



Governance And Poverty: The Governance Crisis of Local Governments In Indonesia

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Abstract

This article aims to analyze the relationship between decentralization, local democracy, quality of governance, and poverty in the context of Indonesia's political economy. This research uses a qualitative design with a critical political economy approach, based on document analysis and secondary data, including reports from the Corruption Eradication Commission, poverty data and Human Development Index from the Central Statistics Agency, policy documents, and academic literature. The analysis was carried out through content and thematic analysis techniques to identify structural patterns of corruption, power relations, and institutional failures at the regional level. The findings of the study show that local electoral democracy is not effective enough in preventing abuse of power without strong institutional support, effective oversight mechanisms, and clarity of central and regional division of authority. Corruption of regional heads is systemic and involves a network of actors across sectors, thereby hampering the effectiveness of poverty governance and reproduction. This study emphasizes the need to strengthen the role of the state in the supervisory and coordination function, as well as the restructuring of decentralized design in order to encourage more accountable and welfare-oriented regional governance.

Keywords

Decentralization, Regional elections, Regional governance, Corruption, Political economy

Introduction

Decentralization, which has been implemented since 2001, and direct local leader elections (*Pilkada*), conducted since 2005, have not always contributed to improvements in local governance. In many regions, decentralization and *Pilkada* have encountered serious obstacles arising from both internal and external factors. Internally, decentralization has been accompanied by widespread corruption within local governments, which significantly hampers efforts to reduce poverty. Externally, decentralization has been undermined by the central government's indecisiveness in defining and formulating clear and detailed divisions of authority, particularly with regard to its core functions in steering, supervising, and coordinating local governance (Hadiz, 2010; Aspinall & Berenschot, 2019).

Control and coordination are essential instruments that enable the central government to direct development, stimulate local economic growth, and ensure the effective functioning of local governance. Jakarta's frustration with poor local governance—illustrated by statements from the Coordinating Minister for Political, Legal, and Security Affairs, Luhut Binsar Panjaitan, who characterized weaknesses in Papua's local government as potential threats—should not have emerged had the central government strengthened mechanisms of control and coordination more effectively. Such frustration reflects, more broadly, the weakness of central authority in managing relations with local governments (Hadiz & Robison, 2013).

The primary instrument available to the central government to exercise control lies in regulating fiscal transfers from the national budget to regional budgets, particularly in poorly governed regions. Alternatively, the central government may bypass rigid bureaucratic chains and encourage governance transformation by leveraging the capacities and initiatives of local governments, communities, and business actors. Such an approach can serve as an incentive for regions to improve governance performance (World Bank, 2017).

Local democracy, implemented through direct local elections—including the simultaneous elections held in 2015 in 269 regions—has not consistently produced capable and visionary leaders able to fulfill their mandates. Over the past eleven years (2004–2015), records published by Indonesia's Corruption Eradication Commission (*Komisi Pemberantasan Korupsi / KPK*) indicate that approximately 56 provincial and district/city heads were imprisoned for corruption. On average, these officials were convicted of abusing their authority in budget management, asset management, and licensing processes, while others were involved in bribery cases (KPK, 2015).

The involvement of local leaders in corruption has become a widespread public phenomenon, demonstrating how deeply entrenched abuses of power remain within government institutions, including those led by democratically elected officials. For the central government, this situation represents a serious setback in its commitment to realizing good governance, beginning at the regional level. These cases clearly illustrate that democratic electoral mechanisms alone are insufficient to prevent corruption in the absence of strong institutions, effective oversight, and accountable governance systems (Klitgaard, 1988; UNDP, 2006). See table.

Table 1. The Regional Heads Arrested due to Corruption Case

No	Local Leaders	Case
1	Abdullah Puteh-Governor of NAD	Procurement of the NAD Government-owned Mi-2 Helicopter aircraft

2	Suwarna Abdul Fatah, Governor of East Borneo	The implementation of the one-million-hectare oil palm plantation development program in East Borneo followed by the issuance of timber utilization permits in 1999-2002
3	Abubakar Ahmad, Regent of Dompu	Expenditures or use of funds not in accordance with the allocation of funds for unexpected Dompu District Budget 2003-2005
4	Sjahril Darham-Governor of South Borneo	Use of funds not in accordance with the designation of the local head post budget in South Borneo for 2001-2004
5	Hendy Boedoro, Regent of Kendal	Utilization of authority for the use of APBD in 2003, unexpected funding for the general allocation fund and the local loan fund in Kendal that are not in accordance with the applicable provisions
6	Syaukani HR - Regent of Kutai Kertanegara	The implementation of the airport development project in Samarinda Kutai Kertanegara East Borneo in 2003-2004
7	Baso Amiruddin Maula- Mayor of Makassar	Procurement project of Tohatsu fire extinguisher Type V-80-ASM in Makassar Government APBD in 2003 and 2004
8	Abdillah-Mayor of Medan	Procurement project of Morita fire extinguishers in Medan Government APBD in 2005 and in 2002-2006
9	Ramli-Deputy Mayor of Medan	Procurement project of Morita firefighting cars in Medan APBD 2005
10	Tengku Azmun Jaafar- Regent of Pelalawan	Utilization of Licensing in the issuance of HHK-HT /IPK IUP 2001-2006 in Pelalawan which is not in accordance with the provisions
11	Agus Supriadi, Regent of Garut	Misuse of Garut APBD in 2004-2007
12	Vonnie A. Panambunan - Regent of North Minahasa	Utilization of Minahasa APBD
13	Iskandar-Regent of West Lombok	Ransacked land and the former building of West Lombok Regent's office in 2004
14	Deny Setiawan - Former Governor of West Java	Procurement of fire trucks, ambulances, stoom walls and dump trucks by the Government of West Java 2003
15	Armen Desky-Regent of Southeast Aceh	Management of Southeast Aceh APBD in 2004-2006
16	Jimmy Rimba Rogi-Regent of Manado	Disbursing Manado APBD in 2006
17	Samsuri Aspar-Deputy Regent of Kutai Kertanegara	Utilization of social assistance budget in Kutai Kertanegara in 2005

18	Ismunarso-Regent of Situbondo	Utilization of Situbondo APBD in 2005-2007
19	Syahriial Oesman - Former Governor of South Sumatra	Involvement in giving funds to civil servants or state administrators in relation to the process of requesting the conversion of protected forests of Air Telang Beach in South Sumatra
20	Jules F. Warikar-Regent of Supiori	Central Supiori market development activities, main terminal, official echelon housing and Supiori central market renovation for Bank Papua branch offices using Supiori APBD in 2006-2008
21	Hamid Rizal-Former regent of Natuna	The utilization of Natuna APBD in 2004 not in accordance with the allocation and cash disbursement without complete and valid evidence
22	H. Daeng Rusnadi- Regent of Natuna	Misuse of APBD in 2004 not in accordance with its allotment and incomplete and legal cash disbursements
23	Arwin AS-Regent of Siak	Issuance of business licenses for utilization of timber products in 2001-2003
24	Ismeth Abdullah-Governor of Riau Islands	Procurement of Morita firefighters in 2004-2005
25	Indra Kusuma-Regent of Brebes	Land acquisition for markets in Brebes district government in 2003
26	Yusak Yaluuwo-Regent of Boven Digoel	Utilization of APBD and OTSUS 2006-2007
27	Syamsul Arifin, Governor of North Sumatra	Utilization and management of local treasury in Langkat APBD in 2000-2007
28	Jefferson Sooleiman Montesqieu Rumajar-Mayor of Tomohon	Misuse of Tomohon Government APBD in 2006-2008
29	Mohchtar Mohamad-Mayor of Bekasi	Management and financial accountability of Bekasi APBD in 2010
30	Binahati B. Baeha - Regent of Nias	Nias natural disaster management funds in 2007
31	Robert Edison Siahaan - Former Mayor of Pematang Siantar	Regional secretariat social assistance management APBD in 2007
32	Fahuwusa Laila-Regent of South Nias	Rewards to state employees or state officials
33	Murman Effendi-Regent of Seluma	Promises to give rewards to civil servants
34	Soemarmo Hadi Saputro-Mayor of Semarang	Rewards to the civil servants and Semarang secretary
35	Amran Batalipu-Regent of	Receiving rewards regarding the management

	Buol	of HGU plantations on behalf of PT. Cipta Cakra Murdaya and PT. Hardaya Inti Plantation, Central Sulawesi
36	Muhammad Hidayat Batubara - Regent of Mandaling Natal	Rewards to civil servants using Local Aid Fund (DBD) in 2013
37	Dada Rosada-Mayor of Bandung	Rewards from Bandung Social Assistance fund
38	Hambit Binti, Regent of Gunung Mas	Rewards to judges in order to influence the decision of the case for the dispute over the Pilkada in Gunung Mas, Central Borneo
39	Rusli Zainal, Governor of Riau	Ratification of the work plan for plantation forest product utilization
40	Ratu Atut Chosiyah- Governor of Banten	Rewards to judges in connection with the dispute over Pilkada in Lebak Banten in 2013 at the Constitutional Court
41	Ikmal Jaya-Mayor of Tegal	Implementation of land swap between Tegal government and private sector in 2012
42	Ilham Arief Sirajuddin- Mayor of Makassar	Collaborative work of rehabilitation, management and transfer of water treatment plants between Makassar PDAM and private sectors for the period of 2006-2011
43	Rachmat Yasin - Regent of Bogor	Receiving gifts or promises related to giving recommendations for exchanging forest areas in Bogor on behalf of PT. Bukit Jonggol Asri
44	Romi Hertton-Mayor of Palembang	Rewards to judges to revise the court's decision in the Constitutional Court in 2013
45	Yesaya Sombuk-Regent of Biak Numfor	Civil servants at the PDT ministry for the TALUD project in Biak Numfor, Papua
46	Ade Swara-Regent of Karawang	SPPR approval on behalf of PT. Tattar Kertabumi in Karawang
47	Raja Bonaran Situmeang- Regent of Central Tapanuli	Rewards to a judge named M. Akil Mochtar in the 2011 on the case of Pilkada
48	Amir Hamzah, Regent of Lebak	Rewards to influence the Constitutional Court's decision in 2013
49	Zaini Arony, Regent of West Lombok	Obtaining licenses related to the development of tourist areas in West Lombok 2010-2012
50	Fuad Amin-Regent of Bangkalan	Receiving rewards related to the sale and purchase of natural gas for power plants in Gersik and East Gili Bangkalan Madura, East Java
51	Barnabas Suebu, Governor of Papua	Detail Engineering Design (DED) of Memberamo River Hydroelectric Power Plant and Urumuka River in 2009-2010
52	Annas Maamun-Governor	Civil servants related to the submission of

	of Riau	revisions to the transfer of forest functions in Riau to the Ministry of Forestry in 2014
53	Marthen Dira Tome-Regent of Abu Raijua	Misuse of the authority in using the school outdoor education funds in East Nusa Tenggara Education and Culture Sub-Department in 2007
54	Budi Anton Aljufri, Regent of Empat Lawang	Rewards to judge to influence decisions related to disputes in Pilkada 2013
55	Rusli Sibua-Regent of Moroati Island	Rewards to judge to influence the Constitutional Court's decision on the case of Pilkada dispute in 2011
56	Gatot Pujro Nugroho-Governor of North Sumatra	Rewards to Medan State Administrative Court judges and clerks related to social assistance funds and subordinate regional assistance (BDB), school operational assistance (BOS) and the detention of disbursement of profit sharing funds (DBH) conducted by the governor of North Sumatra at the PTUN.

Source: Several sources.

The data in the local governance in the last 11 years, especially when the decentralization in 2001 and the local leaders election have been held since 2005, shows that corruption is a major obstacle to the management of local government in realizing the welfare of local communities. The types of corruption appear to be more various and involve many actors. Corruption networks are not only created within the government but also spread to the judiciary as a law enforcement institution and it even involves businessmen in the private sectors.

1.1.Literature Review

a. Decentralization and Governance

The literature on decentralization widely acknowledges its dual potential: on the one hand, decentralization is expected to bring government closer to citizens, improve public service delivery, and strengthen democratic accountability; on the other hand, it may generate governance failures when institutional capacity and political accountability are weak (Rondinelli, 1981; World Bank, 2004). In developing countries, decentralization often unfolds under conditions of uneven administrative capacity, elite capture, and weak regulatory oversight, which limit its transformative impact.

In the Indonesian context, decentralization implemented since 2001 represents one of the most radical reforms in the post-authoritarian era. Hadiz (2010) argues that decentralization in Indonesia has not dismantled centralized power structures but rather relocated them to the local level. Local political elites, often embedded in long-standing patronage networks, have captured newly devolved authority, transforming local governments into arenas of rent-seeking rather than democratic governance. Robison and Hadiz (2004) further emphasize that decentralization has enabled the reorganization of oligarchic power rather than its erosion.

Aspinall and Berenschot (2019) provide a complementary perspective by examining how electoral democracy interacts with clientelism at the local level. Their study shows that direct local elections (*Pilkada*) have intensified transactional politics, reinforcing money politics and elite

domination. As a result, decentralization has frequently failed to produce accountable leadership and instead generated political competition driven by financial capital rather than programmatic platforms.

b. Local Democracy and Leadership

Theoretically, local democracy is expected to enhance accountability by allowing citizens to directly choose their leaders and sanction poor performance through elections (O'Donnell, 1994). However, empirical studies suggest that elections alone are insufficient to ensure good governance. Fung (2005) famously argues that “government is often the problem rather than the solution” when democratic institutions operate without effective participation, transparency, and oversight.

In Indonesia, *Pilkada* has expanded electoral participation but has not consistently improved leadership quality. Research by Indonesian Power for Democracy (IPD) indicates that political parties have largely failed to perform their role in leadership recruitment and regeneration. Instead of functioning as democratic institutions, parties often act as transactional vehicles that prioritize financial contributions over competence and integrity. This condition weakens the linkage between elections and governance outcomes.

Furthermore, the high cost of *Pilkada* has incentivized candidates to seek financial backing from business actors, particularly those involved in extractive industries. This dynamic creates a strong incentive for elected leaders to engage in corrupt practices to recover campaign expenditures, reinforcing what scholars describe as “money-driven governance” rather than governance that generates public value (Aspinall & Berenschot, 2019).

c. Corruption and Governance Failure

Corruption is one of the most persistent challenges undermining decentralization and local democracy. Klitgaard (1988) conceptualizes corruption as a function of monopoly power, discretion, and lack of accountability. In decentralized systems, the expansion of discretionary authority at the local level—without corresponding accountability mechanisms—creates fertile ground for corruption.

Empirical evidence from Indonesia strongly supports this argument. Data from the Corruption Eradication Commission (KPK) demonstrate that a significant number of local leaders have been prosecuted for corruption since the introduction of *Pilkada*. These cases involve budget manipulation, asset mismanagement, licensing abuses, and bribery, indicating systemic governance failures rather than isolated incidents (KPK, 2015).

Chikuhwa (2004) argues that corruption is not merely a symptom of poor governance but also a structural barrier preventing citizens—especially the poor—from accessing public resources. In this sense, corruption directly undermines the redistributive capacity of the state and exacerbates poverty. This perspective is particularly relevant in regions where public budgets are disproportionately absorbed by bureaucratic expenditures rather than allocated to social services and poverty reduction programs.

d. Decentralization, Poverty, and Inequality

A substantial body of literature highlights the close relationship between governance quality and poverty outcomes. UNDP (2006) emphasizes that good governance—characterized by participation, transparency, accountability, and effectiveness—is a critical precondition for poverty

reduction. Conversely, weak governance perpetuates inequality by limiting access to education, health care, and basic infrastructure.

In Indonesia, decentralization has not consistently translated into improved welfare outcomes. Studies by SMERU (2008) reveal mixed impacts: while decentralization has improved access to certain public services in some regions, it has also intensified disparities across regions. Poorly governed regions tend to experience persistent poverty, even when endowed with abundant natural resources, as seen in provinces such as Papua, Aceh, and Maluku.

Alonso Terne (1998) demonstrates that poverty is not merely an economic condition but a governance outcome. Regions with weak institutional capacity and high corruption levels are more likely to experience chronic poverty. This finding aligns with World Bank (2017) arguments that poverty reduction requires governance systems capable of enforcing rules, managing public resources effectively, and ensuring inclusive participation.

d. Competitiveness and Human Development

Beyond poverty, governance quality also affects regional and national competitiveness. The World Economic Forum (2015) defines competitiveness as the set of institutions, policies, and factors that determine productivity. In decentralized systems, local governments play a critical role in shaping these factors through investment in education, infrastructure, and human capital.

Indonesia's relatively low performance in global competitiveness rankings reflects structural weaknesses at the regional level, particularly in labor market efficiency, technological readiness, education, and institutional quality. These weaknesses are closely linked to governance failures, including inadequate prioritization of human resource development by local governments.

UNDP (2011) argues that decentralization can enhance human development only when local governments prioritize social investment and inclusive policies. However, empirical evidence from Indonesia suggests that many local governments remain heavily dependent on central transfers and lack strategic commitment to long-term human capital development. As a result, improvements in human development indices remain uneven across regions.

e. Central–Local Relations and Governance Coordination

Effective decentralization requires strong coordination between central and local governments. The literature emphasizes that decentralization does not imply the absence of central control but rather the reconfiguration of authority and oversight mechanisms (World Bank, 2004). In Indonesia, weak coordination and unclear division of authority have undermined governance performance.

Hadiz and Robison (2013) argue that the central government's limited capacity to discipline local governments has contributed to governance fragmentation. Fiscal transfers remain one of the few effective instruments available to the central government, yet their use has not always been strategically aligned with governance performance. This condition limits incentives for local governments to improve accountability and efficiency.

f. Synthesis

The literature reviewed above demonstrates that decentralization and local democracy do not automatically produce good governance or poverty reduction. In Indonesia, decentralization has often been accompanied by elite capture, corruption, weak institutional capacity, and poor coordination between central and local governments. These governance failures directly contribute to persistent poverty, inequality, and low competitiveness in many regions.

This study builds upon existing scholarship by emphasizing the interconnectedness of governance, poverty, and decentralization in Indonesia. By situating empirical evidence within broader theoretical debates, it seeks to contribute to a more nuanced understanding of why decentralization has fallen short of its normative promises and what governance reforms are necessary to address persistent poverty.

1.2. Conceptual Framework

a. Decentralization, Local Democracy and Corruption

Robert Klitgaard (2005) states that corruption is a deviant behavior of state officials carried out to obtain personal benefits by violating the law or legislation. Regardless of the types of corruption that occur in the regions, corruption is clearly an example of poor governance practices. Corruption causes local government to get difficulty optimizing the use of Regional Budgets (APBD) in realizing community welfare. Jacob Chikuhwa (2004) in his book "The crisis of governance: Zimbabwe" states that corruption is not only a proof of poor governance but also seen as the biggest barrier for people to access the regional budgets to meet the basic needs of the citizens. The central government, according to Chikuhwa, is supposed to provide access to the citizens, especially the poor to get the regional budgets. However, corruption in the government clearly makes it troublesome. Studies conducted by various institutions, including UNDP in 2011, indicate that decentralization has not fully brought benefits to the strengthening and development of the management of the local government in a tangible goal. Decentralization still gets problems in the local government and in its relations with the central government. The following table gives an overview of the problem in both sides. See the following table.

Table 2. Decentralization Program in Indonesia

No	Local Program	Problems related to the central government
01	Decentralization produces local leaders who loot local government programs. The programs are used to maximize people's welfare but are looted by government elites who cooperate with business groups.	The central government does not have the instruments to control the implementation of local government programs through <i>Pilkada</i> .
02	Local governments exploit local resources to restore expenditures in local elections - Problematic mining permits become a crucial issue of intergovernmental relations with local communities	Local resource management permits granted by the central government to local governments are not properly controlled in their implementation, so the regions freely manage resources that lack economic benefits to local communities.
03	The local government bureaucracy takes APBD more than the budget for the poor. In some regions, even the bureaucratic spending budget reaches more than 50% compared to the budget	The central government bureaucracy reforms agenda created by the Ministry of Administrative and Bureaucratic Reform does not solve the

	for the poor ¹ .	bureaucratic problems in the regions. The bureaucracy in the region tends to waste the public budget for internal bureaucracy.
04	The local leaders hold an enormous authority as a consequence of <i>Pilkada</i> , while with such an authority, the inclusion and expansion of local democracy in the form of substantive access and public participation in government policies are still very closed. Some regions with very limited democratic inclusion are Maluku, Papua and West and East Nusa Tenggara. In those regions, local leadership needs to be encouraged to strengthen the inclusion of local democracy.	The central government gets difficulty in controlling the local leaders because they consider that they come from a different political party support base. The central government also has less power to consolidate local governments, especially in mobilizing local governments to go hand in hand with central government policies.
05	Local communities in some regions with leadership that is less visionary, have apathy and do not even care about the management of local government. They tend to assume that the management of the local government is not part of their responsibilities.	The central government has not provided access and opportunity to the public to be a subject in the management of the local government. The central government policy tends to limit the involvement of local communities in the management, for instance the case of problematic mining, local people are subject to criminal law for their activities against government policies.

Source: Several sources

Decentralization and local leaders election is supposed to encourage better governance, but in fact, in some decentralized and local democracies it is such a hardship to achieve prosperity. It happens because the principles of good governance are often ignored and considerably not based on local culture². Disregarding the principles of good governance is sometimes the reason and chance for the people in the local government to commit corruption and ignore their responsibility to prosper the community. Until today, wherever decentralization and local democracy become the basis of local government management, there are still many areas that have fallen into poverty due to the corruption in the local government management. *Pilkada* which is a milestone in strengthening local democracy, in the most crucial aspect precisely causes corrupt and irresponsible leadership to work improperly in taking care of the community. The chosen government through *Pilkada* still causes problems as Archon Fung (2005) states, "Government is a problem not solution". The study of

Indonesian Power for Democracy (IPD) 2010 and 2015 shows several things that become obstacles why *Pilkada* have not met the solution to strengthening local democracy:

1. Political parties have not carried out the function of recruitment and political regeneration properly, so that they are mostly used as "cattle traders", meaning they are more often used as "riding horses", rather than as a locator of local democracy;
2. Money politics still plays a big role in *Pilkada* which then results in leadership that is oriented to money or what is often referred to the government driven by money, not one that makes money. In this case, candidates who compete in the elections are mostly motivated to get back the amount of the money they spend in the elections;
3. Voters' participation has not been fully based on the spirit of volunteerism, but rather driven by the money they get from the candidates. It utilizes the community and has not fully made the community as a subject in regional development;
4. There are many candidates who compete in *Pilkada* considered poor in their vision and mission in building the region. The main pressure of their campaign is how to drive economic growth by bringing in investors. Investment is considered a helper that will bring the region to accelerate development and economic growth. As a result, many candidates compete in direct and simultaneous local elections have great dependence on mining companies both domestically and internationally. Whereas the development of the area begins with building the quality of human resources to reduce the number of human resources from other regions. Direct and simultaneous local elections provide a big chance for the exploitation of natural resources due to the victory of candidates who are poor in their vision and mission in developing the region;
5. Local leaders who are elected through direct and simultaneous local elections are still doubtful about their capacity to manage and develop local resources into potential resources for regional development. Most regional budgets still rely on general allocation funds sourced from the state budget. While the Regional Original Revenue (PAD), has not been fully boosted to increase the source of budget and regional development costs. The study conducted by Pipit Budiarti on the Influence of Regional Original Revenue (PAD) and General Allocation Funds (DAU) (2014) shows that transfers from the central government to local governments are still relatively high at around 72-86% in supporting regional government spending and operations. In some areas such as Yogyakarta, East Nusa Tenggara, West Nusa Tenggara and other poor areas such as Maluku and Papua, DAU has a very central role in supporting regional development. Whereas in developed countries such as the United States, the composition of the APBD only around 40% comes from the central government and the rest is the source of income derived from PAD (Budiarti, 2014, p.3). Thus it can be said that APBD structure, which is largely supported by PAD, is a better keyword for local government management. The local government can manage APBD more freely to prioritize poverty eradication and strengthen human resources in the region.

b. Decentralization and Competitiveness

On the other hand, decentralization has also not succeeded in maximizing the effective, efficient and competitive governance of local government. It also causes Indonesia's competitiveness at the global level not to be able to keep pace with the other developed countries and even lag far behind countries in ASEAN. Based on the World Economic Forum (WEF) survey, Indonesia's global competitiveness index in 2012 was no better from other countries in ASEAN. If in 2011 it

took the 46th rank, in 2012 it took the 50th rank out of 144 countries (see table).

Table 3. Competitiveness Index of ASEAN Countries at the Global level

No	Country	Index of Competitiveness			
		2010-2011	2011-2012	2012-2013	2013-2014
01	Singapore	3	2	2	2
02	Malaysia	26	21	25	20
03	Brunei	28	28	28	-
04	Thailand	38	39	38	31
05	Indonesia	44	46	50	34
06	Filipina	85	75	65	-

Table: taken from various sources

In 2014-2015, Indonesia's competitiveness index had slightly increased to rank 34 of 144 countries. The WEF defines competitiveness as a collection of institutions, policies and factors that determine the level of state productivity. Every year WEE publishes country ranking reports using the Global Competitiveness Index (GCI). GCI is a measure of the competitiveness of each country by using 126 indicators grouped into 12 namely; institutions, infrastructure, macroeconomic environment, basic education and health, higher education and training, goods market efficiency, labor market efficiency, financial market development, readiness of technology, market size, business sophistication and innovation. Five countries with high competitiveness are Switzerland, Singapore, the United States, Finland and Germany. There were five things that made Indonesia progress a little in 2014-2015, including market size (the 15th rank), innovation (the 31st rank), macroeconomic environment (the 34th rank), business sophistication (the 34th rank) and financial market development. The rating shows that Indonesia has competitiveness in the economic field. While the five low indicators are; labor market efficiency (the 110th rank), readiness of technology (the 77th rank), basic education and health (the 74th rank), infrastructure (the 56th rank) and institutional (the 53rd rank) (WEE, 30 December 2014).

Those five indicators reflect that Indonesia needs to improve national competitiveness starting from regions (including villages). Competitiveness related to basic education, health, infrastructure, and institutions is the tangible condition of poor regions in Indonesia. Accordingly, it can be said that decentralization has not resulted in better local governance and even been able to mobilize local potential to improve the welfare of the community. One of the local potentials that are often overlooked by the local governments is the development of human resources. Since 2011, the road map on resource development human power remains a jargon of each local government and has not been realized. This is of course very influential on the ability of Indonesian workers, both in domestic and in international markets. In the international market, Indonesian workers are still not paid like workforce with high discipline and skills. Compared with other developed countries such as Germany, America, and even Singapore, South Korea and Japan, Indonesian workers have not become professional labor. The problem is absolutely not only related to the commitment and policies of the central government that are pro-regional, but also the problems of the regions that are less concerned with human resource development. The following data is clear enough to illustrate that in the past five years, the development of human resources through education was not a commitment and strategic step of the regional government. Nonetheless, it should also be

recognized that when compared with the previous five years (2003-2008), human development at the local level experienced significant development, at least experiencing better development. See the following table.

Table 4. *Human Development Index* of Indonesian Government

No	Province	2009	2010	2011	2012	2013
1	Aceh	71.31	71.7	72.16	72.51	73.05
2	North Sumatera	73.8	74.19	74.65	75.13	75.55
3	West Sumatera	73.44	73.78	74.28	74.7	75.01
4	Riau	75.6	76.07	76.53	76.9	77.25
5	Jambi	72.45	72.74	73.3	73.78	74.35
6	South Sumatera	72.61	72.95	73.42	73.99	74.36
7	Bengkulu	72.55	72.92	73.4	73.93	74.41
8	Lampung	70.93	71.42	71.94	72.45	72.87
9	Bangka Belitung Islands	72.55	72.86	73.37	73.78	74.29
10	Riau Islands	74.54	75.07	75.78	76.2	76.56
11	Jakarta	77.36	77.6	77.97	78.33	78.59
12	West Java	71.64	72.29	72.73	73.11	73.58
13	Central Java	72.1	72.49	72.94	73.36	74.05
14	Yogyakarta	75.23	75.77	76.32	76.75	77.37
15	East Java	71.06	71.62	72.18	72.83	73.54
16	Banten	70.06	70.48	70.95	71.49	71.90
17	Bali	71.52	72.28	72.84	73.49	74.11
18	West Nusa Tenggara	64.66	65.2	66.23	66.89	67.73
19	East Nusa Tenggara	66.6	67.26	67.75	68.28	68.77
20	West Borneo	68.79	69.15	69.66	70.31	70.93
21	Central Borneo	74.36	74.64	75.06	75.46	75.68
22	South Borneo	69.3	69.92	70.44	71.08	71.74
23	East Borneo	75.11	75.56	76.22	76.71	77.33
24	North Borneo	-	-	-	-	74.72
25	North Sulawesi	75.68	76.09	76.54	76.95	77.36
26	Central Sulawesi	70.7	71.14	71.62	72.14	72.54
27	South Sulawesi	70.94	71.62	72.14	72.7	73.28
28	South-east Sulawesi	69.52	70.00	70.55	71.05	71.73
29	Gorontalo	69.79	70.28	70.82	71.31	71.77
30	West Sulawesi	69.18	69.64	70.11	70.73	71.41
31	Maluku	70.96	71.42	71.87	72.42	72.70
31	North Maluku	68.63	69.03	69.47	69.98	70.63
33	West Papua	68.58	69.15	69.65	70.22	70.62
34	Papua	64.53	64.94	65.36	65.86	66.25
National/Indonesia		71.76	72.27	72.77	73.29	73.81

Source: Results of partnership survey in 2014.

The data shows human development in each region varies. In three years, under the leadership of Basuki Tjahaja Purnama or Ahok, DKI Jakarta experienced a tremendous human development leap. In the past three years, Papua Province did not achieve significant human development. The same thing happened in West Nusa Tenggara and East Nusa Tenggara (NTT). The three regions in the last five years were also recorded as areas with high poverty rates. In NTT, Governor Frans Leburaya, who was famous for his Red Wine Program, failed to build the quality of human resources as one of the entrances to realize the prosperity and welfare of the people. Heronimus Lado Tukan's thesis on the Red Wine Program in Bantala Village, East Nusa Tenggara (2016) shows that the Red Wine Program, which spent a budget of around 400 billion rupiahs every year in East Nusa

Tenggara, failed to execute poverty into prosperity. The program was only limited to political labeling to strengthen the campaigns and political platitudes in the society³.

c. Governance and poverty

Poverty is one of the measuring tools to see governance practices in the region. Regions with high poverty rates can be ascertained that there are bad local governance practices. In contrast, regions with low poverty rates can be ascertained there is good governance. The followings are some of the provinces with the highest poverty rates in 2015. It shows that the expansion of provinces in Indonesia has not succeeded in becoming a way to community welfare, such as the division of Papua and South Sulawesi provinces. On the other hand, *Pilkada* has also not succeeded in producing good local leadership that is able to change poverty into a potential for the welfare and prosperity of the people. While in regions with abundant resources, it becomes an area with national poverty rates such as Aceh and Papua. See table.

Table 5. Provinces with the Highest Poverty Rate in Indonesia

No	Province	Percentage of Poverty
01	Papua Barat	36.80% - West Papua takes the 1 st rank as the poorest province in Indonesia. This province is a new expansion province from its provincial parent of Papua. The population is around 770 thousand.
02	Papua	34.88% - Papua takes the 2 nd rank as the poorest province in Indonesia. The population is around 2.9 million.
03	Maluku	27.74 %-Maluku, the capital of Ambon, takes the third rank to become the poorest province in Indonesia. The population is around 1.5 million.
04	West Sulawesi	23.19% of the Province of West Sulawesi takes the fourth rank as the poorest province in Indonesia. The population is around 1.1 million.
05	East Nusa Tenggara	23.03%- With the population of around 4.6 million, this province is always ranked as the

		poorest province in Indonesia.
06	West Nusa Tenggara	21.55% -Being an adjacent to East Nusa Tenggara, it has got a similarity to East Nusa Tenggara, which means it is considered the poorest province in Indonesia
07	Aceh	20.98% -Nanggroe Aceh Darussalam actually has a lot of foreign exchange, but NAD is always ranked as the poorest province in Indonesia.

Source: taken from Kompas, Detik, and Tempo, 18 February 2016.

The study conducted by Alonso Terne (1998) shows that there is a very close correlation between governance and poverty. The practice of poor governance becomes the chance for the emergence of corrupt governance and acute poverty of local communities. One of the interventions to eradicate poverty is encouraging good governance, pro-people governance and giving a special portion of the budget to eradicate poverty (Smeru, 2004).

Good governance is a very decisive factor in eradicating poverty. Studies conducted by UNDP (2006) show that one of the loopholes that can be performed to reduce poverty in the regions is to practice or implement good governance. The World Bank in 2006 defines good governance as an institution which is seen from several basic indicators, among others; participation, accessibility, transparency, responsiveness, effectiveness and efficiency, justice, law enforcement, accountability and conflict governance. Smeru's (2008) study also presents that decentralization has brought serious changes to several aspects of the principles of good governance, but in other aspects, it is still necessary to make improvements and serious changes. The aspects include:

- (1) Community accessibility to government public services such as education. Smeru's study shows that most students still go to school on foot, but the number of those students decreases with the increasing levels of education. Nearly 80% of elementary students go to school on foot.
- (2) Community participation in government services, for example in education services. In primary school education, for example, the net enrollment rate in the past year was reported to be around 95%, while in this data it was recorded only 72%.
- (3) Access to village administration services is measured using variables related to the ease of obtaining an identity card (KTP). Around 61% of family members have got KTP. The average time needed to get a KTP is 7.4 days. The cost is not much different in each region; it is around Rp. 19,000. The use of informal intermediaries is common to obtain ID cards: 47% of households use their services;
- (4) Only 15% of households have access to information about village budget allocations and 25% of households have access to information on village development programs;
- (5) Approximately half of households states that the level of participation in village activities do not differ from previous years, while a third of households feels that their participation has increased. The rest, around 10% of households states that their participation declines. The number does not differ among the regions.

- (6) Participation in general elections is very high: 94% of households has recently participated in the elections. However, only 44% of households participating in the election know the background of the candidates.
- (7) An important indicator of governance besides transparency is the extent of corruption cases. Very few people admit that corruption and bribery have occurred in various public service institutions. Knowledge of bribery cases is said to occur most often in police, where 19% of households state they know about the incident. Educational institutions are not free from illegal transactions. As many as 9% of households are aware of corruption and / or bribery that occur in educational institutions;
- (8) The community identifies five main aspects of health services that need improvement: availability of medicines and vaccines (24%), affordability of medical services (20%), physical condition of health service locations (19%), attention and attitudes of medical officers (15%), and the time of wait at each health service place (7%). According to the head of the Community Health Center, their involvement in determining the rates of the Community Health Center is much lower than what is reported by the health department.

The data shows that (1) decentralization and regional autonomy have not provided sufficiently strong expectations for good governance; (2) the division of regions and direct regional elections actually lead the problems of inheritance and transition to poverty in a number of regions; (3) poverty can only be eradicated by pioneering and giving serious attention to good governance. Several provinces in Indonesia have become a separate lesson where good governance prioritizes budgets and accesses better public services to local people. The JKI database under the leadership of Ahok can become a model for how to prioritize public budgets for the benefit of the poor through improving public facilities access to public services and scholarships to the poor.

1.4. Research Methodology

a. Research Design and Approach

This study employs a **qualitative research design with a critical political economy approach** to examine the relationship between decentralization, local governance, corruption, and poverty in Indonesia. The qualitative approach is chosen because the research seeks to understand **structural patterns, power relations, institutional dynamics, and governance failures** rather than to test causal relationships through statistical modeling alone (Creswell, 2013).

The study is grounded in the tradition of **political economy and governance analysis**, which views decentralization not merely as an administrative reform but as a political process shaped by elite interests, institutional incentives, and power asymmetries between central and local governments (Hadiz, 2010; Robison & Hadiz, 2004). This approach allows the research to critically assess why decentralization and direct local elections (Pilkada), despite their democratic promise, have frequently failed to produce accountable governance and poverty reduction.

b. Unit of Analysis

The primary unit of analysis in this study is **local government governance performance** in Indonesia following the implementation of decentralization (post-2001) and direct local elections (post-2005). This includes:

1. **Provincial and district/city governments** as political-administrative units;
2. **Local political leaders (governors, regents, and mayors)** as key governance actors;

3. **Institutional arrangements** governing central–local relations, fiscal transfers, and political accountability.

By focusing on these units, the study captures how governance practices at the local level interact with national decentralization policies and influence poverty outcomes.

d. Data Sources

This research relies primarily on **secondary data**, complemented by documentary analysis. The data sources include:

1. **Official government data and reports**, including:
 - Corruption cases involving regional heads published by the Corruption Eradication Commission (KPK);
 - Human Development Index (HDI) data from the Central Bureau of Statistics (BPS);
 - Poverty statistics from national and regional government publications.
2. **Policy documents and institutional reports**, such as:
 - Decentralization and governance reports by the World Bank and UNDP;
 - Reports from SMERU Research Institute on governance and poverty;
 - National and regional development planning documents.
3. **Academic literature**, including peer-reviewed journals, books, and scholarly reports on decentralization, governance, corruption, and political economy in Indonesia and comparative contexts.
4. **Media reports and investigative journalism**, particularly from reputable national outlets (e.g., Kompas, Tempo), used to contextualize corruption cases and governance failures.

The use of multiple data sources enables **data triangulation**, enhancing the credibility and analytical depth of the findings (Denzin, 1978).

e. Data Collection Techniques

Data collection was conducted through **systematic document analysis**, involving:

1. Compilation of corruption cases involving regional heads from KPK publications (2004–2015);
2. Mapping poverty and human development indicators across provinces to identify governance–poverty patterns;
3. Review of decentralization policies and regulatory frameworks governing central–local relations;
4. Identification of recurring governance problems such as budget capture, bureaucratic dominance, weak accountability, and elite collusion.

Documents were selected based on relevance, credibility, and temporal alignment with the decentralization period under study.

f. Data Analysis Method

The study applies **qualitative content analysis** and **thematic analysis** to interpret the collected data. Analysis was conducted in several stages:

1. **Categorization of governance problems**, including corruption types, elite capture mechanisms, and failures of political accountability;
2. **Thematic coding** of key issues such as fiscal dependence, money politics, weak institutional capacity, and central–local coordination failures;

3. **Comparative analysis** across regions to identify patterns linking governance quality with poverty and human development outcomes;
4. **Interpretive analysis** informed by political economy theory to explain how decentralization reshapes power relations and reproduces governance crises at the local level.

This analytical strategy allows the research to move beyond descriptive accounts and provide **structural explanations** for governance failure and persistent poverty.

Analytical Framework

The analysis is guided by an integrated framework linking:

- **Decentralization** seen as the transfer of authority, resources, and discretion to local governments;
- **Local democracy (Pilkada)** as an electoral mechanism intended to enhance accountability;
- **Governance quality**, measured through corruption prevalence, budget allocation patterns, and institutional performance;
- **Poverty and human development outcomes** as ultimate indicators of governance effectiveness.

This framework draws on Klitgaard's (1988) corruption model, UNDP's good governance principles, and Hadiz's (2010) political economy critique of decentralization.

g. Validity and Reliability

To ensure **analytical validity**, the study employs:

- Triangulation of data sources;
- Use of well-established theoretical frameworks;
- Cross-referencing empirical findings with existing literature.

Reliability is strengthened through transparent documentation of data sources and consistent application of analytical categories across cases.

h. Ethical Considerations

The study uses publicly available data and secondary sources, ensuring no direct ethical risks related to human subjects. All sources are properly cited to maintain academic integrity.

i. Limitations of the Study

This research acknowledges several limitations:

1. Reliance on secondary data limits the ability to capture micro-level governance practices and lived experiences of local communities;
2. The qualitative design does not aim to statistically generalize findings but to provide **analytical generalization**;
3. Corruption cases reported by KPK represent detected cases and may underestimate the true scale of corruption.

Despite these limitations, the study provides a robust and critical understanding of governance failures under decentralization.

1.5 Analysis and Discussion

a. Decentralization and the Paradox of Local Governance Reform

Decentralization in Indonesia was designed as a fundamental institutional reform intended to dismantle authoritarian centralism, enhance democratic accountability, and improve public welfare

through proximity between government and citizens. In normative governance theory, decentralization is expected to generate more responsive, transparent, and participatory governance structures (Rondinelli, 1981; World Bank, 2004). However, empirical evidence from Indonesia demonstrates a profound **paradox**: while authority and fiscal resources were devolved to local governments, governance outcomes in many regions deteriorated rather than improved.

The findings presented in this study indicate that decentralization has not transformed the logic of power but has instead **relocated centralized practices of domination and rent-seeking to the local level**. Rather than empowering citizens, decentralization has often empowered local elites who control political parties, bureaucracies, and access to public resources. This supports Hadiz's (2010) argument that decentralization in post-authoritarian Indonesia has resulted in the "localization of oligarchy" rather than the democratization of power. The paradox is further evident in regions with abundant natural resources. Provinces such as Papua, Aceh, and Riau, despite receiving substantial fiscal transfers and resource revenues, continue to exhibit high poverty rates and low human development indicators. This indicates that decentralization alone is insufficient to produce welfare outcomes without strong institutions, effective oversight, and accountable leadership. Governance failure, rather than resource scarcity, emerges as the key explanatory factor.

b. Local Democracy and the Crisis of Leadership Accountability

One of the central promises of decentralization was the introduction of direct local elections (Pilkada) as a mechanism to strengthen accountability and leadership quality. Democratic theory assumes that electoral competition enables citizens to sanction poor performance and reward effective governance (O'Donnell, 1994). However, the evidence analyzed in this study reveals that Pilkada has frequently failed to function as an accountability mechanism. The data on corruption cases involving 56 regional heads between 2004 and 2015 demonstrates a systematic pattern rather than isolated deviations. The prevalence of corruption among democratically elected leaders suggests that electoral legitimacy does not automatically translate into ethical or effective governance. Instead, Pilkada has often become a **marketplace for political transactions**, where leadership positions are acquired through financial capital rather than programmatic competence (Aspinall & Berenschot, 2019).

High campaign costs incentivize candidates to seek financial backing from business actors, particularly in extractive industries. Once elected, leaders face strong pressures to recover campaign expenditures through rent extraction, licensing abuse, and budget manipulation. This creates a vicious cycle in which elections produce leaders who are structurally predisposed to corruption. In this sense, local democracy has been reduced to a **procedural mechanism** devoid of substantive accountability. This finding reinforces Klitgaard's (1988) corruption framework, which emphasizes the interaction between monopoly power, discretion, and weak accountability. Pilkada expands discretionary authority at the local level without adequately strengthening oversight institutions, thereby increasing corruption risks.

c. Corruption as a Structural Feature of Decentralized Governance

The analysis of corruption cases reveals that corruption in local governments is not incidental but **structural**. Corruption networks involve not only executive officials but also legislators, bureaucrats, business actors, and, in some cases, judicial institutions. This confirms that corruption

operates as a governance system rather than a moral failure of individual leaders. The dominant forms of corruption—budget misuse, licensing manipulation, procurement fraud, and bribery—directly affect public resource allocation. In many regions, bureaucratic expenditure absorbs more than 50% of local budgets, leaving limited fiscal space for poverty reduction programs. This budgetary distortion reflects elite capture of public resources and undermines the redistributive function of the state.

Chikuhwa's (2004) argument that corruption acts as a barrier preventing citizens—especially the poor—from accessing public resources is strongly supported by the Indonesian case. Corruption not only diverts funds but also erodes trust, discourages participation, and reinforces political apathy. As a result, decentralization has frequently produced **formal democracy without social justice**.

d. Central–Local Relations and the Failure of Governance Coordination

Another critical finding of this study concerns the weakness of coordination and control between the central and local governments. Decentralization in Indonesia has been characterized by an ambiguous division of authority, particularly regarding oversight and intervention mechanisms. While local governments enjoy significant autonomy, the central government lacks effective instruments to discipline poorly performing regions. Fiscal transfers remain the primary tool available to the central government. However, the absence of performance-based conditionality means that poorly governed regions continue to receive substantial funding without meaningful incentives to reform. This weakens accountability and reinforces fiscal dependency, particularly in regions where local revenue generation (PAD) remains low.

Jakarta's frustration with local governance failures—such as in Papua—reflects not authoritarian tendencies but **institutional weakness**. As Hadiz and Robison (2013) argue, the central government's inability to enforce standards and coordinate development has resulted in governance fragmentation rather than cohesion. This condition highlights a fundamental contradiction: decentralization requires strong central institutions to function effectively. Without clear authority, coordination, and enforcement mechanisms, decentralization risks producing disjointed governance systems that undermine national development goals.

e. Governance Failure and Persistent Poverty

The relationship between governance quality and poverty is one of the most significant findings of this study. Regions with weak governance consistently exhibit high poverty rates, low human development indices, and poor access to basic services. This confirms Alonso Terne's (1998) assertion that poverty is not merely an economic phenomenon but a governance outcome. The data on provinces with the highest poverty rates—Papua, West Papua, Maluku, and NTT—demonstrates a convergence of governance failures: high corruption, weak institutional capacity, limited public participation, and ineffective service delivery. In these regions, decentralization has failed to translate fiscal resources into welfare improvements. Programs such as the Red Wine Program in NTT illustrate how poverty alleviation initiatives can become instruments of political symbolism rather than substantive change. Without transparent planning, accountability, and community participation, large budgets fail to generate sustainable impacts. Poverty persists not because of insufficient spending but because of **misgovernance**.

UNDP (2006) emphasizes that good governance—participation, transparency, accountability, and effectiveness—is a prerequisite for poverty reduction. The Indonesian case confirms that poverty cannot be addressed through fiscal transfers or electoral mechanisms alone; it requires governance systems capable of managing resources in the public interest.

g. Decentralization, Competitiveness, and Human Development

Beyond poverty, governance failures at the local level have broader implications for national competitiveness. Indonesia's relatively low performance in global competitiveness rankings reflects weaknesses in education, infrastructure, technological readiness, and institutional quality—all of which are shaped by local governance. The analysis of Human Development Index (HDI) data reveals stark regional disparities. While regions such as Jakarta and Yogyakarta demonstrate steady improvements, provinces like Papua and NTT remain trapped in low development trajectories. This uneven development undermines national productivity and reinforces spatial inequality.

Local governments often prioritize short-term economic growth through extractive investments rather than long-term human capital development. This development strategy generates immediate revenue but undermines sustainability and social equity. As a result, decentralization has not produced competitive regions but rather **resource-dependent economies with weak human development foundations**.

h. Synthesis: Governance Crisis as the Core Problem

The analysis demonstrates that the crisis of local governance in Indonesia is not the result of decentralization per se but of **how decentralization has been institutionalized and practiced**. Weak political parties, transactional elections, elite capture, corruption, and ineffective central–local coordination collectively undermine governance performance. This study's findings align with, but also extend, existing literature by emphasizing the **interconnectedness of decentralization, governance failure, and poverty**. Decentralization without institutional reform reproduces inequality and undermines democratic legitimacy.

The findings suggest that governance reform in Indonesia must move beyond procedural democracy and address structural power relations. Strengthening political party institutions, enforcing accountability through fiscal conditionality, expanding citizen participation, and prioritizing human development are essential steps. Decentralization must be recalibrated to balance autonomy with accountability. Without this balance, decentralization risks becoming a mechanism for elite enrichment rather than public welfare.

1.6. Conclusion and Policy Recommendations

This study demonstrates that governance and poverty in Indonesia are deeply interconnected and cannot be treated as separate policy domains. The evidence presented throughout this analysis confirms that decentralization and direct local elections (Pilkada), while normatively designed to strengthen democracy and improve welfare, have frequently failed to deliver substantive governance improvements at the local level. Instead of producing accountable, responsive, and pro-poor local governments, decentralization has often facilitated elite capture, corruption, weak institutional performance, and persistent poverty.

The findings reveal that poor governance is not an accidental outcome but a structural feature of Indonesia's decentralized political system when accountability mechanisms, political party institutions, and central–local coordination remain weak. High poverty rates in regions such as Papua, West Papua, Maluku, and East Nusa Tenggara cannot be explained by resource scarcity alone. Rather, they reflect systemic governance failures characterized by excessive bureaucratic spending, limited public access to basic services, weak citizen participation, and widespread corruption. In this sense, poverty functions not merely as a socio-economic indicator but as a diagnostic marker of governance quality.

This study also confirms that electoral democracy alone is insufficient to ensure good governance. The prevalence of corruption among democratically elected local leaders illustrates that political legitimacy derived from elections does not automatically translate into ethical leadership or effective public service delivery. When elections are dominated by money politics, weak party recruitment, and transactional relationships between politicians and business actors, local democracy becomes procedural rather than substantive. Consequently, decentralization risks reproducing inequality and undermining democratic legitimacy rather than strengthening it.

Beyond poverty, governance failures at the local level have broader implications for national competitiveness and human development. Uneven human development outcomes across regions highlight the inability of many local governments to prioritize long-term investment in education, health, and human capital. This condition constrains productivity, reinforces spatial inequality, and limits Indonesia's ability to compete at the regional and global levels. Based on these findings, several policy recommendations are proposed. First, the institutional strengthening of political parties is essential. Political parties must be encouraged and regulated to perform genuine functions of leadership recruitment and regeneration, prioritizing integrity, competence, and programmatic capacity rather than financial resources. Without reforming party institutions, elections will continue to produce leaders vulnerable to corruption.

Second, central–local relations must be recalibrated to balance autonomy with accountability. The central government should strengthen coordination mechanisms and introduce performance-based fiscal transfers that reward good governance and sanction persistent mismanagement. Fiscal decentralization must be accompanied by clear standards, monitoring, and enforcement to prevent the misuse of public resources.

Third, local governments should be directed to reorient budget priorities toward public welfare, particularly poverty reduction and human development. Excessive bureaucratic expenditure must be reduced, and greater portions of regional budgets should be allocated to education, health, basic infrastructure, and social protection programs that directly benefit poor communities.

Fourth, meaningful citizen participation must be expanded beyond electoral moments. Local governance should institutionalize participatory mechanisms that enable communities to access information, influence budget decisions, and hold leaders accountable. Inclusive governance is a critical condition for translating decentralization into social justice.

Finally, decentralization policy itself must be differentiated. Regions that demonstrate persistent governance failure may require more intensive supervision, capacity building, and temporary limitations on autonomy, while well-performing regions should be encouraged to innovate and deepen democratic practices. In conclusion, decentralization and local democracy remain important pillars of Indonesia's political system. However, without serious institutional reform and a renewed commitment to good governance, they risk becoming mechanisms for elite enrichment rather than instruments for public welfare and poverty eradication.

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