to the Minister of Home Affairs in cases of misconduct by regional heads. Despite these limitations, the adoption of direct elections under the open-list proportional system has strengthened the DPRD's accountability to constituents, encouraging greater transparency and potentially reducing corruption in regional governance (Westminster Foundation for Democracy, 2024).

Political devolution, marked by the transition from a closed proportional to an open proportional electoral system, has increased the accountability of local legislators while supporting the voice and exit mechanisms crucial to democratisation. Respondents from NGOs indicated that local citizens now better understand their representatives in the DPRD, enabling more direct monitoring of their performance, as one of them stated as follows:

“...(The local legislator) can be directly held responsible if their performance is poor, (and) they will not be re-elected in the next period...” (District NGO, Interviewee)

From a political standpoint, the performance of local legislators, who are often affiliated with political parties, directly affects the electability of their parties both locally and nationally. Political parties monitor and evaluate their representatives' performance, providing support only to those who receive positive feedback from constituents, as argued by some respondents from provincial legislators, which one of them mentioned:

“...Political parties will (continue to) monitor the performance of their representatives in the local parliament and will only provide support to

(local legislators) who receive a positive response from local people...
(Provincial Local Legislator, Interviewee)

These findings suggest that the open proportional electoral system enhances the accountability of local legislators, optimising the effectiveness of voice and exit mechanisms.

However, Indonesia's democratic system heavily relies on political parties, which can undermine legislators' accountability. Local legislators often adhere to the directives of their political parties, reducing their responsiveness to constituents. In such cases, the open proportional system may exacerbate accountability issues, as party policies dominate legislative agendas. Some respondents argued in favour of closed proportional representation, highlighting its potential to allow parties to replace non-performing representatives more effectively:

“...Political parties should be given the authority to determine (who) should sit as people's representatives, and (they can) make immediate changes if their (representatives') performance is deemed poor. Closed proportional systems (should be) better...” (District Local Legislator, Interviewee)

The evolution of the DPRD's functions and authority has been marked by significant shifts. Under the New Order regime, the local parliament primarily aligned with national government directives. During the early decentralisation period, the DPRD wielded considerable authority, including the power to elect and dismiss regional leaders. In the current system, however, its authority has diminished, positioning it as a counterpart to regional governments within the broader administrative structure. This shift has implications for its oversight effectiveness, with some respondents expressing concerns about the DPRD's limited capacity to supervise regional government activities:

“...The authority of the local parliament (DPRD) is very insufficient as a countervailing institution to local government... There is nothing the DPRD can do if the head of the local government does not confirm or follow up on our recommendations...” (Provincial Local Legislator, Interviewee)

In practice, the DPRD often struggles to hold meaningful discussions with regional government representatives, who may disregard requests for accountability. A district legislator explained:

“...In discussion meetings, we often find it difficult (to) invite and ask for information from several parties in the regional government. They no longer feel the urgency to respond to us...” (District Local Legislator, Interviewee)

Conversely, some respondents contended that the DPRD's current roles and functions are sufficient for supervising local governments, provided effective communication and strong relationships are maintained, with one of them (a provincial official) remarked:

“...So far, the relationship between the regional government and the local parliament has been good, as equal partners. With the current position (relationship), the regional government does not need to feel pressured...” (Provincial Government Official, Interviewee)

This perspective suggests that rigorous oversight by the DPRD may sometimes hinder the operational performance of regional governments.

In conclusion, while the open proportional system has the potential to enhance the accountability of local legislators, political parties remain central in shaping their roles. At the same time, the DPRD's diminished oversight capacity and insufficient authority have resulted in ineffective supervision and weak accountability mechanisms. The competence and capacity of DPRD members are critical to evaluating the effectiveness of their supervisory functions. Public trust in the DPRD is weakened by perceptions of ineffectiveness, as reflected in low approval ratings and recurrent allegations of corruption (ISEAS, 2023). Transparency in supervisory processes is

often lacking, as illustrated by some respondents from local governments' concerns about private discussions held behind closed doors:

“...However, after the administrative procedures of supervision are carried out, the discussions are often held in a ‘one-on-one’ manner. Later, the meeting is held behind closed doors...” (Local Official of Provincial Government, Interviewee)

Ultimately, the limited authority and perceived lack of credibility of the DPRD, alongside insufficiently transparent oversight mechanisms, have facilitated collusion and rent-seeking behaviours, undermining efforts to reduce corruption at the local level. The capacity and integrity of DPRD members remain pivotal in enhancing accountability and governance in Indonesia's decentralised political system.

5.2.2 Direct Local Elections for Electing Regional Heads and the Localisation of Corruption.

At the local level, general elections are the primary mechanism for electing representatives, including those in both the executive and legislative branches. These elected officials are tasked with formulating policies and managing government administration in line with the mandates given to them by the local population. General elections play a crucial role in implementing political devolution and promoting democracy at the local level. Qualitative research on political decentralisation often identifies the presence of direct local elections as a key indicator (Shair-Rosenfield et al., 2014). The principal-agent mechanism underlying this process begins with the delegation of mandates from local citizens to their elected representatives through general elections. This section examines the direct election of regional heads, who serve as representatives of the local population in the executive branch. Local elections are frequently regarded as a fundamental component of political

decentralisation (Bergh, 2004). This study explores the relationship between political decentralisation and corruption among local officials, using the direct election of regional heads as a core indicator.

The hypothesis proposed for this subchapter is that the direct election of regional heads (Pilkada) increases the propensity for corruption among local officials. This hypothesis is supported by two primary factors: the low political participation of much of the local population and the high economic costs associated with running for local office. Low levels of political engagement among local residents render them susceptible to manipulation through money politics, a recurring issue in Indonesia's electoral system. This problem is exacerbated by insufficient political education, particularly among populations outside Java—a legacy of over three decades of authoritarian rule.

On the financial side, the high costs of running regional elections, funded by local budgets, place significant financial burdens on political parties and candidates. This pressure encourages the involvement of affluent individuals as sponsors or candidates, fostering political transactions that undermine electoral integrity. Studies have highlighted that low education levels and socioeconomic status contribute to limited voter participation, increasing the risk of electoral misconduct such as money politics. Furthermore, high campaign costs and limited state funding, particularly in poorer regions, often compel elected officials to recoup their expenditures through corrupt practices after assuming office (Barokah, Hertanto, & Warganegara, 2022; Pinto-Duschinsky, 2002).

The introduction of direct elections for regional leaders (*Pilkada*) represents a progressive effort to advance democratic principles and foster political decentralisation. This shift has positively impacted the accountability of newly elected officials, primarily by increasing political participation. Socioeconomic factors, particularly political awareness and social welfare provisions, are critical in enhancing political participation among prospective voters. Under the New Order regime, significant social and economic disparities contributed to widespread political apathy, particularly among rural populations. Many individuals in these areas remain sceptical about the relevance of their vote in influencing political outcomes. Voters' decisions are shaped by multiple factors, with corruption sometimes failing to emerge as a primary concern during electoral campaigns (Charron & Bågenholm, 2016; Breitenstein, 2019; Costas-Pérez et al., 2012).

Despite efforts to decentralise, substantial socioeconomic disparities persist in Indonesia. This can be attributed to historical policies, some of which date back to the colonial era, that marginalised local populations. Consequently, many rural inhabitants doubt the tangible benefits of political participation. Respondents from Banyuasin Regency highlighted this issue, noting that many residents in remote areas are fishermen whose daily earnings are barely sufficient to meet basic needs. They expressed that casting a vote incurs a financial burden, as evidenced by one respondent who remarked:

“...The majority of residents in remote areas of this regency are fishermen with daily incomes. For them, going to the polls requires money. Besides, they said it does not matter who wins and is in power, as their lives remain difficult...” (District Local Government Officials, Interviewee)

The preceding statement highlights that political participation in local elections, particularly in impoverished and isolated regions, has been notably low. This observation is supported by data from various regions. For instance, the Batanghari and Merangin districts in Jambi Province reported participation rates of only 14.81% and 39.59%, respectively, in 2020 (General Election Commission – KPU of Jambi Province, 2021). In the context of socio-economic hardship, where the majority of residents live near or below the poverty line, their primary concern is securing sufficient resources to meet basic needs, such as food for their own and their families' survival. Consequently, their primary motivation centres on financial necessity, leading to widespread apathy towards political programmes or the promises made by candidates. Respondents explained that impoverished voters often prioritise immediate financial gains over long-term political considerations, with one respondent noting:

“...People in rural areas don't care about the programmes proposed by candidates. Fifty thousand rupiah is enough for them because it can cover a few days of family expenses. So, they simply accept money politics without considering the background of the politician providing the money...” (Provincial NGO, Interviewee)

Therefore, this research found that the combination of poverty and limited political education among local people makes them particularly vulnerable to the influence of money politics. This, in turn, creates opportunities for elected regional officials to engage in corrupt practices as a means of maintaining their authority by exploiting such mechanisms. In contrast, the current system of directly electing regional heads differs significantly from the previous system, in which local parliaments held the authority to elect regional heads. As outlined in Chapter Two, the previous system was fraught with issues and failed to reflect the preferences of the local populace accurately. The DPRD frequently conducted regional head elections in a politically

transactional manner, thereby enabling money politics during that period (Hakim, 2018). The mechanism of selecting regional heads through local legislators (under the previous system) fostered an excessive reliance on the Regional Representatives Council (DPRD), rendering the process particularly susceptible to money politics. The prevalence of problematic practices in the regional head election system, as managed by the DPRD, is largely due to the limited capacity of local legislators and inadequate oversight by political parties over their parliamentary representatives (Mukhlis et al., 2024; Rohman et al., 2022). As a result, many parties anticipate that the direct election system will effectively address the weaknesses inherent in the indirect election system. If implemented without significant issues, this would represent meaningful progress in advancing democracy. While some regions continue to experience ethical violations and deficiencies, others have demonstrated significant progress. Respondents from Gunungkidul Regency reported no cases of political dynasties or money politics in recent elections, stating:

“...I think that direct elections represent progress in democracy for Indonesia. Even though there are still many weaknesses, we are continuously working to improve this political system. So far, in our regency, there are no political dynasties, and rumours about political dowries and money politics have not been substantiated...” (District Government Officials, Interviewee)

Pilkada are regarded as a pivotal element of Indonesia’s decentralisation, designed to enhance local accountability, political equity, and governmental responsiveness (Fossati, 2016; Suyatno, 2016). However, dynastic politics remains a challenge to achieving these ideals. For example, data from the Nagara Institute (2020) revealed that nearly half of Indonesia’s 2020 regional election candidates had familial political ties, which limited opportunities for independent and new voices.

Region	No. of Dynastic Candidates	% of Total Candidates
Java	20	33%
Sumatra	40	67%
Total	60	100%

Source: Nagara Institute, 2020

Table 5-1 Table Overview of Dynastic Candidates in 2020 Regional Elections

The second factor contributing to the effects of direct elections for regional heads is the high economic costs associated with local elections. Research has demonstrated that the substantial financial burdens involved in participating in these elections create additional pressures, which may influence the propensity for corruption among elected officials. The funding for such elections relies heavily on local government budgets, combined with the limited financial capacity of political parties. Additionally, Indonesia's archipelagic geography, characterised by numerous remote regions, exacerbates these challenges by significantly increasing the logistical and campaign costs for political parties and candidates. Several respondents supported this view, suggesting that these factors intensify the financial demands on candidates. As one noted:

"..based on my observations, the area consists of small islands that require a high cost to reach them, and this is only a small part that is borne by the local budget. So, the candidates have to bear additional costs. This makes the political costs even greater. With the high political costs of direct election procurement in the regions, when they carry out their duties (as regional heads or members of the local parliament), they tend to (conduct) corruption..." (District Government Officials, Interviewee)

Consequently, political parties and candidates face significant pressure to secure additional financial support. To address these financial challenges, they seek contributions from private entities. This situation creates opportunities for local elites or affluent individuals to provide financial assistance. However, the lack of

transparency in party financing and accountability may enable donations from local elites seeking to manipulate and influence the political process. These local elites (private entities) aim to exert control over elected politicians by positioning themselves as influential "king-makers" and leveraging their financial support to gain political influence. Regarding instances of local elites exploiting these conditions, respondents reported several cases, one of which was articulated as follows:

"As far as I am aware, participating in a local election is known for its (required) high costs. However, many (local) entrepreneurs are willing to provide financial support to the (participating) candidates. Of course, this support is not (for) free. There is no such thing as a free lunch...." (Provincial NGO, Interviewee)

In some instances, barriers to participation in regional head elections arise from the high political costs involved, effectively restricting participation to affluent parties with substantial financial resources. Moreover, an increasing number of individuals are drawn to candidacy for regional head positions due to the economic benefits and privileges associated with the role. This situation has been exploited by local elites, particularly capitalists, through both direct and indirect means. One example of indirect participation by local elites is their role as "kingmakers" or financial supporters. In many cases, however, local elites—predominantly wealthy entrepreneurs—choose to participate directly as candidates in Indonesia's local direct elections.

The candidates, who possess the financial capacity to self-fund their campaigns, often prioritise recouping the significant expenses incurred during the election process upon winning and assuming office. Additionally, to secure re-election, they frequently seek to extract greater "rents" from their current positions of power. The introduction of direct local elections in various Indonesian regions has resulted in substantial financial

pressures and has frequently been accompanied by conflict (Agustino et al., 2023; Jamaludin, 2019).

From varying perspectives and nuances, it is argued that the financing of local direct elections is deemed sufficient due to the national government's commitment to provide support in cases of funding shortfalls, although this provision lacks a valid legal foundation. The entire agenda for regional head elections has been meticulously prepared to uphold the integrity of their implementation while ensuring democracy, freedom, and the confidentiality of voting for local voters. Furthermore, the local government oversees the allocation of funding to candidates participating in the elections.

According to the provisions governing local elections, all donations and financial aid provided to candidates are subject to strict parameters and disclosure requirements, ensuring that any irregularities can be promptly addressed. These contributions and financial support are also readily traceable and auditable by the General Election Supervisory Agency. This point was emphasised by several respondents, with one stating:

“...the execution of the local election for elected regional heads has been running well (smoothly), and (in order) to ensure its integrity, there is an audit mechanism for the accountability of the donations (to the candidates)....” (Provincial Government Office, Interviewee)

Nevertheless, regulations governing the financial transparency of local election participants, including political parties and candidates, do not mandate the use of special accounts as the exclusive means for candidate transactions. Consequently, candidates often utilise various transactional channels, such as family members, success teams, or even political intermediaries. What is audited by a public accounting

firm following the election is solely the specific account registered by the candidate with the Regional General Election Commission (*Komisi Pemilihan Umum Daerah - KPUD*). An analogy commonly used to describe this situation is that the audit conducted by an accountant focuses solely on examining the “wallet,” while the actual funds are distributed and circulate across both the “right” and “left” pockets.

In conclusion, the implementation of local elections, including the election of regional leaders, is a crucial element in the practical application of political decentralisation. During the initial years of Indonesia's decentralisation, an indirect election system was employed to elect regional leaders, whereby the local parliament (*DPRD*) played a central role. The election of regional heads through the local parliament was reportedly plagued by irregularities, including the manipulation of public aspirations, indications of money politics, and the influence of powerful party leaders (often referred to as party oligarchs). Evidence suggests that the national management of political parties intervened in determining the candidates for regional head positions to be supported by their respective factions.

In 2004, direct regional head elections were introduced, despite several shortcomings. However, the people in many regions—particularly impoverished and isolated areas that had endured decades of discrimination and exploitation under the authoritarian New Order regime—were found to possess limited awareness and capacity to engage meaningfully in the electoral process. These regions are predominantly characterised by residents of low socio-economic status, resulting in widespread ignorance about the importance of local elections and heightened susceptibility to money politics.

Additionally, Indonesia's vast geographical and social diversity poses significant challenges, contributing to high political costs.

To address these challenges, substantial financial resources are required. This situation has, in turn, attracted the participation of “local elites” with considerable financial power, who either serve as “financial sponsors” or actively run as candidates. Given the high political costs borne by candidates and their supporting political parties, it is anticipated that their priority often includes recouping the substantial funds expended during the election, as well as accumulating additional resources to secure their chances of success in subsequent elections. If the mechanisms and oversight of regional elections remain inadequate, and political parties fail to provide meaningful political education to local communities, the direct election of regional heads in Indonesia risks exacerbating local corruption. This is due to the persistence of low socio-economic conditions and the high financial burden associated with electoral participation. These observations align with the findings of previous studies, which identified the direct election of regional heads in Indonesia has been identified as a key factor in fostering corruption, money politics, and entrenched patronage networks between candidates and voters (Habibi, 2021; Hadi & Hidayat, 2019). Studies highlight that such elections often perpetuate clientelistic practices and normalise corrupt behaviour (Saragih et al., 2024).

5.2.3 The Leverage of Local Political Party Affiliation on Local Officials' Corrupt Behaviour.

Indonesia adheres to a democratic system of governance, wherein "agents" elected by the people manage governmental functions. As discussed in Chapter Two, political

parties hold a pivotal role in this system, particularly in nominating political representatives, ensuring accountability, and overseeing dismissals. In practice, political parties in Indonesia significantly influence the policies and decisions of political representatives in both the legislative and executive branches. Consequently, political party affiliation is an integral component of Indonesia's democratic framework, which has persisted into the decentralisation era.

This research examines two critical variables to analyse the influence of political party affiliation during the decentralisation era on the propensity for corruption among local officials. These variables are the nomination of regional head candidates in local direct elections and the role of political party policies, at both national and regional levels, in overseeing regional governments through party-affiliated legislators.

The hypothesis proposed is that the implementation of political party affiliation—driven by the pressure to secure funding and maintain power within the existing political structure of the local parliament—within the context of Indonesia's current decentralised system, potentially increases the likelihood of corrupt practices among local officials. Current general election provisions stipulate that political parties or coalitions holding at least fifteen per cent of seats in the local parliament may nominate candidates for direct regional head elections. While an independent route is available, as detailed in Chapter Two, the stringent requirements make it difficult to access. As a result, most candidates are compelled to align themselves with political parties. Furthermore, the limited financial resources of political parties, coupled with inadequate accountability and transparency mechanisms, create conditions conducive to political transactions and collusion, which persist even after candidates assume

office. Local political dynamics reinforce relationships between political parties and elected officials, with practices such as appointing elected regional leaders as local party chairpersons. This dual role affects authority in both the executive and legislative branches, potentially heightening opportunities for corruption.

Political parties offer a structured pathway for politicians to be nominated as candidates for regional leadership and to participate in local direct elections. According to prevailing regulations, public nominations—an alternative mechanism—are designed to facilitate the involvement of non-partisan entities in elections. Law No. 12 of 2008 allows community groups (non-political parties) to nominate regional head candidates, referred to as "independent candidates." However, the stringent regulations governing non-party candidate nominations suggest that the emergence of independent candidates in direct local elections reflects a strong commitment to democracy and transparency in the respective regions. This perspective was reflected in statements gathered from respondents in Gunungkidul Regency. One respondent remarked:

"...In Gunungkidul itself, the prospective candidates for the regional head election are relatively abundant. There has never been a regional head election with a single candidate. In the last two regional head elections, there has always been an independent candidate who advanced in the contest..." (Local Official, District Government, 2021, Interviewee)

However, as outlined in Chapter Three, the requirements for obtaining individual support through independent candidacy are particularly challenging for prospective candidates. For instance, an independent candidate in a province with a population of fewer than 2 million must secure physical support from 6.5 per cent of the total population—approximately 130,000 individuals—in the form of a collection of ID card

copies. While the most recent legislation permits regional head candidates to contest elections via independent (non-party) channels, the stringent requirements involved mean that political parties continue to play a significant role in direct local elections.

Thus, affiliation with a political party is the most feasible option for potential candidates seeking to participate in *Pilkada*, especially for those with substantial financial resources or significant popularity. However, political parties often impose financial demands on candidates during the nomination stage, commonly referred to as a "political dowry." The amount demanded can reach tens of billions of rupiah, ostensibly to finance campaigns and cover logistical costs associated with securing victory in local elections. These dowries are solicited not only from candidates for regional head positions but also from local legislative candidates. Financially constrained candidates may fail to meet these demands, resulting in opportunities for local elites—who lack sufficient popularity to stand as candidates themselves—to act as "financial backers." Donations or financial support from these backers often create "receivables," which are later collected as favours from elected candidates, perpetuating clientelism.

In certain instances, political parties endorsing elected regional leaders designate these leaders as local party chairpersons to bolster the party's electoral prospects in the region. This "dual position" impacts the balance of executive and legislative authority within the region. The alignment of regional leaders with political parties in Indonesia's multi-party democracy has facilitated the diversion of public resources to benefit party supporters, a practice exacerbated by dysfunctional party financing and reduced state subsidies (Mietzner, 2007; Tambunan, 2021). The financial burden imposed by mandatory political dowries and the dual position of regional heads often

leads to the abuse of authority as leaders strive to consolidate power for both their political parties and themselves. This phenomenon was highlighted by a group of respondents, as reflected in one respondent's statement:

"...Political parties actually need a figure who can elevate (electability) their political party in the region because, in the region, the influence of a charismatic figure exceeds the influence of a political party. The current governor was previously a member of the 'xxx' political party, but after winning and being supported by several political parties, the dominant one being the 'yyy' party, the 'yyy' party appointed the governor to be the local chairman of the political party 'yyy' to further increase the electability of the party..." (Provincial Government Official, Interviewee)

In addition to enhancing the electability of supporting political parties, the "dual position" provides opportunities for augmenting the financial resources of political parties. Political parties often position their members in executive roles to consolidate their political influence and gain access to local government projects. Involvement in such projects bolsters the financial standing of political parties but is frequently reliant on fraudulent practices or abuse of power by local government officials. This observation aligns with the argument that A significant driver of corruption arises from the expectation that regional leaders or officials, particularly those affiliated with political parties, must provide financial contributions to their respective parties (Elyta, Hertanto, & Maryanah, 2022). This issue was underscored by respondents, one of whom noted:

"...Nowadays, many governors and regents are also party leaders. This condition certainly influences the members of the DPRD in monitoring the performance of regional heads. How can they be firm when supervising their superiors in political parties? It seems that political parties are deliberately recruiting regional heads to become their party leaders in the regions so that they can take part in regional government projects..." (Provincial NGO, Interviewee)

Local legislators affiliated with political parties are expected to comply with their party's policies, even when fulfilling their supervisory responsibilities. This expectation often undermines the effectiveness of supervision, particularly when a legislator belongs to the same party as the regional head. Moreover, political party policies at the regional level are frequently aligned with those of their national counterparts, further complicating independent oversight. Andika and Sucipto (2024) argue that collusion between regional leaders and local legislatures can undermine governmental oversight mechanisms. Respondents highlighted that the capacity of local legislators to perform their oversight role is compromised by the "dual position" dynamic. As one respondent expressed:

"...This DPRD institution cannot be said to be independent because there are many regional heads who are party leaders. With this status, regional heads can intervene (politically) with party members in the DPRD..." (District Local Legislator, Interviewee)

The "dual position" also leads to weaker oversight by local parliaments, especially when legislators and regional heads share the same party affiliation. Respondents observed that this dynamic often fosters collusive relationships between local bureaucrats and legislators, increasing the likelihood of corruption. This issue was illustrated by a respondent who stated:

"...There is a condition in this regency where the regional head is a local chairman of a political party. This condition weakens the independence of the local parliament, which creates situations where they are not free to criticise the performance of regional heads..." (District NGO, Interviewee)

In addition to local political party dynamics, Indonesia's highly centralised political structure, which glorifies prominent figures, means that regional party policies are often influenced by their national counterparts. Respondents noted that the overarching

influence of national political parties frequently dictates local policy decisions, limiting the autonomy of regional governments. As one respondent explained:

"...The impact of political parties on the supervision of the performance of the local government, in my opinion, is not substantial. The higher impact may come from the political party at the national level. The elected head of the region will be connected to the constellation of political parties at the national level. The positions in local government are currently heavily influenced by politics..." (District NGO, Interviewee)

Despite these challenges, regional political parties retain a degree of autonomy, enabling local legislators to perform their supervisory duties independently, provided their actions align with the principles of their affiliated parties. Although controversial, contributions such as the "political dowry" are not mandatory for all candidates and are considered a strategic mechanism for securing necessary funds for regional elections without imposing excessive burdens on candidates. In these contexts, the efficacy of the check-and-balance function is less influenced by the political affiliation of parties and more dependent on the integrity of individual legislators and the system as a whole.

A critical element in fostering good governance at the regional level is the leadership role of regional heads. Respondents emphasised the importance of effective communication and integrity in fostering collaboration between regional heads and local parliaments. One respondent articulated this view:

"...The party structure of the local parliament has not affected the relationship between the local government and the local parliament. It is not linear between those (relationships) at the national level and those at the local level. It happened that the opposition party at the national level was very supportive of the regional head (governor). So, it does not depend on the composition of the party, but on how to build communication between the regional head and the local parliament (DPRD)..." (Provincial Government Official, Interviewee)

Interestingly, political developments at the national level do not always mirror those at the regional level. A political party opposing another party nationally may cooperate with it locally. Respondents pointed to kinship and interpersonal dynamics as crucial factors in fostering a synergistic relationship among local parliaments, regional administrations, and political parties. As one respondent noted:

"...There is a difference between regional and national politics. In the regions, there are more compromises and kinship. This relationship is different from the national level, which focuses on national interests. In the regions, the scale is local, and when there is turmoil, it is muted in a friendly manner. So, there is no such thing as opposition in local politics..." (Provincial Government Official, Interviewee)

To summarise, political parties are central to Indonesia's democratic framework, influencing both the recruitment and the election of regional officials. However, phenomena such as the "political dowry" and the "dual position" have created vulnerabilities that compromise the integrity and accountability of local officials. Driven by the financial pressures of local elections and the need to consolidate political power, these factors exacerbate the risk of corruption at the local level. Given the critical role of political party affiliation in local governance, the propensity for corruption among local officials remains a pressing concern under Indonesia's decentralised system.

5.3 Civil Society Participation and Informal Monitoring Institutions Toward Local Corruption

The advent of the reform era in Indonesia, characterised by the introduction of a decentralised system, heralded a wave of democracy that permeated all aspects of society. The freedoms associated with this era are explicitly enshrined in the amendments to the 1945 Constitution, introduced during the reform period. Article 28E (3) of the Constitution affirms that "every individual possesses the entitlement to freedom of association, assembly, and expression of opinion." Similarly, Article 129

(1) of Law No. 32/2004 on Regional Government grants the public the right to express their opinions, either orally or in writing, during the process of preparing or discussing draft regional regulations.

Non-governmental organisations (NGOs) are formal entities within communities that aim to enhance public participation and empowerment. Following the democratic wave of the reform era, the number of NGOs in Indonesia has grown substantially. According to data from the Ministry of Home Affairs, the number of NGOs has risen significantly over the years. In 1997, there were an estimated 4,000–7,000 NGOs; by 2002, this number had increased to approximately 13,500 and reached 65,577 by 2011. By 2019, the total number of registered NGOs across national, provincial, and district levels had risen to 431,465. Furthermore, the government provides financial assistance to NGOs in accordance with Minister of Home Affairs Regulation No. 123/2018. These funds are allocated at the regional level through local budgets. Given this rapid increase in the number of NGOs, it is essential to enhance their involvement in fostering community engagement as a complementary channel for improving governance.

Civil society, in this context, refers to informal local institutions that represent the interests and concerns of the local population. Local civil society plays a crucial role in promoting accountable governance and establishing good governance in decentralised regions, where local authorities hold greater power. This is achieved through the informal monitoring of local government performance.

The active and independent participation of a strong civil society in a decentralised system can foster good governance by preventing local officials from engaging in rent-seeking behaviour. Local NGOs, functioning as informal institutions within

communities, play a significant role in voicing the concerns and aspirations of local people. Furthermore, they are equipped to provide valuable input and propose effective solutions to societal issues based on their expertise and insights. Civil society is often seen as key to fostering participatory and inclusive development (Foresti, 2004). Consequently, the role of local NGOs in maintaining robust oversight requires them to demonstrate unwavering integrity and competence.

However, reports of misconduct by local NGOs in carrying out their social control functions are not uncommon. With the growing role of NGOs in regions where local government authority has expanded, and with some support—both financial and supervisory—from regional governments, the performance of NGOs in these regions is expected to improve, particularly in monitoring local government operations. Therefore, the hypothesis is that increasing the role of NGOs in Indonesia during the decentralisation era will significantly reduce the propensity for local officials to engage in corrupt practices.

Local NGOs perform a dual role: not only monitoring activities but also acting as "mediators" of local people's aspirations. They are often better attuned to local concerns and expectations. For local NGOs to fulfil this role effectively, they must possess the requisite competence to ensure that their inputs and solutions are well-targeted and beneficial. Civil participation, defined as the means by which individuals influence public decisions, has long been fundamental to democratic governance (Yadav, 2024; Scutariu & Mangelovski, 2022). In practice, local NGOs are expected to influence policies formulated by local governments, with the aim of promoting community-oriented policies and improving the efficiency of service delivery. Several

respondents from local governments have observed that some NGOs possess valuable knowledge that can provide useful insights for local governments. As one respondent remarked:

“...NGOs in this region thrive. They are given the freedom to present their assessments or aspirations to the local government. Good NGOs often have experts in specific areas, so their inputs are well-targeted...” (Provincial Government Official, Interviewee).

Local NGOs enhance regional governance through social control, monitoring local government performance, and curbing corruption (Johnston, 2014). Civil society empowers citizens to identify and mitigate corruption, whose unchecked effects—widening inequality, eroding public trust, and fostering instability—undermine democratic integrity (Treisman, 2007).

The presence of NGOs within local communities enables them to absorb information about potential misconduct by local officials. NGOs are often able to identify early signs of corruption or abuse of power, allowing for timely intervention and mitigation of its negative impacts.

Regarding support from local governments, many respondents believed that adequate support and guidance had been provided to NGOs. Regular meetings are often held between the two parties to better understand the goals and aspirations of local NGOs. Local governments grant NGOs the freedom to operate and provide access in areas aligned with their specific expertise. A number of respondents expressed positive views regarding the relationship between local governments and NGOs, with one stating:

“...NGOs are government partners. They are the voice of the people’s aspirations. We accommodate their presence and regularly meet with them. The number of NGOs in this region is not particularly large...” (District Government Official, Interviewee).

Despite this positive feedback, challenges persist. Many local NGOs in Indonesia remain dependent on government funding to sustain their activities. Moreover, significant disparities in competence between central and local levels often leave local NGOs lacking sufficient integrity and capability. Under such circumstances, extending the participation of local NGOs during the decentralisation era may not necessarily lead to a significant reduction in corruption at the local level.

This research found that local NGOs in Indonesia frequently lack both integrity and competence. Extortion by local officials is a common violation linked to some NGOs. The level of government most prone to extortion is the village level, where village leaders often possess only moderate levels of education. Certain local NGOs have been established solely to obtain financial support from local governments, resulting in their failure to perform their intended roles effectively. Respondents provided evidence of this situation, as one remarked:

“...Many local NGOs are dishonest and engage in extortion. Their main goal in establishing these NGOs was simply to secure funding from the government. Some even resort to extortion, especially involving village funds...” (District Government Official, Interviewee).

Media coverage has documented instances of local NGOs engaging in extortion, particularly targeting school principals (news.detik.com, 2021; news.detik.com, 2020). Nevertheless, the incidence of extortion by local NGOs remains relatively low, and many of these NGOs are unregistered with local government authorities. Local government respondents confirmed this issue, citing one case:

“...A few years ago, an NGO in this district extorted money from the principal of a public school. There have been several similar incidents involving village heads as victims. It was later discovered that these NGOs were not registered with Bakesbangpol, making them illegal NGOs...” (District NGO, Interviewee).

Another external factor hindering the effective functioning of local NGOs in promoting good governance is limited support and access from local governments. Many local governments fail to recognise the significance of local NGOs as tools for civic engagement. Some respondents from provincial governments articulated this concern, as one noted:

“...Local governments often do not give NGOs access to express their aspirations, so they resort to demonstrations. They then voice their demands to the local parliament...” (Local Legislator, Provincial Government, Interviewee).

Group action and protest represent informal channels for articulating public opinions and aspirations. Such collective actions are essential in mobilising citizens to directly challenge or demand accountability from authorities (Besta et al., 2019).

In conclusion, during the reform era, Indonesia experienced a surge in democratic freedoms, evidenced by the increasing prominence of NGOs as channels for community aspirations. This development aimed to enhance citizen participation in the democratic process. In a decentralised system, supporting local communities in monitoring the performance of regional governments is crucial to ensuring accountability and the provision of adequate public services.

Some local governments recognise the vital role of NGOs in facilitating civil society participation. They acknowledge the necessity of providing NGOs with the support and access required to fulfil their responsibilities effectively. Many local governments actively engage with NGOs, holding meetings to discuss their aspirations and the outcomes of their oversight activities. Local governments understand that strengthening the effectiveness of NGOs contributes to establishing good governance

and acts as an early detection mechanism for potential corruption. Conversely, local governments also closely monitor the performance and conduct of NGOs.

For successful public monitoring by NGOs, two prerequisites must be met: first, adequate access and financial support, and second, the integrity and competence of the NGOs. However, this research found that achieving both of these requirements is often unattainable, resulting in frequent challenges associated with local NGOs.

From a financial perspective, most local NGO activists rely on funding from local governments, primarily due to socio-economic constraints. Many activists have limited personal income. Recent studies show that some individuals exploit local NGOs to obtain financial aid from local governments without fulfilling their intended responsibilities. Additionally, due to inadequate skills and knowledge, many local NGOs lack the competence required to carry out their tasks effectively. These two factors—financial dependency and insufficient expertise—are the primary drivers of misconduct by local NGOs. Reports of multiple extortion cases perpetrated by local NGOs have raised concerns about their role in society. Consequently, local NGOs with limited integrity and competence are ineffective in curbing corrupt behaviour among local officials. Instead, their misconduct can exacerbate governance challenges, particularly in regions where local authorities are already prone to corruption and weak oversight mechanisms.

5.4 Chapter Summary

Political decentralisation in Indonesia, marked by the devolution of authority from the central government to regional administrations, was principally designed to strengthen political representation and accountability at the local level. The introduction of direct

elections for both legislative and executive offices since 2004 was intended to empower citizens and enhance the legitimacy of local governance. The shift to an open proportional electoral system for local legislatures (DPRD) was expected to increase legislators' responsiveness to constituents and reinforce the supervisory role of the parliament. However, empirical evidence indicates that these reforms have not necessarily translated into more effective oversight or governance. The DPRD's transition from a supervisory institution to a partner of the executive has often compromised its independence, with the integrity and competence of its members remaining inconsistent. Public perception surveys and recurrent corruption scandals suggest that legislative oversight has frequently been ineffective, and in some instances, has facilitated corrupt practices at the regional level.

On the executive front, the advent of direct elections for regional heads (Pilkada) represented a significant democratic advance. Nevertheless, this system has been consistently undermined by socio-economic disparities, particularly in rural and marginalised communities, where low levels of political awareness and participation persist. Such conditions have fostered an environment conducive to money politics, with immediate financial incentives frequently outweighing considerations of candidate quality or policy substance. Interviews indicate that for many impoverished voters, modest payments suffice to secure electoral support, irrespective of the candidates' qualifications. This vulnerability is exacerbated by the substantial costs of candidacy, which incentivise elected officials to engage in corrupt practices to recoup campaign expenditures.

A comparison with the earlier era of indirect elections—when DPRD members selected regional heads—reveals that political transactions and money politics were equally prevalent, with local legislators susceptible to manipulation by party elites and oligarchs. Although direct elections were intended to mitigate these issues and better reflect the popular will, they have merely shifted the locus of corruption from legislative selection to the electoral process itself. The high financial barriers to candidacy and limited political education have fostered new forms of clientelism and entrenched patronage networks between candidates and voters.

Political parties remain central to Indonesia’s democratic framework, controlling access to both legislative and executive office. However, the lack of transparency in party financing and the widespread practice of “political dowries”—substantial payments by candidates for party endorsement—have further entrenched corruption. The phenomenon of “dual positions,” wherein regional heads concurrently serve as local party chairpersons, undermines legislative independence and facilitates collusion between executives and legislatures. These dynamics have contributed to the persistence and expansion of political dynasties, as local elites consolidate power within familial or close networks. Data from the Nagara Institute (2020) reveal that nearly half of regional election candidates in 2020 had familial political ties, underscoring the resilience of dynastic politics under decentralisation.

Civil society organisations, particularly NGOs, were envisaged as informal oversight bodies capable of enhancing citizen participation and government accountability. While their numbers have grown substantially since the reform era, many remain dependent on local government funding and lack sufficient capacity or integrity. This

dependency has, in some cases, resulted in collusion, extortion, and the misappropriation of public funds, especially at the village level. Consequently, while NGOs possess the potential to contribute to improved governance, their impact is frequently limited by financial and institutional constraints.

The consequences of political decentralisation for local corruption are evident in empirical data. Between 2004 and 2017, the Corruption Eradication Commission (CEC) reported that eighteen governors and seventy-one mayors or regents, along with seventy-six DPR and DPRD members (2004–2014), were implicated in corruption cases. Under the New Order, local parliaments functioned as extensions of central authority, with corruption concentrated among central elites and their proxies. In contrast, decentralisation has led to the diffusion of corrupt practices to the local level, facilitated by competitive elections, party politics, and the proliferation of political dynasties. Although comprehensive comparative data from the pre-decentralisation period are scarce, available evidence suggests a marked increase in the exposure and prosecution of local corruption cases since the advent of direct elections and decentralised governance.

In summary, while decentralisation in Indonesia has broadened democratic participation and created opportunities for local accountability, it has also introduced new vulnerabilities to corruption. These are shaped by weak political party financing, inadequate oversight, socio-economic inequalities, and the entrenchment of political dynasties. The evidence indicates that institutional reforms associated with decentralisation have, contrary to their intentions, appeared to have heightened the risk of corruption among local officials.

CHAPTER 6

ADMINISTRATIVE DECENTRALISATION: LOCAL PERSONNEL AND AUDIT CAPACITY ON LOCAL CORRUPTION IN DECENTRALISED INDONESIA

6.1 Overview of the Chapter

This second empirical chapter discusses and analyses the second dimension of a decentralised system: administrative decentralisation. *The objective of this chapter is to address the second sub-question regarding the effect of Indonesia's administrative decentralisation system on the propensity of local officials to engage in corruption within local administration.* Administrative decentralisation refers to the redistribution of authority, responsibilities, and financial resources for delivering public services across various levels of government (OECD, 2019). Effective management of local personnel is essential to supporting the primary objective of administrative decentralisation: delivering quality public services in line with the expectations of local citizens (Evans & Manning, 2004).

Ivanyna and Shah (2012) analyse the extent to which local governments possess autonomy over public sector employment, particularly their ability to independently make decisions regarding recruitment, dismissal, and employment conditions, without interference from higher tiers of government. This autonomy is intended to ensure that elected officials are held accountable by local institutions. This research adopts a similar approach to previous studies in assessing the effects of administrative decentralisation in Indonesia. It specifically examines local personnel management and the utilisation of local institutional capacity for monitoring as a countervailing

mechanism. The analysis of local personnel considers variables such as local leadership and personnel management. In addition to overseeing personnel, the regional head—a key figure with substantial authority over local employees within Indonesia's administrative decentralisation framework—plays a critical role in evaluating the impact of administrative devolution on local corruption.

During the reform era, the decentralisation system brought about significant institutional changes in personnel management, particularly at the local level. These changes included the introduction of direct regional elections and the transfer of the majority of personnel administration authority from the national to the local level. Over more than two decades, the implementation of the decentralised system has resulted in highly dynamic policy changes in these areas. The discussion of the impact of these variables on local officials' corrupt behaviour must also consider local institutional capacity. This is particularly relevant in regions outside Java, where local capacity has been eroded over three decades under an autocratic, Java-centric regime, as discussed in Chapter Three.

This chapter begins with an overview before analysing how institutional reforms in Indonesia's administrative decentralisation system influence local officials' propensity for corruption. The analysis is structured into two key aspects: local leadership and local personnel management. The second subchapter examines local leadership, while the third explores personnel management and its impact on corruption. This third subchapter is further divided into three sections, focusing on the effects of recruitment, remuneration, and the promotion/transfer framework on personnel management within local administration. Each section analyses how these aspects of local personnel

management contribute to the prevalence of corruption. The fourth subchapter investigates local institutional monitoring capacity, particularly the role of countervailing institutions in overseeing local officials involved in corrupt practices. The chapter concludes with a summary of the analysis presented in the preceding subchapters.

6.2 The Impact of Leadership Integrity in Local Administration on the Propensity of Local Corruption.

The decentralisation system in Indonesia has resulted in a significant transfer of authority from the central government to local governments, particularly at the district and municipal levels. Consequently, local accountability has become increasingly prominent, particularly following the introduction of direct regional head elections. As a result, elected regional heads receive considerable legitimacy from their constituents. From the perspective of accountability within the principal-agent framework, a regional head assumes the dual role of both agent and principal. In their interactions with the local populace, they act as representatives entrusted with a mandate from the citizens. However, within the bureaucratic hierarchy, local officials perceive the regional head as the principal, to whom they are accountable for executing administrative functions.

As outlined in Chapter Five, which examines *Pilkada*, and Chapter Seven, which discusses local budget formulation, regional heads face considerable political pressures to fulfil their responsibilities effectively, often with the additional aim of securing re-election. However, decentralisation in Indonesia also has enabled local political elites to manipulate bureaucratic structures for their benefit (Hutahaeen & Pasaribu, 2022). Zulherawan (2019) highlights that the implementation of regional autonomy in Indonesia has enabled local elites to capture bureaucratic structures,

thereby reinforcing patronage networks and deepening corruption at the local level. Consequently, elected local officials exert significant influence over local employees, who become vulnerable to the political and personal agendas of their superiors. This phenomenon is exacerbated by the political pressures on elected regional heads and the persistence of rent-seeking behaviours originating from the New Order era. *Within the institutional framework of Indonesia's decentralised governance system, it can thus be hypothesised that the current structure contributes to an increased propensity for corruption in local administration.*

As the highest authority in local governance, the regional head plays a critical role in shaping the conduct and performance of their subordinates, particularly local officials. Indonesia's decentralisation has, at times, exacerbated local corruption, as regional leaders—granted broader discretionary authority—often leverage these powers for personal enrichment (Silitonga et al., 2023). The ethical orientation and personal integrity of regional heads are fundamental determinants of corrupt behaviour in leadership. However, beyond political pressures, as discussed in the preceding chapter, the entrenched culture of patronage and primordialism in Indonesia continues to undermine ethical governance. In many regions, patronage networks and collusive relationships between regional leaders and local elites foster systemic abuse of power. Such leadership often neglects accountability and transparency, contributing to widespread corruption across Indonesia (Kurniawan, 2021).

Local accountability, in this context, refers to the extent to which local officials are held responsible for executing their duties with integrity and competence under the oversight of regional heads. A regional head must demonstrate a leadership style that

serves as a model, inspiring local officials to uphold ethical standards. Leadership is commonly understood as a process in which an individual influences a group to achieve shared objectives (Northouse, 2019).

Under Indonesia's decentralisation framework, regional heads wield significant autonomy in managing local personnel, including recruitment, placement, and promotion. The primary objective of this delegation of authority is to enhance the responsiveness and effectiveness of regional governance in addressing local needs. By granting regional leaders' greater control over personnel policies, the system is intended to facilitate context-specific administrative adjustments that improve bureaucratic efficiency and service delivery. However, the absence of robust oversight mechanisms poses substantial risks. Unchecked authority enables regional heads to engage in nepotism and patronage, appointing political loyalists or family members rather than competent professionals.

The involvement of local officials in corruption cases involving regional heads is a recurring phenomenon. For instance, in 2017, "YAF", a former Regent of Banyuasin Regency, was convicted for accepting bribes to manipulate government tenders and projects. The case also implicated "R", the Head of the Household Sub-Division of the Banyuasin Regional Secretariat, and "UU", the Head of the Banyuasin Regency Education Office. Both were instructed by YAF to procure illicit funds for his personal interests (CEC Annual Report, 2017). This case exemplifies a broader pattern of corruption among regional leaders. It is therefore unsurprising that, according to data from the Corruption Eradication Commission (KPK), 22 governors and 148 regents/mayors were implicated in corruption cases between 2004 and January 2022.

Authority over personnel management, including promotions and transfers, establishes a hierarchical structure in which loyalty to the regional head becomes the primary determinant of career advancement. Regional officials often find themselves compelled to demonstrate allegiance, even at the cost of ethical integrity. Respondents have expressed concerns regarding the personal motives of elected regional heads, highlighting the presence of potential "hidden agendas." One respondent articulated this concern as follows:

"... The existing set of rules is sufficient, (so) it depends on the person or regional head as the leader in the region. Is the regional head "good" or "bad"? (Apparatus) below will be more comfortable if the regional leadership has no other agenda (to enrich themselves) ..." (District Government Officials, Districts, 2021 Interviewee 23)

Conversely, in instances where regional leaders demonstrate a strong commitment to integrity and ethical governance, measures are implemented to ensure transparency and accountability. Respondents have highlighted such cases, as exemplified in the following statement:

"... In Banyuasin, the profile of the current regional head has a desire (to) be orderly, especially after the case (corruption in the region) some time ago. They recruited the head of the local financial agency and several echelon three officials from the BPKP (Financial and Development Supervisory Agency). The control environment is fundamental. The profile, integrity and leadership style of key officials are fundamental ..." (Auditors, Districts, 2021 Interviewee 18)

Thus, the ethical orientation and governance priorities of regional leaders are crucial determinants of administrative integrity. Leaders with strong moral values foster institutional norms that discourage corruption, while those lacking integrity may, directly or indirectly, promote unethical conduct among subordinates (Bashir & Hassan, 2020).

Conversely, in the different nuances, Indonesia's socio-cultural landscape further complicates this dynamic. The nation's deeply rooted religious traditions play a significant role in shaping individual values, including attitudes towards corruption. Some respondents have suggested that religious beliefs serve as a stronger deterrent to corrupt behaviour than external oversight mechanisms. As one respondent observed:

"...The increased authority does not affect corruption. It goes back to each (personal). It depends on (how close they are to) religion. Corruption cannot be eliminated (eradicated), it can only be reduced (occurrence) ..." (Province Government Officials, Province, 2021 Interviewee 9)

Religion and social norms exert a profound influence on Indonesian society, which is firmly anchored in Eastern cultural traditions. Many regions continue to uphold strong primordial values, with some maintaining traditional governance structures, such as the monarchy in Yogyakarta. However, primordial culture does not always provide incentives for ethical leadership. The Special Region of Yogyakarta, particularly Gunung Kidul Regency, serves as an example of a region where cultural norms reinforce integrity and transparency in governance. Yogyakarta is noted for comparatively low levels of corruption, a pattern linked to strong civil society involvement and effective governance (Kabullah & Wahab, 2016). The Gunung Kidul Regency Government, for instance, was acknowledged as the leading region in Yogyakarta Province for ensuring open access to public information in 2020.

This analysis underscores the intricate relationship between local leadership and corruption within Indonesia's decentralised governance framework. While decentralisation was designed to enhance accountability and improve governance, it has paradoxically facilitated corrupt practices by granting regional heads extensive

discretion over budgets and personnel. The interplay of political patronage, collusion, and weak oversight mechanisms exacerbates this issue. Nevertheless, ethical leadership and strong socio-cultural values, as demonstrated in Yogyakarta, offer potential avenues for mitigating corruption. These findings suggest that while decentralisation presents opportunities for improved governance, its efficacy hinges on the integrity of regional leaders and the socio-cultural context in which they operate.

6.3 The Local Personnel Management and the Propensity of Local Officials to Corruption.

Throughout the 30-year rule of the New Order government, Indonesia operated under a highly centralised system across all aspects of governance, including the management of government personnel at both the central and regional levels. The introduction of decentralisation, marked by the enactment of Law No. 22/1999 on regional government (later revised by Law No. 32/2004), represented a significant turning point, leading to the extensive devolution of authority from the central to regional governments, including in personnel management. Over the past two decades of decentralisation, continuous revisions in regulations and policies governing personnel management at the regional level have reshaped the scope of authority granted to local governments. Concurrently, there has been a notable rise in corruption cases involving local officials during this period. According to data from the Corruption Eradication Commission (CEC), 42.06% of corruption cases recorded between 2004 and 2011 were linked to local government agencies or authorities (CEC Annual Reports, 2004–2011).

Administrative decentralisation in Indonesia primarily follows a devolution model, whereby authority and accountability are transferred to district and municipal governments. This process necessitates the strengthening of local personnel, who play a critical role in public service administration. While the prevailing approach to personnel management under Indonesia's decentralisation framework largely adheres to the principles of devolution, elements of deconcentration remain embedded within the system. Consequently, effective local personnel management is instrumental in ensuring the efficiency of government functions and mitigating fraudulent practices that could compromise the objectives of decentralisation. Inadequate personnel management frequently serves as a catalyst for corruption across various government sectors, particularly in the absence of rigorous oversight and a transparent system. Without robust oversight, unethical actors may exploit recruitment, promotion, and placement processes within the bureaucracy (Mau, Subarsono, & Purbokusumo, 2020).

In light of these challenges, respondents underscored the necessity of a robust policy framework and oversight mechanisms to regulate personnel management within regional administrations. They emphasised that granting significant authority to local governments in this domain requires corresponding measures to prevent corrupt practices. Personnel management policies, particularly those promoting meritocracy and whistleblowing, may help diminish the likelihood of corrupt behaviour among local bureaucrats (Cooper, 2021; Dahlström et al., 2012). Accordingly, establishing a regional personnel management system that prioritises transparency and accountability is imperative. Transparent administrative processes enhance trust

between government and employees, limit opportunities for corruption, and strengthen public officials' accountability (Chen & Ganapati, 2021; Jadara & Al-Wadi, 2021).

Personnel management encompasses a range of responsibilities, including recruitment, training, performance evaluation, and remuneration, as well as promoting workplace equity, ensuring employee health and safety, and supporting staff representation (Petrashevskaya, Kolontai, & Demydova, 2024). In this section, we examine the complex interplay between regulatory frameworks and the implementation of personnel management policies at the local level. Specific attention is given to recruitment, remuneration, and promotion/transfer processes, as well as their potential influence on the propensity of local officials to engage in corrupt practices.

6.3.1 The Integrity of Local Personnel Recruitment System.

Recruitment represents the foundational stage of personnel management, playing a crucial role in ensuring that qualified and reliable individuals are hired. Within the framework of decentralisation, it is imperative for local governments to possess adequate authority to recruit personnel who will play a pivotal role in optimising the delivery of public services at the local level. A local government must have access to sufficient resources to attract and retain skilled employees (Evans & Manning, 2004). Over the past two decades, Indonesia's decentralisation process has introduced profound changes in personnel management, particularly in the policies governing the recruitment and procurement of regional employees (PNSD), as discussed in Chapter Three. In the early stages of decentralisation, significant shifts occurred in civil service recruitment policies, including those pertaining to regional governments. Under the New Order era (pre-decentralisation), civil service recruitment was highly centralised.

According to Law No. 8 of 1974 on the Principles of Civil Service, regional heads (governors, regents, and mayors) held minimal authority over civil servant recruitment. The transfer of recruitment authority from the central government to local administrations has been hindered by several challenges, primarily the stark disparities in capacity between the central and local governments.

Indonesia's decentralisation process has underscored the pronounced variations in the administrative capabilities of local governments, particularly in human resource management. Local administrations often encounter difficulties in attracting qualified staff and ensuring adherence to national standards in personnel management. Effective recruitment and compliance with established procedures are essential for organisational performance, yet many institutions struggle to achieve these objectives (Šafránková & Šikýř, 2018). A key issue stems from the inadequate institutional capacity for ensuring transparency and accountability at the regional level, compounded by pressure from local political elites. *Given these constraints—alongside limited oversight mechanisms, entrenched patron-client political relationships, and disparities in local administrative capacities—it is hypothesised that the delegation of recruitment authority for regional civil servants may increase the propensity for corrupt practices among local officials.*

Accountability and transparency constitute essential safeguards in the recruitment of regional employees under Indonesia's decentralised governance framework. These principles mitigate the risks of corruption and nepotism, both of which can compromise the quality of public service delivery. An open and transparent recruitment process ensures that selection decisions are made strictly on the basis of merit, free from undue

political or personal influence. The implementation of transparent recruitment mechanisms fosters public trust in local governments, as an impartial selection process enhances confidence in the appointed personnel. Furthermore, accountability and transparency frameworks facilitate monitoring and evaluation processes, ensuring adherence to regulations and minimising legal infractions. By adopting standardised and transparent recruitment procedures, local governments can enhance operational efficiency and improve public service delivery. As emphasised by the Deputy Chairman of the Corruption Eradication Commission (KPK), Nurul Ghufron, a transparent, accountable, and procedural recruitment process is fundamental to developing high-quality and corruption-resistant human resources (Okezone News, 14 February 2020).

Between 2000 and 2004, in the early years of decentralisation, a decentralised recruitment system was introduced, granting local governments the autonomy to manage their civil servant recruitment processes. Government Regulation No. 97/2000 conferred this authority upon local governments with the objective of enhancing their ability to respond effectively to local needs. During this period, regional administrations exercised full discretion in determining recruitment quotas, managing selection procedures, and appointing or dismissing civil servants. Each regional head—whether governor, regent, or mayor—was empowered to tailor recruitment processes according to local policies. However, by 2010, concerns had grown regarding the limited capacity of local governments to effectively manage these responsibilities, resulting in inconsistencies in recruitment standards and practices across regions.

At the outset of decentralisation, many local governments in Indonesia encountered significant challenges concerning administrative capacity. The recruitment of regional

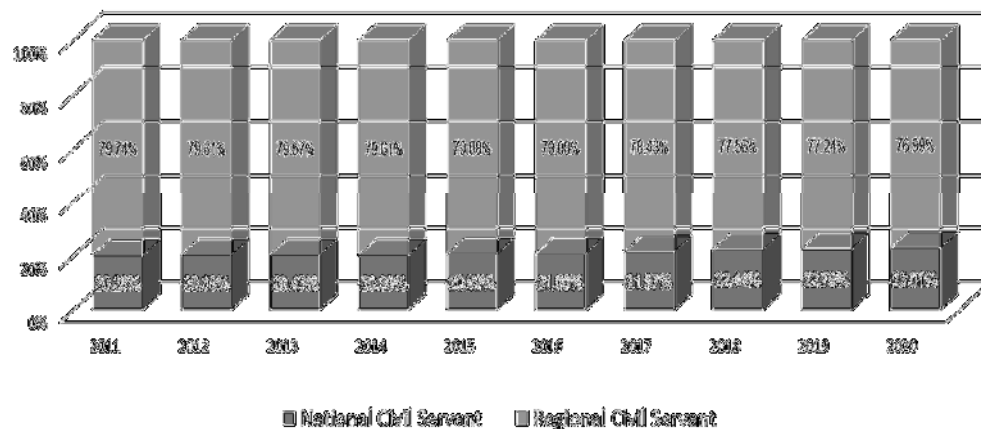
civil servants was often impeded by inadequate systems and limited managerial expertise, resulting in unprofessional practices and a lack of attention to required qualifications (Sutrisno, Suryono, Soeaidy, & Mardiyono, 2014). Moreover, recruitment decisions were often influenced by local political elites, who used civil service appointments as a means of consolidating political loyalty or strengthening patronage networks. In Indonesia, public sector employment serves as a key patronage mechanism, offering stable jobs alongside access to state resources and rent-seeking opportunities (Aspinall, 2013; Hadiz & Robison, 2004). As previously discussed, regional leaders often maintain strong affiliations with political parties and can exploit their authority over personnel management—particularly in recruitment—to secure political support by favouring individuals with personal or political ties. Such dynamics have been observed in regions like North Sumatra and South Sulawesi, where local elites have exploited their authority over recruitment to strengthen political control (Aspinall & Fealy, 2003).

The argument that granting regional heads greater discretion in recruitment could increase political interference and, consequently, corruption is supported by numerous perspectives. One respondent, for instance, described the effects of this discretion as follows:

"...The authority of the head of regionals resulted in civil servants being not neutral. Because civil servant careers tend to be co-opted by political forces in the region (in the hands of the head of regionals), civil servants are competing to get closer to the head of regionals or candidates for head of regionals if they don't want to be dismissed or transferred for no apparent reason. ..." (Academic, 2021, Interview 29)

Empirical studies further confirm that, in the initial phase of decentralisation, political patronage and nepotism led to an expansion in the number of regional employees.

Many district governments expanded their workforce, thereby increasing administrative expenditure, as the general allocation grant lacked earmarking for salaries (Gonschorek, Schulze, & Sjahrir, 2018). By the early 2000s, some local governments allocated as much as 80% of their budgets to personnel costs. However, as recruitment policies improved in subsequent years—accompanied by increased standardisation and oversight by the central government—local governments' autonomy over recruitment was curtailed. This led to a rationalisation of the civil service, as reflected in a declining proportion of regional civil servants relative to the national total, as illustrated in Table 6.1.



Source: State Personnel Agency (author compilation)

Table 6-1 Ratio of National and Regional Civil Servants in Indonesia 2011-2020

The recruitment of local government employees in Indonesia has been fraught with irregularities, contributing to increased financial burdens and heightened corruption risks. Consequently, there has been growing concern regarding the need to enhance transparency and accountability in the selection process. To address these challenges, the implementation of the Computer-Assisted Test (CAT) for civil servant recruitment was mandated by MAEBR Regulation No. 17/2014 in 2013. The CAT system,

introduced in 2014 to replace traditional paper-based examinations, employs digital assessments to minimise opportunities for cheating and manipulation. The State Civil Service Bureau (BKN) is responsible for overseeing the CAT system, standardising testing procedures nationwide, and providing training and resources to regional governments. Furthermore, Law No. 5/2014 on State Civil Apparatus was enacted to establish uniform recruitment procedures across different regions.

Nevertheless, significant challenges persist in the implementation of these regulations, particularly in managing the influence of regional political dynamics. Since 2015, efforts have been undertaken to enhance accountability and transparency in recruitment through the adoption of digital platforms and the enforcement of more stringent regulations. However, regional disparities and instances of corruption remain prevalent.

Beyond the issues of political patronage and nepotism, corruption in the recruitment of regional employees is often driven by financial incentives for personal gain. Local authorities have at times manipulated test outcomes, solicited bribes for favourable decisions, or engaged in extortion. Decentralisation may aggravate such practices, as regional governments often lack the oversight and accountability mechanisms typically present at the national level (Rahman et al., 2024; Sudarsono et al., 2024). In 2018, the Indonesian Corruption Eradication Commission (KPK) reported multiple bribery cases in recruitment procedures involving local officials across several regions. These cases, which sometimes implicate high-ranking officials, underscore the systemic weaknesses within Indonesia's decentralised governance framework (Transparency International Indonesia, 2019). A notable example occurred in 2015 in Bekasi

Regency, West Java, where a former regent was convicted of manipulating the recruitment process for local honorary workers in exchange for bribes. Cases of extortion in local employee recruitment have involved not only high-ranking officials but also lower-level bureaucrats.

The post-2014 regional civil servant recruitment process has successfully reduced corrupt practices among local officials through the introduction of a standardised and computerised selection system, accompanied by enhanced supervision. Nevertheless, bribery and fraudulent practices persist, albeit often perpetrated by non-governmental actors. A particularly vulnerable area is the recruitment of honorary employees (Tenaga Kerja Daerah, TKD), as this process lacks uniform implementation standards and falls entirely under the authority of regional heads. Corruption frequently occurs in the hiring of contract workers, with illicit payments demanded by individuals within local administrations. The prevalence of such corrupt practices was echoed by respondents, one of whom stated:

"... the processes in personnel (management) (i.e. recruitment of employees), especially for (recruiting) contract workers, have been openly and without requesting (for) anything. However, I have heard (that) during recruitment in large (regional government) agencies, which have technical units, several individuals have been found using (abusing) these, but so far, no reports have been received (by the authorities). ..." (Provincial Government Official, 2021, Interview 1)

The recruitment of regional contract workers (TKD) is directly determined by the regional head, who must consider local budgetary constraints. The total number of regional contract workers in Indonesia stood at 410,010 as of June 2021, according to MAEBR data.

The approval of local civil servant recruitment plans falls under the MAEBR's jurisdiction, acting on behalf of the central government based on proposals submitted by regional governments. This procedure, in place since the inception of decentralisation, has remained the primary mechanism for appointing local civil servants. However, the national government's allocation of recruitment quotas frequently fails to align with the actual personnel needs of local governments. Additionally, approved positions often do not correspond to specific local government requirements. Consequently, many regions experience severe personnel shortages, hampering their ability to deliver essential public services. A deficiency in human resources can disrupt government operations, diminishing the effectiveness of local administrations in serving their constituents. Moreover, when local human resource capacity is inadequate, the bureaucracy becomes increasingly susceptible to corruption. Discussing the impact of this discrepancy, a respondent highlighted:

"... procurement results often do not match the request (from the local government). Incompatibility (covering) the number and also the job criteria. So (this) interferes with the performance of the (regional) government. Even though we have already submitted a proposal for the number and position needed by the regional government. The decline in performance (this) can lead to problems, such as potential (vulnerability) for corruption. ..." (Provincial Government Official, 2021, Interview 8)

The MAEBR's approach to determining recruitment quotas is based on multiple factors, including job analysis, workload assessments, and regional fiscal capacity. This framework is designed to balance personnel needs with the financial ability of local governments to fund additional employees. To mitigate staffing shortages, local governments have been authorised to hire contract workers, yet this approach does not always resolve recruitment challenges effectively.

Decentralisation policies are inherently region-specific, relying on the unique circumstances of each locality. A major obstacle to successful decentralisation in Indonesia is the limited administrative capacity in many regions, as discussed in previous chapters. Significant regional disparities in governance capacity stem from both Indonesia's archipelagic geography and historical policies that favoured certain regions during the New Order era. These factors have resulted in uneven governance capabilities across the country, particularly in human resource management. Local governments often face difficulties in attracting competent personnel and maintaining compliance with national civil service regulations (Istiqomah & Atsarina, 2019; Rakhmawanto, 2007).

While certain regions have successfully implemented transparent and accountable recruitment processes, others continue to grapple with corruption and inefficiency. In areas with weak governance structures, corruption in recruitment remains prevalent due to institutional weaknesses, lack of transparency, and limited civil society oversight. Despite the implementation of regional autonomy, many Indonesian local governments still face administrative inefficiencies, particularly in attracting and retaining skilled personnel (Maulana, Utami, & Hanafi, 2022). The implementation of national policies at the regional level depends heavily on the institutional and social framework of each administration. Many regions still lack the necessary instruments and administrative capacity to effectively conduct and supervise recruitment processes, a concern reflected in the following statement from a group of respondents:

"...our region is mostly an island region. We do not have sufficient personnel and infrastructure to support (smooth) personnel management, especially in (the implementation of) the employee recruitment stage..." (Regency Government Official, 2021, Interview 11)

From an alternative perspective, it can be argued that the current recruitment policies for local civil servants have contributed positively to curbing corrupt behaviour among local officials. Law No. 5/2014 restructured the national civil service system, including regional civil service management, with a primary focus on transparency, accountability, and meritocracy in the recruitment process. Since 2014, the policy governing the admission of Regional Civil Servant Candidates (CPNS) in Indonesia has undergone significant improvements, particularly in terms of enhancing transparency and merit-based selection. The central government, particularly the Ministry of State Apparatus Empowerment and Bureaucratic Reform (MAEBR), is responsible for formulating the national policy framework for civil servant recruitment. This framework includes the adoption of computer-based selection mechanisms, known as the Computer-Assisted Test (CAT), designed to enhance transparency and minimise fraudulent practices, thereby ensuring an objective and impartial selection process. Nevertheless, despite these advancements, the implementation of more rigorous oversight mechanisms remains imperative to achieving a fully transparent and merit-based recruitment system, ultimately mitigating corrupt practices among local authorities. These observations were echoed by respondents, one of whom stated:

“...with the implementation of the State Civil Apparatus management system (since 2014), the implementation of the selection of regional civil servant candidates has been more transparent and accountable, especially with the use of a computerised system. The (regional) officials can no longer easily manipulate for personal or group interests...” (Academic, 2021, Interviewee)

Despite the persistence of corruption, certain regions have effectively utilised their delegated authority to enhance the recruitment process. The Yogyakarta Special Region, for instance, has leveraged its special autonomy status to uphold and reinforce

local governance structures, leading to improvements in public service management, including recruitment. This is evidenced by the rigorous selection processes in place, which encompass written examinations, interviews, and comprehensive assessments of integrity and competence, thereby reducing opportunities for favouritism and corruption. In regions such as Yogyakarta (including Gunungkidul Regency) and Bali, where governance structures are relatively robust, recruitment processes have become increasingly transparent and merit-based, indicating that the effects of decentralisation are not uniformly negative.

The relationship between decentralised recruitment authority and the propensity for corruption among local officials in Indonesia remains complex, shaped by administrative capacity, political dynamics, and accountability mechanisms. While decentralisation aims to empower local governments by granting them authority over civil service recruitment, it has, in many cases, heightened corruption risks due to disparities in governance capacity and political interference. Local administrations frequently contend with challenges such as resource constraints, inadequate oversight, and political pressures, all of which can foster environments conducive to corruption and nepotism. The recruitment process is often subject to manipulation for political gain, with patronage networks exploiting civil service positions to consolidate political alliances. Furthermore, the absence of robust transparency and accountability mechanisms exacerbates these challenges, enabling local elites to exploit recruitment processes for personal and political advantage. However, regions with stronger governance structures and more rigorous oversight—such as Yogyakarta (Gunungkidul)—demonstrate that decentralisation, when supported by institutional integrity, can enhance recruitment transparency and mitigate corruption.

Overall, while the decentralisation of recruitment processes has the potential to improve local service delivery, it necessitates the implementation of stringent oversight mechanisms to counteract the heightened risk of corruption among local officials.

6.3.2 Differentiated Compensation Levels and the Propensity for Local Officials.

The authority to determine remuneration is a fundamental aspect of personnel management and represents a key outcome of administrative decentralisation, aimed at enhancing the provision of public services at the local level. A well-designed remuneration system achieves equilibrium between local autonomy and national standards, thereby enhancing governance and improving public service delivery (Novokreshchenova, 2022). Compensation for civil servants serves not only as a means of ensuring their welfare and supporting their living costs but also as a mechanism for recognising their professional contributions. In decentralised governance, remuneration authorities play a critical role in tailoring compensation to local fiscal conditions, enhancing accountability and efficiency (Safonov & Dolzhenkova, 2022). Local governments are vested with the authority to determine compensation structures for their employees, subject to budgetary constraints. The decentralisation of this authority is intended to accommodate regional economic conditions and fiscal capacities, enabling the adoption of context-specific compensation strategies that correspond with local living costs and financial realities. However, this flexibility also generates variability in remuneration practices, which can, in turn, influence the conduct of local officials, including their susceptibility to engaging in corrupt activities.

In decentralised Indonesia, the extent of fiscal autonomy varies across local governments, including their capacity to establish remuneration frameworks. This autonomy has led to disparities in salaries, allowances, and other forms of compensation, contingent on the fiscal strength of individual regions. In resource-constrained areas, inadequate remuneration may serve as a financial disincentive, potentially fostering corrupt practices among local officials. The absence of standardised remuneration guidelines further exacerbates this issue, as officials may exploit ambiguities in salary structures to derive personal benefit or extend financial advantages to political allies. Moreover, insufficient accountability and transparency mechanisms at the local level amplify these risks, as discrepancies in political culture and institutional oversight influence the effectiveness of anti-corruption measures. Consequently, these factors collectively heighten the likelihood of corrupt practices, as local officials may manipulate remuneration policies to compensate for perceived income deficiencies or to sustain political patronage networks. Accordingly, the following hypothesis is proposed: the delegation of authority to local governments for determining employee remuneration within Indonesia's decentralised governance framework increases the propensity for corruption among local officials.

The delegation of remuneration authority to local governments has significant implications for corruption risks among local officials, with key determinants including regional fiscal capacity, the transparency of remuneration policies, and prevailing socioeconomic conditions. Fiscal capacity directly affects a local government's ability to provide adequate compensation to its employees. Regions with higher fiscal capacity can offer more competitive salaries, reducing officials' incentives for corruption. In contrast, limited fiscal resources often mean inadequate remuneration,

increasing the risk that officials seek illicit income (Li, Roland, & Xie, 2021). The clarity and transparency of remuneration policies are also critical in mitigating corruption. Clear, equitable, and transparent compensation frameworks limit opportunities for favouritism and corruption (Prendergast & Topel, 1996). Furthermore, regional socioeconomic conditions—including variations in living costs and economic opportunities—further influence corruption tendencies. Where living costs are high and economic opportunities limited, corruption risks may rise if official salaries are inadequate, as public officials may turn to illicit means to supplement incomes (Davletbayeva & Zagrebin, 2023).

The fiscal capacities of Indonesia's regions vary considerably due to factors such as natural resource availability, economic productivity, and fiscal transfers from the central government. For instance, regions such as South Sumatra, which benefit from abundant natural resources, generally exhibit stronger fiscal capacities than regions like Gunungkidul, which rely heavily on agriculture and have fewer revenue-generating resources. Regions with greater fiscal capacity are better positioned to provide adequate compensation to local government employees, thereby reducing the economic pressures that may contribute to corrupt behaviour. In contrast, fiscally constrained regions often face difficulties in maintaining adequate remuneration levels, which can increase the likelihood of corruption as officials seek alternative financial sources to supplement their income.

Respondents highlighted this issue by providing an illustrative example of how disparities in fiscal capacity influence corruption risks, as one participant noted:

"...The amount of Additional Employee Allowances (TPP) for the provincial government of South Sumatra is still very small, far below the

number received by employees from other regional governments and even below the amount received by the local personnel of the Palembang city government. (An example is) the comparison in Additional Employee Allowances (received by) the Regional Secretary in South Sumatra (which is) only 15 million (rupiah), while for (regional secretaries from) other regions they receive Additional Employee Allowances (TPP) (approximately) about 30 million (rupiah) ..." (Provincial Government Official, 2021, Interview 8)

Empirical evidence indicates that regions with greater fiscal autonomy and resource abundance generally experience reduced corruption (Ratmono, 2019; Nathan et al., 2022). This indicates that when local governments possess the fiscal capacity to provide competitive remuneration, the propensity for corrupt practices diminishes. Given the significant fiscal disparities across Indonesian regions, perceptions of inequity may arise, potentially prompting local officials to engage in corrupt activities as a means of securing what they perceive to be fair compensation.

The structure of remuneration plays a critical role in influencing corrupt behaviour. Establishing a reliable and objective framework for determining local personnel's compensation is essential. A fixed salary system offers stability; however, it may lack the necessary incentives to encourage exceptional performance. Conversely, a performance-based remuneration scheme can motivate individuals to enhance service delivery, yet it requires stringent oversight to mitigate the risk of manipulation or corruption. Campbell (2020) found that linking performance pay to transparent, measurable criteria can reduce corruption. However, in the absence of robust accountability mechanisms, such systems remain susceptible to exploitation by corrupt officials.

Certain local governments have introduced comprehensive performance evaluation systems, integrating these assessments into the determination of additional income

allowances for civil servants. One such local government is particularly noted for its relatively low levels of corruption. A group of respondents acknowledged that in a specific region, remuneration conditions are upheld based on a legitimate and transparent framework, as illustrated by the following statement:

"...like other local governments, the Gunungkidul district government has also provided Additional Employee Allowances (TPP) to its personnel. This allowance is given based on the local government's financial capacity; therefore, some limitation in the amount exists ... The Additional Employee Allowances (TPP) calculation uses the e-performance application as its basis, plus the employee attendance and discipline components. ..." (District Government Official, 2021, Interview 22)

In contrast, some local governments rely exclusively on discipline-related variables—particularly attendance records—when determining additional allowances for civil servants. This practice was confirmed by respondents from the South Sumatra provincial government, as reflected in the following statement:

"...The local government has implemented remuneration through the Additional Employee Allowances (TPP). However, the calculation is still only based on working hours and discipline, not considering personnel's performance. ..." (Provincial Government Official, 2021, Interview 9)

The basis upon which remuneration is determined is a crucial factor influencing corruption levels. Regions that implement transparent, performance-based remuneration systems tend to experience lower levels of corruption. Conversely, corruption tends to be higher where remuneration systems lack transparency or are politically controlled (Knutsen et al., 2017; Nwabuzor, 2005). For instance, corruption has become increasingly pervasive in Banyuasin Regency, where political considerations significantly shape compensation policies. By contrast, Gunungkidul

Regency has adopted a more transparent and structured remuneration system, contributing to lower instances of corruption.

Variations in the cost of living across Indonesian regions also exert a significant impact on officials' financial stability and their inclination toward corrupt practices. Urban areas and economically active regions, such as Lampung and South Sumatra, exhibit higher living costs compared to rural regions like Gunungkidul. If local government remuneration fails to account for these regional differences, officials in high-cost areas may experience financial strain, thereby increasing the likelihood of engaging in corrupt behaviour. By contrast, in regions where both income levels and living costs are relatively low, the financial pressure on officials is mitigated, reducing their motivation to engage in corruption. This trend is particularly pronounced in regions where living expenses exceed official remuneration, compelling local officials to seek alternative, often illicit, sources of income. Some exemplification of evidences supporting the preceding arguments provided by some respondents, which one of them stated as follows:

"...I think the amount of salary and allowance received by local civil servants in wealthy areas does not necessarily make them (the civil servants) always satisfied. In big cities, the cost of living is very high, so even though compared to other areas, their (local civil servants) income is higher, many of them cannot meet their living standards properly, according to the lifestyle around them. This condition creates pressure to seek additional wealth through illegal means..." (Academic, 2021, Interview)

Conversely, civil servants in regions with lower fiscal capacity, despite receiving comparatively modest salaries and allowances, are not necessarily driven to engage in corrupt activities to meet basic needs. This is largely because the cost of living in

these regions is significantly lower. Respondents from local government offices articulated this sentiment as follows:

"... when compared to the amount of income (salary and allowances) from other regions, the income (of regional employees) in Gunungkidul is very low, however, the amount of allowance received by these employees is sufficient to finance the necessities of life in Gunungkidul regions..." (District Government Official, 2021, Interview 22)

The interplay between income levels and living costs significantly influences career choices among local government personnel. Highly qualified professionals are more likely to seek employment in regions that offer competitive remuneration and a lower cost of living. Additionally, they prioritise workplaces that fairly assess and reward their skills and contributions. Consequently, these factors shape local human resource distribution, with skilled individuals gravitating toward regions that offer the most favourable combination of remuneration and living conditions. This phenomenon is particularly relevant in Indonesia, social structures are often shaped by materialistic values (Marshall, 1997; Safira & Borualogo, 2025).

From a nuanced perspective, empirical evidence suggests that fiscal capacity, remuneration structures, and living costs are significant variables influencing the propensity for corruption among local officials. However, these factors do not operate in isolation. Their interaction—alongside political, institutional, and social structures—determines the extent to which local officials engage in corrupt activities. Despite possessing adequate fiscal capacity, regions such as South Sumatra continue to experience corruption due to insufficient institutional oversight and a lack of transparency in resource allocation. Conversely, areas with limited revenue-generating capacity and high living costs face corruption risks driven by financial necessity and

inadequate compensation. This perspective was echoed by a group of respondents, one of whom stated:

“... income level or cost of living factors do not have much influence in encouraging corrupt behaviour of an employee. The main (factor) is external factors such as social pressure, where socio-culture in Indonesia is very materialistic. So, as long as there is a weak supervision system, corruption can occur. With the conditions in Indonesia, (someone) with a very low income can still live quite decently...” (NGO, 2021, Interviewee)

Remuneration authority is a critical dimension of administrative decentralisation, designed to enhance local governance and service delivery by enabling local governments to determine employee compensation based on regional fiscal capacity and living costs. This flexibility is intended to align remuneration with local economic conditions and promote efficiency. However, it also introduces variability, potentially leading to disparities in compensation practices across regions. Within Indonesia's decentralised system, local governments possess varying degrees of fiscal autonomy, which can result in significant disparities in remuneration.

Moreover, local officials may exploit discretionary powers in remuneration decisions, creating an environment conducive to corrupt activities. Non-performance-based or opaque compensation systems can encourage favouritism and rent-seeking, increasing corruption risks (Feng & Johansson, 2018; Hanapiyah, 2018). While decentralised remuneration authority seeks to tailor compensation to local needs, its effectiveness in mitigating corruption hinges on the implementation of transparent policies and robust oversight mechanisms. In Indonesia, the interplay between fiscal capacity, local governance, and socio-economic conditions plays a crucial role in shaping corruption dynamics. Addressing these factors through enhanced governance

structures and clearer remuneration policies could help reduce corruption risks and improve public service delivery within decentralised settings.

6.3.3 The Decentralised Promotion and Transfer System and the Propensity Local Corruption.

Since 2000, the regulatory framework governing personnel management in Indonesia has undergone significant evolution. Law No. 5/2014 on the State Civil Apparatus (ASN Law) introduced a more meritocratic system for managing civil servants, aimed at fostering professional development and enhancing governance efficiency. Article 72 of this law mandates that promotions be based on objective comparisons of competencies, qualifications, and work performance, ensuring a fair, transparent, and accountable process. However, local governments in Indonesia exercise considerable discretion in implementing administrative guidelines, especially for positions below the highest echelons. This autonomy results in varied practices across regions, reflecting disparities in local governance capacity and leading to inconsistencies in the effectiveness and fairness of promotion and transfer processes (Fitriani, Hofman, & Kaiser, 2005).

Indonesia utilises a hybrid promotion system combining merit-based and seniority-based criteria, with open selection processes particularly emphasised for senior positions such as echelon two. In contrast, the determination of promotion criteria for lower ranks (echelon three and below) is largely devolved to local governments. This decentralisation has resulted in considerable variation in promotion practices, often influenced by local political dynamics, social structures, and administrative capacity (Sudrajat, Kunarti, & Hartini, 2018; Turner, Imbaruddin, & Sutiyono, 2009).

This study hypothesises that the decentralisation of promotion and transfer policies in Indonesia increases the propensity for corruption, particularly in regions with limited administrative capacity and heightened political interference. In such contexts, performance-based assessments are inadequately implemented, and regional leaders exercise substantial discretionary authority over personnel decisions. Promotion and transfer processes are susceptible to local socio-political influences, which are often characterised by patronage networks and elite capture, making them vulnerable to corrupt practices. Malik and Prasajo (2023) contend that merit-based promotion systems have the potential to reduce corruption in Indonesia, provided they are applied consistently and with integrity.

Nonetheless, in many Indonesian regions, the absence of standardised performance assessments allows discretionary practices to subvert meritocratic principles. Weak assessment mechanisms and the inconsistent application of merit-based criteria enable discretionary decision-making by local officials (Ishak, 2019; Musa et al., 2022). Moreover, Jiang and Zhang (2020) and Brierley (2020) demonstrate that local leaders' discretionary use of personnel transfers can foster corrupt networks by enabling patronage and co-optation within bureaucracies. This phenomenon is particularly evident in Indonesia, where local executives wield substantial authority over promotions and transfers. Such discretion frequently leads to non-transparent practices, especially in the absence of standardised performance evaluation systems. Furthermore, Fairburn and Malcomson (1994) argue that seniority-based promotion systems diminish incentives for improved performance and may foster conditions conducive to corruption. This observation aligns with the Indonesian context, where seniority remains a predominant factor in local government promotions, further

exacerbating corruption risks by enabling political interference and eroding accountability and transparency.

While the legal framework mandates meritocratic promotion and transfer policies designed to enhance efficiency, performance, and motivation among civil servants, their implementation remains inconsistent. For instance, Article 72 of Law No. 5/2014 stipulates those promotions should be based on competencies, qualifications, and performance assessments, explicitly prohibiting discrimination based on gender, ethnicity, religion, or class. Mechanisms such as the Ranking and Position Advisory Board (BAPERJAKAT, *Badan Pertimbangan Jabatan dan Kepangkatan*) were introduced to uphold these principles by advising on personnel decisions. However, their effectiveness has been undermined by inconsistent enforcement across regions, creating opportunities for the abuse of power. The absence of rigorous performance-based metrics, coupled with the broad discretionary authority granted to regional leaders, provides fertile ground for corrupt practices to flourish. In many instances, regional executives frequently misuse their authority, prioritising personal loyalty and financial incentives over merit in decisions regarding promotion and transfer of officials (Wargadinata, 2024; Ulfah & Prastiwi, 2020).

Additionally, although transparency reforms have been implemented, weak enforcement, limited access to information, and poor understanding among officials have allowed corruption to persist in Indonesian local government (Ngatikoh et al., 2020). Weak institutional frameworks and limited accountability have entrenched corruption as a norm in Indonesia, with such practices seldom facing sanction (Prabowo & Cooper, 2016).

Performance-based evaluations in Indonesia vary significantly across regions, weakening meritocratic promotion systems. This inconsistency enables local officials to manipulate transfers for personal or political gain (Chen & Kung, 2016; Xu et al., 2016). In regions where performance evaluations are inconsistently applied, career advancements are often influenced by personal networks or political considerations rather than objective merit. Ideally, performance-based systems are designed to incentivise excellence, foster ethical conduct, and mitigate corruption. However, any Indonesian regions prioritise seniority or informal criteria over comprehensive performance metrics, potentially undermining accurate assessment of competence and integrity (Azzahra et al., 2024). This can erode motivation for ethical behaviour, weaken accountability, and ultimately heighten the risk of corruption. Respondents underscored the absence of a reliable data system for determining employee promotion and transfer patterns across different regions. One participant articulated this concern as follows:

"...The selection mechanism for the echelon two positions is through an open bidding system. Meanwhile, for echelon 3 and 4 positions, the competency test is being applied. However, the implementation of this competency test has not been applied thoroughly in all organisations due to limited data. ..." (Provincial Government Official, 2021, Interview 8)

In Lampung Province, there is evidence of a developing merit-based promotion system, including initiatives to implement performance evaluations. Respondents noted that open selection mechanisms and competency tests are utilised to assess candidates for high-ranking positions. However, they also acknowledged that the application of these mechanisms remains inconsistent, and the scarcity of performance-related data continues to hinder comprehensive evaluations. One respondent elaborated on this issue:

"...In the context of promotion or selection (of positions), for the high-rank position (echelon 2), an open selection system (open bidding) is implemented. While in the context of selection for the position of echelon 3 and 4 positions, the (applicable) system is (through) a competency test. In addition, employee placement also considers the performance analysis carried out by the head of agencies/units, as the report is then submitted to the Regional Personnel Agency. ..." (Provincial Government Official, 2021, Interview 1)

Meanwhile, regarding the transfer of local employees, the absence of a reliable and standardised assessment system has resulted in a policy whereby local governments primarily allocate human resources based on organisational demands or requests from specific administrative units. This practice renders the transfer system vulnerable to the misuse of authority by those in power, which can ultimately impair the effectiveness of local governance. Respondents emphasised this concern, with one stating:

"...Transfer of staff is merely based on the requests from local government agencies. ..." (Provincial Government Official, 2021, Interview 8)

Wang (2018) argues that performance-based evaluations, when properly implemented, can strengthen accountability and curb corruption by incentivising merit. However, when such evaluations are inadequately executed, they can lead to frustration and demotivation among local officials, inadvertently fostering corrupt behaviours as a coping mechanism in response to perceived inequities.

As Civil Service Commission heads, or *Pejabat Pembina Kepegawaian* (PPKs), local officials frequently exercise considerable discretion in appointing employees to strategic positions. This discretionary power enables regional heads to reward loyalists or penalise dissenters, fostering an environment where corruption serves as a tool for maintaining control and securing allegiance.

The abuse of discretionary authority in personnel administration is evident across multiple regions, including Lampung Province, Banyuasin Regency, and Gunungkidul Regency. In Banyuasin Regency, the absence of a robust performance assessment system has resulted in promotion and transfer decisions being determined by personal judgment or political considerations rather than merit. This issue was widely acknowledged among local officials, with one noting:

"The promotion system is implemented through selection with assessment, but this mechanism has not been implemented in all the Banyuasin regency governments. As a result, there is still great discretion from regional heads and officials from the leadership of local agencies in the regions..." (District Government Official, 2021, Interview 15).

The lack of transparent criteria enables favouritism and corruption, compelling officials to engage in corrupt practices to secure favourable transfers or promotions.

Moreover, the influence wielded by regional heads over employee transfers has cultivated a climate of apprehension among local officials. The threat of reassignment to less strategic or undesirable locations serves as an effective coercive tool, ensuring compliance with directives—including those involving corrupt activities. As Wade (1982) contends, discretionary power in personnel management can be a significant driver of corruption, particularly when deployed to reward loyalty or sanction dissent. This aligns with findings in Banyuasin Regency, where discretion frequently supersedes merit, perpetuating a culture of corruption.

While local governments primarily control intra-regional transfers, inter-regional (inter-province) personnel transfers remain under the jurisdiction of the national government. This delineation of authority was underscored by some of provincial government officials, as one of them said:

"The authority on the inter-regional (inter-province) personnel transfer is in the hands of the national government; meanwhile, the regional transfer is under the authority of the local government..." (Provincial Government Official, 2021, Interview 2).

This division of power further complicates efforts to establish a fair and transparent promotion system.

Several cases exemplify the corrupt practices stemming from this discretionary power. In 2021, the Regent of Nganjuk, Novi Rahman Hidayat, was arrested by the Corruption Eradication Commission (KPK) and the National Police Criminal Investigation Unit on suspicion of bribery related to the buying and selling of positions within the Nganjuk Regency Government in East Java. He was alleged to have accepted bribes from multiple parties in exchange for job transfers within the local administration. Similarly, in 2016, the former Klaten Regent, Sri Hartini, was implicated in a bribery scheme in which officials in Klaten Regency paid for promotions or appointments to government positions.

These cases underscore the centralised authority over civil service promotions in Indonesia enables regional leaders to exploit the system for personal loyalty, fostering corruption among subordinates seeking advancement (Ali, Prasojo, & Jannah, 2017). The absence of transparent criteria and accountability mechanisms exacerbates these challenges, necessitating urgent reforms to curtail discretionary power and promote merit-based personnel management.

Promotion and transfer practices within Indonesia's local governments are also significantly influenced by entrenched social structures, which often undermine

meritocratic principles. Nepotism, political interference, and a preference for seniority-based advancement contribute to arbitrary decision-making, facilitating corruption.

Political interference and nepotism persist in Indonesia's local governments, with bureaucratic appointments often based on political interests, undermining neutrality and governance (Prianto, 2016). As indicated by multiple respondents, in several regions, promotions and transfers are contingent on political allegiance or familial ties rather than performance or competence. This practice erodes civil service integrity, entrenches patronage networks, and heightens corruption risks.

Furthermore, Local governments often lack the infrastructure for merit-based systems, relying instead on manual processes and a seniority-driven culture. Jin and Xu (2019) argue that such promotion mechanisms incentivise inefficiency and corruption. In certain regions, the absence of reliable data management systems exacerbates the problem, allowing for subjective and potentially biased decision-making in promotions and transfers. Without sufficient oversight, this environment perpetuates a system where professional performance is secondary to personal connections and political loyalty.

The transition from a centralised to a decentralised system in Indonesia has introduced new dynamics in local governance. Under decentralisation, Regional Heads are elected by local constituents rather than appointed by the central government. Consequently, there is a growing tendency among local officials to cultivate favour with these elected leaders to secure career advancement, as articulated by respondents:

"... Compared to the centralistic system, whereas the Head of Region was elected by the local parliament or appointed by the Ministry of Home Affairs, the decentralised system has their Head of Region who is elected by the

local people. There is a new phenomenon where many local officers approach the elected Regional Head to try to get the "position" they expect...." (District Government Official, 2021, Interview 22)

This shift has further entrenched political patronage, as officials frequently align themselves with the political interests of Regional Heads to advance their careers.

In numerous regions, promotion and transfer practices continue to be influenced by primordial ties, wherein family connections and political loyalty often take precedence over merit-based criteria. This perpetuates a culture of patronage, diminishing incentives for performance improvement while exacerbating corruption risks. Kirya (2020) highlights that biased promotions in public sectors undermine accountability and foster corruption.. Officials promoted on the basis of connections or loyalty are less inclined to adopt performance-driven behaviours and are more likely to exploit their positions for personal gain.

Transfer policies in certain local governments, such as in Gunungkidul Regency, are not merely instruments of bureaucratic management but also serve as mechanisms of reward and punishment. A transfer to a remote work unit is often perceived as punitive, whereas placements in more strategic or desirable locations are viewed as rewards. Several respondents from local government institutions highlighted this dynamic, with one official stating:

"...The number of local personnel in the Gunungkidul Regency government is deficient; therefore, a complicated system of transfer policy is not required. The employee transfer policy is also used to implement a reward and punishment system. Often, personnel transferred to a remote work unit is considered as a punishment. ..." (District Government Official, 2021, Interview 22)

This practice demonstrates how transfer policies can be manipulated to serve political or personal interests rather than being guided by objective, merit-based considerations.

Promotion and transfer mechanisms in Indonesia's local governments remain deeply embedded within social structures that prioritise nepotism, political loyalty, and seniority over merit and performance. These entrenched practices compromise the integrity of the civil service, reinforce patronage networks, and increase the likelihood of corruption. Addressing these challenges necessitates the implementation of robust meritocratic systems, enhanced data management practices, and more rigorous oversight to ensure that promotions and transfers are conducted transparently and based on objective performance criteria rather than personal or political affiliations.

From a different perspective or nuance, discretionary transfers can, under certain conditions, serve legitimate governance objectives. For instance, rotating officials can prevent elite capture at the local level by disrupting entrenched networks of corruption. In Lampung Province, the routine rotation of officials is perceived as a strategy to mitigate prolonged tenures and curb elite domination. This perspective was echoed by many respondents, one of whom noted:

"... The provincial government of Lampung, about two years ago, has just updated the personnel and administrative reform. As a result, massive staff transfers were undertaken to meet the needs of local government agencies. This arrangement is based on "workload analysis". ..." (Provincial Government Official, 2021, Interview 1)

The delegation of authority over promotions and transfers in decentralised Indonesia has significantly influenced the propensity for corruption among local officials. This is largely due to the absence of a rigorous performance-based evaluation system, the

extensive discretionary power vested in Regional Heads, and other systemic deficiencies. While decentralisation was intended to enhance local governance by bringing decision-making closer to the people, it has inadvertently increased opportunities for corruption by expanding the autonomy of regional governments without corresponding oversight mechanisms.

A key challenge is the absence of a strong performance-based evaluation system, which undermines meritocracy in civil service promotions and transfers (Brinkerhoff & Wetterberg, 2013). Weak oversight mechanisms further enable patronage and informal practices to influence decision-making (Sari et al., 2022). This practice reinforces patronage, incentivising local officials to engage in corruption to secure or retain their positions (Kurniawan, 2021). Moreover, Regional Heads' broad discretionary powers allow unilateral decisions on local employees' careers, often leading to abuses of authority (Saifudin, 2018). The concentration of authority without adequate accountability mechanisms fosters an environment in which local leaders can exploit their positions for personal enrichment, frequently engaging in corrupt practices that involve local officials seeking to benefit from the system.

Persistent structural weaknesses, including ineffective checks and balances and insufficient enforcement of anti-corruption regulations, continue to aggravate corruption in Indonesia (Mietzner, 2015; Schütte, 2012). These governance deficits create conditions in which corrupt practices proliferate, as local officials perceive minimal risk of detection or sanction.

Thus, the confluence of factors under Indonesia's decentralised framework—namely, the lack of performance-based criteria for promotions and transfers, the extensive

discretionary authority of Regional Heads, and weak oversight mechanisms—significantly heightens the risk of corruption among local officials. This, in turn, undermines the broader objectives of decentralisation and good governance. To address these challenges, it is imperative to strengthen institutional frameworks, enhance performance-based assessments, and increase transparency and accountability in local personnel management.

6.4 Strong Local and National Audit Capacity as A Countervailing Mechanism for Increasing Local Accountabilities.

A critical countervailing mechanism for preventing corruption in decentralised governance is the presence of strong audit institutions at both local and national levels. In Indonesia, institutions such as the Supreme Audit Agency of Indonesia (BPK) and the Regional Inspectorates (*Inspektorat Daerah*) play a pivotal role in fostering transparency, accountability, and good governance.

The BPK, or Supreme Audit Agency, is the highest audit institution in Indonesia. Established under the Indonesian Constitution, it operates as an independent body with the mandate to audit the management of state finances. Its jurisdiction extends beyond national government accounts to include local governments, public institutions, and state-owned enterprises. The BPK's audit reports are instrumental in identifying mismanagement and corruption at all levels of government, including the local level.

At the local level, Regional Inspectorates serve as the primary oversight bodies tasked with monitoring local government operations. Their core responsibilities include ensuring compliance with laws and regulations, auditing the use of public funds, and evaluating the performance of local administrations. The Inspectorates are an integral

component of the Government Internal Supervisory Apparatus (*Aparat Pengawas Intern Pemerintah*, APIP) and are essential in detecting and preventing corruption within local governance structures. Decentralisation reforms in Indonesia sought to strengthen the institutional framework for financial management and oversight. These reforms encompassed capacity-building initiatives for local inspectorates, increased collaboration between the BPK and local oversight bodies, and the introduction of stricter regulatory measures to deter corruption and financial misconduct.

The role of audit institutions in decentralised systems aligns with Klitgaard's (1988) model, where corruption stems from monopoly power, discretion, and weak accountability. Local audit bodies serve as critical checks on decentralised governments, curbing discretionary exploitation (Grace & Thorogood, 2021). Effective corruption reduction also hinges on balanced monitoring and sanctions (Changwony & Paterson, 2019; Garoupa & Klerman, 2004). However, in Indonesia, decentralisation without robust oversight has led to uneven corruption outcomes (Ratmono et al., 2021). As Fan et al. (2009) note, decentralisation risks worsening corruption in lower-income regions with weak local institutions. Similarly, Yilmaz and Baltacı (2006) emphasise supervision, control, and auditing as pillars of successful decentralisation, all requiring strong institutional frameworks. Given this context, the hypothesis is that in Indonesia's decentralised system, the effectiveness of local and national audit institutions is crucial in enhancing local accountability and mitigating corruption. In regions where local audit bodies are weak or lack independence, national audit institutions must assume a more prominent role in counteracting local-level corruption.

The efficacy of audit institutions in combating corruption is contingent upon two critical factors: institutional capacity and independence. Institutional capacity refers to the ability of audit bodies to execute their mandate effectively, which encompasses access to adequate resources, well-trained personnel, and comprehensive information. In Indonesia, the capacity of local audit institutions, particularly the Regional Inspectorates, is frequently hindered by insufficient staffing, inadequate training, and financial constraints. Sari et al. (2022) note that local supervisory bodies in Indonesia often lack advanced auditing capacity, limiting their effectiveness in overseeing the implementation of development initiatives. Conversely, the BPK is widely regarded as possessing greater institutional capacity, benefiting from superior financial resources, more rigorous auditor training programmes, and a broader mandate that includes both financial and performance audits. This disparity in capacity is reflected in the quality of audit reports: BPK audits tend to be more comprehensive and result in actionable recommendations, whereas local audits often focus on procedural issues rather than addressing systemic governance failures.

Independence is another crucial determinant of audit institutions' effectiveness. An independent audit system ensures that audits are conducted without external influence, thereby enhancing the credibility and impact of audit findings. In Indonesia, the independence of local audit institutions is frequently compromised due to their organisational structure. Regional Inspectorates report directly to the regional head, creating a potential conflict of interest, particularly when audits pertain to high-ranking officials or politically sensitive issues. In contrast, the BPK enjoys structural independence, as its establishment is enshrined in the Constitution, and its members are appointed through a rigorous selection process involving both the executive and

legislative branches. This institutional autonomy enables the BPK to operate without direct interference from the entities it audits, thereby strengthening its capacity to uncover and deter corrupt practices.

From a competency perspective, the performance of regional inspectors as internal auditors is widely perceived as suboptimal. According to the Indonesian Government Internal Auditor Association, over 90% of the country's 313 internal supervisory bodies—both at the central and regional levels—lack the capability to detect corruption effectively. Applying the Internal Audit Capability Model (IA-CM), Sari et al. (2019) found that approximately 90% of internal supervisory units in the public sector remain at Level 1, with the remainder at Levels 2 and 3. Furthermore, interviews with regional government officials—specifically those from regional financial management agencies who work alongside the Regional Inspectorate—revealed multiple concerns regarding the inadequate quality of regional inspectors. As one respondent conveyed on behalf of their group:

"... Inspectorate, ideally as a partner. It is constrained by the capabilities of its internal audit personnel. Each region has its conditions of their internal audit personnel condition. In (Regency of) Banyuasin, there are several auditors whose attitude is still (using) the old paradigm as examiners (to) finds flaws. There were many complaints from the auditee regarding this ..." (District Government Officials, Districts, 2021 Interviewee 23)

This statement underscores broader concerns regarding the competency of local audit institutions and their ability to fulfil their oversight functions effectively.

Additionally, several corruption cases in the regions have involved officials from the regional Inspectorate. In July 2016, a district attorney's office charged a regional auditor from the Madiun Regency Inspectorate, Benny Adiwijaya, with corruption.

Similarly, in August 2017, Village Head Agus Mulyadi, Pamekasan Regent Achmad Syafii, and Pamekasan District Inspector Sutjipto Utomo were implicated in bribery allegations. These cases raise concerns regarding the competence of regional auditors, particularly given the increased authority of local governments under the decentralised system, which has, in turn, expanded opportunities for fraud and abuse of power—especially within regional financial management institutions.

The regional Inspectorate operates under the Regional Apparatus Work Unit and reports to the regional head, raising concerns about its independence. Consequently, in the execution of its duties, the regional Inspectorate frequently encounters conflicts of interest, particularly when the audited entity is a superior institution. The regional Inspectorate's limited effectiveness in identifying and reporting local government violations further highlights this challenge (Nur & Mashdurohatun, 2024).

With regard to external audits, the Supreme Audit Agency (BPK) is the sole government body responsible for conducting financial audits of all local government institutions in Indonesia. The competence of BPK's auditors is generally regarded as superior to that of internal auditors within local administrations. At the local level, administrative capacity, as well as auditing and monitoring mechanisms, remains relatively underdeveloped (Arends, 2020). The disparity in competence between these two auditing institutions was highlighted by respondents from regional financial management agencies, one of whom stated:

"... The quality of internal auditors is still below the standard. Their quality is far (inferior) to that of the auditor from BPK ..." (Province Government Officials, Province, 2021 Interviewee 9)

In the framework of regional supervision policies, the role of the Regional Inspectorate should be preventive, focusing on averting violations in regional financial management, whereas the BPK's role is primarily repressive, assessing the implementation of financial management processes. However, based on interviews with multiple respondents from regional financial management agencies, it was established that local governments valued the BPK not only for its auditing function but also for its advisory role. This sentiment was reflected in the following statement from respondents:

"...The BPK is always ready to provide guidance if we ask them about the proper treatment of our (accounting) records. In cases outside the audit schedule, they are very open to consultation, with the aim of improving our financial reporting in the next year..." (Province Government Officials, Province, 2021 Interviewee 5)

As an external audit agency, the relationship between the BPK and local governments is formally limited to that of auditors and auditees. During the financial statement examination process, both parties are required to adhere to professional ethical standards, which prohibit direct consultation. However, local governments have engaged in consultations with the BPK outside formal inspection periods. In an effort to further enhance local government performance, the BPK introduced performance audits in 2020, complementing its financial audits. These additional evaluations are documented in a Long-Form Audit Report, which includes both financial and operational audit findings. Respondents from the Regional BPK described this initiative as follow:

"...In the last few years, we have not only carried out financial audits of local government (financial reports) but also submitted a Long Form Audit Report, which includes a performance audit. The goal is to add value to the audit conducted by the BPK to the Regional Government because the results of the financial audit have shown significant

developments that are getting better marked by the achievement of Unqualified Opinions from various regional governments...."(Auditor, Regional NAB, Interviewee 10)

Indonesia's decentralised fiscal system continues to shape the role of national audit institutions, with a notable impact on strengthening local accountability. The competence and independence of the BPK, as highlighted by respondents from provincial and district-level financial management institutions, have positively influenced local government performance. Furthermore, the public accessibility of the BPK's audit reports ensures transparency in the process. Therefore, the critical role and expertise of the BPK within Indonesia's decentralised governance framework contribute significantly to mitigating corruption at the local level.

At the regional level, the supervision of financial authority implementation is not solely the responsibility of audit institutions; it also encompasses informal oversight through citizen participation. Regarding the latter, Chapter Five discussed the role of citizen engagement in combating local corruption within Indonesia's decentralised system. These two forms of oversight—formal auditing and informal monitoring—differ in scope and effectiveness in influencing local government performance. Informal monitoring may prove effective in the provision of public goods such as education and healthcare, particularly when community members have a vested interest in ensuring service delivery and preventing fraud. Conversely, formal audits are generally more effective in supervising infrastructure projects, such as village roads, particularly where individual incentives for direct community oversight are limited (Afridi et al., 2020). Furthermore, formal audit mechanisms exert a stronger deterrent effect on violations than informal monitoring, given their structured processes and authoritative outcomes.

In Indonesia, local governments actively compete to obtain an unqualified audit opinion as part of their efforts to enhance accountability and build public trust.

In Indonesia's decentralised governance framework, the effectiveness of audit institutions plays a pivotal role in curbing corruption and strengthening accountability. The Supreme Audit Agency of Indonesia (BPK) and Regional Inspectorates (*Inspektorat Daerah*) are the principal institutions responsible for auditing public funds and ensuring regulatory compliance at their respective levels. As the supreme audit institution established by the Indonesian Constitution, the BPK operates with a higher degree of independence, superior resources, and a broader mandate, enabling it to conduct comprehensive audits and issue actionable recommendations to combat corruption. In contrast, the Regional Inspectorates face substantial challenges, including inadequate staffing, insufficient training, and constrained financial resources, all of which hinder their ability to detect and prevent corruption effectively. Moreover, the lack of independence of local audit bodies—due to their direct accountability to regional heads—often results in conflicts of interest, further undermining their effectiveness.

Empirical evidence suggests that decentralisation in Indonesia, in the absence of robust oversight mechanisms, has led to varying levels of corruption across regions, primarily due to disparities in local audit capacity. The audits conducted by the BPK have been demonstrably more effective in reducing corruption, owing to the institution's structural independence and superior resources. Conversely, local inspectorates have struggled to fulfil their oversight responsibilities due to their limited autonomy and institutional weaknesses.

Furthermore, the analysis indicates that internal supervision by Regional Inspectorates remains moderate, with only marginal improvements in local administrations' responsiveness to audit findings. The inspectorates' limited capacity and lack of independence weaken internal controls within local administrations, heightening the risk of fraud and corruption. However, the BPK's external audits exert a more significant influence by enhancing regional accountability and reducing corruption through formal audit processes and recommendations. Compared to informal citizen-led monitoring, these external audits serve as a stronger deterrent against potential violations.

In conclusion, while both local and national audit institutions are crucial in mitigating corruption within Indonesia's decentralised governance system, their impact varies considerably due to differences in institutional capacity and independence. The BPK, with its greater autonomy, more substantial resources, and wider mandate, has proven more effective in uncovering corruption and reinforcing accountability at both national and regional levels. By contrast, local audit bodies, such as the Regional Inspectorates, often lack the necessary resources, expertise, and institutional independence to function effectively. Their direct reporting to regional heads creates potential conflicts of interest, further diminishing their ability to detect and prevent corruption. As a result, the BPK's stronger institutional framework enables it to play a more decisive role in curbing corruption, while the shortcomings of regional inspectorates underscore the urgent need for more robust institutional reforms and oversight mechanisms at the local level.

6.5 Chapter Summary

This chapter examines the effects of Indonesia's administrative decentralisation on local corruption, focusing on how the redistribution of authority and responsibility influences local officials' propensity to engage in corrupt activities. Administrative decentralisation in Indonesia aims to allocate financial resources and administrative authority across different levels of government to enhance public service delivery. However, the shift in power dynamics, particularly the autonomy granted to local governments in personnel management and auditing, has had a complex impact on corruption at the local level. This chapter explores local leadership, personnel management, and local audit capacity as critical factors shaping corruption within a decentralised framework.

Leadership plays a pivotal role in shaping the behaviour of local officials under Indonesia's decentralised governance structure. The introduction of direct elections for regional heads (*Pilkada*) has increased local accountability but has also enabled political elites to manipulate the bureaucracy. Decentralisation has, in some cases, exacerbated local corruption by granting elected leaders' greater control over resources and decision-making processes. This autonomy has facilitated the expansion of political patronage networks, whereby local employees are pressured or incentivised to align with the personal or political agendas of regional leaders.

A notable observation is the dual role of regional heads as both representatives of the local population and principals to local officials. This duality creates a dynamic in which local leaders not only influence but are also susceptible to corrupt practices. The ethical orientation and personal integrity of regional heads significantly affect corruption levels,

with patronage and primordial cultural influences undermining ethical governance among elected officials.

Where regional leaders exhibit strong moral values and prioritise transparency and accountability, corruption is mitigated. For instance, in Banyuasin, following a major corruption case, the newly elected leader introduced stringent measures to enhance governance and reduce corrupt practices. Conversely, in regions with entrenched patronage systems and weak institutional oversight, corruption continues to thrive due to the absence of ethical leadership and accountability mechanisms.

Recruitment practices under Indonesia's decentralised framework have undergone significant transformation, with local governments now possessing substantial autonomy in hiring decisions. However, this decentralised recruitment system has resulted in considerable disparities across regions, often shaped by local political elites and patronage networks. In areas where governance capacities are insufficient to ensure transparent and accountable recruitment processes, the risks of corruption are heightened. Decentralisation has exposed profound variations in administrative capabilities, particularly in human resource management.

For example, the introduction of Computer-Assisted Tests (CAT) for civil servant recruitment was intended to curb corruption, yet political patronage and nepotism continue to influence hiring decisions in many regions. Such practices undermine the integrity of recruitment processes, as illustrated in cases where local leaders manipulate outcomes to favour political loyalists or relatives. In contrast, regions with strong governance structures and transparent recruitment mechanisms, such as

Yogyakarta, demonstrate lower levels of corruption, underscoring the importance of institutional capacity and oversight in personnel management.

The decentralisation of remuneration authority enables local governments to tailor compensation packages according to regional fiscal capacity and cost-of-living variations. However, this flexibility has also led to disparities in salaries, potentially incentivising corrupt behaviour among local officials. In financially constrained regions, inadequate remuneration often compels officials to seek supplementary income through corrupt means. Furthermore, the absence of standardised remuneration frameworks and transparent policies exacerbates this issue, providing opportunities for officials to manipulate salary structures for personal gain.

Regions with strong fiscal capacity, such as South Sumatra, are able to offer competitive compensation, which can deter corruption. Conversely, in areas with limited fiscal capacity and high living costs, such as Lampung, financial pressures increase the likelihood of corrupt practices among local officials. The analysis suggests that implementing transparent, performance-based remuneration systems could mitigate corruption; however, inconsistent implementation across regions remains a significant challenge.

Promotion and transfer policies within Indonesia's decentralised governance system are heavily influenced by local discretion, often resulting in non-meritocratic practices that perpetuate corruption. While Law No. 5/2014 mandates merit-based promotions, its implementation varies considerably across regions due to disparities in local governance capacities. In many areas, promotions are dictated by political

considerations, nepotism, and personal loyalty rather than by objective performance assessments, fostering a culture of corruption.

The findings indicate that local leaders frequently exploit their discretionary authority to reward loyalists or penalise dissenters, thereby undermining meritocratic principles and facilitating corrupt practices. While efforts are being made in regions such as Lampung to implement merit-based promotion systems, challenges persist due to inadequate performance data and inconsistencies in policy enforcement. The analysis highlights the necessity of strengthening performance-based evaluation mechanisms and reducing discretionary authority in personnel decisions to mitigate corruption risks.

A robust audit capacity at both local and national levels is essential for curbing corruption in Indonesia's decentralised governance system. Local audit institutions, such as Regional Inspectorates, are responsible for overseeing local government operations, whereas the Supreme Audit Agency of Indonesia (BPK) functions as the national audit authority. However, the effectiveness of these institutions varies significantly, with local audit bodies often lacking the independence and resources required to detect and prevent corruption effectively.

The BPK, owing to its structural independence and broader mandate, has been relatively more successful in reducing corruption through comprehensive audits and actionable recommendations. In contrast, local inspectorates face considerable challenges, including insufficient staffing, limited financial resources, and conflicts of interest arising from their direct reporting lines to regional heads. The lack of autonomy and capacity within local audit institutions diminishes their effectiveness, allowing corrupt practices to persist at the local level.

Enhancing the capacity and independence of both national and local audit bodies is crucial for strengthening oversight and accountability in Indonesia's decentralised governance framework. Improved audit capabilities, coupled with greater transparency in auditing processes, can contribute to reducing corruption and fostering public trust in government institutions.

In conclusion, the chapter finds that administrative decentralisation in Indonesia has had a nuanced impact on local corruption, with outcomes largely contingent on the quality of local leadership, the integrity of personnel management, and the strength of audit capacity. While decentralisation was intended to improve governance by empowering local governments, in practice, the increased autonomy has produced divergent outcomes across regions. In areas where institutional capacity is weak and oversight mechanisms are insufficient, decentralised authority has often enabled the entrenchment of patronage networks and created new opportunities for corruption, particularly in recruitment, remuneration, and promotion processes. However, the experience of regions such as Yogyakarta and, to some extent, Jakarta demonstrates that local autonomy can also be harnessed to reduce corruption. In these cases, strong governance traditions, transparent recruitment systems, and robust civil society engagement have fostered greater accountability and limited the scope for corrupt practices. These examples highlight that the success of administrative decentralisation in curbing corruption depends not merely on the devolution of authority, but on the presence of ethical leadership and effective institutions that ensure transparency and uphold meritocratic principles.

CHAPTER 7

FISCAL DECENTRALISATION: FISCAL DISCRETION AND ACCOUNTABILITY ON LOCAL CORRUPTION IN DECENTRALISED INDONESIA

7.1 Overview of the Chapter

Fiscal decentralisation has been a central component of Indonesia's broader decentralisation policy since 2000. It was introduced to empower local governments by granting them the authority to manage public finances, thereby enhancing public service delivery, governance, and accountability. The rationale for employing fiscal decentralisation as a key dimension of decentralisation is based on the premise that granting local governments greater financial autonomy enables them to respond more effectively to local needs. However, this shift has also created significant opportunities for corrupt practices, as increased discretion over financial management has not always been accompanied by adequate oversight mechanisms. Consequently, fiscal decentralisation serves not only as a governance mechanism but also as a critical area of concern regarding the propensity for corruption.

This chapter addresses the third sub-question: *What is the impact of fiscal decentralisation in Indonesia since 2000 on the propensity of local officials to engage in corruption?* By examining the implementation of fiscal decentralisation—particularly in budget formulation, expenditure assignment, and revenue generation—this chapter explores whether increased autonomy has inadvertently facilitated corrupt practices. Drawing on both theoretical frameworks and empirical evidence, the chapter evaluates

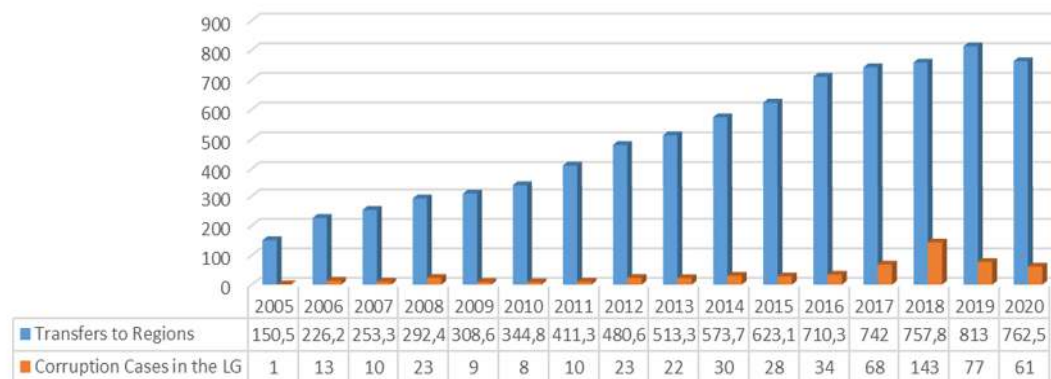
how local governance structures, alongside political and institutional dynamics, shape the risk of corruption under decentralisation.

Key findings from the analysis indicate that while fiscal decentralisation is intended to enhance local accountability, it has, in many cases, contributed to a heightened risk of corruption among local officials. This is particularly evident in regions where local governments exercise significant discretion over budgetary decisions but lack robust institutional frameworks for transparency and oversight. Moreover, the analysis highlights that corruption is especially prevalent in budget formulation and revenue management processes, where local officials exert considerable financial control and discretion.

The chapter is structured as follows: Section 7.2 provides an overview of fiscal assignment in decentralised Indonesia, examining how local authorities exercise financial control and discretion in budget formulation, expenditure, and revenue collection. Subsection 7.2.1 analyses the formulation of local budgets and their relationship with corruption, while Subsection 7.2.2 investigates how discretion over local expenditures influences the likelihood of corrupt practices. Subsection 7.2.3 focuses on local revenue generation and the impact of taxation powers on local corruption. Section 7.3 discusses the role of financial accountability in mitigating corruption, with a particular emphasis on the accountability mechanisms embedded in local government financial reports. Finally, Section 7.4 summarises the chapter's findings and discusses their implications for Indonesia's fiscal decentralisation framework.

7.2 Fiscal Assignment in Decentralised Indonesia.

The decentralisation of fiscal authority in Indonesia has significantly transformed local governance since its implementation in the early 2000s. However, this shift has also created numerous opportunities for corrupt practices within local governments. Collin (2019) observes that the intricacy of local financial systems—including budgeting, procurement, and taxation—creates opportunities for corrupt practices. Data from the past two decades indicate a substantial increase in the funds transferred to local governments, as illustrated in the figure below.



Source: Ministry of Finance RI, Author compilation

Figure 7-1 Transfer to Regions and Corruption in Local Governments 2005-2020

These transfers have risen from Rp.150.5 trillion in 2005 to Rp.762.5 trillion in 2020. However, this increase in local government funds has been accompanied by a corresponding rise in corruption cases, particularly between 2004 and 2018. A correlation of 0.765 between the volume of managed funds and corruption cases underscores the link between increased fiscal responsibility and the temptation for local officials to misuse public resources.

The management of local government finances is divided into three key phases: budget preparation, execution, and accountability. Each phase is critical for maintaining

transparency and ensuring the effective use of public funds. However, weak oversight at any stage can create opportunities for corruption. Eilstrup-Sangiovanni and Hofmann (2024) argue that while accountability should be maintained throughout all stages of governance, it is precisely within these processes that systemic vulnerabilities frequently become apparent. During the initial budget formulation phase, local governments exercise considerable discretion in allocating resources, which can result in inconsistencies in the prioritisation of public goods. The execution phase, where funds are disbursed and spent, is particularly susceptible to corruption, especially in procurement processes. Finally, the accountability phase, which assesses the effectiveness and legitimacy of these expenditures, is frequently undermined by deficiencies in auditing and oversight, allowing corrupt practices to persist without consequences.

As Bird (1993) notes, fiscal decentralisation involves shifting authority over revenue collection and expenditure decisions from central to local governments. While this system is designed to empower local governance, its impact depends on institutional arrangements at the local level. The extent of local governments' authority in raising revenues, alongside their expenditure responsibilities, plays a crucial role in determining their susceptibility to corruption. Obisanya and Hassan (2022) contend that granting local governments financial autonomy in both revenue generation and expenditure enhances accountability, thereby mitigating the risk of corruption. Conversely, when local governments depend heavily on central transfers without corresponding revenue-raising responsibilities, the risk of fund misappropriation increases significantly.

This section examines and analyses the discretionary power of local government authorities in formulating and executing local budgets, including the management of both expenditures and revenues.

7.2.1. The Formulation of Local Budgets and Its Impact on the Propensity for Corruption of Local Officials.

The formulation of local budgets in Indonesia is a fundamental aspect of fiscal management and governance. Local budgets serve as the primary instrument for planning, allocating, and managing financial resources, defining the scope of government activities, and ensuring the delivery of public services. The budgeting process comprises several stages, including planning, adoption, execution, monitoring, and auditing, which collectively shape the fiscal programme for one or more forthcoming years. These budgets are not only crucial for socio-economic development but also serve as a mechanism for ensuring accountability in public administration. Mardiasmo (2002) contends that local budgets not only underpin socio-economic development but also enhance governmental accountability to the public. Public budgeting is fundamental to governmental operations, as it integrates financial policies and delineates both the size and scope of government activities (Wildavsky & Caiden, 2004). However, the formulation of local budgets is highly susceptible to manipulation and corruption, particularly in politically charged environments where power dynamics and external interests exert significant influence. In Indonesia, corruption has become entrenched within the budgeting process, with both political and institutional actors exploiting systemic weaknesses for personal gain.

The hypothesis is that the political, institutional, and social environments in Indonesia's regions create conditions conducive to corruption in local budgeting. First, political dynamics play a significant role in fostering corruption. The interactions between local political officials, legislators, and political parties heavily influence budgetary decisions, with budgets often being utilised as tools for consolidating power and rewarding political allies. Ledyaeu and Chirikova (2017) demonstrate that close political affiliations between regional executives and legislative bodies often lead to decision-making processes that advance political interests at the expense of the broader public good. Regional heads, in particular, hold substantial influence over the budget formulation process, often favouring expenditures that allow for discretionary spending, which is difficult to audit and thus susceptible to abuse. Furthermore, local legislators play a pivotal role in approving the budget, a process that is frequently subject to political negotiations, where legislators may block or delay budget approval unless their demands for personal or factional benefits are met.

The institutional framework also significantly shapes the likelihood of corruption in local budgeting. Weak oversight mechanisms, inadequate internal controls, and flawed accountability structures create an environment conducive to corrupt practices. Transparency in public budgeting directly influences accountability, and its absence erodes institutional trust (Hamzah et al., 2024; Wang & Niu, 2019). In Indonesia, this issue is further exacerbated by the involvement of external actors, particularly contractors and private companies, who frequently offer bribes to public officials in exchange for securing lucrative government contracts. These external actors contribute to the manipulation of the budget process, diverting funds away from essential public services and into the hands of corrupt officials. Schneider (1989) conceptualises public

budgeting as a 'political marketplace', wherein diverse actors, each pursuing distinct interests and strategies, compete to shape budgetary outcomes. In this context, budgetary allocations are not always determined by public interest but are instead shaped by the competing interests of political, institutional, and external stakeholders. Therefore, this study hypothesises that the formulation of local budgets in Indonesia is prone to corruption due to a combination of political manipulation, institutional weaknesses, and external pressures from third-party stakeholders.

Empirical evidence supports this hypothesis, as demonstrated by several high-profile corruption cases in Indonesia's local government budgeting process. Political actors, particularly regional heads, frequently exploit their authority during budget formulation to serve political and personal interests. Empirical evidence from both Germany and Indonesia demonstrates that the allocation of intergovernmental grants and social expenditure is frequently shaped by political alignment and considerations, rather than by the genuine needs of local communities (Baskaran & Hessami, 2017; Gonschorek et al., 2018). Some respondents highlighted the actions of regional leaders who disregarded the interests of local constituents by leveraging their authority to influence subordinate units in ways that served their own political or personal agendas during the initial phases of budget proposals. This sentiment is reflected in the following account

"...in the previous Regent's` administration, sometimes there were "special requests" from the Regent to SKPD-SKPD (local units) to allocate special funds, (usually) non-binding funds. We in the units were forced to obey (the order). The use of the budget is to be accessed (directly) by the Regent's Office for its use..." (*Local Officials, Districts, 2021, Interviewee 14*)

The misallocation of public funds not only undermines service delivery but also creates opportunities for corruption. Regional heads frequently exploit their authority to incorporate discretionary or loosely defined expenditures into the budget, which can

subsequently be misappropriated for personal gain. These expenditures often escape rigorous scrutiny during the accountability process, rendering them particularly susceptible to corrupt practices. A notable example is the Muaraenim Regent corruption case, which emerged in 2019. In this case, Regent Ahmad Yani manipulated the budget formulation process by demanding a "commitment fee" from contractors seeking to secure a road construction project. The fee, amounting to Rp 22.5 billion, was distributed among key political actors, including the Deputy Regent and the Head of the Public Works Agency, who subsequently bribed ten local legislators to secure the project's approval in the budget. As part of this scheme, these legislators collectively received bribes totalling Rp 2.36 billion. This case exemplifies how political actors—including both regional executives and local legislators—collude to manipulate budgetary processes for personal gain. It also underscores the role of third-party actors, such as contractors, who frequently act as willing participants in such corrupt arrangements (CEC Annual Report, 2019).

In response to this case, heightened scrutiny from higher regional authorities, particularly the governor, and the local administration has led to increased oversight mechanisms. As some respondents indicated, enhanced supervision has been mandated through collaboration with external oversight bodies. One respondent expressed this sentiment as follows:

“...The (current) Governor places great emphasis on the importance of integrity in budgeting, especially after the case of arrest in Muaraenim (district). The Bupati (Muaraenim) acts as a middleman in the bribery case (against) local legislators for approval of local budgets. For this reason, by entering into a cooperation agreement with the BPK and the KPK, the Governor hopes that similar incidents will not happen again....” (*Local Officials, Province Government, 2021, Interviewee 4*)

Institutional factors significantly contribute to the prevalence of corruption in local budget formulation. Weak internal oversight mechanisms and the absence of effective accountability structures create opportunities for corrupt practices to flourish. According to Mardiasmo (2005), public sector budgets are intended to uphold government accountability to the public. However, in the absence of robust oversight, these budgets are often manipulated for personal enrichment rather than public service delivery. In many Indonesian regions, inadequate internal supervision enables regional heads and local legislators to exploit their authority with minimal risk of repercussions.

This issue is particularly evident among local legislators, who frequently leverage their positions to exert pressure on regional governments, compelling them to accommodate personal or political interests within the budget. Rubin (1990) contends that public budgeting is fundamentally a political process. In Indonesia, this process is frequently influenced by rent-seeking behaviour, wherein local legislators seek financial benefits through their control over budget formulation. Several local government respondents highlighted concerns regarding the conduct of local legislators, particularly their exploitation of budget approval processes for personal gain. One respondent articulated this concern as follows:

"...the relationship between the Lampung provincial government and the Lampung provincial's local parliament is running harmoniously. However, not all local legislators have good intentions, as in the province of Lampung. Such is the case (which happened) in Central Lampung (district), where the Regent bribed local legislators to expedite the budget approval process to obtain regional loans planned for infrastructure development. So good communication alone is not enough, and there needs to be a mutually respectful relationship between the two agencies...." (*Local Officials, Province Government, 2021, Interviewee 5*)

As highlighted above, a notable case of such conduct occurred in Central Lampung district, where local legislators demanded a bribe of IDR 1 billion (£57,000) in exchange for approving a market development plan requiring external financing. This demand illustrates how local legislators can effectively hold the budget hostage until their financial interests are met. Given the political nature of the budgeting process in Indonesia, such corrupt transactions are commonplace, with both local legislators and regional executives using the budget to advance their own interests. In the case of Central Lampung, the bribe was ultimately paid, and the project was approved. However, this resulted in the misallocation of public funds, depriving the community of much-needed resources that could have been allocated to essential public services (CEC Annual Report, 2019).

The actions of these local legislators can be likened to a "political hostage" strategy designed to facilitate illicit transactions that serve either personal or collective political interests. If the local parliament rejects a budget proposal, the local government is compelled to continue operating under the previous fiscal year's budget. This political bargaining tactic exemplifies a form of corruption that has become prevalent under Indonesia's fiscal decentralisation framework. A particularly significant corruption case occurred in 2018, linked to the budget revision process of the Malang City Government for the 2015 fiscal year. This case implicated 41 out of 45 members of the Malang City DPRD, along with the Mayor and the Regional Secretary. The investigation revealed that executive officials had bribed DPRD members to expedite the budget ratification process. Testimonies from local officials during the trial indicated that these bribes had been solicited by the DPRD members themselves (CEC Annual Report, 2019).

Corruption in local budget formulation is not confined to the district level but also occurs at the provincial level. A major case in North Sumatra exemplifies this trend, where 14 members of the provincial DPRD were convicted of accepting bribes during the budget formulation process for the 2012 and 2013 fiscal years. These legislators leveraged their influence over the budget to extract bribes from regional officials in exchange for budget approval. This case underscores the extent to which corruption has permeated various levels of governance in Indonesia, with both regional and provincial legislators engaging in rent-seeking behaviour. Such corruption undermines the integrity of the budget system and erodes public trust in governmental institutions (CEC Annual Report, 2019).

Beyond political and institutional factors, social pressures and the involvement of external actors further exacerbate corruption in local budget formulation. Contractors and private sector entities frequently play a pivotal role in these corrupt schemes, offering bribes to public officials in exchange for securing government contracts. Public budgeting involves complex interactions between multiple stakeholders (Rubin, 1990), including external actors with vested interests in influencing fiscal decisions. In numerous instances, these private sector entities willingly engage in corrupt transactions to secure lucrative contracts, which they subsequently exploit for financial gain. This not only distorts the budgeting process but also diverts public funds away from critical services and infrastructure projects.

The involvement of external actors is particularly evident in the case of the Muara Enim Regent, where contractors reportedly paid bribes totalling IDR 22.5 billion to secure a road construction project. The willingness of contractors to participate in such schemes

demonstrates the symbiotic relationship between public officials and private sector entities in manipulating budget allocations. This form of collusion is prevalent in Indonesia, where public procurement processes are frequently compromised by corruption (CEC Annual Report, 2019). The entrenched influence of external actors further complicates efforts to reform the budgeting process, as these stakeholders have a strong incentive to maintain the status quo.

Social pressures also contribute to corrupt behaviour among local legislators. Many are primarily concerned with securing budgetary allocations that enhance their political standing or benefit their constituents, rather than ensuring an equitable distribution of resources based on community needs. Knight (2003) demonstrates that local legislators frequently support initiatives which enhance their personal popularity, even when such projects fail to correspond with the genuine needs of their constituencies. This results in the misallocation of public resources, as funds are redirected towards politically motivated projects rather than essential public services.

In Indonesia, the formulation of local budgets frequently involves the inclusion of budget items categorised as operational funds for gathering community aspirations, commonly referred to as "aspiration funds." However, the methods employed by local legislators to secure these funds often lack transparency. Several local government respondents expressed concerns regarding this issue, as articulated by one respondent:

"... in the initial (discussion) meetings of the budget, as well as when (conducting) evaluation meetings, several meetings with OPD-OPD (local unit agencies) were conducted with a lack of transparency. These DPRD members hope that their aspiration funds can be accommodated, but it is possible that there will be discussions outside of that (about)...." (*Local Officials, Districts, 2021, Interviewee 26*)

Local legislators frequently insist that their requested allocations be incorporated into the proposed local budget during its formulation at the Regional Apparatus Organisation (OPD) level. However, local governments often face challenges due to budget constraints, as they must prioritise urgent matters in budget preparation. This dynamic is reflected in the following statement from respondents:

"... not pressure but interests, the partner of BPKAD (local financial management agency), in addition to OPD (local government agencies), is the local parliament (DPRD). And they (the local parliament) proposed to us that Financial Aid for any activities they need could be included in the local budget. Maybe it's those interests that are often difficult to synchronise...."
(Province Government Officials, Province, 2021 Interviewee 9)

Political party influence also plays a significant role in shaping the behaviour of local legislators during the budget process. Pressure from political parties can compel legislators to compromise their integrity in order to secure financial benefits for themselves or their party. Geese and Martínez-Cantó (2022) observe that close ties between local legislators and political parties often foster collusion, enabling misuse of budgetary allocations. Similarly, Bae and Kwak (2023) highlight how legislators in decentralised systems may exploit their influence over budgets for personal or partisan gain. Such practices are particularly prevalent in regions where political parties exert considerable influence over legislators' actions, leading them to prioritise party interests over the public good.

In certain cases, when the central government modifies its policy regarding aspiration funds, it disrupts the smooth approval process of the draft local budget by the local parliament. A case illustrating this disruption, where changes to the regulations governing aspiration funds—originally intended to serve the interests of local legislators—hindered the ratification of the local budget, is captured in the following statement from respondents:

"...they (local legislators) are very concerned about being able to allocate funds for their political interests. Last year's aspiration fund was removed (abolished), and at that time, the local budget coordination (compilation) process became stuck. But then a regulation was issued (which stated another form), which replaced the aspiration funds by the Ministry of Home Affairs. The local budget (compilation) process then runs again...." (*Local Officials, Provincial, 2021, Interviewee 8*)

The impact of corruption on local budget formulation in Indonesia is profound. Corruption distorts the allocation of public resources, leading to the misappropriation of funds that could otherwise be used to enhance public services and infrastructure. The manipulation of the budget process by political actors, institutional weaknesses, and external stakeholders has eroded public trust in government institutions and weakened the accountability mechanisms designed to ensure transparency in public budgeting. As demonstrated by corruption cases in Muara Enim, Lampung Tengah, and North Sumatra, the prevalence of corruption in local budgeting significantly undermines the ability of local governments to deliver essential services to their communities.

In different nuances, respondents emphasised the significance of the relationship between executive and legislative powers in the local budgeting process. This relationship is not solely characterised by collusion or illicit interactions; rather, certain interactions between local governments and local parliaments underscore the importance of professional, integrity-driven collaboration in ensuring the effective execution of governmental responsibilities. While optimal conditions in executive-legislative relations are theoretically achievable, dynamic political interests frequently undermine their stability. Respondents articulated these perspectives as follows:

"...good relations (with) the DPRD are going well. Several ratifications of the election results and the ratification of regional budgets have always gone smoothly. Maybe this is because (by) the Governor who has been able to

build good communication with the DPRD (members)...." (*Local Officials, Provincial, 2021, Interviewee 8*)

Furthermore, leadership alone is insufficient to mitigate rent-seeking behaviour in the local budgeting process, particularly given that regional heads often concurrently serve as regional leaders of political parties. Local parliamentary parties must engage in political compromises that influence their policy positions, potentially disrupting the cooperative relationship between regional heads and local parliaments.

In conclusion, the formulation of local budgets in Indonesia is profoundly shaped by political, institutional, and social factors, all of which contribute to the high propensity for corruption among local officials. Political actors, particularly regional heads and local legislators, often manipulate budget allocations to secure personal or party advantages, frequently at the expense of public service delivery. Institutional weaknesses, including inadequate oversight and accountability mechanisms, enable these actors to abuse their authority with minimal repercussions. External stakeholders, particularly contractors, further exacerbate these issues by offering bribes in exchange for government contracts. The cumulative effect of these factors results in a budgeting system vulnerable to manipulation and corruption, ultimately undermining the ability of local governments to serve their communities effectively. Addressing these challenges requires comprehensive reforms aimed at strengthening oversight, enhancing accountability, and minimising the influence of political and external actors in the budgetary process.

7.2.2. The Impact of Local Expenditure Discretion on Local Bureaucrats' Propensity to Corrupt.

This section examines the impact of fiscal decentralisation, specifically expenditure assignment, on the likelihood of corrupt practices among local officials. Fiscal decentralisation grants local governments greater discretion over expenditure, which, from an inter-jurisdictional perspective, has the potential to enhance accountability. Fisman and Gatti (2002) demonstrate that fiscal decentralisation of government expenditure is consistently associated with lower levels of measured corruption across countries. They argue, based on their correlation analysis, that granting local governments authority over budgeting—under the assumption that decentralisation fosters participation and accountability by reducing the gap between the government and the governed—should, in theory, enhance both participation and accountability.

Building on this argument, the hypothesis that emerges is that increased discretion in expenditure decentralisation in Indonesia may, in practice, exacerbate corruption among local authorities. Compared to revenue decentralisation, Indonesia's system of expenditure decentralisation is relatively extensive. However, due to capacity constraints and inadequate oversight, the anticipated benefits of the decentralised system have not been fully realised in practice. As with political and administrative decentralisation, the big bang approach to fiscal decentralisation has aggravated several challenges, including limited administrative capacity in many regions, significant social and economic disparities, and shortcomings in fiscal transfer mechanisms and policy design. These challenges have necessitated continued national government intervention, where policy ambiguities may create opportunities

for corrupt practices at the regional level. Additionally, political pressure—frequently reported during local budget formulation—further heightens the risk of irregularities.

In summary, while fiscal decentralisation and increased local discretion over expenditure have the potential to enhance government accountability through inter-jurisdictional competition, this is contingent on effective regulation and monitoring mechanisms to prevent and penalise corruption at all levels of government.

A central aspect of fiscal decentralisation is the delegation to local governments of authority over expenditure decisions and the receipt of intergovernmental fiscal transfers, particularly those financed by the central government (Bird, 1993). Regional heads in Indonesia's decentralised fiscal system have the authority to regulate expenditure (Law No. 23/2014). However, while local governments must collaborate with local parliaments in formulating budgets and ensuring accountability, they retain a degree of autonomy in executing budgetary decisions. As part of the regional government structure, local parliaments also have authority over budget allocations. In addition to operational costs, local budgets cover discretionary funds—commonly referred to as *aspiration funds*—which are susceptible to misuse. Consequently, both executive and legislative branches hold equal authority over budget utilisation, increasing the risk of conflicts of interest and fraudulent practices. This section examines how these institutions exercise discretion, often in pursuit of personal or group benefits, in the management of local government budgets.

The extent of fiscal decentralisation, from an expenditure perspective, is reflected in the proportion of regional government expenditure relative to central government expenditure. Over nearly two decades, the data indicate a steady increase in the share

of regional government expenditure as a percentage of GDP, while central government expenditure has exhibited a declining trend.



Source: Ministry of Finance RI, Author compilation

Figure 7-2 Local and National Spending in Indonesia 2001 - 2019

The data indicate a gradual decline in national expenditure as a percentage of GDP, decreasing from 15.8% in 2001 to 9.4% in 2019, while local expenditure exhibits a modest increase from 6% to 7% over the same period. This trend suggests a shift in fiscal responsibility from the central government to local governments. As local governments assume greater control over financial resources, opportunities for corruption may also increase, particularly in the absence of robust governance and oversight mechanisms. The moderate rise in local expenditure reflects growing financial autonomy; however, without stringent checks and balances, such autonomy may facilitate the misappropriation of public funds by local officials.

An analysis of regional government expenditure, which is managed under the authority of the Regional Head, reveals significant discretionary power vested in this office. As the highest-ranking official within the regional administration, the Regional Head possesses considerable influence over budgetary decisions and can exert pressure on

subordinates to comply with directives, even when these directives contravene legal provisions. This discretionary authority can be exploited in budget management, particularly when subordinates stand to benefit—financially or otherwise—from participating in such misconduct. A prevalent form of fraud involves the misappropriation of public funds for the personal or political interests of the Regional Head. This occurs when executive officials, leveraging their extensive authority, manipulate budgets for personal gain. External auditors play a crucial role in detecting such violations and recommending legal action. One example of this type of fraudulent activity was described by respondents as follows:

“... once during the campaign moment (in the activities of) regional elections, the previous Regent asked that (can) be accommodated financing (for) expenditures in order to support campaign activities of a political party. Of course, this kind of financing is not included in the regional government budget headings, but the regional government units are asked to prepare the funds...” (*Local Officials, District Government, 2021, Interviewee 16*)

Multipurpose budget items are particularly susceptible to misuse due to their inherent flexibility, which enables manipulation of the accountability process. This risk is further exacerbated by the allocation of block grants from national government transfers, where broad spending discretion complicates efforts to track financial outcomes or ensure transparency. The absence of clear, measurable outputs undermines effective accountability. Although internal auditors can often identify instances of budgetary mismanagement, their subordinate position to the Regional Head, coupled with limited institutional capacity, frequently results in a lack of enforcement. As outlined in the previous chapter, structural pressures and inadequate expertise among auditors hinder comprehensive oversight, allowing budgetary misuse to persist despite its relative

detectability. Without improvements in both auditor autonomy and technical capacity, this cycle of financial mismanagement is likely to remain unchecked.

The second part of the analysis examines fraudulent practices in regional expenditures managed by local legislators. Although their authority over such expenditures is more limited than that of the Regional Head or other officials, certain areas—such as operational and travel costs—remain particularly vulnerable. These categories, along with general fund items from block grants, often lack direct output, making them susceptible to manipulation.

External auditors, for instance, have identified cases in South Sumatra where legislators falsified flight tickets and hotel invoices to claim fraudulent travel expenses.

One auditor described this issue as follows:

“...the business travel expense is a type of expenditure that is often manipulated. In the province of South Sumatra, we have found and followed up on several cases of official travel manipulation by local legislators. They faked flight tickets and hotel invoices with the aim of getting money for business trips. This mode is a fictitious expenditure so that we disclose existing cases in the audit report and recommendations for the follow-up to the authorities (law enforcement). This violation was found on several official trips carried out by local legislators in the province of South Sumatera....” (*Auditor, Supreme Audit Agency, 2021, Interviewee 7*)

This highlights how fraudulent activities extend across both the legislative and executive branches of local government. However, rather than being solely the result of individual misconduct, these practices stem from systemic institutional weaknesses. Internal oversight bodies, such as the regional inspectorate, often lack both independence and capacity, undermining their ability to monitor regional expenditure effectively. These deficiencies, compounded by political interference, weaken the inspectorate’s role in safeguarding financial integrity. Additionally, while external

accountability mechanisms have uncovered fraudulent activities, they frequently encounter obstacles in enforcing corrective measures due to bureaucratic inertia and political pressures. Addressing these challenges requires comprehensive reforms to enhance both internal and external audit processes, thereby strengthening governance and mitigating financial malpractice in regional expenditure management.

The previous chapter underscored the persistent inequalities in Indonesia concerning human development and infrastructure. Consequently, the limited capacity of personnel at the regional level adversely affects both internal controls and the administrative structure of local government. This deficiency is particularly evident in regional governments within the eastern part of the country and at lower administrative levels, including villages. The implementation of social control mechanisms is constrained by the low levels of education and economic status among many villagers.

To address these disparities, the Indonesian government introduced a village fund policy in 2014 through Law No. 6/2014 on Village Funds. However, while this policy was intended to promote rural development, it has also created opportunities for corruption among village officials. Between 2015 and 2020, Indonesia Corruption Watch (ICW) reported that 676 village officials were prosecuted for corruption, causing an estimated state loss of IDR 111 billion (Kompas, 2021). Many respondents external to local government have criticised the mismanagement of village funds. One respondent articulated these concerns as follows:

“... village funds are an example of how regulations and how they are put into practise are not always the same. There are a lot of different recordings for how to use village funds. We, too, are from non-government groups, but we can't question what that is ...” (*Non-Government Organisation, 2021 Interviewee 29*)

These fraudulent practices can be attributed to deficiencies in the administrative capacity of local government, necessitating an evaluation of the system's overall effectiveness. The development disparities that originated during the New Order era have contributed to significant regional inequalities in human capital and infrastructure. For instance, while electricity and internet access are widely available across Java, many areas in eastern Indonesia continue to lack essential infrastructure. These underdeveloped conditions negatively impact the efficiency and reliability of financial administration systems in these regions.

The national implementation of the e-procurement system has yet to reach its full potential, particularly in remote areas. Other financial control mechanisms, which are designed to prevent misconduct, also remain ineffective in some regions. Respondents from external audit institutions highlighted disparities in system accessibility between regions, particularly in remote areas where inadequate administrative infrastructure exacerbates financial mismanagement. One respondent explained this issue as follows:

"... each area has its own set of conditions. You can see the gap in places like South Sumatra's hinterland, where systems like e-procurement cannot be used as well as they could be because of network limitations. Not only is the quality of human resources low, but so is the quality (condition) of infrastructure, which leads to a lot of fraud, especially in terms of procurement of goods or services...." (*Local Officials, District Government, 2021 Interviewee 29*)

These systems, when fully implemented, could enhance oversight by the regional inspectorate. The adoption of computerised and integrated procurement and expenditure systems has the potential to reduce the risk of fraud and serve as a preventive measure against corruption.

The national government frequently implements financial policies that constrain the capacity of local governments to independently manage regional financial expenditures. Local governments often face overlapping interventions when exercising their fiscal authority. Respondents from local governments indicated that the current framework of fiscal decentralisation is perceived as "vague" due to the frequent interventions by the national government and the imposition of policies that undermine local fiscal autonomy.

A notable example of such intervention occurred during the COVID-19 pandemic. Nearly all respondents from local governments reported that the Ministry of Finance intervened in the management of the General Allocation Fund (DAU), mandating a 4% reduction in DAU allocations and prioritising their use for COVID-19 countermeasures. Consequently, the fiscal flexibility of local governments was perceived to have been significantly diminished. Several respondents expressed concerns regarding the extent of national government involvement in regional fiscal management. The situation during the COVID-19 pandemic serves as an illustrative case, as described below:

"... the moment was during the covid19 pandemic last year, where there was a budget refocusing. The national government (requesting the regional government) to cut (their) budgets in order to regulate regional budgets. This has collided with the framework of decentralisation. With the enactment of special rules (related to) handling the covid19 pandemic, they used the moment to control the budget. The control was by establishing a new (budget) ceiling. Local governments are required to comply with this budget regulation (because) there are sanctions (in the form of) delaying the dropping of Revenue Share Funds if they do not comply. This regulation is (the result of) a Joint Decree (signed by) the Ministers of Finance and Home Affairs. It can be seen here (that if) the national government's (policies) are only in the form of suggestions, the local governments are unlikely to comply. Local governments, on the other hand, become obedient as a result of the sanctions" (*Auditors, Districts, 2021 Interviewee 18*)

As discussed in previous chapters, evidence from the early stages of fiscal decentralisation suggests that local government policies often diverged from national economic priorities. Given Indonesia's status as a unitary state, the national government frequently intervenes in and supervises the fiscal authority of local governments to prevent power abuses, which were particularly prevalent in the initial phase of fiscal decentralisation. Additionally, some respondents from the national government, particularly those affiliated with the Regional BPK, asserted that such intervention and oversight are necessary to ensure that local fiscal autonomy does not hinder the implementation of national development policies. This perspective is reflected in the following statement:

"... they (the local governments) have some discretion in determining the direction of development policies, which is (still) directly related to fiscal management. However, this is not a full decentralisation because there are (still some) provisions from the national government, in this case, the Ministry of Home Affairs and the Ministry of Finance. There should be limitations. It is also very important that the national government can supervise it because sometimes if they (the local governments) obtain full autonomy, in the end, the President's grand plan may not be realised...." (*Auditors, Province, 2021 Interviewee 4*)

The analysis indicates that while fiscal decentralisation in Indonesia aims to enhance local government accountability by granting greater discretion over expenditure, it also significantly increases the risk of corruption due to weak governance and oversight mechanisms. The findings reveal that regional heads and local legislators frequently exploit their discretionary powers, particularly in the management of flexible budget items and national transfer funds, leading to widespread financial mismanagement and fraudulent activities. Capacity constraints, such as inadequate administrative expertise and disparities in regional infrastructure, further exacerbate these risks, making it challenging to monitor financial outcomes and enforce transparency. Moreover,

political pressures and the absence of strong checks and balances further undermine local accountability.

National government interventions, such as those implemented during the COVID-19 pandemic, illustrate the persistent tension between local autonomy and central oversight, with fiscal decentralisation remaining "vague" due to overlapping authorities. Ultimately, the analysis concludes that without substantive reforms—such as strengthening audit mechanisms and enhancing local administrative capacity—greater discretion over local expenditures will continue to foster corruption rather than achieve the intended objectives of accountability and efficiency.

7.2.3. Local Revenue Assignment and Taxing Powers on Local Bureaucrats' Corruption.

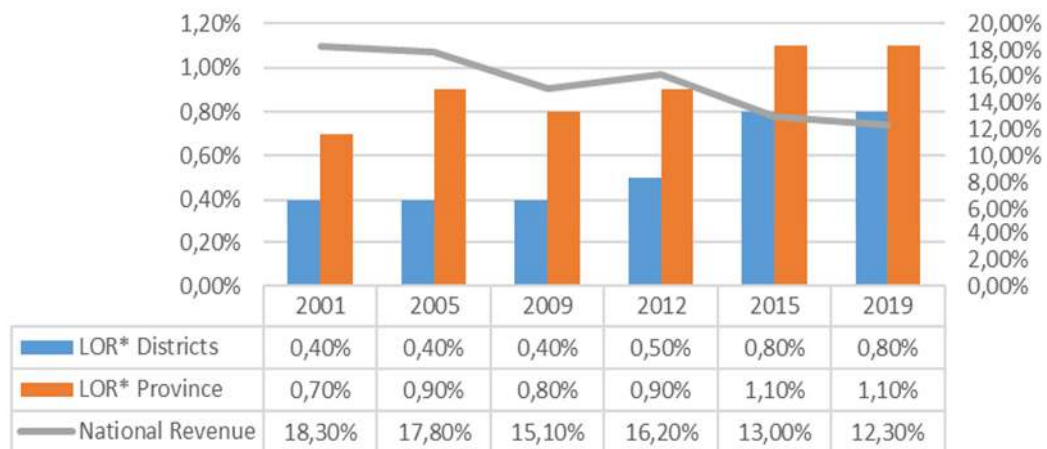
Another critical aspect of fiscal decentralisation examined in this section is revenue assignment. In Indonesia, local governments receive funding through regional revenues—primarily from local taxes—transfers from the national government, and local borrowing to finance their expenditures. This system is designed to promote fiscal autonomy and local accountability. However, when applying Klitgaard's corruption framework ($C = M + D - A$) to decentralised revenue, it becomes evident that the discretion exercised by local officials over these resources may create opportunities for corruption. The key variables in this analysis include local revenue (comprising local tax collection), transfer funds, and local governments' discretion in managing these funds. The focus of this analysis is to assess how the discretion enabled by fiscal decentralisation, particularly in relation to regional revenues, influences the propensity of local officials to engage in corrupt practices.

The underlying hypothesis is that the increased discretion granted through revenue assignment under Indonesia's fiscal decentralisation, coupled with limited institutional monitoring capacity, has contributed to a rise in rent-seeking behaviour among local officials. While the literature suggests that fiscal decentralisation is intended to enhance local accountability and efficiency through inter-jurisdictional competition, this outcome is not always assured, particularly in developing countries. In Indonesia, decentralisation has frequently resulted in a mismatch between revenue generation and expenditure autonomy. Without corresponding revenue autonomy, local officials may disregard the fiscal implications of their expenditures, thereby undermining accountability. De Mello Jr (2000) demonstrates a positive association between tax revenue decentralisation and governance quality, indicating that decentralisation may foster interjurisdictional competition and enhance resource allocation. However, where intergovernmental transfers dominate revenue streams—common in Indonesia—accountability benefits may diminish (Kolstad & Fjeldstad, 2006; Boadway & Shah, 2006). Consequently, the effectiveness of decentralisation in curbing rent-seeking behaviour largely depends on local institutional capacity—an area in which many Indonesian regions remain weak due to the enduring legacy of centralised governance.

Further complicating this issue is the questionable capacity of local institutions to effectively manage decentralised revenue. Local governments in developing countries, including Indonesia, often lack the institutional infrastructure and human resource capacity necessary to fulfil their fiscal responsibilities efficiently. The “big bang” decentralisation implemented in Indonesia in the early 2000s left many local governments unprepared, particularly in terms of fiscal oversight and institutional controls. While Indonesia's fiscal decentralisation has aimed to enhance local

governance (Smoke & Lewis, 1996), weak institutions risk exacerbating corruption, as observed in similar contexts by Ko and Zhi (2013). Accordingly, in its current form, fiscal decentralisation in Indonesia may inadvertently increase opportunities for corrupt practices, particularly in cases where local discretion in revenue management is not accompanied by strong accountability mechanisms.

The table below presents the trajectory of local revenue (*Pendapatan Asli Daerah*, PAD) from 2001 to 2019. Over this period, both district and provincial PAD exhibited a gradual increase. District PAD rose from 0.4% of GDP in 2001 to 0.8% of GDP in 2019, with a notable increase observed in 2015. Similarly, provincial PAD increased over the same period. In contrast, central government revenue displayed a declining trend, decreasing from 19.4% of GDP in 2001 to 14.2% of GDP in 2019.



Source: Ministry of Finance RI, Author compilation

Figure 7-3 Districts, Provincials, and National Revenue in Indonesia 2001 - 2019

The data indicate an increasing trend in local fiscal independence, as reflected in the growth of Local Own-Source Revenue (PAD) for both districts and provinces, which more than doubled between 2001 and 2019. This trend signifies a shift towards fiscal decentralisation, which, in theory, grants local governments greater autonomy in financing public services. However, enhanced fiscal capacity at the local level may also

increase the risk of corruption, particularly in developing countries where governance and oversight are often weak (Fan et al., 2009; Ko & Zhi, 2013). Empirical research indicates that fiscal decentralisation can exacerbate corruption, especially when local governments acquire greater revenue autonomy without commensurate improvements in transparency and accountability (Fan et al., 2009; Syarif, 2023). Thus, while the rise in PAD reflects improved local financial capacity, it also presents governance challenges.

In the literature, fiscal autonomy is often assessed by a region's ability to generate its own revenue, a fundamental aspect of decentralisation efforts in many countries, including Indonesia. The implementation of fiscal decentralisation in Indonesia is governed by several key legal frameworks: the Law on Regional Government, the Law on Fiscal Balance, and the Law on Local Taxes and Charges. These laws define the authority of local governments to impose taxes, collect fees, and manage other regional revenue sources, such as income from interest, exchange rate differences, commissions, and discounts from commercial transactions (e.g., the buying and selling of goods and services). This legal framework was designed to enhance local governments' capacity to generate independent revenue while ensuring fiscal balance across regions.

Over the past two decades, Indonesia's approach to fiscal decentralisation has undergone significant adjustments. In the early 2000s, tax authority was delegated to local governments through an "open list" system, as stipulated in Law No. 34 of 2000. Under this system, local governments were granted broad discretion to introduce new taxes and levies beyond those explicitly enumerated in the law. This flexibility aimed to

empower local governments to capitalise on local economic opportunities and diversify revenue streams. However, the central government retained the authority to revoke regional regulations deemed detrimental. Between 2002 and 2009, Indonesia's central government repealed 1,717 regional tax and levy regulations due to non-compliance with higher laws or adverse economic effects (Hamidi, 2011; Ambarwati et al., 2023). Many were annulled for technical deficiencies, such as legal inconsistencies or overreach, which disrupted local business environments and fiscal stability (Ambarwati et al., 2023). These early challenges underscored the difficulties in balancing regional fiscal autonomy with broader national economic and social concerns.

The shortcomings of the open list system led to its revision and the subsequent enactment of Law No. 28 of 2009, which replaced it with a "closed list" system. This reform significantly restricted local governments' ability to impose new taxes, allowing them to levy only those explicitly authorised by law. The objective was to enhance legal protection for taxpayers and mitigate the risks associated with arbitrary tax collection. While this shift aimed to promote fairness and transparency, it also constrained local governments' ability to explore innovative fiscal strategies, even in cases where untapped tax bases existed. This ongoing tension between central oversight and local fiscal discretion highlights the complexities of fiscal decentralisation.

These policy changes reflect the ongoing negotiation between local and national interests. While local governments seek greater autonomy in raising funds and managing resources, the national government prioritises macroeconomic stability, often arguing that excessive local taxation could destabilise both local and national economies. The formulation of local taxation policies, influenced by the delegation of

fiscal authority, has significant implications for governance, transparency, and corruption. Poorly designed or inadequately enforced regional taxation policies can create environments conducive to corrupt practices. This dynamic is corroborated by Lambsdorff and Cornelius (2000), who, drawing on data from 26 African nations, identified a positive association between regulatory vagueness and corruption. Their analysis demonstrates that imprecise or inconsistently enforced tax regulations provide officials with discretionary power, thereby creating opportunities for corruption through the exploitation of legal ambiguities.

Concerns regarding the potential for corruption in local taxation policies were echoed by external auditors and representatives of non-governmental organisations (NGOs) in Indonesia. Some respondents highlighted the risks associated with local tax regulations, noting that in the early stages of fiscal decentralisation, many local governments lacked the technical expertise to develop effective taxation policies. As a respondent from the BPK explained:

“...when fiscal decentralisation was first introduced, many local governments failed because they lacked the expertise to create effective taxation policies. The possibility of local officials engaging in corrupt practices due to this factor may increase....” (*Auditors, Supreme Audit Agency, 2021, Interviewee 31*).

Prud'homme (1995) contends that a principal limitation of decentralisation lies in the insufficient institutional capacity at the local level, particularly the inadequate quality of human resources, which impedes effective policy formulation. Furthermore, institutional weaknesses and corruption are significant factors underlying the low tax effort observed in many low-income countries (Ajaz & Ahmad, 2010). In Indonesia, insufficient institutional capacity at the local level may further exacerbate corruption risks in regional governance.

The delegation of significant taxing authority to local governments under Indonesia's fiscal decentralisation framework poses risks to macroeconomic stability and may intensify corruption. A principal factor contributing to these risks is the limited institutional capacity of local governments. Weak policy integration and poor enforcement of local tax regulations heighten the likelihood of fraud and corrupt practices. Officials with low integrity may exploit ambiguities in local tax laws for personal gain, increasing the risk of corruption in regional revenue management. This issue is particularly concerning in regions where local officials have minimal institutional experience, further undermining the effectiveness of fiscal decentralisation.

A significant disparity exists in capacity between the two levels of local government in Indonesia—provincial and district. During the New Order era, provincial governments wielded greater authority, enabling them to cultivate the expertise required to manage decentralised responsibilities effectively. Under Indonesia's current decentralised system, greater taxing authority has been delegated to district governments, which often exhibit lower institutional capacity and competence than their provincial counterparts. Law No. 28/2009 on Regional Taxes and Regional Retributions grants district governments the authority to impose a broader range of taxes than provincial governments, overseeing eleven categories of local taxes, including land, building, hotel, and entertainment taxes. In contrast, provincial governments administer only six tax structures.

The expansion of taxing authority at the district level, combined with limited institutional capacity, exacerbates the adverse effects of decentralisation. One prominent example is the misappropriation of village funds, which are designated for the lowest tier of local

governance. Respondents from non-governmental organisations (NGOs) indicated that district institutions are ill-equipped to manage their fiscal responsibilities within the decentralisation framework. The disparity between the extensive taxing powers of local governments and their limited institutional capacity was conveyed as follows:

"... In Indonesia, fiscal decentralisation system is giving more authority to the regency (district) level than to the provincial level. It is more decentralised than when the principle of deconcentration was still fairly dominant. One example is the regionalisation of many central taxes into regional taxes by Law No. 28 of 2009, the regency (districts) governments hold 11 types of regional taxes and levies compares to the 5 types of regional taxes and levies held by us. the addition of this amount of authority. There are many regional regulations regarding regional taxes at the regency level that are not yet available adequately, one of which is the regional regulation on land and building taxes...." (*Local Officials, Provincial Governments, 2021 Interviewee 4*)

This statement reinforces the argument that granting extensive taxing authority to local governments, coupled with their generally limited administrative capacity, has led to the development of low-quality regional tax regulations, which are often vague and susceptible to violations. This lack of clarity creates opportunities for abuse of power by local officials. Furthermore, insufficient oversight mechanisms at the regional level heighten the likelihood of corrupt practices among local officials.

Given the delegation of local tax authority to both provincial and district governments as part of fiscal decentralisation, the management of local taxation must prioritise transparency and anti-corruption strategies to mitigate the risk of abuse. According to multiple sources, one key anti-corruption measure is the automation of tax administration, which involves the adoption of electronic technologies to minimise direct human involvement. Automation has been widely recommended by experts as a means to curb corruption risks in tax administration. As Rahman (2009) asserts, comprehensive tax administration reform aimed at reducing corruption should

incorporate automation, particularly electronic services, to limit face-to-face interactions between tax officials and taxpayers while ensuring transparent transaction records.

Local governments in Indonesia have generally implemented computerised tax collection systems to reduce direct contact between tax authorities and taxpayers. The effectiveness of such systems, however, depends on both reliable administrative frameworks and robust supervisory mechanisms. Weaknesses in the current tax system and deficiencies in oversight mechanisms increase the risk of fraudulent activity. An inadequate level of automation, coupled with ineffective monitoring systems, creates opportunities for corruption among local officials, as evidenced by the following empirical case.

Weak supervision and systemic deficiencies in local tax collection processes have facilitated various violations by local officials, contributing to corrupt practices. Respondents from the BPK reported multiple instances of misconduct by local officials, particularly in the administration of regional tax collection. One notable violation occurred in the collection of regional taxes on motor vehicles in South Sumatra, where progressive tax rates are imposed on second and subsequent vehicles owned by the same individual. Local officials manipulated the verification process to obscure the ownership of multiple vehicles, thereby reducing tax liabilities for vehicle owners in exchange for bribes. The following excerpt illustrates this malpractice:

"... It turns out that the officer can click to unblock it, so the system doesn't identify it as a second vehicle. And that's a lot of events, thousands of transactions we identify occurred ..." (*Auditors, Province, 2021 Interviewee 2*)

A well-functioning tax administration system must incorporate rigorous verification procedures and be designed to resist manipulation. However, the integrity of personnel

remains a more critical factor. Regardless of how sophisticated a system may be, if officials lack integrity, it can be exploited for personal or collective gain. This issue is particularly pertinent in Indonesia's local tax administration, where fiscal decentralisation has expanded the discretionary power of tax officials. As illustrated by previous cases, a sound administrative system is essential in preventing corruption, but it must be reinforced by robust monitoring mechanisms. Weak oversight in tax administration often arises from either insufficient automation or structural constraints that hinder full digital implementation (He, 2024; Ivanovska, 2023). In Indonesia, both factors remain underdeveloped, heightening the risk of corruption as local officials gain greater taxing authority under decentralisation.

In addition to local taxes, licensing constitutes another significant source of local revenue under Indonesia's fiscal decentralisation framework. The authority to grant licences, including those for plantation and mining activities, has been devolved to local governments. Given Indonesia's vast natural and mineral resources, this area of governance is particularly crucial. Following decentralisation, responsibility for issuing mining licences was transferred from the national government to local authorities. Initially, district governments were granted the authority to manage mining licences; however, this delegation of power proved problematic. Many resource-rich regions became highly vulnerable to corruption, as local officials exploited their licensing authority for personal gain.

In an effort to address these issues, the Indonesian government enacted Law No. 23/2014 in October 2016, transferring the authority to issue mining business permits from district governments to provincial governments. Prior to this reform, district

governments, led by the Regent, were responsible for issuing permits for mining exploration and production operations. However, decentralising this power led to widespread corruption. The Corruption Eradication Commission (KPK) has investigated numerous cases of corruption related to the issuance of mining permits in Indonesia. In North Konawe Regency, for example, the former regent Aswad Sulaiman was implicated in the unlawful granting of mining licences between 2007 and 2014 (JATAM, 2023; The Jakarta Post, 2023). Separately, in East Kotawaringin Regency, Central Kalimantan, the former regent Supian Hadi was named a suspect in a corruption case involving the issuance of mining permits, although the case was eventually discontinued by the KPK (Tempo, 2021; Mongabay, 2019).

Despite the shift in authority to provincial governments, corruption within the mining sector persisted. The case of Southeast Sulawesi Governor Nur Alam, who was charged with corruption shortly after the 2016 transfer of mining licensing authority, illustrates that merely altering the level of government responsible for issuing permits does not necessarily improve governance. This ongoing corruption suggests that systemic issues—such as inadequate oversight and the vested interests of local officials—remain deeply embedded in mining licence administration, even after decentralisation. Some respondents from NGOs and local legislators assert that licensing authority, particularly in the mining and plantation sectors, is prone to abuse of power. One respondent describes the prevalence of licensing violations as follows:

“... one part (of the government bureaucracy) that is prone to corruption is the licensing process, both for plantations and mining. South Sumatra is a province that is rich in natural and mineral resources and we suspect that there are many illegal practices related to mining permits in South Sumatra. Since 2016 (new Laws), there have been hundreds of violations of mining permits, and this usually occurs near the time of the election, so it is clear

that there is an external driving factor for the abuse of power in the mining licensing sector...." (*Non-Government Organisation, Province Government, 2021, Interviewee 35*)

Indonesia possesses abundant natural resources, particularly in the mining sector. This condition attracts numerous private and governmental entities with substantial financial influence, thereby affecting decision-making processes among local authorities. Weak institutional frameworks have left this sector vulnerable to corruption by unscrupulous officials and politicians, including regional leaders. Recent reports indicate that the national government is considering transferring mining licensing authority back to the central government through a draft mineral and coal legislation proposal, prompted by the prevalence of corruption within the mining sector.

The fiscal decentralisation regulations in Indonesia emphasise the allocation of transfer funds rather than enhancing local governments' authority to levy local taxes. It can be concluded that Indonesia's fiscal decentralisation policy significantly limits the capacity of local governments to levy local taxes and charges. The history of inadequate implementation of local tax policies by various local governments during the initial phases of fiscal decentralisation in Indonesia illustrates the national government's recognition of the limitations faced by local governments in exercising extensive authority over local taxation. Consequently, the national government retains authority over various potential local taxes rather than delegating this responsibility to the local level. This issue has raised concerns, as corroborated by multiple respondents from the regional government finance department, one of whom stated:

".... In the years 2018-2020, local fiscal independence (has) reduced, (whereas) the Own-Source Revenue (PAD) management is limited. (Regarding) Revenue Sharing Funds, where there are still many Revenues that are still held by the National Government. Taxes are still in the National

Government ..." (*Province Government Officials, Province, 2021 Interviewee 9*)

Although the central government has limited the authority of local governments to collect local taxes by implementing a "closed list", many local governments remain hesitant to impose new local taxes in their regions. According to Law Number 28 of 2009, these regions possess significant economic potential, which could be subject to local taxation. However, local governments would prefer that some of the local taxes currently managed by the central government be transferred entirely to them, rather than only receiving their income in the form of transfer funds (DBH). These taxes include the Land and Building Tax, taxes on Plantations and Mining, and the Employee Income Tax (Article 21). Local governments are hesitant to introduce new local taxes or levies because they fear it may disrupt regional investment or provoke negative reactions from the local community, as it would increase the burden on them. As a result, they are heavily dependent on revenue-sharing funds. This situation is echoed by many respondents from local governments, exemplified by one statement, which provides the following justification:

"... However, there is still much potential for (new local) taxes, and people will be affected if there are new taxes. The investment climate must be taken into consideration. As a result, the region should be "capable of exploring potential without burdening the local people ..." (*Province Government Officials, Province, 2021 Interviewee 2*)

The proposed regional tax is suspected of imposing an additional economic burden on the people, which may cause local officials to hesitate in its implementation. Historical precedents indicate that new regional taxes introduced during the initial phases of fiscal decentralisation are often rescinded by the central government, as such policies tend to jeopardise regional economic stability. Local governments favour the straightforward approach of relying on transfer funds from the tax revenue-sharing fund. They assert

that transferring central taxes, which are part of the revenue-sharing fund, to local governments can enhance collection efficiency. However, this assertion contradicts empirical evidence, and the inability of local governments to impose new taxes or levies highlights the ineffectiveness of local institutions in managing tax policies adequately.

The hesitance of numerous local governments to adopt new local taxes in alignment with national policies does not reflect the true economic potential of these regions. Many regions in Indonesia possess substantial natural and mineral resources, alongside relatively robust economic growth, indicating significant potential for local taxation in these areas. Some respondents emphasise this situation, noting the capabilities of local governments in transferring land and building taxes as regional taxes. One respondent provides the following example:

“...they (the local government) prefer to rely on revenue-sharing funds rather than setting new local taxes (levies) because they are not ready with the consequences of their accountability. Many regions are not ready to prepare adequate local tax regulations. (We can) take an example from when the land tax was transferred to local governments where many regions took years just to make adequate implementing regulations....” (*Auditor, Supreme Audit Agency, 2021, Interviewee 27*)

The quote above highlights that the primary reason for local governments' hesitance to implement new local taxes and enhance regional revenue sources is their limited institutional capacity. Conversely, despite possessing limited economic potential, some regions demonstrate the capability and audacity to introduce new regional taxes or levies to bolster local revenues. The Gunungkidul Regency, for instance, with limited natural resource wealth, capitalises on the burgeoning tourism sector as a source of local tax revenue, particularly by fostering sub-sectors such as nature tourism and

accommodation that align with contemporary cultural trends. This was reflected by a local government respondent, who stated:

"...we (the district government) realise that our region is not an area that has abundant natural resources, so we are innovating today to increase regional revenues. We believe that transparent management will support the implementation of the policies that we run, such as in the application of retribution (taxes) related to tourism which is currently growing rapidly in Gunungkidul...."(Local Officials, Districts Government, 2021, Interviewee 25)

Based on the two conditions described above, it can be concluded that some local governments' reluctance to impose new local taxes reflects their inability to manage the local revenues generated by these governments. In terms of case study selection, Gunungkidul Regency, chosen as a case study representing a region with relatively low regional corruption cases, demonstrates both integrity and the capacity to propose new regional taxes. Despite lacking abundant natural resources, Gunungkidul exhibits stronger local institutional capacity compared to other regions, enabling it to implement new taxes to support regional revenues while maintaining the integrity of its local tax officials.

In contrast, regions that lack the "courage" to impose new regional taxes tend to rely on alternative revenue sources, primarily transfer funds. Local taxes and charges are not the sole sources of local revenue; as part of the fiscal decentralisation framework, transfer funds are a key form of intergovernmental transfer designed to finance both general and specific regional expenditures. However, according to available data and empirical evidence, many regions are still unable to effectively implement or utilise these transfer funds, particularly the Special Allocation Fund (DAK), whose use is strictly regulated and monitored by the national government. Some respondents have conveyed that the use of the Profit-Sharing Fund is comparatively flexible, and this type

of transfer fund does not require detailed accountability to produce its intended outcomes, with one respondent noting:

"...based on the results of the examination (regional financial reports) from several regional governments, it was found that there are still many transfer funds from the central (national) government that have not been utilised and are still stored in regional government bank accounts. They (local governments) feel "afraid" to take advantage of this special allocation fund because of the various requirements they have to fulfill and if there is a discrepancy it will be easily detected so they are afraid to take the wrong step in this regard..." (*Auditor, Supreme Audit Agency, 2021, Interview 42*)

Evidence suggests that many local governments fail to optimise the allocation of transfer funds, which constitute approximately one-third of Indonesia's state budget (Indrawati, 2020). During the 2020 World Anti-Corruption Day commemoration, Indonesia's Minister of Finance, Sri Mulyani Indrawati, emphasised that these funds must be utilised effectively to prevent fraudulent practices, including bribery, rather than remaining idle in regional accounts (Bisnis.com, 2020). The conditions outlined above again highlight the inability of many local governments to manage regional finances, particularly concerning their authority over regional revenues. The poor state of institutional capacity—both in terms of personnel and infrastructure—further exacerbates the potential for corruption within these regions. Many regions continue to rely on transfer funds, such as tax-sharing funds, rather than introducing new regional taxes that could increase locally generated revenues. On the other hand, local governments are often hesitant to utilise earmarked transfer funds, with empirical data showing that large sums of regional transfer funds remain in local government bank accounts. This indicates an inability to manage these resources effectively. The reluctance to utilise earmarked funds is primarily due to the stringent regulations surrounding them, coupled with accountability concerns that render them susceptible to corruption.

The arrangement of transfer funds, particularly profit-sharing funds, within the fiscal decentralisation framework in Indonesia has led many local governments to rely on these funds instead of implementing new taxes. Furthermore, weak internal accountability and oversight within local governments, as discussed in previous chapters, create incentives for the abuse of power in managing transfer funds. Thus, revenue decentralisation—specifically, the provision of transfer funds—appears to have a positive impact on the propensity for corruption among local officials.

In Indonesia's decentralised fiscal system, the authority to manage revenue is subordinate to the authority over local government expenditures. The policy options available to the Indonesian government are either to delegate significant taxation authority to the regions or to provide substantial transfer funds to cover regional expenditures. Over the past two decades of fiscal decentralisation, the Indonesian government has increasingly focused on providing greater transfer funds to regions, rather than expanding the authority of regions to increase their own-source revenues, including the authority to collect local taxes. Some literature on fiscal decentralisation suggests that local tax competition can lead to regional efficiency and enhanced local accountability. However, achieving these objectives depends on the existence of adequate local institutional and personnel capacity.

Institutional and personnel capacity plays a critical role in ensuring governance with integrity at the local level. This is particularly relevant to the implementation of local tax and charge collection, where infrastructure and human resources are pivotal. The lack of adequate institutional and personnel capacity remains a significant obstacle in many Indonesian regions, where centuries of colonialism and decades of centralist regimes

have shaped a social system that undermines both knowledge and integrity. Many regions fail to optimise their discretion over regional revenue management, due to low institutional capacity and inadequate internal controls. As a result, increasing discretion over regional revenue management often leads to greater opportunities for corruption among local officials.

7.3 The Accountability of the Financial Report of the Local Government

Decentralisation refers to the process through which local governments (agents) are granted the authority to manage local affairs and are held accountable to the citizens (principals) they serve. This mechanism aims to reduce information asymmetry between principals and agents, thereby minimising the opportunities for local officials to exploit their authority for personal gain. Public accountability, especially financial accountability, plays a pivotal role in this context, as it directly influences the transparency and integrity of local governance. Chen and Ganapati (2021) demonstrate that transparency and accountability mechanisms mitigate corruption by subjecting governmental actions to greater scrutiny and public oversight. Financial accountability, as articulated by Mardiasmo (2009), denotes the obligation of public officials to report, disclose, and justify the management of public resources in accordance with legal and regulatory requirements. The Local Government Financial Report (LKPD), prepared by local authorities, serves as a key instrument for assessing financial accountability and ensuring the proper use of public resources.

The hypothesis underpinning this analysis posits that fiscal decentralisation, which grants local governments authority over financial management, enhances public accountability and reduces the likelihood of corrupt practices by local officials. This

hypothesis is supported by the notion that effective financial reporting and transparent audit practices function as mechanisms for reducing information asymmetry. As local governments are required to disclose comprehensive financial reports and receive independent audit opinions, these mechanisms promote transparency and foster trust. Public access to financial reports enables stakeholders to scrutinise governmental performance and fiscal stewardship, a fundamental aspect of accountability (Jordan, Yusuf, Berman, & Gilchrist, 2017). Consequently, the hypothesis suggests that enhanced financial accountability, facilitated by fiscal decentralisation, reduces corrupt activities among local officials.

Literature and empirical studies support this hypothesis. Heald (2003) argues that fiscal transparency strengthens accountability by allowing citizens to monitor how public resources are managed. When stakeholders have access to relevant financial information, they are better positioned to understand how local governments are fulfilling their fiscal responsibilities. In Indonesia, fiscal decentralisation has significantly increased local governments' responsibility for managing public funds, creating both opportunities and challenges. Guillamón, Bastida, and Benito (2011) demonstrate that enhanced fiscal autonomy positively influences the transparency of local government financial reports, indicating that decentralisation can foster accountability, particularly when adequate oversight mechanisms are in place. The Supreme Audit Agency (BPK) plays a pivotal role in promoting adherence to national standards and encouraging improvements in local government financial reporting (Usman, Masdar, & Masruddin, 2025). Furthermore, competitive pressures among local governments to achieve favourable BPK audit opinions further incentivise improved accountability and governance (Furqan, 2021).

Financial reports of local governments in Indonesia are prepared and presented in compliance with Government Accounting Standards (SAP) and Government Regulation (PP) No. 71 of 2010. The compilation of local government financial reports (LKPD) is derived from the financial statements generated by all regional work units (SKPD). A regional work unit is the governmental entity within the regional administration responsible for budget and resource management. As stipulated by Minister of Home Affairs Regulation No. 13/2006, the SKPD's financial report must be submitted to the Regional Head within two months following the end of the fiscal year/accounting period. The preparation and presentation of local government financial reports comply with governmental accounting standards. The disclosure of financial statements represents a form of transparency that entails revealing information that may significantly impact the validity and credibility of the financial statements. Consequently, the Regional Government Financial Report, as a mechanism for accountability regarding the exercise of regional government authority delegated by the populace, necessitates sufficient disclosure. Government Accounting Standards mandate comprehensive disclosure of financial information according to the principle of full disclosure, ensuring that all necessary information is thoroughly represented in the financial statements. Dye (1990) classifies financial statement disclosures as either mandatory, which are legally required, or voluntary, which are provided at the entity's discretion and not compelled by regulation. Financial report disclosures must provide users with pertinent information for evaluating accountability and facilitating decision-making. The comprehensive disclosure of financial reports is mandated by Government Regulation of the Republic of Indonesia No. 71 of 2010, which requires extensive disclosure of all elements, including those presented in each financial report or its

accompanying notes. Activities and policies must be disclosed in the notes to the financial reports of each reporting entity.

Before examining the implementation of local government financial statement disclosures in Indonesia and their impact on corruption tendencies within local administration, we will first address the influence of a variable that affects local governments' behaviour in disclosing sufficient financial information: the fiscal independence variable. This aligns with Lesmana's (2010) findings, who demonstrate that local governments possessing greater financial autonomy are more inclined to disclose their financial information comprehensively. Enhanced accountability in the execution of financial management authority diminishes the likelihood of violations and corruption.

The degree of regional autonomy has been succinctly addressed in the section pertaining to the allocation of revenue within fiscal decentralisation. It refers to the extent to which a region can fund its expenditures through its own-source revenues. Regional fiscal independence, within the framework of fiscal decentralisation, refers to the capacity of regions to independently finance their expenditures with minimal reliance on intergovernmental transfers from the national government. Overall, it is evident that numerous regions in Indonesia remain "poor," indicating that many areas can still be categorised as "not yet independent." In Indonesia, local governments are categorised into provincial and district governments, each possessing distinct authorities and responsibilities. Regarding fiscal independence, numerous respondents from local governments, encompassing both provincial and district administrations,

indicated that the degree of fiscal autonomy remains significantly limited. One respondent articulated:

"... Ideally, in local (financial) management, there is (what) is known as (with) regional independence. In the district, the regional independence is, on average, low. Banyuasin Regency is still around (in the level of) 10% and (still) significantly reliant on revenue sharing/transfer funds from the National (Government)... (There is) insufficient revenue, so the level of the regional independence is low for the district (government). Cities (have) a higher degree of autonomy, (and funds) for profit sharing (received) from the national (government) are also limited. (Revenue from) Revenue Sharing Funds taxes and from the Natural Resources is relatively small for the city ..." (*District Government Officials, Districts, 2021 Interviewee 16*)

Economic inequality in Indonesia is significantly pronounced due to governmental policies implemented during the New Order period, which prioritised regional development in the western part of the country, particularly Java. Moreover, Indonesia's extensive natural and mineral resources are concentrated in a limited geographical area. Local governments exhibiting significant regional fiscal independence generate substantial local revenues, as they do not rely on national government transfer funds for their financial resources. Local governments with substantial regional revenues are designated as "affluent/rich" regions, while those with lesser revenues are termed "impoverished/poor" regions. Affluent regions in Indonesia may possess abundant natural resources or strategic advantages, exemplified by governmental or commercial centres such as Jakarta and Surabaya City. Moreover, the absence of fiscal autonomy dissuades regional leaders and their officials from ensuring sufficient accountability through comprehensive financial report disclosures. Some respondents from local governments argue that the funds used to finance regional expenditures do not derive from local taxes or revenues directly related to the contributions of the local population. Therefore, local governments in these poorer regions may not feel compelled to submit full financial statement disclosures, with one of them conveyed:

"...based on our examination of local government financial statements, regions with adequate fiscal capacity (rich regions) tend to have full disclosure in their financial statements in terms of submitting financial information required by law. Cities such as Jakarta and Surabaya display full disclosure local government financial reports, which can increase the credibility of the local government...." (*Auditor, Supreme Audit Agency, 2021, Interviewee 17*)

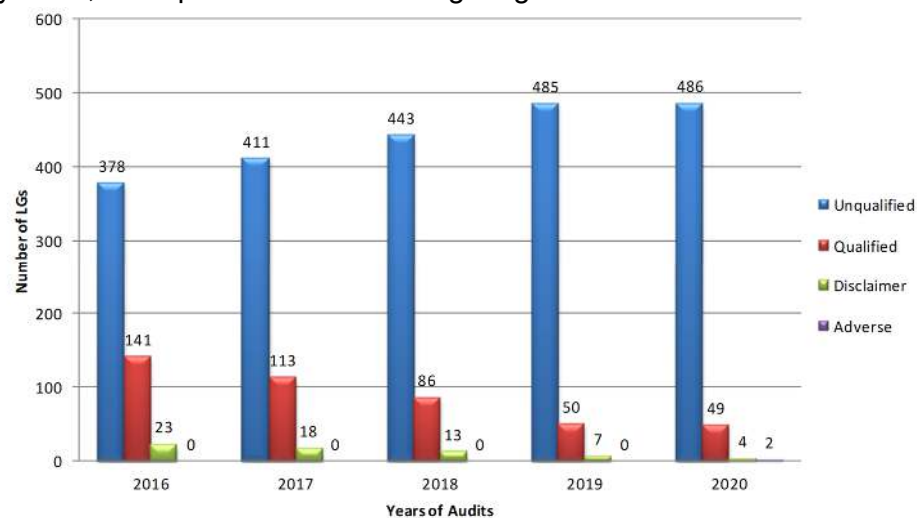
This assessment was reinforced by the BPK's findings, which reported that of the 503 local governments in Indonesia in 2020, only 10 (approximately 1.99%) achieved the "Independent" category. Four hundred forty-three local governments (approximately 88.07%) were still in the "Not Yet Independent" category, while the remaining local governments were in the "Towards Independence" category. Based on these statistics, provincial governments had the highest proportion of regional fiscal autonomy, followed by city and district governments. It is believed that regions with a low degree of regional fiscal independence do not prioritise the adequate disclosure of regional financial reports, as they do not utilise local taxes as their primary revenue sources.

Next, an audit opinion is one of the most valid and independent measures for assessing the validity of a financial report. Therefore, it serves as an adequate measure for determining the accountability of financial reports. Audit opinions can also function as a governance benchmark for both national and regional governments. The proper implementation of local government governance can be determined if the achievement of accountability through local financial reports results in a better audit opinion. If supervision and governance are inadequate, corruption is likely to emerge through the misappropriation of public human resources (Naher et al., 2020). In these instances, an audit opinion refers to an opinion issued by the BPK, the only audit institution authorised in Indonesia to conduct financial audits of government institutions, including local governments. Achieving the highest audit opinion is also a benchmark for the

successful execution of regional leaders' responsibilities; thus, to foster good governance, local governments compete to obtain the best audit opinion, namely the "unqualified opinion." Several local government respondents indicated that achieving an "unqualified opinion" is an accomplishment they take pride in, as conveyed by one of them:

"... the Lampung provincial government has succeeded in obtaining an "unqualified" opinion for the 2020 financial report, and this is our achievement for the 6th year in a row. This shows the success of our governor's leadership...." (*Local Officials, Province, Interviewee 4*)

Government audits play a crucial role in enhancing accountability and governance by exposing corrupt officials, thereby reducing corruption (Avis, Ferraz, & Finan, 2016). The increase in the number of local governments that obtained the highest opinion from the Supreme Audit Agency from 2016 to 2020 reflects an increased awareness of the importance of accountability for local government financial reports, as demonstrated by the achievement of "unqualified" opinions under the direction of regional heads. In 2016, 70% of local governments obtained the "unqualified" opinion, which increased to 90% by 2020, as depicted in the following diagram:



Source: Supreme Audit Agency (BPK) Reports, 2021

Figure 7-4 The Financial Audit Result for Local Governments in 2020

The conditions outlined earlier suggest that local governments in Indonesia are making concerted efforts to improve the presentation of their financial reports. Several respondents indicated that they take the recommendations issued by the Supreme Audit Agency (BPK) seriously. One important indicator of local government accountability is the extent to which authorities implement follow-up actions in response to recommendations from BPK's audit findings (Sari & Sari, 2019). A more favourable audit opinion in subsequent years is contingent upon the effective implementation of these recommendations. Audit recommendations are instrumental in strengthening internal control mechanisms and identifying instances of fraud or mismanagement. Effective internal control systems are fundamental to governance, as they play a vital role in reducing the risk of fraud (Rashid, 2022).

Respondents from the financial divisions of local governments expressed their efforts to secure the highest possible audit opinion from the Supreme Audit Agency through various improvement initiatives. One respondent articulated this approach as follows

"... we understand BPK's position as an external audit, for that we consult with them outside of the time the examination is ongoing. We also ask resource persons from BPK to (provide) coach and training on regional financial management, with the aim that the results of our audit of Financial Reports will improve and be able to maintain the unqualified predicate..." (*Local Officials, District Government, 2021, Interviewee 17*)

To achieve an "unqualified opinion," many local governments have implemented continuous improvement measures. In theory, this requires ongoing enhancements to internal control systems. Strengthening these systems fosters greater local accountability and promotes good governance, which, in turn, reduces the likelihood of local officials engaging in corrupt practices.

As indicated in the preceding analysis, regional fiscal autonomy in decentralised Indonesia remains relatively low. The Indonesian decentralisation system places greater emphasis on expenditure assignments than on revenue assignments, meaning that most local governments lack the authority required to achieve fiscal independence. Only resource-rich regions benefit from special conditions that grant them greater financial autonomy. Greater fiscal dependence on central government weakens financial reporting accountability in Indonesian regions, as evidenced by poorer audit outcomes (Pratolo & Irmawati, 2020). Consequently, using the regional fiscal independence variable to assess the accountability of financial reporting and its impact on corruption is not entirely accurate. Instead, audit opinions serve as a more appropriate measure, as financial reports function as an accountability mechanism within the framework of agency theory, aligning with the findings of numerous studies.

Furthermore, the role of audit opinions in enhancing the quality of local government financial reports under Indonesia's decentralised system is believed to contribute to improvements in internal planning systems. Thus, the continuous enhancement of financial reporting and internal controls, driven by the pursuit of better audit opinions, is expected to reduce the propensity of local officials in Indonesia to engage in corrupt practices.

7.4 Chapter Summary

This chapter examined the effects of fiscal decentralisation on corruption in Indonesia, focusing on how financial discretion and accountability influence the likelihood of local officials engaging in corrupt practices. Since the implementation of fiscal decentralisation in 2000, Indonesia has transferred significant financial authority to

local governments. While the primary objective was to enhance local governance and accountability, the decentralisation of public finances has also created opportunities for corruption due to weak oversight mechanisms and the increased discretionary powers exercised by local governments over financial resources.

The analysis began by assessing fiscal assignments in decentralised Indonesia. Local governments have been granted extensive authority over budget formulation, expenditure management, and revenue generation. However, weak institutional frameworks and insufficient transparency have facilitated corruption. Local officials frequently exploit their discretion in budget preparation and execution, particularly in areas such as procurement and project funding, where bribes are commonly exchanged for government contracts. Political dynamics, including collusion between regional heads and local legislators, have further exacerbated the issue, as evidenced by high-profile corruption cases in Muara Enim and Lampung Tengah.

In budget formulation, the discretionary powers granted to local governments in allocating public funds have significantly contributed to corruption. The absence of adequate oversight, political interference, and the involvement of external actors, such as contractors, have created a conducive environment for financial misconduct. Political leaders frequently use their budgetary discretion to prioritise projects that serve their personal or political interests, often at the expense of public service provision.

The analysis of local expenditure discretion revealed that while fiscal decentralisation is theoretically intended to promote accountability by granting greater autonomy, in practice, it often leads to corruption, particularly in regions with weak governance. Increased control over local spending, combined with limited capacity and inadequate

monitoring, has created opportunities for fraudulent activities. This is particularly evident in areas where local officials manage public funds with minimal oversight, thereby increasing the risk of corruption.

Revenue assignment and local taxing powers were also examined. Greater control over local revenues, including taxes and transfers from the central government, has heightened corruption risks. Although fiscal decentralisation is designed to enhance accountability, local governments often mismanage these funds. The discretionary authority over taxation, coupled with the complexity of tax systems and weak institutional capacity, has led to corruption, particularly in resource-rich regions where officials exploit processes such as licensing and tax collection for personal gain.

Finally, the chapter explored financial accountability mechanisms, particularly the quality of local government financial reporting and its implications for corruption. While fiscal decentralisation should, in principle, enhance transparency and reduce corruption through public scrutiny of financial management, this outcome has not been fully realised in Indonesia. Regions with greater fiscal autonomy and stronger audit performance tend to exhibit more transparent financial reporting and lower levels of corruption. However, weak internal controls and poor financial accountability have allowed corrupt practices to persist in many areas, particularly those highly dependent on central government transfers.

Overall, the findings from this chapter indicate that fiscal decentralisation in Indonesia has inadvertently increased the risk of corruption among local officials. Although the policy was intended to improve governance and accountability by granting local governments greater control over their finances, the absence of robust oversight

mechanisms and the expansion of discretionary powers have undermined these objectives. Without substantial reforms, such as strengthening institutional accountability and limiting the discretionary control of local governments over financial resources, fiscal decentralisation is likely to continue creating opportunities for corruption rather than fostering good governance.

In conclusion, the implementation of fiscal decentralisation in Indonesia has, in many cases, resulted in increased corruption among local officials. The expansion of financial discretion, combined with inadequate accountability mechanisms, has facilitated corrupt practices, particularly in regions with weak governance. Without significant reforms to enhance financial oversight and accountability, corruption will continue to undermine the original objectives of fiscal decentralisation—improving local governance and public service delivery.

CHAPTER 8

CONCLUSION

8.1 Overview of the Chapter

This concluding chapter encapsulates the principal findings of the study on the multifaceted impacts of political, administrative, and fiscal decentralisation in Indonesia, particularly regarding the facilitation of corruption among local officials. It re-examines the research questions to demonstrate how decentralisation—initially envisaged to promote transparency, accountability, and citizen participation—has, in practice, engendered novel forms of corruption stemming from inadequate institutional oversight and political collusion. The chapter further considers the broader implications of these findings for governance reforms and policy interventions, thereby situating the discussion within wider scholarly debates on corruption and decentralised governance.

The chapter is organised into three primary sections. First, it reiterates the overarching research objectives, locating this analysis within the existing literature on decentralisation and the scholarly discourse on corruption. Second, it synthesises the central empirical insights, highlighting the ways in which greater autonomy at the local level can incubate patronage networks, undermine bureaucratic efficiency, and compromise financial governance. Third, it sets out a series of policy recommendations aimed at mitigating the corrupt practices observed under decentralisation. These recommendations focus on bolstering institutional checks and balances, strengthening financial oversight, and depoliticising administrative structures.

In essence, the chapter underscores that while decentralisation was intended to advance democratic accountability, the resultant local autonomy—unaccompanied by sufficiently robust monitoring mechanisms—has inadvertently enabled corruption to proliferate. By providing policy prescriptions grounded in empirical evidence, the chapter stresses the urgent need for targeted reforms that enhance transparency and reduce opportunities for patronage. These concluding reflections also identify potential avenues for future inquiry, reinforcing the study's relevance to ongoing discussions about effective governance and corruption mitigation in decentralised settings.

8.2 Summary of the Thesis

This thesis critically examines the effects of political, administrative, and fiscal decentralisation on the propensity of local officials in Indonesia to engage in corrupt practices. The introduction of decentralisation in 1998 was a pivotal component of Indonesia's post-authoritarian democratic reforms, intended to devolve power to local governments, foster citizen participation, and enhance accountability. However, the findings of this study indicate that decentralisation has also engendered new forms of corruption, particularly in regions characterised by weaker institutional capacities and governance structures.

Against this backdrop, this thesis systematically investigates the central research question: How does the decentralisation system in Indonesia influence the incidence of corrupt practices among bureaucrats at different tiers of local government (provincial and district levels)? Specifically, it addresses the following three sub-questions:

1. What is the impact of political decentralisation (political autonomy and citizen participation) on the propensity of local officials to engage in corruption in decentralised Indonesia?
2. What are the effects of administrative decentralisation, specifically (local personnel autonomy and audit capacity), on the propensity of local officials to engage in corruption in decentralised Indonesia?
3. What is the impact of fiscal decentralisation (fiscal autonomy and accountability) on the propensity of local officials to engage in corruption in decentralised Indonesia?

The empirical findings generated through this research provide critical insights into these questions and can be summarised as follows:

Sub-RQ1: What is the impact of political decentralisation (political autonomy and citizen participation) on the propensity of local officials to engage in corruption in decentralised Indonesia?

Political decentralisation in Indonesia was initially conceived as a pathway to deepen democracy by enhancing citizen participation through the direct election of local representatives in both the executive and legislative branches. The expectation was that empowering citizens to choose their leaders would improve government accountability, responsiveness, and service delivery. However, empirical findings reveal that instead of fostering transparency and democratic control, political decentralisation has largely intensified the dominance of political parties over local governance, transforming political power into a mechanism for elite consolidation and rent-seeking behaviour.

A key factor contributing to this pattern is the financial dependency of political parties on electoral candidates, which has institutionalised a system of collusion and patronage. Parties often require candidates to pay significant “political dowries” in exchange for endorsements—funds that are officially framed as campaign contributions but function in practice as pay-to-play entry fees. This burden incentivises successful candidates to recoup their investments through corrupt practices, such as embezzlement of public funds or manipulation of procurement processes. Field interviews and previous research indicate that Indonesia’s decentralised system favours individuals with substantial financial resources and political networks, thus enabling the proliferation of local political dynasties. These dynasties reinforce elite control by capturing both political and economic assets over successive elections, often eroding the distinction between public office and private gain. This observation is consistent with Hicken’s (2020) and Ufen’s (2017) arguments that political dynasties in Southeast Asia, particularly in Indonesia, entrench corruption by consolidating power within a limited number of elite families, thereby impeding democratic renewal and meritocratic governance.

Compounding this problem is the weak performance of local legislative institutions, such as the Regional House of Representatives (DPRD), which were intended to act as critical oversight bodies in the decentralised system. Instead of serving as independent institutions capable of checking executive authority, many DPRDs have become extensions of the same party networks that dominate local politics. Legislators frequently prioritise party loyalty over public accountability, particularly when the regional head also holds a leadership position within the same political party. The phenomenon of “dual roles”, whereby local executives also serve as party leaders,

generates conflicts of interest and diminishes legislative oversight. Consequently, entrenched collusion between legislative and executive actors often enables the manipulation of budgets, procurement, and regulation for private gain. These dynamics support Zarychta et al.'s (2023) observation that, in the absence of robust institutional checks, decentralised systems may foster unchecked corruption, particularly when local elites dominate both executive and legislative arenas.

Beyond formal institutions, political decentralisation was also expected to strengthen informal accountability mechanisms through the participation of civil society, particularly non-governmental organisations (NGOs). However, while some NGOs have played meaningful roles in promoting transparency and community engagement, many remain heavily reliant on financial support from local governments. This dependency compromises their independence and limits their ability to monitor or challenge local authorities effectively. In some cases, NGOs have engaged in corrupt practices, including extortion and collusion with local officials—particularly in villages where oversight is weak. This aligns with Watts & Zafar (2019), who found that civil society organisations may fail as effective watchdogs when financially or politically dependent on the actors they are meant to monitor. The result is a hollow form of participation that lacks the power to demand accountability or disrupt entrenched networks of corruption.

Taken together, the findings indicate that political decentralisation in Indonesia has indeed increased local political autonomy, but it has not strengthened democratic accountability or broadened meaningful citizen participation. Instead, it has enabled political parties and elites to entrench their control over local governance structures, often using decentralised institutions to pursue private interests under the guise of

public service. The financialisation of candidacy, the dominance of political dynasties, the failure of legislative oversight, and the co-optation or ineffectiveness of civil society organisations have collectively contributed to a governance environment where corruption can thrive. Rather than curbing corruption, political decentralisation has simply shifted it from the central government to the local level—repackaged but not reduced.

In conclusion, the Indonesian case illustrates that without robust institutional reforms, transparency mechanisms, and civic capacity-building, decentralisation may serve as a platform for elite consolidation rather than democratic deepening. As supported by Hicken (2020), Ufen (2017), and Zarychta et al. (2023), the promise of decentralisation is undermined when institutional weaknesses and socioeconomic inequalities persist, enabling corruption to be reproduced within decentralised structures rather than dismantled.

Sub-RQ2: What are the effects of administrative decentralisation, specifically (local personnel autonomy and audit capacity), on the propensity of local officials to engage in corruption in decentralised Indonesia?

Administrative decentralisation in Indonesia was designed to improve governance by granting local governments greater control over personnel management and service delivery. However, the findings indicate that increased discretion in managing local civil servants has led to widespread patronage, nepotism, and rent-seeking behaviour. Regional heads, endowed with substantial discretion over recruitment, promotion, and transfers, often exploit these prerogatives to favour political allies and personal associates, rather than appointing the most capable candidates (Khan, Khwaja, &

Olken, 2018). Consequently, local bureaucracies become characterised by patronage rather than merit, fostering inefficiency and exacerbating corruption within subnational administrations (Wagner, 2009).

One significant finding is that enhanced autonomy for regional leaders in Indonesia has fostered an environment in which loyalty to local executives frequently supersedes professional merit. Consequently, civil servants often feel compelled to engage in corrupt activities—such as bribery, kickbacks, and falsification of reports—to ensure job security and career progression. The absence of robust, independent oversight enables regional heads to manipulate bureaucratic structures for personal benefit with minimal accountability (Makmur & Saksono, 2021). This has significantly weakened the quality of public service delivery as corruption becomes embedded in everyday governance practices.

The study found that many local officials are compelled to align with prevailing political interests to secure or advance their positions, thereby perpetuating a culture of corruption. In contexts characterised by limited oversight and transparency, such dynamics often result in widespread malpractices, including the sale of government offices and the misallocation of public resources (Khan, 2002). These findings suggest that administrative decentralisation, rather than improving governance, has increased the likelihood of corruption among local officials by granting them unchecked authority over personnel and bureaucratic structures. Without stronger oversight mechanisms and more transparent recruitment and promotion processes, administrative decentralisation will continue to serve as a vehicle for corruption rather than an instrument for effective governance.

Another important aspect examined in this chapter is the role of local audit institutions in preventing corruption. Audit institutions are pivotal in curbing corruption; however, evidence indicates that local audit bodies, such as regional inspectorates in Indonesia, frequently lack effectiveness. These entities often do not possess sufficient independence, resources, or authority to conduct comprehensive investigations or to prevent corruption. Furthermore, local inspectorates are commonly subject to political influence, as their leadership is typically appointed by the very regional heads they are meant to supervise (Kempf & Cabrera, 2018). This undermines their ability to function effectively, allowing corrupt practices to continue unchecked. While national audit bodies like the BPK have proven more effective in detecting corruption, the findings suggest that the weak local audit capacity exacerbates corruption, especially in regions where fraud and mismanagement are widespread

In conclusion, the findings indicate that administrative decentralisation in Indonesia, by granting local officials' greater control over personnel management and audit institutions, has unintentionally increased the propensity for corruption among local officials. The decentralisation of authority over hiring, promotions, and transfers has fostered a system where loyalty to political leaders often outweighs merit, resulting in widespread patronage, nepotism, and rent-seeking behaviour. Additionally, the lack of strong and independent local audit capacity has further facilitated corrupt practices, as local officials face minimal oversight and accountability. Ultimately, instead of improving governance, decentralisation has exacerbated corruption in local administrations.

Sub-RQ3: What is the impact of fiscal decentralisation (fiscal autonomy and accountability) on the propensity of local officials to engage in corruption in decentralised Indonesia?

The empirical findings demonstrate that fiscal decentralisation in Indonesia, while intended to empower local governments and enhance public accountability, has in practice generated substantial opportunities for corruption. The expansion of fiscal discretion—particularly in budget formulation, expenditure assignment, and revenue management—has not been matched by commensurate improvements in oversight and institutional capacity, thus heightening the propensity for corrupt practices among local officials.

Firstly, the delegation of significant financial authority to local governments has enabled regional heads and legislators to exercise considerable discretion over budget allocations. This discretion, especially in the management of flexible budget items and block grants, has often been exploited for personal and political gain. Numerous interviewees highlighted cases where regional executives manipulated budget processes to accommodate campaign financing or reward political allies, while local legislators engaged in fictitious claims for operational and travel expenses. The prevalence of such practices is symptomatic of systemic weaknesses in both internal and external oversight mechanisms, which are frequently undermined by political interference and limited technical capacity (Eilstrup-Sangiovanni & Hofmann, 2024).

Secondly, the management of local revenues—including local taxes, fees, and intergovernmental transfers—has emerged as a significant locus of corruption. The study found that local officials often manipulate taxation and licensing processes,

particularly in resource-rich regions, to extract illicit rents. The devolution of licensing authority in sectors such as mining and plantations has, in several documented cases, resulted in widespread abuse of power, with local leaders leveraging their positions for personal enrichment. Despite subsequent recentralisation efforts, these sectors remain vulnerable due to persistent institutional fragility at the local level (Collin, 2019).

Furthermore, the effectiveness of financial accountability mechanisms varies markedly across regions. While some local governments with robust audit institutions and higher fiscal independence have achieved improved transparency and reduced corruption, the majority remain highly dependent on central government transfers and lack the capacity to generate and manage their own revenues effectively. This dependence, coupled with vague policy frameworks and overlapping authorities, has not only complicated accountability but has also incentivised corrupt practices, such as the manipulation of financial reports and fraudulent claims for additional central funding (Mardiasmo, 2009).

Finally, the findings indicate that the anticipated benefits of fiscal decentralisation—namely, enhanced accountability and improved public service delivery—have not been fully realised. Instead, the combination of excessive financial discretion, weak oversight, and limited administrative capacity has fostered an environment in which corruption is both pervasive and persistent. As underscored by both data trends and interview evidence, substantive reforms are required to strengthen audit mechanisms, build local administrative capacity, and improve transparency in budget and revenue management (Bird, 1993).

In summary, while fiscal decentralisation in Indonesia was conceived as a means to promote local accountability, its implementation has inadvertently increased the risk of

corruption among local officials. The study underscores the urgent need for more robust accountability frameworks, enhanced institutional capacity, and stricter enforcement of anti-corruption measures to ensure that fiscal decentralisation achieves its intended objectives.

Main Research Question: How does the decentralisation system in Indonesia influence the incidence of corrupt practices among bureaucrats at different tiers of local government (provincial and district levels)?

Prior to decentralisation, corruption in Indonesia was predominantly centralised, with the New Order regime (1966–1998) characterised by a hierarchical system of patronage and rent extraction, tightly controlled by the central government. According to Transparency International’s Corruption Perceptions Index (CPI), Indonesia’s score in 1998 was a mere 20/100, reflecting endemic corruption at the national level. With the advent of “big bang” decentralisation in 2001, Indonesia shifted substantial political, administrative, and fiscal authority to local governments. While this transition was intended to enhance local autonomy, accountability, and public participation, the empirical evidence demonstrates that decentralisation has not eliminated corruption but has instead redistributed it to the local level.

The CPI has shown modest improvement since decentralisation (reaching 38/100 in 2023), yet this aggregate trend masks the proliferation of corruption at subnational levels. Data from the Corruption Eradication Commission (KPK) indicate a sharp rise in the number of local officials prosecuted for corruption post-2001, with district heads and local legislators increasingly implicated. For instance, between 2004 and 2017, the KPK reported that 18 governors and 71 mayors/regents/deputies were suspected of

corruption, while 76 members of the DPR/DPRD were charged between 2004 and 2014. In 2017 alone, 576 corruption cases were recorded, with the majority involving regional government officials.

The evidence shows that decentralisation has diluted the concentration of corrupt power at the centre but facilitated the diffusion and multiplication of corrupt practices across localities, especially where institutional checks are weak. Political decentralisation has enabled elite capture, money politics, and the emergence of local political dynasties, often resulting in collusion between executives and legislatures. Administrative decentralisation has granted local officials significant discretion over personnel management, fostering patronage, nepotism, and rent-seeking. Fiscal decentralisation, while expanding local expenditure authority, has not been matched by effective revenue autonomy or robust oversight, creating opportunities for mismanagement and fraud, particularly in budget formulation, procurement, and licensing. The shift in corruption dynamics is summarised in Table 8.1.

<i>Era / Indicator</i>	Pre-Decentralisation (1966–1998)	Post-Decentralisation (1999–2021)
<i>Governance Structure</i>	Centralised control from Jakarta; appointed regional heads	Decentralised authority to provincial and district levels; direct elections introduced
<i>Political System</i>	Single-party dominance (<i>GOLKAR</i>); limited competition	Multiparty system with direct elections, but money politics and political dynasties are prevalent
<i>Administrative Management</i>	Centralised personnel control; weak local audit	Local personnel autonomy, but patronage and nepotism in recruitment/promotion
<i>Fiscal Management</i>	Central budget control; limited local revenue authority	Fiscal discretion enabling budget manipulation and procurement fraud

<i>Oversight Mechanisms</i>	Centralised audit; limited independent oversight	Weak local audit institutions; KPK is active but faces challenges at the local level
<i>Institutional Capacity</i>	Strong at the centre, weak at the periphery	Highly variable, often weak at local levels
<i>Public Participation</i>	Minimal, controlled citizen involvement	Increased but often co-opted or ineffective against entrenched elites

Sources: Transparency International 1998 & 2023, CEC Annual Report 2017, Empirical Chapters

Table 8-1 Summary of Corruption Dynamic Pre- and Post-Decentralisation in Indonesia

In direct response to the research question, the thesis finds that Indonesia's decentralisation has fundamentally altered the landscape of corruption, shifting its locus from the central government to the local level without substantially reducing its overall prevalence. Decentralisation has achieved certain objectives—such as enhancing local autonomy and, in some regions, improving service delivery—but has also created new opportunities for corruption by empowering local elites, weakening oversight mechanisms, and fostering environments conducive to patronage and rent-seeking. Compared to the pre-decentralisation era, corruption has become more fragmented and embedded in local governance structures, especially where historical legacies, weak institutions, and elite capture persist.

Therefore, the Indonesian experience demonstrates that decentralisation, in the absence of strong institutions, effective oversight, and genuine accountability, risks reproducing and entrenching corruption at new levels of government rather than dismantling it. Comprehensive institutional reforms, robust audit mechanisms, and enhanced civic participation are essential to ensure that decentralisation serves as a platform for democratic accountability rather than a conduit for localised corruption.

8.3 Contributions of the Study

This study offers critical contributions to the understanding of decentralisation and corruption, particularly within large emerging democracies such as Indonesia which has embrace a significant level of local autonomy. The contributions are organised into empirical, methodological, and theoretical categories, each addressing key gaps in the literature.

Empirical Contributions

First, the study provides an in-depth single-country case study of Indonesia's decentralisation experience, which enables a granular analysis of contextual factors that cross-national studies often gloss over. Indonesia's unique combination of rapid political democratisation post-1998, vast archipelagic geography, ethnic diversity, and uneven institutional capacity creates an excellent opportunity to observe how extensive decentralisation unfolds in practice. By tracing the evolution of reforms across multiple provinces and districts over two decades, the research uncovers patterns of corruption proliferation that are intimately tied to Indonesia's specific political settlements, resource endowments, and patronage histories. This depth generates empirical insights—such as the rise of local dynasties and the weaponisation of fiscal transfers—that carry direct lessons for policymakers in Indonesia and analytical purchase for scholars studying comparable federations like India, Brazil, or the Philippines.

Second, the research employs a statistical and quantitative approach to case selection, systematically analysing national databases of corruption prosecutions, fiscal allocations, and governance indicators to select theoretically informative cases. This rigorous process involved econometric screening for variance in corruption outcomes

relative to decentralisation intensity, ensuring that the subsequent qualitative investigations were not anecdotal but targeted at puzzles like why some districts with similar fiscal autonomy exhibit divergent corruption trajectories. By quantifying baseline patterns before delving into mechanisms, the study bridges macro-level regularities with micro-level processes, offering a more robust empirical foundation than purely inductive casework. These findings empirically challenge optimistic narratives of decentralisation by documenting how quantitative imbalances in authority transfers have empirically fueled rent-seeking at the periphery.

Methodological Contributions

Third, the thesis demonstrates the explanatory power of qualitative methods over the quantitative approaches dominant in decentralisation–corruption research. While large-*N* regression studies and corruption perception indices excel at identifying average effects, they frequently miss the causal mechanisms, temporal dynamics, and institutional feedbacks that this study uncovers through process tracing, elite interviews, and archival reconstruction. For instance, qualitative evidence reveals how political decentralisation initially disrupts old patronage networks only for them to reform locally under new guises—a sequence invisible in cross-sectional data. This methodological choice also allows triangulation across multiple data sources, including court records and fieldwork observations, yielding higher internal validity than reliance on noisy proxies like the Corruption Perceptions Index. Consequently, the study not only contributes methodologically transferable tools but also substantiates why qualitative depth is indispensable for policy-relevant insights in complex governance contexts.

Fourth, the multi-dimensional decentralisation framework represents a methodological advancement by operationalising political, administrative, and fiscal dimensions as interdependent rather than isolated variables. Conventional studies often reduce decentralisation to fiscal transfers alone, but this approach develops composite indices and interaction models to capture how, for example, administrative discretion amplifies the corruptive potential of fiscal resources absent political competition. Methodologically, this enables finer-grained hypothesis testing and comparative leverage across subnational units, providing a blueprint for future research to move beyond unidimensional metrics and towards holistic reform evaluation.

Theoretical Contributions

Fifth, the study offers a theoretical contribution by integrating collective action (C/A) and principal–agent (P/A) perspectives within a New Institutional Economics (NIE) framework to explain decentralisation-related corruption. P/A theory, as developed within NIE, specifies how information asymmetries, incentive misalignment, and weakened monitoring can intensify after decentralisation, while C/A approaches illuminate how local elites sustain corruption as a self-reinforcing equilibrium grounded in shared expectations and social norms. Situating these mechanisms in NIE highlights how path-dependent institutional arrangements, informal rules, and enforcement and transaction cost's structure both delegated authority and collective coordination around corruption. This synthesis helps to bridge tensions in the literature—where P/A-inspired reforms often assume that better oversight will curb corruption, whereas C/A accounts emphasise collective action constraints—by showing their conditional and overlapping relevance: decentralisation reshapes principal–agent alignments but yields anti-corruption gains only when collective action thresholds are met and

institutional rules are credibly redesigned. Empirically grounded in Indonesian evidence, this integrated framework extends the theoretical toolkit for analysing governance reforms, with implications for both decentralisation debates and broader corruption scholarship.

Taken together, these empirical, methodological, and theoretical contributions not only illuminate the paradoxes of Indonesia's decentralisation experiment but also equip scholars and policymakers with actionable diagnostics for designing corruption-resilient reforms. For academics, the study sets a benchmark for subnational research that combines quantitative rigour with qualitative depth; for practitioners in emerging democracies, it underscores the perils of misaligned decentralisation dimensions and the imperative of elite accountability mechanisms. Looking ahead, this framework invites future work to test its portability across other contexts, ultimately advancing evidence-based strategies to harness decentralisation's potential while mitigating its corruption risks

8.4 Policy Recommendations

Based on the findings of this study, several policy recommendations are proposed to mitigate the opportunities for corruption under decentralisation and to strengthen governance at the local level. These recommendations focus on enhancing political party regulation, improving administrative oversight, reinforcing financial accountability, and addressing the broader institutional weaknesses that have allowed corruption to persist.

8.4.1 Recommendation 1: Tackling Corruption in Indonesia's Local Governance through Political Decentralisation Reform.

The impact of political decentralisation on corruption in Indonesia's local governance has been significant, contributing to the entrenchment of corrupt practices, the concentration of power, and a lack of transparency. While decentralisation has allowed for more local autonomy, it has also exposed new vulnerabilities to corruption, particularly in regions where power is concentrated within political elites and dynasties. This has undermined democratic processes, eroded public trust, and stifled development at the local level.

Corruption in Indonesia's local governance continues to present a significant challenge, where the financial dependence of political parties on candidates contributes to a cycle of collusion and patronage. This is exacerbated by the dominance of political dynasties, where power is held by a small group of families or individuals, limiting the diversity of democratic representation and reinforcing inequalities in the political system (Nagara Institute, 2020). Addressing these challenges requires a multifaceted approach, targeting key issues such as the reform of party financing, the transparency of candidacy processes, and the strengthening of legislative oversight.

One potential solution lies in increasing state funding for political parties, as successfully implemented in countries like Germany and Sweden. These systems aim to reduce political parties' dependence on private donations and candidate contributions, mitigating the risk of undue influence and corruption (Koß, 2010; Schmitz, 2019). In Indonesia, a similar system of state funding could be introduced,

with funding allocated based on objective criteria, such as electoral performance, membership size, and adherence to transparency standards. This would ensure a more equitable distribution of resources and foster a more pluralistic political environment. However, the successful implementation of state funding requires robust accountability mechanisms, including regular audits and oversight by independent bodies. In Indonesia, this responsibility falls to institutions such as the Audit Board and the Ministry of Home Affairs, which are tasked with ensuring financial transparency. However, enforcement of these regulations remains inconsistent, with ongoing challenges to accountability (Abadi, 2020). Strengthening enforcement, alongside increasing public subsidies and implementing clearer reporting requirements, would reduce illicit funding and lower corruption risks. Cross-national evidence, including the experience of Paraguay, supports the effectiveness of these measures (Hummel et al., 2019).

The political candidacy process is another area requiring reform. The current system is opaque, dominated by elite interests, and perpetuates the cycle of political dynasties, which limits the opportunity for more diverse candidates. One potential solution is to introduce merit-based selection procedures, such as open primaries, which would allow party members or the public to participate in the selection of candidates. Such procedures would help democratise access to political office, reducing the influence of money and patronage. Furthermore, political parties should be required to disclose all campaign financing sources, with stricter reporting requirements and severe penalties for violations. The high cost of campaigning also presents a barrier to political participation, particularly for candidates from marginalised backgrounds. To address this, campaign spending limits should be introduced, alongside public provisions such

as free airtime and subsidised campaign materials. Mechanisms like crowdfunding or small-donor matching programmes, such as New York City's public financing model, could help create a more equitable electoral environment (Loprest & Perskie, 2016).

Institutional reforms are also essential to sustain anti-corruption efforts. These reforms should include the establishment of independent agencies with sufficient authority to investigate and prosecute political corruption cases. Legal protections for whistleblowers are crucial to encourage reporting of corruption, while electoral laws should be revised to close loopholes that enable illicit funding and patronage. For example, Brazil's *Ficha Limpa* ("Clean Slate") law, which bars politicians convicted of serious crimes from running for office, has helped to limit the electoral influence of corrupt actors (Moraes & Andion, 2017; Monteschio et al., 2023). Similarly, Mexico's implementation of strict presidential term limits has weakened political dynasties by preventing prolonged incumbency (Klesner, 2019). In Indonesia, the enforcement of anti-dynasty provisions in Law No. 10/2016 should be strengthened, with enhanced monitoring by the General Election Commission (KPU) and the Election Supervisory Board (Bawaslu).

Strengthening the oversight function of local parliaments (DPRD) is another critical component of reducing corruption. The effectiveness of the DPRD has been undermined by party loyalty and collusion, which often prioritise partisan interests over public accountability (Fisman & Gatti, 2002). Reforms should include the establishment of independent regional budget oversight bodies, increased public access to regional budgets and procurement details, and mechanisms allowing voters to recall underperforming or corrupt legislators (Transparency International, 2023).

Furthermore, conflict-of-interest regulations must be enforced to prevent legislators from engaging in business dealings that compromise their oversight role (World Bank, 2017). The decentralised system in Indonesia requires clearer separation between executive roles and party leadership positions to prevent conflicts of interest, as seen in cases where regional heads serving concurrently as local party chairs (“dual position/role”) weakened legislative oversight. These reforms align with broader anti-corruption principles emphasising the importance of institutional checks on concentrated power (Hadiz & Robison, 2017; Mietzner, 2007). Mandating ethics and anti-corruption training for all officials, supported by strong enforcement of ethical standards, can further cultivate a culture of integrity within local governance.

Finally, improving voter education and participation is essential in reducing the vulnerability to vote-buying and clientelism, particularly in rural and marginalised regions. Expanding civic education programmes, such as the KPU’s “*Sosialisasi Pilkada*” campaigns, can foster more informed electoral participation and reduce electoral corruption (KPU, 2021).

In conclusion, addressing corruption in Indonesia’s local governance requires a multifaceted strategy that includes reforms in party financing, democratisation of candidacy processes, strengthening legislative oversight, curbing political dynasties, and enhancing voter education. These measures, grounded in international best practices and supported by empirical evidence, offer a viable path toward reducing corruption, dismantling dynastic politics, and restoring public trust in local governance. By focusing on these key areas, Indonesia can move towards a more transparent and accountable political system at the local level, in line with its decentralisation goals.

8.4.2 Recommendation 2: Reforms in Administrative Decentralisation for Enhancing Recruitment, Remuneration, and Oversight to Combat Local Corruption in Indonesia

The decentralisation of administrative authority in Indonesia, particularly over personnel management, has created both opportunities and risks for local governance. While the intention was to enhance responsiveness and context-specific administration, the substantial transfer of discretion to local governments has, in practice, fostered patronage and corruption. This section offers recommendations for reforming administrative decentralisation, drawing on both empirical evidence and international best practices.

A primary challenge is the prevalence of political patronage in civil service recruitment and promotion at the local level. The autonomy granted to regional heads has often led to bureaucratic appointments based on political loyalty rather than merit, undermining the effectiveness and integrity of local administrations. This pattern aligns with broader findings that decentralised recruitment, when lacking robust oversight, exacerbates corruption risks (CEC Annual Report, 2021). Reflecting concerns raised by Nkgapele and Mofokeng (2024), it is crucial to establish independent recruitment bodies to safeguard meritocracy in public sector appointments. These bodies should oversee transparent and competitive recruitment processes to ensure civil servants are selected based on qualifications and experience, not political connections. Such reforms would strengthen governance outcomes and restore public trust in local institutions.

To further enhance transparency and fairness in recruitment, it is recommended that computer-based testing systems, such as the Computer-Assisted Test (CAT), be expanded. Chapter 6 illustrates the positive impact of CAT in minimising manipulation and subjectivity in civil service examinations. This supports broader calls for technocratic solutions to improve transparency in public sector hiring, especially in decentralised settings where local discretion may enable patronage (Soni, 2024; Zhu & Ryzhov, 2024). Law No. 5/2014 already mandates open, merit-based recruitment for local civil service positions; however, effective implementation requires strengthening the oversight capacity of the State Civil Service Commission (KASN) to ensure compliance nationwide. International examples, such as Georgia’s reform of its civil service recruitment system—monitored by an independent Civil Service Bureau—highlight the potential for reducing corruption and enhancing bureaucratic integrity (World Bank, 2012).

Another area for reform is the structure of remuneration and performance incentives. As discussed in Chapter 6, disparities in pay and allowances across regions, coupled with inadequate links to performance, have created environments conducive to corruption—particularly in under-resourced areas. Developing national guidelines that tie additional allowances (TPP) to transparent, performance-based criteria, adjusted for regional cost-of-living differences, would promote fairness and reduce incentives for corruption. The introduction of e-performance management systems in Indonesian local governments, such as the use of digital applications for calculating additional allowances in Gunungkidul Regency, demonstrates potential for enhancing transparency and accountability in personnel management (Handayani & Syahrial, 2024; Gea et al., 2024). International evidence from South Korea suggests that

performance-based pay, grounded in transparent and measurable criteria, can improve pay satisfaction and reduce corruption opportunities, offering valuable lessons for Indonesia's reform efforts (Campbell & Im, 2019; Chang, 2006; Bae, 2021). These reforms would incentivise civil servants to prioritise tangible results and accountability, improving bureaucratic efficiency (World Bank, 2019).

Discretionary control over personnel transfers and promotions also facilitates patronage and corruption. As outlined in Chapter 6, these processes remain opaque, with political influence often overriding merit. To address this, introducing transparent reporting, mandatory justifications for transfers, and oversight by independent panels could mitigate political interference. While Indonesia's Civil Service Commission (KASN) has implemented open selection for high-ranking positions, extending this reform to lower administrative levels is crucial. Singapore's Public Service Commission (PSC) offers a model of merit-based recruitment, ensuring rigorous appointment standards and external audits to sustain bureaucratic integrity (Quah, 2013).

Finally, strengthening local audit institutions, such as Regional Inspectorates, is vital in countering the corruption risks associated with administrative decentralisation. As highlighted in Chapter 6, these bodies often suffer from inadequate resources and lack of independence, limiting their ability to detect and prevent corruption. Enhancing their capacity through increased funding, targeted training, and institutional independence is necessary. International experiences, such as capacity-building efforts in Gabon and Tanzania (Huybens, 2017; Wickramasinghe, 2019), as well as the South Sumatra provincial government's collaboration with BPK and KPK following the Muara Enim case, illustrate the importance of professionalising and strengthening local audit institutions.

In summary, strengthening administrative decentralisation in Indonesia requires a comprehensive strategy: the establishment of independent recruitment bodies, the expansion of computer-based and merit-based recruitment, the linking of remuneration to performance, enhanced transparency and oversight in personnel transfers and promotions, and the capacity-building of local audit institutions. These reforms, based on empirical findings and international best practices, are essential for depoliticising the bureaucracy, reducing corruption risks, and improving the professionalism and accountability of Indonesia's local civil service.

8.4.3 Recommendation 3: Reforming Fiscal Decentralisation to Strengthen Accountability and Reduce Local Corruption

Fiscal decentralisation in Indonesia was intended to empower local governments, enhance public service delivery, and improve accountability. However, as discussed in Chapter 7, the increased fiscal autonomy has often created opportunities for corruption, particularly when local discretion over budgeting, procurement, and revenue management is not matched by effective oversight and transparency mechanisms. Since 2000, Indonesia's experience has shown that, without significant reforms, fiscal decentralisation can inadvertently foster rent-seeking behaviour and undermine local governance integrity.

A key issue is the manipulation of budget formulation and execution by local officials and legislators, who often exploit discretionary powers for personal or political gain. As illustrated in Chapter 7, practices such as collusion and bribery in budgeting and procurement are widespread, with cases like those in Lampung Tengah and Muara Enim demonstrating how local parliaments and executives can manipulate public

budgets for illicit benefit. These practices are further exacerbated by weak internal controls and inadequate transparency, especially in regions with limited institutional capacity.

To address these issues, it is crucial to implement reforms that enhance fiscal transparency and accountability at the local level:

1. **Institutionalise Transparent and Participatory Budget Formulation:** Local governments should be required to publish comprehensive and accessible budget documents and procurement plans online, as mandated by Law No. 14/2008. This would facilitate public scrutiny, reducing opportunities for arbitrary or opaque resource allocation. Engaging local communities in setting spending priorities has proven to improve accountability and foster trust between citizens and local authorities (Wu et al., 2024; Touchton & Wampler, 2023).
2. **Fully Digitise Procurement Processes:** The implementation of e-procurement platforms, such as LPSE, has strengthened transparency and accountability in government procurement, reducing corruption risks in many regions (Kartika, 2022; Puspita & Gultom, 2022). Expanding these systems across all regions would mitigate collusion and bribery in public contracting.
3. **Modernise Local Revenue Collection:** The introduction of cashless payment systems should be prioritised to reduce fraud, ensure accurate revenue recording, and prevent unauthorised diversions. This is particularly important given the complexity of local taxation and the prevalence of manipulation in areas like vehicle tax collection, as discussed in Chapter 7.
4. **Establish a Transparent, Nationally Monitored Revenue-Sharing Mechanism:** The current dependency on central transfers and limited local revenue generation

powers increases corruption risks. Revising the formulas for General Allocation Funds (DAU) and Revenue Sharing Funds (DBH) to better reflect local needs while gradually enhancing local revenue generation would promote equity and accountability. The Philippines' Internal Revenue Allotment (IRA) system, which allocates transfers based on population and fiscal need, offers a potential model (Panao, 2023).

5. **Enforce Regular, Independent Audits:** Strengthening the role of local inspectorates and the Supreme Audit Agency (BPK) and ensuring public access to audit results are essential for enhancing accountability and deterring corrupt practices.

In conclusion, for fiscal decentralisation in Indonesia to succeed, a comprehensive approach is necessary. This includes transparent budget formulation, electronic procurement, modernised revenue collection, equitable revenue-sharing, and robust auditing practices.

8.4.4 Recommendation 4: Strengthen the Role of Civil Society and Empower Community Participation

Civil society organisations (CSOs), including non-governmental organisations (NGOs) and the media, play a vital role in ensuring transparency and accountability within Indonesia's decentralised governance system. However, their effectiveness is often compromised by their financial dependence on local governments, which diminishes their independence. To enhance the capacity of NGOs in monitoring local government performance and combating corruption, it is crucial to secure independent and adequate funding for these organisations. Many Indonesian NGOs rely on local

government support due to socio-economic limitations, which often undermines their autonomy and, in some cases, contributes to the perpetuation of corruption (see Chapter 5.3).

To mitigate these risks, mechanisms should be established to enable NGOs to access financial resources from neutral or international sources. This would reduce the likelihood of co-optation and strengthen their role as informal monitoring institutions. This research highlights that while NGOs have significant potential to promote accountable governance and detect corruption early, their effectiveness hinges on their financial autonomy and professional capacity. Therefore, creating an environment where NGOs can operate independently with sufficient resources is essential for improving public oversight and advancing good governance in decentralised Indonesia.

Whistleblower protections also remain critical. Indonesia's whistleblower system, managed by the Corruption Eradication Commission (KPK), requires substantial reform to ensure robust confidentiality and legal safeguards. The "Clean Portal" system in South Korea offers a successful model, combining secure digital reporting with stringent confidentiality measures and identity verification (UNDP Seoul Policy Centre [USPC], 2024). Local anti-corruption forums could adopt similar mechanisms to provide secure reporting channels and encourage public participation.

Moreover, the media's role in exposing corruption must be strengthened, as restrictive defamation laws often obstruct investigative journalism (Stapenhurst & Kpundeh, 1999). Legal reforms, along with state-supported grants for investigative reporting,

could empower journalists to hold officials accountable, in line with the democratic governance frameworks advocated by scholars (Norris, 2011).

Indonesia's Musrenbang participatory forums also need institutional strengthening to ensure meaningful citizen engagement in governance processes. Drawing on successful participatory budgeting models, such as Porto Alegre's, which demonstrated that sustained civic participation can enhance transparency and accountability in public spending (Sintomer et al., 2008; de Sousa Santos, 1998), a comprehensive approach—including financial independence for civil society organisations, robust whistleblower protections, and institutional support for independent media—would significantly enhance civil society's capacity to combat corruption and promote democratic governance.

8.4.5 Recommendation 5: Integrating National and Local Anti-Corruption Strategies

Corruption remains a persistent issue in Indonesia's decentralised governance, highlighting the need for a more coherent integration of national and local anti-corruption strategies. Despite progress with the National Strategy for Corruption Prevention (Stranas PK), its application at the local level is inconsistent. To address this, local governments must align their development strategies with Stranas PK, incorporating its goals and action plans into regional planning and work programmes. This should be supported by clear targets, effective monitoring, and evaluation frameworks tailored to local governance structures to ensure the integration is both meaningful and measurable.

Moreover, the fragmentation of oversight and enforcement mechanisms hampers effective anti-corruption efforts. To resolve this, national bodies like the Corruption Eradication Commission (KPK) and local Inspectorates must coordinate more systematically. Regular coordination forums and joint working groups should be institutionalised to facilitate information exchange, harmonise procedures, and support joint investigations. This approach would enhance detection, prosecution, and the sharing of best practices across jurisdictions.

A notable international example is Georgia's Inter-Agency Coordination Council for Anti-Corruption, which facilitates collaboration between national and local authorities to align anti-corruption policies and ensure accountability through regular reporting.(OECD, 2016, "Anti-Corruption Reforms in Georgia: 4th Round of Monitoring of the Istanbul Anti-Corruption Action Plan," OECD Publishing) Adopting such mechanisms in Indonesia could improve coordination, reduce fragmentation, and strengthen anti-corruption efforts at all levels.

8.5 Conclusion

This study demonstrates that whilst Indonesia's decentralisation was conceived as a means of strengthening democratic governance and enhancing citizen participation, it has inadvertently enabled corruption by granting local elites considerable autonomy without the requisite institutional oversight. Political decentralisation—intended to empower citizens through local electoral choice—has instead entrenched elite dominance. A principal catalyst is the financial dependency between candidates and political parties, culminating in so-called "political dowries" and collusive arrangements that privilege private interests over public accountability. Concurrently, administrative

decentralisation has fostered patronage networks, wherein public appointments and promotions are often contingent upon personal or political allegiance rather than merit. Such practices undermine public trust in local institutions and erode the professionalism and integrity of the civil service. Similarly, fiscal decentralisation has thus far fallen short of its aim to improve financial management; weak audit mechanisms and insufficiently transparent budgeting practices have resulted in rent-seeking behaviour, misallocation of public funds, and systemic irregularities in procurement.

Mitigating these challenges necessitates a comprehensive, multi-pronged strategy that bolsters institutional checks and balances. Strengthening the independence and capacity of audit institutions, embedding transparency in budgetary procedures, and establishing robust, merit-based recruitment for civil servants are essential preliminary steps in dismantling the networks of patronage and collusion. Moreover, ensuring that local legislative bodies operate as credible oversight entities—capable of scrutinising executive actions and imposing accountability—would curtail the discretionary authority that fosters corruption. The study also underscores the critical roles of civil society and the media: their empowerment through financial independence, protective regulatory frameworks, and systematic access to information is imperative for enhancing scrutiny of local governance and exposing malfeasance. Collectively, these reforms can recalibrate decentralisation so as to promote genuine good governance, strengthen accountability, and fulfil the broader democratic ambitions that originally inspired Indonesia's transition to devolved administration. By embedding transparency and integrity in local institutions, policymakers can safeguard public resources,

enhance equitable service provision, and reaffirm the significance of citizen engagement in a robust democratic milieu.

8.5.1 Relevance beyond the Indonesian Context

Although this thesis focuses on Indonesia, the findings have broader implications for other countries that have implemented or are considering decentralisation reforms. The Indonesian case illustrates how the interaction of political, administrative, and fiscal autonomy with weak oversight can generate a distinctive pattern of local-level corruption that is not unique to Indonesia but resonates with experiences in other developing and middle-income democracies. First, the evidence that political decentralisation can entrench money politics, elite capture, and patronage networks under conditions of high campaign costs and low party institutionalisation is directly relevant to countries where subnational elections have expanded faster than the development of robust monitoring institutions. In such settings, the combination of direct local elections, fragmented party systems, and limited citizen oversight can similarly increase the incentives for local officials to engage in corrupt practices. Second, the analysis of administrative decentralisation shows how devolved personnel management without strong merit-based recruitment and promotion systems can diffuse, rather than reduce, corruption, a dynamic observable in other post-authoritarian or post-conflict states that have rapidly transferred authority to local bureaucracies. Third, the Indonesian experience with fiscal decentralisation underscores the risks of granting local governments broad expenditure discretion in the absence of commensurate improvements in local capacity, audit quality, and public financial management. Many countries that rely heavily on intergovernmental transfers, while maintaining limited local revenue-raising powers, face similar

challenges of dependence, weak accountability, and uneven transparency in subnational financial reporting. The central role of supreme audit institutions, civil society organisations, and other countervailing actors in Indonesia therefore offers lessons for other contexts in which decentralisation has expanded opportunities for corruption faster than mechanisms of control. By highlighting these cross-cutting dynamics, the thesis contributes not only to understanding the decentralisation–corruption nexus in Indonesia but also to comparative debates about the conditions under which decentralisation is likely to mitigate or intensify corruption in diverse country settings.

8.5.2 Directions for Future Research

This study also points to several avenues for further research that could deepen and extend the analysis presented here. First, future work could employ comparative designs that juxtapose Indonesian provinces or districts with subnational units in other countries, in order to identify which institutional configurations of political, administrative, and fiscal decentralisation are most strongly associated with lower levels of local corruption. Such cross-country or cross-regional comparisons would help to clarify the extent to which the mechanisms identified in this thesis are context-specific or generalisable across different decentralised systems.

Second, additional research could combine qualitative case studies with longitudinal quantitative data on local corruption cases, audit outcomes, and fiscal indicators, to trace more precisely how changes in decentralisation laws and oversight institutions shape corruption dynamics over time. This would allow scholars to assess the longer-term effects of specific institutional reforms—such as modifications to electoral

rules, party financing regulations, or audit mandates—on the behaviour of local officials. Third, there is scope for more micro-level studies that examine how citizens, civil society organisations, and local media engage with decentralised institutions in practice, and how these actors can strengthen or weaken accountability at the local level. By exploring these themes, future research can build on the findings of this thesis to inform more context-sensitive strategies for designing decentralisation reforms that genuinely reduce, rather than redistribute, opportunities for corruption.

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Appendix A Case Study Selection Method

A. Sampling Strategy

This research utilises a multi-case study design, focusing on two tiers of local government in Indonesia: the provincial and district levels. Since the implementation of decentralisation in 1999, substantial authority has been devolved to the lower tier of local government, namely the districts. In contrast, under the previous system, the provincial level possessed greater authority and enjoyed a superior status over the districts; however, they have subsequently relinquished much of their former privilege.

As of 2017, Indonesia comprises 34 provinces and 514 districts. Given the large population and the extensive number of administrative units, it is necessary for this study to select a sample that is representative of the broader population. Observing the behaviour of an entire population is often unfeasible in macro-level research, particularly when a large number of individuals are involved. Consequently, sampling becomes a crucial methodological consideration. Sampling entails the selection of a subset of the population, rather than examining the population in its entirety. Bryman (2012) defines sampling as the process of selecting a segment or subset of a population for investigation. Similarly, Thomas (2013) argues that the selection of a representative sample enhances the validity and accuracy of research findings, provided that appropriate procedures and techniques are employed.

This study adopts a two-stage sampling process to select regions for in-depth case study analysis. Firstly, purposive sampling is employed to ensure that both tiers of sub-national government in Indonesia (provinces and districts) are adequately represented within the sample. In relation to the research question, case studies from both levels of local government are examined to investigate how the shifting balance of power under Indonesia's decentralised system has influenced the propensity of local bureaucrats to engage in corrupt practices.

The second stage involves determining which specific provinces and districts are most relevant as case study samples. Sampling strategies are generally categorised as either probability (representative) sampling or non-probability (non-random) sampling (Saunders et al., 2016). In probability sampling, the likelihood of each case being selected from the population is known and is typically equal for all cases. Conversely, in non-probability sampling, the probability of selection is unknown, and a range of alternative techniques—often involving subjective judgement—may be utilised (Saunders et al., 2016). One such technique is purposive sampling, whereby researchers use their judgement to select cases that are most likely to address the research questions and objectives (Saunders et al., 2016).

Purposive sampling in this study is operationalised through a cross-case method of case selection and analysis, as described by Seawright and Gerring (2008), to identify the most relevant provinces and districts for the case studies. Two specific cross-case selection methods are employed: the Diverse Case Method and the Typical Case Method. The Diverse Case Method aims to achieve maximum variance along relevant dimensions by selecting several cases—at least two—that together represent the full range of values of key variables (Seawright and Gerring, 2008). In contrast, the Typical Case Method focuses on cases that exemplify stable, cross-case relationships and may be considered representative according to the adopted cross-case model (Seawright and Gerring, 2008). A summary of the application of these case selection methods is presented below:

Summary of Case Selection Method

CASE SELECTION METHOD	DETERMINATES ON
Diverse Method	Variable Y (Local Corruption Case)
Typical Method	Variable X (Local Expenditure, Population, and Human Development Index)

B. Case Selection Based on Corruption Variables

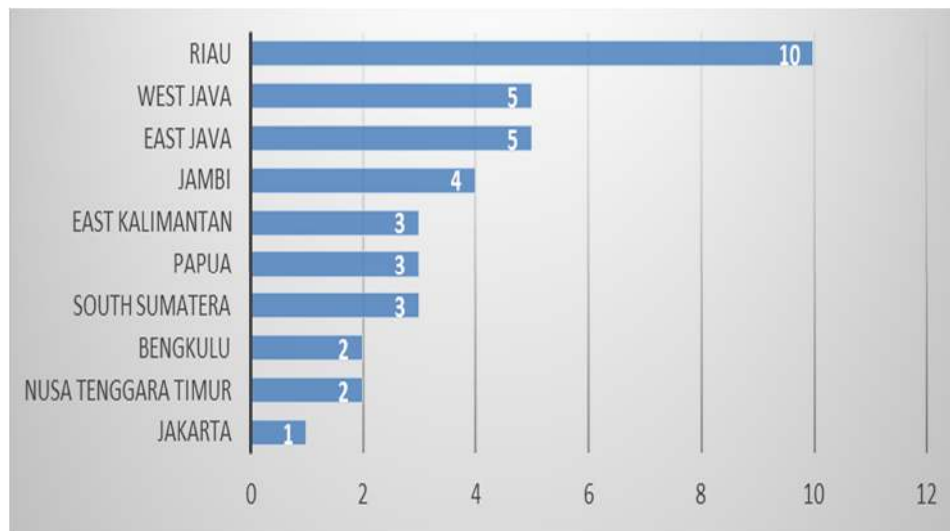
The initial stage of sampling—specifically, case selection—relies on the corruption variable and the application of a diverse case selection method. The corruption variable serves as a fundamental criterion for classifying local governments according to the incidence of local corruption. This variable is operationalised by identifying the presence or absence of local bureaucrats from a given local government who are suspected of involvement in corruption cases. Accordingly, for each tier of local government, two groups are distinguished: the first comprises local governments with bureaucrats suspected of corruption, while the second consists of “clean” local governments, in which no bureaucrats have been implicated in corruption cases. Case study samples will be selected from these respective groups at each level of local government.

The primary data source for the corruption variable is the Corruption Eradication Commission (CEC). Specifically, data pertaining to investigations of corruption cases conducted by the CEC will be utilised. The key variable is the number of local bureaucrats designated as suspects in corruption cases within local governments. The rationale for employing this data source has been elaborated in Chapter 2, as it is the most reliable, comprehensive, and representative dataset available for local corruption in Indonesia.

Between 2006 and 2017, the Corruption Eradication Commission investigated numerous corruption cases involving local governments, including both Heads of Local Government (Governors, Mayors, and Regents) and Local Apparatus (echelon officials and staff). During this period, 75 Heads of Local Government from 66 provincial and district governments were identified as suspects in corruption cases. Additionally, 72 Local Apparatus from 29 local governments were implicated in corruption cases investigated by the Commission over these twelve years.

Firstly, the analysis begins at the provincial level. A total of 43 local bureaucrats were identified as suspects in corruption cases across 15 provincial governments in Indonesia. These 15 “with-case provinces” represent a subset of the 34 provinces in Indonesia. Consequently, 19 provinces can be categorised as “no-case provinces,” as no local bureaucrats from these provinces were accused in regional corruption cases during the period 2006–2017. To facilitate the selection of cases for provinces with corruption incidents, the analysis will focus on the ten provinces with the highest number of cases, as illustrated in the figure below.

**LOCAL BUREAUCRATS SUSPECTED IN LOCAL CORRUPTION CASES
IN PROVINCIAL GOVERNMENTS
(Ten Highest)**

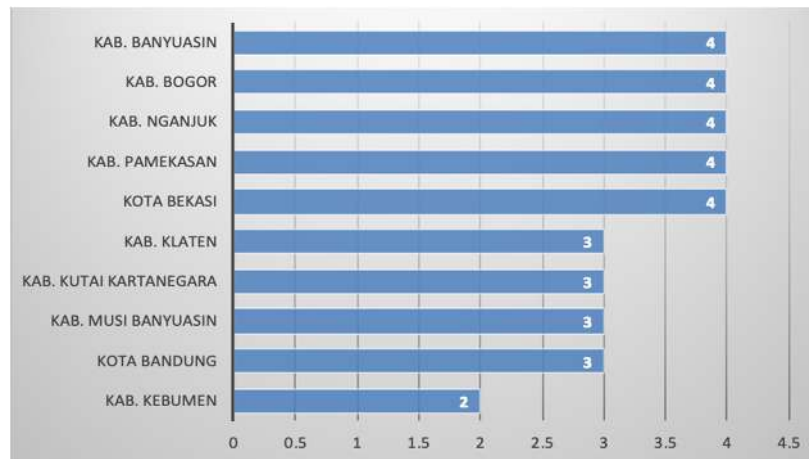


Source: (Author calculation – based on CEC Annual Review 2006-2017)

Secondly, the data are further elaborated at the district level. There are 63 district governments, along with their bureaucrats, implicated in corruption cases (hereafter referred to as “with-case districts”), involving a total of 104 local bureaucrats. This figure is relatively low when compared to the total number of district governments in Indonesia, which stood at 514 in 2017. Accordingly, 451 district governments are categorised as “no-case districts,” as there were no local bureaucrats suspected of involvement in regional corruption cases between 2006 and 2017. As with the

provincial level, the analysis will focus on the ten districts with the highest number of corruption cases, as shown in the figure below.

LOCAL BUREAUCRATS SUSPECTED IN LOCAL CORRUPTION CASES IN DISTRICT GOVERNMENTS (Ten Highest)



Source: (Author calculation – based on CEC Annual Review 2006-2017)

This grouping approach will be consistently applied across all levels of local government under investigation. At the provincial level, “no-case provinces” refer to local governments with no bureaucrats suspected of corruption, while “with-case provinces” denote those with suspected local bureaucrats. The same categorisation applies at the district level, with “with-case districts” and “no-case districts.” For the purposes of this research, samples will be selected from each group, resulting in a total of four local governments serving as case studies.

The subsequent step involves selecting samples from these respective groups. This process will employ the Typical Case Selection Method, utilising the Decentralisation Variable as the primary criterion for selection. These decentralisation variables (hereafter referred to as Variable X_x) represent the three dimensions of decentralisation that form the analytical framework of this research: fiscal decentralisation, political decentralisation, and administrative decentralisation. The decentralisation variables are as follows:

- 1) *Local Expenditure* (X_1), as the representation of Fiscal Decentralisation dimension. Indonesia fiscal decentralisation is more to expenditure decentralisation, and the expenditure variable was widely used in many articles on fiscal decentralisation. The data is based on the local budget in 2017
- 2) *Population* (X_2), as the representation of Political Decentralisation dimension. The citizen participation is crucial in the political decentralisation, and the population is

one variable that can be considered to represent it. The data is based on national census 2010 - the latest.

- 3) *Human Development Index (X₃)*, as the representation of Administrative Decentralisation. The comprehensive indicators of the educational output in a region represented in the Human Development Index (HDI), thus it may become an indicator to measure the success of the delivery of educational services. The data is for 2017 and it gathered from the Indonesia Central Statistical Bureau (BPS).

The application of the Typical Case Selection Method, utilising the decentralisation variable as the foundation for case formulation, facilitates the selection of local governments (both provincial and district levels) that exhibit average characteristics representative of the population of “with-case” local governments. At the provincial level, this population comprises 15 provinces, while at the district level, it consists of 63 districts. The degree of proximity to the average characteristic is determined by identifying the smallest aggregate deviation between the decentralisation variables of each local government—namely, *local expenditure within the local budget, population, and the Human Development Index (HDI)*—and the mean of each respective variable. Accordingly, the formula employed to weight the deviation of each decentralisation variable within each local government is expressed as the difference between the value of the respective decentralisation variable in each local government and the mean of that variable, divided by the mean ($\frac{x-\mu}{\mu}$) of the respective variable

At the district level, there are fifteen districts (comprising both cities and regencies) classified as “with-case districts”. Based on the decentralisation variable data for these districts, the mean value of the decentralisation variable was calculated. Subsequently, the absolute aggregate deviation, defined as ($\frac{x-\mu}{\mu}$), was computed for this group. The five districts exhibiting the smallest deviations are as follows:

THE RESULT OF ABSOLUTE AGGREGATE DEVIATION CALCULATION OF “WITH-CASE” DISTRICT GOVERNMENTS

No	Local Government	Region	Dev X1	Dev X2	Dev X3	Total
1	Kab. Banyuasin	Sumatera	(0.06)	0.03	(0.05)	0.14
2	Kab. Pamekasan	Java	(0.08)	0.09	(0.07)	0.24
3	Kab. Nganjuk	Java	0.17	0.40	0.01	0.58
4	Kab. Musi Banyuasin	Sumatera	0.35	(0.23)	(0.04)	0.62
5	Kab. Klaten	Java	0.28	0.55	0.07	0.90

(Author Calculation)

Banyuasin Regency exhibits the smallest value of absolute aggregate deviation within the group. Notably, this regency also records the highest number of local bureaucrats suspected of involvement in corruption cases among the districts considered.

Applying the same method of calculating absolute aggregate deviation from the group of "with-case districts" to the group of 15 provincial governments with local bureaucrats suspected of corruption (hereafter referred to as "with-case provinces"), the results for the five smallest absolute aggregate deviations are as follows:

**THE RESULT OF ABSOLUTE AGGREGATE DEVIATION CALCULATION OF
“WITH-CASE” PROVINCIAL GOVERNMENTS**

No	Local Government	Region	Gap1	Gap2	Gap3	Total
1	Riau	Sumatera	(0.24)	(0.46)	0.02	0.72
2	South Sumatera	Sumatera	(0.53)	(0.18)	(0.02)	0.72
3	Papua	Papua	0.05	(0.72)	(0.16)	0.93
4	East Kalimantan	Kalimantan	(0.44)	(0.65)	0.07	1.16
5	Nusa Tenggara Timur	Nusra	(0.68)	(0.54)	(0.09)	1.31

(Author Calculation)

Based on results presented in the above table, there are three provincial governments with the smallest aggregate deviation value; Riau Provincial Government, South Sumatra Provincial Government, and Papua Provincial Government. The Province of South Sumatra is included in the province with the smallest deviation value; however, the number of local bureaucrats suspected for local corruption is smaller than the Province of Riau. In consideration to achieve an efficiency of research costs due to Banyuasin Regency is in the area of the Province of South Sumatra, then sample selected for this group is the Province Government of South Sumatra. The next step is to select a sample for the case studies from the local government with no local bureaucrats suspected in local corruption case or the “no-case” regions, at the provincial and district level. The sample selected in each level of local government in this group should be the local government that “typical” to the sample that has been selected for the “with-case” regions. Thus, the sample will be selected with the application of the Typical Case Selection Method from the local government with the smallest absolute aggregate deviation of the decentralisation variable from the sample of the “with-case” regions. The value of decentralisation variable of the sample local government from the “with- case” regions will be the basis to calculate the deviation; therefore, the formula will be $\frac{x-x_0}{x_0}$.

First, at the district government, the Banyuasin Regency has been chosen as the sample for the case study of the “with-case districts. Consequently, the value of the

decentralisation variable of the Banyuasin Regency will be the basis to calculate the absolute aggregate deviation of the decentralisation variable in the 451 district governments in the group of “no-case district”. The following table shows the result, the top five, of the calculation of the absolute aggregate deviation for the “no-case district” group.

**THE RESULT OF DEVIATION CALCULATION OF “NO-CASE DISTRICT
(TOP FIVE)**

No	Local Government	Total Expenditure (Local Budget 2017)	Population (CSA 2010)	HDI (CSA 2017)	Total
1	Kab. Gunung Kidul	1,847,111,037,682	724,658	68.73	0.10
2	Kab. Temanggung	1,888,027,231,040	708,109	68.34	0.10
3	Kab. Blora	1,947,278,632,000	829,604	67.52	0.16
4	Kab. Kudus	1,947,737,161,000	777,954	73.84	0.19
5	Kab. Lombok Tengah	1,824,001,732,263	859,309	64.36	0.21

The calculation yields two district governments with identical values of absolute aggregate deviation: Gunung Kidul Regency and Temanggung Regency. Both of these local governments are situated on the island of Java and, as such, may be regarded as typical cases. For the purposes of this study, Gunung Kidul Regency has been selected as the representative sample for the “no-case district” group and is considered the typical counterpart to Banyuasin Regency.

At the provincial level, there are 19 provinces classified within the “no-case province” group. The same calculation procedure is applied to this group, using the decentralisation variable values of South Sumatra Province as the reference point for deviation. The results of the absolute aggregate deviation calculations are presented in the table below. Among these provinces, Lampung Province exhibits the smallest value of aggregate deviation and is therefore considered the “typical” case for South Sumatra Province.

**THE RESULT OF DEVIATION CALCULATION OF “NO-CASE DISTRICT
(TOP FIVE)**

No	Local Government	Total Expenditure (Local Budget 2017)	Population (CSA 2010)	HDI (CSA 2017)	Total
1	Prov. Lampung	6,802,928,254,614	7,608,405	68.25	0.11
2	Prov. Sulawesi Selatan	9,149,460,824,027	8,034,776	70.34	0.41
3	Prov. Bali	6,654,312,296,708	3,890,757	74.30	0.65
4	Prov. DI Yogyakarta	5,200,386,011,001	3,457,491	78.89	0.98
5	Prov. Papua Barat	7,198,960,532,711	760,422	62.99	1.05

Based on the results of the calculations presented above, semi-structured interviews will be conducted with key actors from the following institutions: the local legislature, local administration, local audit and law enforcement agencies, as well as civil society organisations from:

THE SAMPLE FOR CASE STUDY SELECTED

Region	Local Governments	
	Provincial	Districts
Regions – with local bureaucrats suspected in a corruption case.	Province of South Sumatera	Banyuasin Regency
Regions – no local bureaucrats suspected in a corruption case	Province of Lampung	Gunung Kidul Regency

(Derived by the author from: MoHA, Statistical Bureau, and MoF)

This study examines four local governments in Indonesia, comprising two at the provincial level and two at the district (regency) level. At the provincial level, South Sumatra Province and Lampung Province were selected. According to the primary sampling criteria, these two provincial governments share similar characteristics, particularly with respect to the variables relevant to decentralisation utilised in the sampling selection method.

Based on the 2010 Census, South Sumatra Province had a population of 8.4 million, slightly higher than Lampung Province, which had 7.6 million inhabitants. This demographic difference corresponds with the disparity in land area: South Sumatra covers 91,592 km², more than double the area of Lampung Province, which spans 35,376 km² (Central Statistical Bureau, 2010 and 2019).

From a fiscal perspective, both provinces demonstrate comparable levels of local expenditure, approximately 6.8 trillion rupiahs. However, the fiscal capacity index of South Sumatra Province is notably higher than that of Lampung Province. According to the Decree of the Ministry of Finance of the Republic of Indonesia No. 119/PMK.07/2017, in 2017 the fiscal capacity index for South Sumatra was 1.16, categorised as “High”, while Lampung Province’s index was 0.56, categorised as “Medium”. Regional Fiscal Capacity (RFC) is an indicator of a region’s financial capacity, calculated as $RFC_i = \frac{[Total\ Revenue] - [Earmarked\ Revenue + Total\ Expenditure]}{(\sum RFC_i)/n}$ (Ministry of Finance RI, 2017). The Fiscal Capacity Index is defined as the ratio of a region’s RFC to the national average RFC, that is, $(\frac{RFC_i}{(\sum RFC_i)/n})$ (Ministry of Finance, 2017).

In terms of administrative aspects, in 2018, South Sumatra Province employed 15,634 civil servants, slightly fewer than Lampung Province, which employed 16,381 (Regional State Personnel Agency, 2018). Both provinces demonstrated similar

outcomes in the delivery of educational services, as reflected in their Human Development Index (HDI) scores, each achieving a medium level of 68 in 2017 (Central Statistical Bureau, 2017). Thus, in terms of general characteristics, the two provinces are broadly comparable, differing primarily in fiscal capacity, where South Sumatra holds a relative advantage.

At the district level, Banyuasin Regency and Gunung Kidul Regency exhibit similar characteristics. Both have populations of approximately 700,000. Their total local expenditures are also comparable, each amounting to around 1.8 trillion rupiahs. However, their Fiscal Capacity Indices differ markedly: Banyuasin Regency's index is 1.36 ("High"), while Gunung Kidul Regency's is 0.59 ("Low").

Administratively, Gunung Kidul Regency surpasses Banyuasin Regency in both HDI and the number of civil servants. In 2017, Gunung Kidul Regency recorded an HDI of 68.73, compared to Banyuasin Regency's 65.85. In 2019, Gunung Kidul employed 8,369 civil servants, while Banyuasin employed 7,576 (Central Statistical Agency, 2017 and 2019).

THE CHARACTERISTICS OF THE SELECTED SAMPLE FOR CASE STUDY

	Province of South Sumatera	Province of Lampung	Regency of Banyuasin	Regency of Gunung Kidul
Characteristic of Regions	Province in Sumatera (Out of Java)	Province in Sumatera (Out of Java)	Regency in Sumatera (Out of Java)	Regency in Yogyakarta (In Java)
Population (2010)	8,450,394	7,608,405	749,107	725,658
Local Expenditure (2017)	6,844,917,482,007	6,802,928,254,614	1,897,387,440,836	1,847,111,037,682
Fiscal Capacity (2017)	1.16 (High)	0.56 (Medium)	1.36 (High)	0.59 (Low)
Value of HDI (2017)	68.86	68.25	65.85	68.73
Number of Regional Civil Servant (2019)	15.634	16.381	7.576	8.369

With regard to regional disparities, it is noteworthy that only Gunung Kidul Regency is situated on the island of Java, which is the most developed region in Indonesia. In contrast, the remaining three regencies are located on other islands. Purposive sampling was employed to ensure that interviewees represent a diverse range of stakeholders, including officials from both central and local governments, members of local parliaments, and representatives from non-governmental organisations (NGOs) as part of civil society within the four selected localities.

Appendix B Political Structure of the Study Cases' Regions

A. Province of Lampung

The Regional House of Representatives (DPRD) of Lampung Province comprises 85 seats, which are currently distributed among ten political parties. The Indonesian Democratic Party of Struggle (PDI-P) holds the largest share, with 19 seats, followed by the Great Indonesia Movement Party (Gerindra) with 11 seats. Both the Golkar Party and the Democratic Party each occupy 10 seats. The National Awakening Party (PKB), the National Democratic Party (NasDem), and the Prosperous Justice Party (PKS) each hold nine seats. The National Mandate Party (PAN) has seven seats, while the United Development Party (PPP) holds only one seat. The position of Chairman of the DPRD is currently held by Mr Mingrum Gumay, a representative of the PDI-P. The detailed composition of party representation in the DPRD of Lampung Province is presented in the following table.

**POLITICAL STRUCTURE OF LOCAL PARLIAMENT (DPRD)
OF LAMPUNG PROVINCE**

Political Parties	Number of Seats in Period	
	2014-2019	2019-2024
 National Awakening Party <i>Partai Kebangkitan Bangsa (PKB)</i>	7	▲ 9
 Great Indonesia Movement Party <i>Partai Gerakan Indonesia Raya (Gerindra)</i>	10	▲ 11
 Indonesian Democratic Party of Struggle <i>Partai Demokrasi Indonesia Perjuangan (PDIP)</i>	17	▲ 19
 Party of the Functional Groups <i>Partai Golongan Karya (Golkar)</i>	10	— 10
 Prosperous Justice Party <i>Partai Keadilan Sejahtera (PKS)</i>	8	▲ 9
 United Development Party <i>Partai Persatuan Pembangunan</i>	4	▼ 1
 National Mandate Party <i>Partai Amanat Nasional (PAN)</i>	8	▼ 7
 People's Conscience Party <i>Partai Hati Nurani Rakyat</i>	2	▼ 0
 Democratic Party <i>Partai Demokrat (PD)</i>	11	▼ 10
 National Democratic Party <i>Partai Nasional Demokrat (Nasdem)</i>	8	▲ 9
Number of Members	85	— 85
Number of Parties	10	▼ 9

Governor Arinal Djunaidi was elected as the Governor of Lampung through a direct local election held on 27 June 2018. He was subsequently inaugurated by President Joko Widodo on 12 June 2019. Prior to his election, Arinal Djunaidi served as the Regional Secretary of Lampung Province from 2014 to 2015. In addition to his administrative experience, Governor Arinal Djunaidi holds a prominent position within the political sphere as the Chairman of the Regional Board of the Golkar Party in Lampung, a role he has held for two consecutive terms (2015–2020 and 2020–2025).

In the 2018 direct local elections, Arinal Djunaidi received the backing of three parties represented in the Regional House of Representatives (DPRD): the Golkar Party, the National Mandate Party (PAN), and the National Awakening Party (PKB). Collectively, these parties controlled 25 seats, accounting for 29.4% of the total seats in the DPRD. Arinal Djunaidi's running mate was Mrs Chusnunia Chalim, who previously served as Regent of East Lampung from 2016 to 2019. Together, the pair secured a total of 1,548,506 votes, representing 37.78% of the votes cast.

The 2018 Lampung gubernatorial election featured a total of four candidate pairs. The contestants in the 2018 Lampung governor election were as follows:

THE LOCAL ELECTION RESULT FOR GOVERNOR OF LAMPUNG PROVINCE IN 2018

No.	Candidates		Supporting Party	Number of Seats (%)	Number of Votes (%)
	Head	Vice			
1.	Muhammad Ridho Ficardo (Incumbent)	Bachtiar Basri	• Gerindra Party • Demokrat Party • PPP	25 Seats (29.4%)	1.043.666 (25.46%)
2.	Herman Hasanusi	Sutono	• PDIP	17 Seats (20%)	1.054.646 (25.73%)
3.	Arinal Djunaidi	Chusnunia Chalim	• Golkar Party • PAN • PKB	25 Seats (29.4%)	1.548.506 (37.78%)
4.	Mustafa	Ahmad Jajuli	• PKS • Nasdem Party • Hanura Party	18 Seats (21.2%)	452.454 (11.04%)

Source: kpu.go.id

B. Province of South Sumatera

The Regional House of Representatives (DPRD) of South Sumatra Province comprises a total of seventy-five seats, currently distributed among eleven political parties. The Golkar Party holds the largest share, occupying thirteen seats, followed by the Indonesian Democratic Party of Struggle (PDIP) with eleven seats, the Gerindra Party with ten seats, the Democratic Party (Demokrat) with nine seats, and the National Awakening Party (PKB) with eight seats. Both the Prosperous Justice Party

(PKS) and the Nasdem Party each hold six seats, while the National Mandate Party (PAN) has five seats. The People's Conscience Party (Hanura) and the Indonesian Unity Party (Perindo), the latter being a newcomer, secured three seats each. The United Development Party (PPP) holds a single seat. Notably, the Crescent Star Party (PBB) failed to secure any seats in the most recent legislative election.

The position of Chairperson of the DPRD is currently held by Mrs Anita Noeringhati from the Golkar Party, reflecting the party's status as the largest faction in the parliament. The detailed composition of party representation in the DPRD of South Sumatra Province is presented in the following table.

POLITICAL STRUCTURE OF LOCAL PARLIAMENT (DPRD) OF SOUTH SUMATERA PROVINCE

Political Parties	Number of Seats in Period	
	2014-2019	2019-2024
 Party of the Functional Groups <i>Partai Golongan Karya (Golkar)</i>	10	▲ 13
 Indonesian Democratic Party of Struggle <i>Partai Demokrasi Indonesia Perjuangan (PDIP)</i>	13	▼ 11
 Great Indonesia Movement Party <i>Partai Gerakan Indonesia Raya (Gerindra)</i>	10	— 10
 Democratic Party <i>Partai Demokrat (PD)</i>	11	▼ 9
 National Awakening Party <i>Partai Kebangkitan Bangsa (PKB)</i>	6	▲ 8
 Prosperous Justice Party <i>Partai Keadilan Sejahtera (PKS)</i>	5	▲ 6
 National Democratic Party <i>Partai Nasional Demokrat (Nasdem)</i>	5	▲ 6
 National Mandate Party <i>Partai Amanat Nasional (PAN)</i>	6	▼ 5
 People's Conscience Party <i>Partai Hati Nurani Rakyat</i>	5	▼ 3
 Perindo Party <i>Partai Persatuan Indonesia</i>		(new) 3
 United Development Party <i>Partai Persatuan Pembangunan</i>	2	▼ 1
 Crescent Star Party <i>Partai Bulan Bintang</i>	2	▼ 0
Number of Members	75	— 75
Number of Parties	11	11

Based on the results of the gubernatorial election held on 27 June 2018, Herman Deru and Mawardi Yahya were appointed as Governor and Vice Governor of South Sumatera Province for the 2018–2023 period. President Joko Widodo formally inaugurated both officials on 1 October 2018. Prior to this, Herman Deru served as Regent of Ogan Komering Ulu Timur from 2005 to 2015, while Mawardi Yahya held the position of Regent of Ogan Ilir during the same period. Governor Herman Deru also serves as the Chairperson of the Regional Board of the Nasdem Party for South Sumatera Province. In contrast to Governor Arinal Djunaidi, Governor Herman Deru attained his position through electoral victory in the gubernatorial election.

In the 2018 direct gubernatorial election, Herman Deru and Mawardi Yahya were supported by three political parties represented in the Regional House of Representatives (DPRD): the National Mandate Party (PAN), the People's Conscience Party (Hanura), and the Nasdem Party. Collectively, these parties held sixteen seats, accounting for approximately 21.3 per cent of the total seats in the DPRD. In addition to the Deru–Yahya ticket, three other candidate pairs contested the 2018 South Sumatera gubernatorial election. The candidates in the 2018 South Sumatera gubernatorial election were as follows:

THE LOCAL ELECTION RESULT FOR GOVERNOR OF SOUTH SUMATERA PROVINCE IN 2018

No.	Candidates		Supporting Party	Number of Seats (%)	Number of Votes (%)
	Head	Vice			
1.	H. Herman Deru	H. Mawardi Yahya	• PAN • Hanura • Nasdem Party	16 Seats (21.3%)	1.398.438 (35.96%)
2.	H. S. Aswari Riva'i	H. M. Irwansyah	• Gerindra Party • PKS	15 Seats (20%)	1.054.646 (25.73%)
3.	H. Ishak Mekki (Incumbent)	Yudha Pratomo	• Demokrat Party • PPP • PBB	15 Seats (20%)	839.743 (21.66%)
4.	H. Dodi Reza Alex Noerdin	H. M. Giri Ramanda N. Kiemas	• PDIP • Golkar Party • PKB	29 Seats (38.7%)	442.820 (11.42%)

Source: kpu.go.id

C. Gunungkidul Regency

The current composition of the Regional House of Representatives (DPRD) in Gunungkidul Regency comprises 45 members, representing eight political parties. The Indonesian Democratic Party of Struggle (PDIP) holds the largest share, with 10 seats, followed by the Nasdem Party with 9 seats, the National Mandate Party (PAN) with 6 seats, and the Golkar Party with 5 seats. The Gerindra Party, the Prosperous Justice

Party (PKS), and the National Awakening Party (PKB) each hold 4 seats. The Democratic Party (Partai Demokrat) has the smallest representation, with 3 seats. The chairpersonship of the DPRD is currently held by Mrs Endah Subekti Kuntariningsih, a member of the PDIP, which is consistent with the party's majority status within the local parliament. The detailed composition of party representation in the DPRD of Gunungkidul Regency is presented in the following table.

POLITICAL STRUCTURE OF LOCAL PARLIAMENT (DPRD) OF GUNUNGKIDUL REGENCY

Political Parties	Number of Seats in Period	
	2014–2019	2019–2024
 Indonesian Democratic Party of Struggle <i>Partai Demokrasi Indonesia Perjuangan (PDIP)</i>	11	▼ 10
 National Democratic Party <i>Partai Nasional Demokrat (Nasdem)</i>	2	▲ 9
 National Mandate Party <i>Partai Amanat Nasional (PAN)</i>	7	▼ 6
 Party of the Functional Groups <i>Partai Golongan Karya (Golkar)</i>	6	▼ 5
 Great Indonesia Movement Party <i>Partai Gerakan Indonesia Raya (Gerindra)</i>	6	▼ 4
 Prosperous Justice Party <i>Partai Keadilan Sejahtera (PKS)</i>	5	▼ 4
 National Awakening Party <i>Partai Kebangkitan Bangsa (PKB)</i>	3	▲ 4
 Democratic Party <i>Partai Demokrat (PD)</i>	4	▼ 3
 People's Conscience Party <i>Partai Hati Nurani Rakyat</i>	1	▼ 0
 United Development Party <i>Partai Persatuan Pembangunan</i>	0	— 0
 Crescent Star Party <i>Partai Bulan Bintang</i>	0	— 0
Number of Members	45	— 45
Number of Parties	▼ 9	▼ 8

Mrs Badingah and Mr Immawan Wahyudi assumed office as the Regent and Vice Regent of Gunungkidul Regency following their victory in the election held on 9 December 2015. They were subsequently inaugurated by President Joko Widodo as the Regent and Vice Regent for the 2016–2021 term on 17 February 2016. This victory marked their second consecutive term, having previously held office during the 2011–2015 period. Thus, they were incumbents who successfully secured re-election.

In 2011, Mrs Badingah initially served as the Vice Regent of Gunungkidul Regency, with Mr Sumpeno Putro occupying the position of Regent. Their tenure was intended to span from 2010 to 2015. However, Mr Sumpeno Putro passed away merely three months after his inauguration. Consequently, Mrs Badingah was appointed to fill the vacancy as Regent. Mr Immawan Wahyudi, at that time, was serving as Chairperson of the Regional Board of the National Mandate Party (Partai Amanat Nasional, PAN) for Gunungkidul Regency, prior to his appointment as Vice Regent on 3 March 2011. Notably, Mrs Badingah had never been actively involved in the leadership or management of any political party.

The candidacies of Mrs Badingah and Mr Immawan Wahyudi in the direct local election were supported by five political parties: PAN, the Golkar Party, the Hanura Party, the Nasdem Party, and the United Development Party (Partai Persatuan Pembangunan, PPP). Collectively, these parties held sixteen parliamentary seats, representing approximately thirty-five per cent of the total seats in the local legislature.

In the 2018 direct election for the Regent of Gunungkidul, three additional candidate pairs contested the election, one of whom stood as an independent candidate. The contestants in the 2018 Gunungkidul Regent election were as follows:

THE LOCAL ELECTION RESULT FOR REGENT OF GUNUNGKIDUL REGENCY IN 2015

No.	Candidates		Supporting Party	Number of Seats (%)	Number of Votes (%)
	Head	Vice			
1.	Hj. Badingah (Incumbent)	Immawan Wahyudi	• PAN • Golkar Party • Hanura Party • Nasdem Party • PPP	16 Seats (35.56%)	166.712 (39.52%)
2.	H. Subardi	H. Wahyu Putranto	• Gerindra Party • PKS • PKB • Demokrat Party	18 Seats (40%)	53.934 (12.79%)
3.	H. Djangkung Sudjarwadi	Endah Subekti Kuntaringsih	• PDIP	11 Seats (24.44%)	103.487 (24.53%)
4.	Benyamin Sudarmardi	H. Mustangid.	Independent Candidates	-	97.707 (23.16%)

D. Banyuasin Regency

The total number of parliamentary seats in the Regional House of Representatives (DPRD) of Banyuasin Regency is currently identical to that of Gunungkidul Regency, with each comprising forty-five seats. Based on the results of the 2019 local legislative elections, these seats were allocated among twelve political parties that succeeded in securing representation. The "New Order" era parties, namely the Indonesian Democratic Party of Struggle (PDI-P) and Golkar, hold the largest share, each with

seven seats. They are followed by the Gerindra Party and the National Awakening Party (PKB), both of which secured six seats. The Prosperous Justice Party (PKS) and the National Mandate Party (PAN) each obtained four seats. The Nasdem Party and the Hanura Party were awarded three seats apiece, while the Democratic Party (Demokrat) gained two seats. Finally, the United Development Party (PPP), the Perindo Party, and the Indonesian Justice and Unity Party (PKPI) each hold one seat. Subsequently, Irian Setiawan, a member of Golkar, was appointed as Chairman of the Local Parliament (Ketua DPRD). The detailed composition of party representation in the DPRD of Banyuasin Regency is presented in the following table.

POLITICAL STRUCTURE OF LOCAL PARLIAMENT (DPRD) OF BANYUASIN REGENCY

Political Parties	Number of Seats in Period	
	2014–2019	2019–2024
 National Awakening Party <i>Partai Kebangkitan Bangsa (PKB)</i>	5	▲ 6
 Great Indonesia Movement Party <i>Partai Gerakan Indonesia Raya (Gerindra)</i>	3	▲ 6
 Indonesian Democratic Party of Struggle <i>Partai Demokrasi Indonesia Perjuangan (PDIP)</i>	7	— 7
 Party of the Functional Groups <i>Partai Golongan Karya (Golkar)</i>	8	▼ 7
 National Democratic Party <i>Partai Nasional Demokrat (Nasdem)</i>	2	▲ 3
 Prosperous Justice Party <i>Partai Keadilan Sejahtera (PKS)</i>	3	▲ 4
 Perindo Party <i>Partai Persatuan Indonesia</i>		(Baru) 1
 United Development Party <i>Partai Persatuan Pembangunan</i>	2	▼ 1
 National Mandate Party <i>Partai Amanat Nasional (PAN)</i>	6	▼ 4
 People's Conscience Party <i>Partai Hati Nurani Rakyat</i>	5	▼ 3
 Democratic Party <i>Partai Demokrat (PD)</i>	3	▼ 2
 Indonesian Justice and Unity Party <i>Partai Keadilan dan Persatuan Indonesia (PKPI)</i>	1	— 1
Number of Members	45	— 45
Number of Parties	11	▲ 12

Mr Askolani Jasi and Mr Slamet Semosentono served as the Regent and Vice Regent of Banyuasin Regency for the 2018–2023 period, following their victory in the direct local election for the regional head of Banyuasin Regency held on 27 June 2018. Their election was subsequently formalised during the Plenary Meeting of the Banyuasin Regency General Election Commission (KPUD) on 4 July 2018. President Joko Widodo officially inaugurated both officials on 18 September 2018.

Prior to his tenure as Regent, Mr Askolani held the position of Vice Chairman of the Regional People's Representative Council (DPRD) of Banyuasin Regency from 2014 to 2019. He is also the current Chairperson of the Banyuasin Branch Board of the Indonesian Democratic Party of Struggle (PDIP), a role he has held since 2015 while serving as a local legislator. In the 2013 direct local election, Askolani stood as the PDIP-endorsed candidate for Regent, alongside his running mate Idasril. However, the election was won by the Golkar Party-backed pair, Yan Anton Ferdian and Supriono.

In the subsequent 2014 legislative election, Askolani Jasi was re-elected as a member of the Banyuasin Regency DPRD and assumed the position of Deputy Chair I. Notably, in March 2016, Yan Anton Ferdian, who had been inaugurated as Regent in 2013 (succeeding his father, Amiruddin Inoed), became one of 62 former members of the South Sumatra DPRD investigated by the Corruption Eradication Commission (KPK) in relation to the 2013 social assistance aspirations case. On 4 September 2016, Yan was apprehended by the KPK during an operation at his residence and subsequently transferred to the KPK office in Jakarta for intensive examination. He was later named a suspect in a bribery case concerning project procurement at the Banyuasin Regency Education Office.

In the 2018 direct local election, Askolani Jasi emerged as a formidable challenger to the incumbent administration. Ultimately, Askolani, paired with H. Slamet Semosentono, secured election as Regent and Vice Regent with 131,593 votes, surpassing the second-placed pair, Arkoni MD and Hazwar Hamid, who received 32,112 votes—a margin of 9.8%. The Askolani–Slamet ticket was supported by a coalition of five political parties: PDIP, the Gerindra Party, the NasDem Party, the United Development Party (PPP), and the Democratic Party. In total, five candidate pairs, including one independent candidate, contested the 2018 direct local election in Banyuasin Regency. The contestants in the 2018 direct election of Gunungkidul Regency are as follows:

**THE LOCAL ELECTION RESULT FOR REGENT OF
BANYUASIN REGENCY IN 2018**

No.	Candidates		Supporting Party	Number of Seats (%)	Number of Votes (%)
	Head	Vice			
1.	Agus Yudiantoro	Hazuar Bidui AZ	• PKS • PAN	9 Seats (20%)	34.787 (9.01%)
2.	Arkoni MD	Hazwar Hamid	• Hanura Party • PKB	10 Seats (22.22%)	99.481 (25.78%)
3.	Buya Husni Thamrin Madani	Supatijo	Independent Candidates	-	80.321 (20.81%)
4.	Syaiful Bakhri	Agus Salam	• Golkar Party • PKPI	9 Seats (20%)	39.749 (10.30%)
5.	Askolani Jasi	Slamet Semosentono	• PDIP • Gerindra Party • Nasdem Party • Demokrat Party • PPP	17 Seats (37.78%)	131.593 (34.10%)