

## ABSTRACT

The purpose of this research is to investigate governance practices among subnational governments in Indonesia. More specifically, it explores the relationship between governance practices (transparency and participation) and objections faced by subnational governments from members of the legislature and non-governmental agencies (NGOs) during the development of loan proposals to formulate *Perda* (the by-law) on borrowing. The research focuses on loans sourced from the Central Investment Agency (PIP)—a newly established lending agency under the national Indonesian Ministry of Finance.

Loan proposal processes at the subnational government level involve a wide range of stakeholders, including the Executive, NGOs and the local legislature (DPRD). During the development of loan proposals, good governance processes are needed to strengthen the legitimacy of the Executive's decision to borrow. However, previous studies on local borrowing in Indonesia have largely ignored issues of governance, and have mainly focused on market-related issues. Research is needed to address the question of how the development of loan proposals at the subnational government level takes place; that is, how are proposals packaged, negotiated, and accepted or rejected.

This research adopted a case study approach, with in-depth examination of the development and negotiation of infrastructure loans proposed by the executives of two different levels of government. The loans were proposed to finance a road improvement project in South Sulawesi Province and a hospital development in Surakarta Municipality. The study examined both the supply of, and the demand for, accountability (specifically in the areas of transparency and participation) during the development of the loan proposals.

The research found that the supply of transparency and participation influenced responses from members of the DPRD (the legislature) and NGOs towards the proposed projects. In South Sulawesi Province, an imbalance between the supply of transparency and participation from the Executive to DPRD and NGOs, on the one hand, and the demand for transparency and participation by the DPRD members and NGOs to the Executive on the other, prompted objections from these stakeholder groups to the loan proposal. In contrast, a more equal balance in the supply of, and

demand for, transparency and participation in Surakarta Municipality led to a smoother loan approval process with few objections from the DPRD members and NGOs.

The research also found that governance performance at both sites was influenced by political competition, leadership style, and relationships between the Executive, NGOs, and the media. The roles of NGOs and local media were prominent in influencing the process. While previous research has highlighted strong leadership as a key component in the implementation of good governance, the research documented in this thesis also highlights the growing importance of NGOs and the media in prompting debate on government policy at provincial and municipal levels. The thesis concludes by arguing that better accountability practices by subnational governments are likely to improve public support for, and legitimacy of, policy proposals.