

UNITY IN DIVERSITY? THE CREATION OF NEW LOCAL GOVERNMENTS IN A DECENTRALISING INDONESIA

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This paper evaluates the proliferation of local governments concurrent with Indonesia's 2001 decentralisation. Largely static for decades under the New Order, the number of municipalities (*kota*) and districts (*kabupaten*) has increased by half, from 292 before decentralisation to 434 in 2003. Most of the increase is off-Java. This represents a fundamental change in Indonesia's subnational administrative, political and fiscal landscape. We present a new dataset that elucidates the characteristics of these new *kota* and *kabupaten*, and review political, fiscal and economic incentives for creating new jurisdictions. We find that geographic dispersion, political and ethnic diversity, natural resource wealth and scope for bureaucratic rent seeking all influence the likelihood of regional splits. Since jurisdictional changes will affect local governance and service delivery, we stress the importance of providing an effective institutional framework for the creation—or future amalgamation—of local governments as part of a strategic approach to consolidating Indonesia's decentralisation.

INTRODUCTION

The size of a political jurisdiction—country, state, province or local government—typically involves some kind of trade-off between scale economies and the costs of managing a larger and more heterogeneous polity (Alesina and Spolaore 1997; Bolton and Roland 1997). Political jurisdictions evolve in a variety of ways, ranging from dramatic instances of civil war and secession to slow processes of integration and nation building. In practice, the size and nature of a political jurisdiction depends on a unique constellation of historical factors.

Those concerned with the design and implementation of political, fiscal and administrative decentralisation stress the need for appropriate vertical assignment

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of functions and responsibilities (Litvack *et al.* 1998). For example, the roles of the national, provincial and local levels under decentralisation should ideally be guided by economies of scale in the provision of public services and the extent of externalities across jurisdictions, and not merely by demands for political representation. But in most decentralising countries large disparities in size and other characteristics exist among jurisdictions at each level of subnational government, and these have an impact on the effectiveness of decentralisation. Moreover, as Indonesia's experience demonstrates, decentralisation often brings a significant change in the number and composition of the jurisdictions at each level.¹

In a process known as *pemekaran* (literally 'blossoming'), the number of local governments (*kabupaten* and *kota*) has swelled by 50% since the fall of the authoritarian president Soeharto in May 1998 and the 'Big Bang' decentralisation that followed in 2001.² The number of local governments outside the metropolitan capital area of Jakarta increased from 292 in 1998 to 434 at the end of 2004 (figure 1). Under the New Order regime (1966–98), the number of local governments remained practically frozen for over three decades (Legowo and Takahashi 2003).

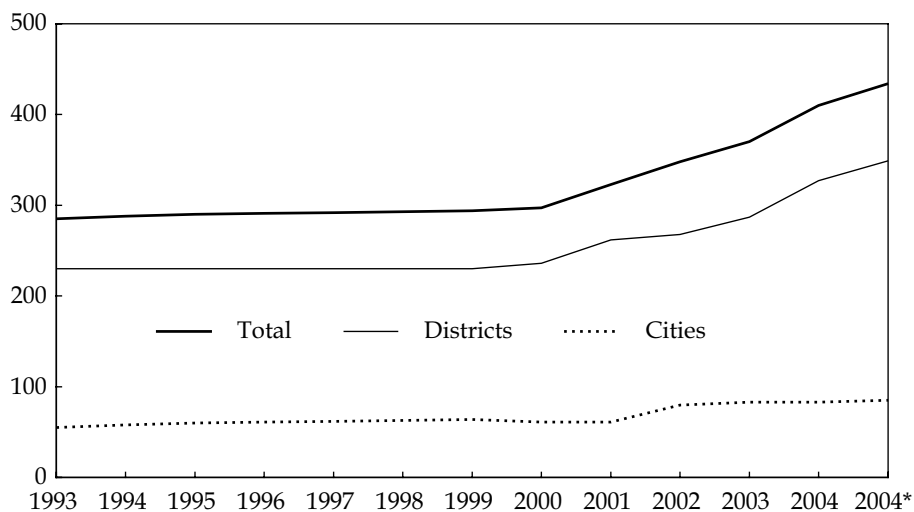
Proponents of the creation of new regions argue that creating new *kota* and *kabupaten* is part of Indonesia's democratisation process, bringing political leaders closer to their constituents and more effectively meeting the preferences of communities. However, concern has been expressed about diseconomies of scale and human resource capacity deficits in the new regions. The Minister of Home Affairs admitted that regions should have been established to 'improve public services, increase democratisation, and speed up economic development'. But he lamented that, in reality, 'political considerations had been very dominant in past approvals of the regions'.³ Perverse fiscal and bureaucratic rent-seeking incentives may also be at work in the creation of new regions. It is premature to judge what the governance and service delivery implications of the proliferation of regions will be. A first step in this direction, however, will require a better understanding of the ongoing re-drawing process of Indonesia's subnational political and administrative landscape. This paper aims to contribute to that understanding.

The next section sets the context of Indonesia's 2001 'Big Bang' decentralisation and details the institutional procedures for establishing new regions. We then present a new dataset that tracks aspects of new local governments. This is followed by discussion of several hypotheses about what factors are driving the creation of new local jurisdictions, and a comparison of the associated social, political and economic characteristics of old and new regions. We go on to esti-

¹Significant instances of jurisdictional fragmentation include Kenya, Nigeria (whose districts almost doubled in number from 301 to 589 by the early 1990s), Uganda and South Africa (which has in turn seen some consolidation). As Crook (2001) points out, the effectiveness of decentralisation programs—for example, in poverty reduction—depends on the politics of central–local relations and the general regime context. The motivations for creation of new jurisdictions can be quite telling in this regard.

²The term 'Big Bang' refers to Indonesia's implementation of far-reaching fiscal, political and administrative decentralisation measures almost overnight at the start of 2001 (Hofman and Kaiser 2002).

³'Parliament Approves 25 New Districts and Cities: Growing Concern about Usefulness, Implications', *GTZ Decentralisation News* (40), 7/2/2003: 1.

FIGURE 1 *Indonesia's Local Governments*

*The second figure for 2004 (434) is for districts approved for 2004, the first (410) for those confirmed by law for 2004.

Source: Authors' 2004 district database; local governments shown exclude those within DKI Jakarta.

mate an empirical model to explain local government splits based on underlying geographic, demographic and bureaucratic characteristics, before presenting our conclusions.

BACKGROUND

Indonesia is a sprawling archipelago of over 13,000 islands that stretches 3,000 miles from east to west, characterised by significant regional, ethnic, religious and linguistic diversity. Except for a brief federal constitution at the tail end of its independence struggle with the Dutch in 1949 (Schiller 1955), it has remained a unitary state. The subdivision of Indonesia into regional jurisdictions—provinces and local governments—is anchored in the Amended 1945 Constitution.⁴ Regional jurisdictions can be changed—through the creation of new regions or

⁴The territorial division of Indonesia dates back to the Dutch colonial era. Historically, the dynamics of the relationship between the central government on Java, with its more established administrative structure, and the much larger land areas of the Outer Islands, have shaped the various types of government organisation (MacAndrews 1986). Before decentralisation, provinces were known as level one (*Dati I*) and local governments as level two (*Dati II*). The Dutch introduced the system of provinces on Java in the 1920s, with each composed of regencies (*residentien/regentschappen* and *districten*) (Gonggryp 1992/1934). However, the administrative subdivision of the Outer Islands lagged behind that of Java. The imposition of Javanese administrative patterns, often conflicting with traditional forms of local community organisation, has been a source of long-standing discontent outside of Java.

the consolidation of existing regions—by laws approved by the national parliament (DPR).

Indonesia's 'Big Bang' Decentralisation

Indonesia embarked on its 'Big Bang' decentralisation in the context of significant economic and political transition. President Soeharto's centralist authoritarian New Order (1966–98) came to an abrupt end with his resignation in May 1998. His continued rule had proved unsustainable in the face of flaring student protests and growing loss of political support. A central rallying cry for reform was the corruption, collusion and nepotism (KKN) that allegedly permeated the regime. There was also a sense of disenfranchisement in the regions (Tadjoeddin *et al.* 2001), notably those endowed with natural resources but not receiving matching fiscal benefits. Against this backdrop, Soeharto's successor, B.J. Habibie, presided over the initiation of a series of intertwined reforms tending towards democratisation and decentralisation.

In the context of the post-Soeharto political pressures, and arguably to enhance then President Habibie's chances of re-election in June 1999, the two cornerstones of decentralisation—Law 22/1999 on regional governance and Law 25/1999 on fiscal relations—were rapidly drafted by a small circle of dedicated officials. As a result, the laws in many cases lacked specificity or implementing regulations, and their drafting did not benefit from broad-based participation (Turner and Podger 2003). Despite the Habibie government's subsequent election loss, the ambitious and time-bound implementation of the laws was retained with the subsequent support of the legislative bodies (the DPR and the People's Consultative Assembly, the MPR). In view of the history of stalled decentralisations and pent-up demands for more regional autonomy in Indonesia, it is questionable whether a more gradualist decentralisation strategy would have been feasible. Fortunately, there were no major disruptions in the bureaucracy and service delivery in the immediate wake of implementation. However, given the significant changes decentralisation implied for both the relationship between the centre and the regions and for actors at the local level (e.g. in the executive and legislature), many of these new arrangements will continue to be contested for some time to come.⁵ Two new decentralisation laws passed in September 2004 strengthen central government control over local officials and budgets (Soesastro and Atje 2005).

The central government decentralised most functions and resources to local governments—*kabupaten* and *kota*—rather than to provinces.⁶ This appears to

⁵Interestingly, some early attempts to revise Law 22 appear to have been characterised less by re-centralisation than by an attempt to strengthen the executive relative to the legislature (Ellis and Du Sautoy 2001). These were retracted in the face of opposition from regional representatives and parliaments.

⁶Provinces were largely bypassed in terms of power and resources in the decentralisation. Under Law 22/1999 (article 4), there is also no longer a hierarchical relationship between provinces and local governments. East Timor, Indonesia's 27th province in the pre-decentralisation era, seceded in 1999. Since then the number of provinces has increased from 26 to 30. A controversial decision in 1999 to split Papua/Irian Jaya into three provinces (McGibbon 2003) has been the subject of a court challenge by Papuan provincial government leaders; controversy continues over the Constitutional Court's

have been motivated in part by concern over possible secessionist threats at provincial level, and in part by a sense that a large number of smaller local government units could be controlled through a 'divide and rule' strategy.

Law 22/1999 on regional governance shifted the balance from a largely top-down form of accountability (Panggabean 1997) to a local political accountability model. At its core is the election of the head of region, and the annual accountability speech. The head is elected by and accountable to the local parliament (DPRD). Article 16 (2) stipulates that the regional head of the executive (*bupati* in the districts and *walikota* in the municipalities) should act in partnership (*kemitraan*) with the legislature. At the same time, the regional parliaments elect and can dismiss the head of region through rejection of the annual accountability speech (*laporan pertanggung-jawaban*, LPJ). Further powers of the DPRD include approval of the annual local budget (APBD) and approval of local laws and regulations (Peraturan Daerah, Perda), which in turn can regulate accountability relationships at lower tiers of village government (Hofman and Kaiser 2004).⁷

Law 25/1999 set out a revised intergovernmental fiscal framework (Hofman *et al.* 2002; World Bank 2003). The law replaces the old system of earmarked grants (the Subsidy for Autonomous Regions, SDO, and the Presidential Instruction Grants, Inpres), and of centralised control over local finances, with a system in which a general allocation grant (*dana alokasi umum*, DAU) and shared taxes provide the bulk of local revenues. The sharing of natural resource (SDA, *sumber daya alam*) taxes from oil and gas has meant that a limited number of regions – in Aceh, Papua, Riau and East Kalimantan, for example – have experienced large windfall revenues. The over-arching reason for the introduction of natural resource revenue sharing as part of decentralisation was the political appeasement of natural resource producing regions, although this form of sharing can also be justified on a number of other grounds related to resource exploitation costs (Bahl and Tumennasan 2002). Local taxing authority remains limited. Regions can also be given special earmarked grants (*dana alokasi khusus*, DAK), although funds disbursed through this channel remain small.

The regional share of total government expenditures increased from approximately 17% in 2000 to over 30% after 2001, and is expected to grow further. Funding for districts under Law 22/1999 was based largely on revenue decentralisation, rather than on a careful analysis of expenditure assignments (Lewis 2001); this was due in part to the speed required by political circumstances, and in part to a lack of data. The decentralisation of income tax and of significant shared revenues for natural resources, coupled with incomplete fiscal equalisation, caused significant disparities in per capita expenditures among local governments (Hofman *et al.* 2004).

decision on 11 November 2004 confirming the 2003 establishment of West Irian Jaya province, but ruling against the proposed creation of Central Irian Jaya province.

⁷The implementation of institutional arrangements for the lowest tier of government, the village (*desa*) and neighbourhood (*kelurahan*), have now been delegated to the districts. However, especially in the case of villages, national laws prescribe accountability arrangements that include an elected council (BPD), which in turn can hold an elected village head accountable.

The Process of District Formation

There are two ways in which new regions can be created. The first, a largely administrative one, requires prior agreement from the originating region (i.e. the regional head and legislature), technical evaluation of the merits of the proposal by the central government's Regional Autonomy Advisory Council (DPOD), and endorsement by the president before it is submitted to parliament to be passed as a national law.⁸ In practice, however, it is not clear how effective this process has been in screening proposals for the creation of new regions. Second, regions can also legally be created by parliamentary initiative, a process that appears to bypass potential opposition from originating (*induk*) regions and the executive. Since laws enacted by parliament automatically come into force 30 days after being passed, even without approval of the president,⁹ the executive no longer has an effective veto in the creation of new regions. Although regions can in principle amalgamate, this has not yet occurred in practice.

The Ministry of Home Affairs appoints the interim head of a new region for the first year. A new region's DPRD reflects the party composition of the originating region's legislature (i.e. each party gets the same share of seats as in the old region based on the most recent election results). Typically, a number of members of the parent region legislature are appointed to the new region's DPRD and form the core of the legislature, and their numbers are 'topped up' with additional members in the appropriate political party proportions. However, as of the end of 2002, the ministry appeared to place a moratorium on the establishment of new legislatures on this basis (and hence the elections of corresponding new regional heads) since elections were going to be held in 2004.

There are no mandated fiscal resources for the creation of a new region outside those on the originating region's own budget. The originating region is committed under the establishing law to continue to assist the new region for a certain period of time (e.g. three years). After this period, new regions will receive their own fiscal transfers from the centre, in line with those to other regions. Given data constraints, the primary transfer allocation has initially been based on that to the old region and then pro-rated across the new region(s) on the basis of population and area (Hofman *et al.* 2004). In practice, resources from the provincial or national budget are often allocated to building the bureaucracy and other infra-

⁸Before Law 22/1999 was enacted, the creation of new regions was regulated under Law 5/1974 (article 72). Government Regulation 129/2000 on the Establishment of New Regions (Persyaratan Pembentukan dan Kriteria Pemekaran, Penghapusan, dan Penggabungan Daerah) sets out the criteria for both the creation of new regions and the amalgamation of regions. Proposals for new regions are supposed to be scored on a number of economic, socio-cultural and socio-political criteria, as specified by Regulation 129/2000, although in practice this does not appear to have been a guiding or binding constraint. The criteria are scored on the basis of 19 indicators and 43 sub-indicators. Each indicator is scored on a scale of 1–6, with the respective weighting of the indicators generating a potential score of 100. A regional split appears to be vetoed (*ditolak*) if more than 10 indicators receive a score of 1, but granted (*lulus*) if the score is above a minimum, although this does not appear to be specified.

⁹After the second (2000) amendment to the constitution the president had no effective veto on laws approved by the DPR.

structure of the new regions. Consequently, small construction booms often characterise the *pemekaran* process.

The New Regions

The creation of new local governments has occurred in five successive waves.¹⁰ The initial pre-decentralisation wave saw the number of local governments grow from 292 in 1998 to 336 in 2001, the first year of decentralisation. Subsequent waves saw an increase in the number of local governments to 348 (2002), 370 (2003), 410 (confirmed by law for 2004) and 434 (approved for 2004).¹¹ Four of the five new provinces (Banten, Bangka Belitung, Gorontalo and Riau Islands) were created by parliamentary (DPR) initiative,¹² as were 17 new local governments proposed in the last wave. West Papua was created by a law submitted by the government in 1999 to split the former province of Irian Jaya into three provinces.

New local governments have been carved almost entirely out of existing local governments following existing subdistrict (*kecamatan*) boundaries.¹³ Table 1 presents the split count for three consolidated periods. Over the full period 1998–2004 over half of all local polities in Indonesia will have experienced at least one boundary change. Jurisdictional changes may involve a single split (e.g. *kabupaten* becomes *kabupaten* and *kota*) or multiple splits. While some regions spawn just one ‘child’ *anak* region, other local governments have been split to create two or more new local governments.

For example, in 1999 the natural resource rich *kabupaten* of Kutai in East Kalimantan was split into the *kabupaten* of East Kutai, West Kutai and Kota Bontang. Some regions experienced multiple divisions over a period of several years. The *kabupaten* of East Aceh spawned Kota Langsa in 2001, and a year later split off *kabupaten* Aceh Tamiang. Similarly, *kabupaten* Riau Islands split in 1999 to create the three *kabupaten* of Natuna, Karimun and Kota Batam. It also split off *kabupaten* Tanjung Pinang in 2001 and gave birth to *kabupaten* Lingga in 2004.

¹⁰Our district dataset—available on request—tracks the legacy of splits from the original 292 local governments in 1998 to the 434 ratified by end of 2003. In the initial DAU allocations for 2004, 410 regions received DAU, although this was subsequently pro-rated to cover all districts. We identified all new local governments, their originating local governments, and the respective legal instruments. The full dataset covering all 434 local governments contains one identifier for each of the five splitting waves. A ‘1’ denotes an original (*induk*) region, whereas ‘2’ and above indicates a derivative ‘child’ (*anak*) region. From this sequence of digits we can read whether a region was ever subject to a split, as well as its respective parent region. A sequence of five zeros indicates that the local government boundaries remain unchanged. Positive digits denote the region type (*induk* or *anak*), the existence of a split and the timing of the split or splits a region experienced.

¹¹For the April 2004 elections, the General Election Commission (KPU) requested funds for election committees for 438 local governments (‘Komisi Pemilu Anggaran Rp 2,9 Trillion untuk 2004’, *Tempo*, 22/5/2003: 5).

¹²Banten split from West Java, Gorontalo from North Sulawesi, Bangka Belitung from South Sumatra, and North Maluku from Maluku. Papua was split into three provinces, but West Papua is the only new province to have become operational.

¹³An exception is the city of Bandung, which expanded its boundaries into the district of Bandung in the 1990s. Indonesia’s more than 4,000 subdistricts have also experienced some boundary changes.

TABLE 1 *Local Governments (LGs) by Number of Splits and Period*

	Full Period 1998–2004	Before Decentralisation (BD) 1998–2000	After Decentralisation (AD) 2001–04
Total beginning period LGs	292	292	336
Total end period LGs	434	336	434
Never split	204	257	264
Split once	208	79	166
Split twice	21	0	4
Split three times	1	0	0

Source: Authors' 2004 district database; local governments enumerated here exclude those within the DKI Jakarta (the Special Capital Region of Jakarta).

The dramatic increase in the number of regions has occurred almost exclusively off-Java. Table 2 shows the population of each major island or island group, the number of local governments in existence in each for a given year, and the number of regions that underwent a split pre- and post-decentralisation. The number of local governments in Papua and Maluku more than doubled between 1998 and 2004, with the number in Papua almost tripling from 11 to 29. Kalimantan and Sumatra have seen similarly high growth in the number of local governments, with rates of around 75%. The number of Aceh's local governments has more than doubled, growing from 10 in 1998 to 21 by 2004.

The creation of new *kabupaten* is primarily responsible for swelling the ranks of Indonesia's local governments, but a number of new *kota* have also contributed to the growth. Between 1998 and 2004, the number of *kota* will have increased from 59 to 85. It is worth noting that the majority of new *kota* were formed at the onset of decentralisation, with only five created after 2002.

Motivations for Creating New Regions

Anecdotal evidence abounds on the enthusiasm for creating new local governments across Indonesia (Cohen 2003).¹⁴ A rich mix of local grievances ranging from neglect to geographic isolation, leadership ambitions and claims over natural resource revenues seems to be driving the creation of new local governments. The Riau Islands, for example, have seen not only the birth of a new province but also the creation of many new local governments. The region is located just off Singapore, and off the resource rich Sumatran province of Riau. Having split three ways, Riau Islands wins the prize for the highest splitting district. Long-standing tensions between island identities, centred on the town of Tanjungpinang and the mainland provincial capital, Pekanbaru, have fuelled claims for separation (Ford 2003). A sense among the islanders of administrative neglect by

¹⁴Our focus here is on the motivations for creating new local governments, as opposed to provinces. Not only have there been far fewer provincial splits, but the dynamics seem to differ across these cases.

TABLE 2 *Splits by Major Island/Regional Grouping*

	Population 2001 (millions)	No. of Local Governments			No. of Increase Splitters ^a		1998–2004 (%)
		1998	2001	2004	BD	AD	
Java	112.0	103	105	109	4	4	5.8
Sumatra	47.7	74	96	132	38	28	78.4
Kalimantan	10.9	30	38	52	13	11	73.3
Sulawesi	14.4	40	45	62	10	13	55.0
Bali/Nusa Tenggara	10.9	29	30	34	2	4	17.2
Maluku/Papua	4.2	16	22	45	12	12	181.3
Total	200.1	292	336	434	79	72	48.6

^aFigures for 'No. of Splitters' refer to regions (among the 336 existing in 2001) that split at least once during the period concerned. The number of splitters in a period is not necessarily equal to the difference between the number of local governments at the beginning and end of that period, because some of the splitters have split more than once.

Source: IDEA (Indonesian Decentralization Empirical Analysis) Regions Master Database (for the 336 districts in existence in 2001).

the mainland regional government has further exacerbated tensions. Finally, there has been speculation that as a separate province, backed by sufficient constituent local governments, the islands would glean more natural resource revenues from the gas field in West Natuna.¹⁵ The April 2004 conviction of the *bupati* of Riau Islands district, Huzrin Hood, on charges of corruption and diverting money from the *kabupaten* budget to lobby parliament in Jakarta, adds to the complexity and intrigue of this tale.¹⁶

Local preference for a new region may have a number of causes. These may vary depending on the context and the incentives set by the prevailing fiscal, administrative and political arrangements, and by the process of new region creation. We propose four broad hypotheses about the factors that motivate the establishment of new regions, and construct indicators to measure these factors.

¹⁵Strictly speaking the field appears to be offshore, although a limited amount of revenues have been going to the province through special arrangements. Expected contracts in the West Natuna gas field are projected to generate billions of dollars in revenue for the Indonesian government (*Laksamana.net, The Politics and Economics Portal, 'Oil & Gas: Get Human, ExxonMobil Told', 27/5/2002*).

¹⁶Huzrin was convicted of stealing an alleged half-million dollars, and was relieved of his post ('Supreme Court Rejects Huzrin's Appeal', *JP*, 15/4/2004). The national legislature had formed a special committee to draft a bill on the formation of Riau Islands province and passed this as Law 25/2002, although it had not yet been approved by the Riau provincial legislature. Members of the committee argued that approval from the provincial head or regional legislature was not actually needed ('Thousands Demonstrate for Riau Island Province', *JP*, 1/5/2002).

Administrative Dispersion. Jurisdictions may be too large and populations too dispersed to allow the people effective access to, and representation by, the local government. Poor infrastructure tends to exacerbate this problem.

Preference for Homogeneity. People may prefer to live in regional units that are more homogeneous in terms of ethnicity, language, religion, urban-rural character or even income level.¹⁷

Fiscal Spoils. Splitting could bring additional fiscal resources, in the form of general transfers, shared revenues (natural resource sharing) or locally derived revenues (PAD, *pendapatan asli daerah*), especially in urban areas.¹⁸ Of particular note is the lump sum allocation in the DAU: comprising 5–10% of the district/provincial DAU, it generates an incentive for splitting, as the two new districts get effectively twice as much as the larger old district. In the case of the DAU, the resources obtained by splitting are additional, as the existing and the new region will each eventually receive the lump sum. In the case of revenue sharing and PAD, the new region that retains the source of revenue gains at the expense of the other region.

Bureaucratic and Political Rent Seeking. Local bureaucrats and other vested interests can benefit directly from the creation of a new local government, especially if additional fiscal revenues will accrue to the new administration. New jurisdictions require new management jobs (known in the civil service structure as ‘echelon’ positions), new construction projects (opportunities for rent seeking), and possibly the hiring of new civil servants (opportunities for nepotism). Political parties may also wish to carve out a new jurisdiction if they believe that their prospects may be better there than in the original region. For example, a party may be particularly strong in one set of subdistricts, and hence gamble that it can better capture a local legislature in the future if new jurisdictional boundaries are created.

Splits may be motivated by a number of factors simultaneously,¹⁹ and the creation of a *kota* often entails a separate set of dynamics from that of a *kabupaten*. City jurisdictions may encompass preferences for different types of services and different constituent identities (e.g. based on a combination of ethnic and wealth factors) from those in rural areas. Cities also tend to have a strong and independent revenue base (PAD) to support administrative functions and service provision. As elsewhere, *kota* splits may offer local politicians and bureaucrats

¹⁷Evidence from local political jurisdictions in the United States suggests that communities are willing to sacrifice economies of scale to avoid racial heterogeneity in their jurisdiction; similar effects for income heterogeneity were less pronounced (Alesina *et al.* 2000).

¹⁸These revenue categories and their amounts and allocation rules are specified under Law 25/1999. The provincial revenue sharing relationship for natural resource transfers dictates that one-third of oil and gas natural resource revenue goes to the producing local governments, one-fifth to the province, and one-third equally to all other local governments (Hofman *et al.* 2004). Natural resource sharing in the ‘special autonomy’ provinces of Aceh and Papua typically involves additional allocation criteria.

¹⁹For example, Collier and Hoeffler (2002) suggest that the root cause of international secession movements may be not ethnic identity *per se*, but rather that a sense of identity may be stoked and exploited by politicians to gain economic advantage.

increased rent-seeking opportunities flowing from a more buoyant local economy (e.g. through the issuing of local licences).

Comparative Characteristics of Localities Subject to Splits

We proceed by comparing the characteristics of local governments in general with those of localities that have been subject to a split. We have a full dataset of all 336 local governments in existence in 2001. We also have information on whether any of those 336 was split before decentralisation (1998–2001) or afterwards (2001–04). Our dataset, summarised in table 3, allows us to assess characteristics of local governments at the start of decentralisation (i.e. 336 localities). This means that for the splits between 1998 (when there were 292 local governments) and 2001 (i.e. $336 - 292 = 44$ localities), table 3 presents local characteristics *after* the split. For those regions that split after decentralisation (i.e. $434 - 336 = 98$ localities), our data refer to characteristics *prior* to the split.²⁰

Figure 2 clarifies the categories of localities for which we present data in table 3. We define pre-decentralisation splitter (*pemekaran*) regions as those that experience a split after 1998/99 relative to their 2001 boundaries (i.e. regions B and C). We define post-decentralisation splitters as those whose boundaries changed after 2001 (i.e. region D). For brevity in the following discussion, we use BD for 'before decentralisation' and AD for 'after decentralisation', respectively. Broken arrows suggest that districts can split into two or more districts, and that districts that previously split can split again.

Socio-economic Characteristics

The average local government had 581,000 inhabitants in 2001.²¹ The populations of BD splitters were significantly smaller than this after their split in 2001 (345,000). Regions that split subsequently were marginally smaller than the national average, at 551,000 inhabitants. Those regions affected by splits tended to be far larger than the national average in terms of area, and correspondingly less densely populated, providing some support for the hypothesis that administrative dispersion is a significant cause of splitting. Even after splitting, BD splitters averaged 8,753 km², well above the 5,761 km² average, whereas AD splitters were two-and-a-half times the average size (14,598 km²).

Diversity and Inequality Indicators

To construct various regional measures of ethnic and religious fractionalisation, as well as clustering or segregation within subdistricts (*kecamatan*), we drew on

²⁰Our data are drawn from a range of sources, including the 2000 population census, the National Socio-Economic Household Survey (Susenas) and the 2000 Village Potential Statistics (Podes). Ideally, further work will attempt to map these characteristics to both beginning and end reference periods (with 292 and 434 localities, respectively), although this has proved very challenging.

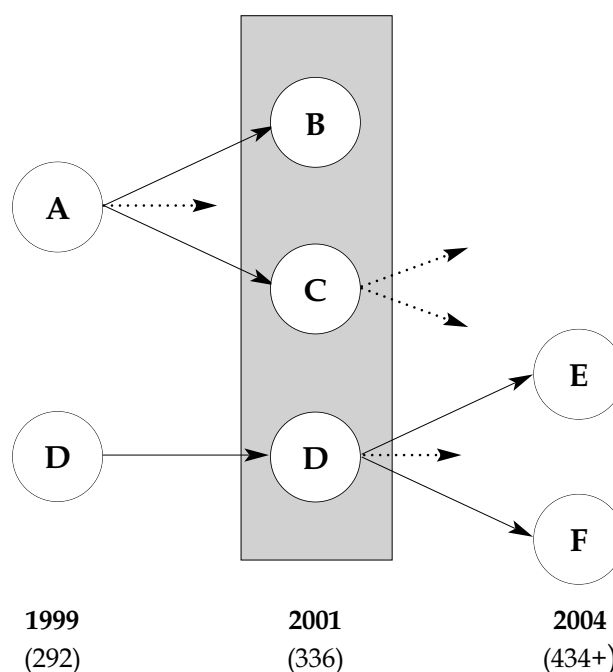
²¹It is worth bearing in mind that behind these figures there is a great deal of diversity. Ten local governments had populations of over 2 million, led by *kabupaten* Bandung in West Java with 4.1 million inhabitants. Twenty-one local governments had populations of less than 100,000, with only 24,000 inhabitants in the Acehese city of Sabang.

TABLE 3 *Summary Characteristics of Local Governments (LGs)*

	2001 Average	Pre-decentralisation Post-Split Average	Post-decentralisation Pre-Split Average
Socio-economic characteristics			
Population ('000)	580.8	345.2	551.2
Area (km ²)	5,761	8,753	14,598
Population density (persons/km ²) ^a	977	227	102
Urban population (%)	38.6	27.2	20.8
Group diversity			
Ethnic fractionalisation	0.45	0.62	0.61
Ethnic segregation/clustering (by <i>kecamatan</i>)	0.18	0.21	0.30
Inequality (Gini ratio)	0.27	0.26	0.27
Local wealth measures			
Per capita regional GDP (Rp million, 1999)	4.9	8.0	5.9
Mining share of regional GDP (% total, 1999)	2.3	5.5	3.8
Per capita household expenditure (Rp '000, 2002)	194	196	174
Poverty (%)	18.5	19.8	25.2
Poverty gap (index)	5.0	5.4	6.1
Education/capacity			
Average years of completed education	5.1	5.0	4.6
Share of population with completed secondary education (%)	14.9	14.2	12.1
Share of population with completed tertiary education (%)	2.3	1.2	1.0
Fiscal and bureaucratic indicators			
Natural resource share of revenue (% , 2001)	6.4	16.1	6.9
Per capita LG expenditure (Rp '000, 2001)	582	917	620
Per capita LG development expenditure (Rp '000, 2001)	217	439	220
Development expenditure (% total, 2001)	30.2	33.8	32.4
Per capita LG wage expenditure (Rp '000, 2001)	120	78	134
Size of local government (sum of all local offices/agencies – <i>dinas</i> , <i>badan</i> , <i>kantor</i> ^b – 2001)	26.5	23	27.6
Own tax and levy share of revenue (% , 2001)	5.7	4.2	4.4
Political characteristics			
Political fractionalisation	0.72	0.76	0.75
Share of main party (%)	42.8	39.2	40.2
Share of minor parties (%)	11.6	13.8	15.0
Female representation in parliament (%)	4.8	4.5	4.2
Single party holds absolute majority (%)	24.4	10.1	9.0
Golkar dominant (1 = 33%+) (%)	24.4	17.7	16.6
Observations	336	79	74

^aPopulation density figures are averages of individual district population densities.

^b*Dinas* (service department), *badan* (board, agency) and *kantor* (office) refer to organisational units for activities devolved to local governments and provinces. The central government also maintains units for non-devolved departments (e.g. statistics and religious affairs), which are not part of the structure of autonomous local government.

FIGURE 2 *Pemekaran Timing*

^aRegions B and C are examples of pre-decentralisation splitters, having split from region A between 1998 and decentralisation in 2001. Region D is an example of a post-decentralisation splitter, giving rise to regions E and F between 2001 and 2004. Broken arrows denote the possibility that a district splits into more than two districts, and that districts resulting from a split may split again.

self-reported ethnic group and religious identity data comprehensively collected in the 2000 population census for the first time since the colonial period. The census results yield more than 1,000 ethnic groups. In contrast, the census asked respondents to select from six pre-coded religious classifications (Muslim, Catholic, Protestant, Hindu, Buddhist and 'Other').²²

We calculated a standard measure of ethno-linguistic fractionalisation (ELF) (Alesina *et al.* 2003). The measure equals one minus the sum of the squares of individual group shares. Our measure of ethnic or religious fractionalisation (ELF or RELF) scores zero with complete homogeneity (i.e. one group has a share of one), and approaches one for complete diversity (i.e. many groups each have a share approaching zero):

²²Group identities, and their manifestations in social and economic processes, are complex and difficult to measure. Since these measures are self-reported, however, they may be indicative of locally relevant identities.

$$ELF = 1 - \sum_m \pi_m^2 \quad (1)$$

where π_m is the share of group m (defined by individual ethnic or religious identities or political voting behaviour) in the local population. We used equation (1) to derive results for ethnic, religious and political fractionalisation. Results for religious fractionalisation are not reported in this paper because they did not add significant information.

Since splits have typically occurred along *kecamatan* lines, we wish to measure not only how diverse the populations of the districts are, but also the extent to which their ethnic or religious groups are clustered or segregated within particular *kecamatan*, since such clustering would allow for easier creation of a more homogeneous new locality.²³ For this purpose use is made of an alternative measure of fractionalisation, the Theil index, which can be decomposed to measure clustering in subdistricts (Reardon *et al.* 2000). The Theil is very similar to the ELF, which may appear more familiar or intuitive to many readers, but the Theil has a number of attractive decomposition properties that we use subsequently. The Theil fractionalisation index is:

$$E = \sum_{m=1}^M \pi_m \ln \left(\frac{1}{\pi_m} \right) \quad (2)$$

where π_m is defined as above. E is equal to zero when all members are part of the same ethnic group (there is no diversity), and is maximised when all different groups have the same share.

The Theil index can be decomposed to capture the diversity of sub-areas in a given area as a whole (e.g. *kecamatan* relative to *kabupaten/kota*) (Reardon and Firebaugh 2002; Reardon *et al.* 2000: 353).

$$H_i = \frac{\sum_{j=1}^J \pi_{ji} (E_i - E_j)}{E_i} \quad (3)$$

This ethnic segregation measure is derived by comparing the Theil diversity indicators of a district's subjurisdictions (j , i.e. *kecamatan*) with those of the overall district. These are weighted by the population share of the subjurisdiction in the district (π_{ji}). The indicator will range from 0 (no segregation) to 1.²⁴ We use it to measure the extent to which ethnic groups are clustered within particular *keca-*

²³For example, the proposed splitting of *kabupaten* Mener from *kabupaten* Central Aceh seems to have been triggered by the fact that the Gayo ethnic group is concentrated in the north-eastern subdistricts.

²⁴Note that the diversity of the district (E_i) will always be larger than that of the sub-district (E_j) using the Theil measure, so that the difference between the two ($E_i - E_j$) will be positive.

matan. For simplicity, we use the traditional ELF measure to quantify overall district diversity, and the *H* measure (derived from *E*) to quantify clustering.²⁵

Local ethnic diversity based on these measures is high in Indonesia, with the average likelihood that two individuals in a locality are from the same self-declared group being less than half (0.45) (table 3). Ethnic fractionalisation was significantly higher than this average in BD splitters, and in AD splitters before their split, than the all-region average (0.62 and 0.61, respectively). This is consistent with generally higher levels of ethnic diversity off-Java, where most splits took place. Similar, although less pronounced, patterns (not reported here) were evident for religion. Lack of *kecamatan*-level data prevented us from measuring political diversity using the clustering index.

It should be noted that splitting does not necessarily lead to less diversity by the ELF measure.²⁶ Our *kecamatan* clustering measure does provide some support for the homogenisation hypothesis (that splitting is motivated by a desire for ethnic or religious homogeneity). For BD splitters this index was only slightly above the average (0.21 versus 0.18), whereas it was significantly higher for AD splitters (0.30) prior to their split.

In terms of economic diversity, there was little difference in the standard Gini consumption inequality measure between the overall average and that for the splitters. The Susenas household data did not allow us to decompose these measures within districts to capture richer *kecamatan* wanting to split off from poorer *kecamatan* (e.g. urban from rural).

Wealth and Education Indicators

AD splitters have lower household expenditures than the average (Rp 174,000 versus Rp 194,000 per capita), as well as higher poverty rates (25.2% versus 18.5%) and lower educational achievement measures (table 3). BD splitters appear to be wealthier than AD splitters in terms of per capita regional GDP (Rp 8.0 million versus Rp 5.9 million). However, this is explained mainly by mineral wealth, which is more limited for AD splitters (whose share of mining in regional GDP is 3.8%, as against 5.5% for BD splitters). The two splitter groups were more comparable in terms of per capita household consumption, at Rp 196,000 for BD splitters and Rp 174,000 for AD splitters. The latter tended to be poorer, according to our poverty share and poverty gap measures.²⁷

Average years of education were a little lower in AD splitters (4.6 years) than the national average (5.1) and than BD splitters (5.0). Only 1.0–1.2% of the local population had completed tertiary education in the splitter groups, compared with 2.3% on average. A similar pattern applies to the share of the population

²⁵Empirical results using the ELF and the *E* measure were consistent.

²⁶Ideally we would have liked to construct a measure to determine whether districts became more homogeneous owing to a split. Data limitations prevented this, however.

²⁷The poverty share measures the fraction of the district population that falls below the poverty line, with per capita consumption (from the Susenas) as the welfare measure. The poverty gap (or poverty depth) index of poverty is based on the average amount by which the poor's consumption falls below the poverty line.

having completed secondary education. Whereas these indicators do not necessarily get at the factors influencing the likelihood of a split, they do give rise to concern about prevailing human capital capacity in the new local governments.

Fiscal and Bureaucratic Factors

Identifying proxies to reflect bureaucratic rent seeking proved challenging, especially as the relevant variables overlap with some relating to the fiscal resource hypothesis. For example, larger fiscal wealth is often the result of large natural resource shares. Such resources may on the one hand constitute an incentive to split, but on the other hand motivate the existing leadership to block any split in order to retain control of the resources and associated rents. Moreover, incentives for the establishment of new regions could be predicated on anticipated rather than present rents (as in the case of natural resource windfall flows).

BD splitters derive a far higher share of their income from natural resource revenue sharing (16.1%) than the average of 6.4%, although this was not the case for those splitting after decentralisation (6.9%). These data suggest that natural resource abundance was strongly associated with proposals for BD splits, but not with those for AD splits. In fiscal terms BD splitters were correspondingly much wealthier, with average per capita budgets of Rp 917,000, than those splitting after decentralisation (Rp 620,000), and relative to the national average of Rp 582,000. The more discretionary development expenditures were significantly higher in BD splitters, at Rp 439,000 per capita, than in AD splitters (Rp 220,000, almost the same as the average figure of Rp 217,000 for all local governments).

By contrast, spending on civil service wages was far lower in BD splitters (Rp 78,000), and significantly higher in AD splitters (Rp 134,000), than the average of Rp 120,000. Higher per capita wage bills suggest that particular districts ended up with more civil servants after decentralisation (given the assumption that official wages are based on a national scale and grade structures are roughly comparable). Consequently there may have been bureaucratic pressures to split in these districts, in part to generate additional management positions (and therefore more opportunities for promotion) through the creation of multiple administrations.

We also constructed a series of variables to capture bureaucratic pressures more directly. Not unexpectedly, the budget share allocated to new government buildings in the local development budget in 2001 was higher for those localities that had recently split, at 7.5%, than the average of 4.8% (not shown in the table). AD splitters had slightly more government agencies than average (27.6 versus 26.5), despite having smaller populations, suggesting that there may have been pressure to create new bureaucratic agencies and jobs through splitting.²⁸ BD splitters had fewer agencies on average (23), but were also significantly smaller in terms of population. Localities subject to splits tended to have a lower level of own revenue relative to the total (4.2–4.4% versus the average of 5.7%).

²⁸Local governments have the option to choose 'lean' or 'bloated' organisational structures. One reason cited by some informants for localities choosing larger bureaucracies is that they yield more management jobs.

Political Factors

Political composition echoes some of the initial findings from the ethnic diversity averages.²⁹ Both BD and AD splitters tend to be a little more fragmented than the average local government (table 3). The share of the dominant party is somewhat smaller in splitters (39–40%) than the average of 43%. Indeed, splitters are less likely than the average to have a dominant party; they also have slightly lower female representation. Golkar, the government party during the Soeharto era, tends to be less dominant in splitters, but this result may be driven by the fact that splitters simply have a more fractionalised political composition.³⁰

Finally, we also examined the characteristics of the regional leadership to the extent possible. None of the regional heads for the splits passed in 1998/99 was democratically elected, since the newly elected DPRDs only began electing regional heads when incumbents' terms began to fall due at the end of 1999. Only a fifth of regional heads had been chosen by the new '*reformasi*' DPRDs elected at the start of decentralisation, because the New Order delayed the reappointments of regional heads in the context of the 1996/97 national elections (Hofman and Kaiser 2004), and these delayed appointments did not expire until 2002/03.

EMPIRICAL MODEL

We employ a logit model to estimate the joint influence of the factors discussed above on the probability of a region splitting before or after 2001 (table 4). For *post-decentralisation* splits we estimate models (1–6) based on the initial (2001) characteristics of the regions (i.e. for 336 localities). The likelihood of a *pre-decentralisation* split is estimated as a function of post-split characteristics (i.e. for the 336 rather than the initial 292 localities), because data on the original 292 are incomplete (models 7–8). Our regressions are subject to the data limitations mentioned in the previous section.

The regressions suggest that more populous localities are less likely to split, and even more strongly that a larger land area increases the likelihood of splitting, providing some support for the dispersion hypothesis (that a highly dispersed population is likely to be a motive for splitting). Ethnic fractionalisation does not significantly increase the likelihood of a split (model 2), although our

²⁹Our data on the political composition of local governments is based on the share of votes received by the 11 top parties nationally in the 1999 elections. These account for over 80% of votes on average across local governments, but range from 92% on Java to only 66% in Maluku/Papua. We are seeking to update these data to include the shares for all parties and/or to obtain the hardcopy records of party affiliation for actual seats in local DPRDs (KPU 2002). Of the 48 parties that contested the 1999 elections, 46 are actually represented among the more than 10,000 local legislative members, some with only one representative. Evans (2003) provides a useful graphical overview of the local-level results of the 1999 elections, but does not elucidate how the jurisdictional definitions of 1999 were mapped to the 359 local jurisdictions presented.

³⁰The national electoral system provided for an over-representation of off-Java districts in the 1999 elections. Golkar, the party in power before decentralisation, was over-represented outside Java, potentially giving it an incentive to create more electoral districts off-Java.

TABLE 4 *Factors Associated with Local Government Splits^a*

	Splits during 2001–03				Splits during 1998–2000			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log population ('000)	-1.445** [0.537]	-1.468** [0.551]	-1.223* [0.558]	-1.223* [0.558]	0.637* [0.260]	0.409 [0.255]	0.357 [0.391]	
Log area (km ²)	1.947** [0.266]	1.955** [0.324]	1.804** [0.273]	1.804** [0.273]	2.000** [0.282]	1.815** [0.265]	0.531** [0.127]	0.551** [0.109]
Ethnic fractionalisation		-0.049 [0.883]						
Ethnic clustering across subdistricts			3.387* [1.526]	3.387* [1.526]	4.647** [1.444]	4.929** [1.388]	-0.112 [1.327]	
Share of natural resource revenues in local budget	-2.631+ [1.457]	-2.595+ [1.460]	-2.002 [1.505]	-2.002 [1.505]			2.689* [1.188]	2.271* [1.153]
Log per capita wages in local budget	3.341** [0.814]	3.373** [0.822]	3.047** [0.834]	3.047** [0.834]			-2.168** [0.575]	-1.915** [0.321]
Share of development expenditure in local budget					-4.851** [1.641]	-3.702* [1.512]		
Political fractionalisation								3.175 [2.027]
Share of Golkar over 33%								-0.939* [0.426]
Share of population with secondary education					11.240** [3.028]			
Poverty (district poverty gap measure)							-0.067+ [0.041]	
Constant	-47.210** [7.660]	-47.474** [7.839]	-44.718** [7.729]	-44.718** [7.729]	-22.766** [3.377]	-18.394** [3.036]	17.042** [4.714]	13.966** [3.823]
Observations ^b	330	329	329	329	327	328	329	330

^aStandard errors are in square brackets; + significant at 10%; * significant at 5%; ** significant at 1%.

^bSplits between 2001 and 2003 saw an increase of 336 to 410 regions, whereas splits between 1998 and 2000 entailed an increase from 292 to 336 localities. The number of observations in individual regressions may differ as some variables were not available for the full 336 districts.

ethnic clustering measure does provide support for the homogenisation hypothesis (3–6).

A higher share of natural resource revenue in local budgets does not increase the likelihood of a *post-decentralisation* split. The coefficients are actually negative, but are only (weakly) significant in half the cases. In contrast, the coefficients on the share of natural resource revenue in the budget are positive and significant in the *pre-decentralisation* regressions, suggesting that the fiscal spoils hypothesis is more applicable to the pre-decentralisation period.

Per capita budgetary wage expenditures enter positively and significantly in the *post-decentralisation* regressions, but negatively and significantly in the *pre-decentralisation* regressions. These bureaucratic factors may have gained prominence only after 2001 as districts became more aware of the cost of their civil service (composed in part of former central government employees). The current system does not encourage local governments to rationalise their staff, in part because central transfers are seen to offset these costs, encouraging a split. A higher share of development expenditures (5–6) seems to have made splitting less likely. This variable would be associated with greater discretionary wealth at the district level, which would alleviate wage pressure and reduce the need to alter the *status quo* (at least from a fiscal/bureaucratic standpoint).

Political fractionalisation (for which only pre-decentralisation data are available) did not appear significantly to affect the likelihood of a split (8), although a Golkar share of over one-third of local parliamentary seats was less likely to be associated with a split (8). A continued strong local Golkar presence in the wake of the 1999 elections, which saw the party's national vote share tumble, may be indicative of more cohesive and established political representation. This may have been less likely to create pressures for splits than would extensive political fractionalisation, exacerbated by the entry of new parties.

Higher education levels (measured by the share of population with completed secondary education) increased the likelihood of a split after decentralisation (5), while higher poverty decreased the likelihood somewhat (7). However, the education results were insignificant in the cases of tertiary education and average years of schooling (not shown in the table).

CONCLUSIONS

The increased importance of local governments in the wake of Indonesia's 2001 decentralisation, and the sheer number of new regions being created, mean that the potential costs and benefits of the creation of new regions need to be carefully assessed. The contribution of this paper has been to document the extent of this process, and the characteristics of Indonesia's new local governments.

Decentralisation and the associated jurisdictional change are inherently political processes intertwined with Indonesia's transition to democracy. Any decisions on the optimal number and constellation of districts will inevitably be the result of the political process, but ideally would be embedded in a strategic vision of the process of decentralisation and democratisation. To believe that 'better' policies will emerge through attempts to insulate these processes by technocratic arrangements (e.g. through executive agencies not being accountable to the political process) would be naive and probably misguided (Shepsle 1999). Increasing

public debate and transparency, underpinned by effective supporting institutions, are critical facets of a maturing democracy. Given the 'Big Bang' origins of Indonesia's decentralisation, this type of strategic consolidation will now be especially important to the success of the overall process. Following the rapid initial proliferation of new subnational jurisdictions, several decentralisers, such as South Africa, have turned later to amalgamation (Fox and Richards 2003). However, this may be especially costly from a political and fiscal perspective if done retrospectively.

As a starting point, the national executive and the DPR may want to agree on what might be a suitable number of local governments in the medium term, and target annual approvals accordingly. One way to improve the current process would be to strengthen the institutions through which new jurisdictions are evaluated. Whereas the current regulations define over 40 very detailed indicators relevant to the process of new region creation, actual scoring on these indicators does not appear to have been a binding constraint. Moreover, these guidelines do not appear to apply to the regional splits initiated by the DPR.

Our quantitative assessment of new region creation is intended as an initial systematic evaluation of the *pemekaran* process. The individual dynamics behind the creation of new jurisdictions typically involve complex processes. Further case studies of these processes, and especially of the role of elites and their responses to incentives set by the current decentralisation framework, should prove invaluable (ICG 2003). Additional case studies could also help generate hypotheses and new quantitative proxies to test whether these hypotheses can be generalised.

Depending on the context, decentralisation may have ambiguous impacts on aggregate levels of corruption, bureaucratic rent seeking and the degree of local versus central elite capture of resources and other revenue opportunities in the regions (Bardhan 2002). Over time the test of the *pemekaran* process will be its contribution to enhancing governance and public service delivery in the new local polities. Hence it will be important to measure such outcome variables over time. For the present, increased scrutiny of the initial capacity and governance conditions in the new jurisdictions will help. New regions are largely concentrated off-Java, and typically are jurisdictions with low population densities and limited formal human capital. Lack of capacity could therefore undermine successful decentralisation. Already we are seeing a great deal of heterogeneity across districts. The location of jurisdictional boundaries may be just one of the factors that could be associated with the quality of local governance (e.g. the level of KKN) in a district, and its influence may work through a number of mechanisms (e.g. the patterns of elite, group or party representation).³¹ These mechanisms are beyond the scope of this paper, but we hope future quantitative and qualitative work will provide greater insights into the emerging dynamics.

The proliferation of new smaller governments makes it increasingly important to find avenues to address the potential diseconomies of scale and capacity limi-

³¹Somewhat worryingly, elsewhere we found some evidence (from a special survey of 150 localities) that citizens perceive KKN in major local political processes, such as the election of regional heads and acceptance of their annual accountability speeches, to be higher in regions that split after decentralisation (Hofman and Kaiser 2004).

tations of local governments. Possible arrangements might rely on increased collaboration among local governments, or on a greater role for provinces. The latter in particular may require a clarification or adjustment of current functional assignments under decentralisation.

Jurisdictional fragmentation also has costs in terms of statistical coverage and comparability over time of local government activities and performance. The national statistical system remains quite strong by international standards. For example, the core of the annual Susenas survey provides a large enough sample size—about 600 households—for local-level significance. The rapidly rising number of jurisdictions will increasingly put strains on this system and make it more costly, however.

Indonesia's new regions will have to be judged by their ability to generate better governance and service delivery, and to stave off demands for secession. The natural resource rich 'special autonomy' provinces of Aceh and Papua have experienced some of the most dramatic fractionalisation of their local boundaries. In the case of the central government's controversial decision to implement the split of Papua into three (McGibbon 2003), our fiscal and bureaucratic rent-seeking hypothesis suggests that local support for new regions might be based just as much on the mobilisation of narrow vested interests as on broad-based popular needs. To dispel such claims, and to avoid discrediting the creation of new regions, the institutional process for creating new jurisdictions should be made more transparent. At the very least, agencies such as DPOD, and independent hearings, could assist in a rigorous assessment of the sustainability of these new polities.

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