

Loans for Infrastructure in Indonesia: The Role of Subnational Governments, Local Parliaments and Non- Governmental Organisations in Negotiating Project Governance

by

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DECLARATION

I certify that the whole thesis does not incorporate without acknowledgement any material previously submitted for any degree or diploma in any university; and that, to the best of my knowledge and belief, it does not contain any material previously published or written by another person except where due reference is made in the text.



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ABBREVIATIONS

ADB	: Asian Development Bank
ANSA-EAP	Affiliated Network for Social Accountability-East Asia and the Pacific
APBD	<i>Anggaran Pendapatan dan Belanja Daerah/Local Budget</i>
BAPPEDA	: <i>Badan Perencanaan Pembangunan Daerah/Local Planning Agency</i>
BAPPENAS	: <i>Badan Perencanaan Pembangunan Nasional/National Planning Agency</i>
BLUD	<i>Badan Layanan Umum Daerah/Independent Local Service Agency</i>
BPK	: <i>Badan Pemeriksa Keuangan/Financial Audit Board</i>
BPKD	: <i>Badan Pengelolaan Keuangan Daerah/Local Finance Agency</i>
BPKMS	: <i>Bantuan Pendidikan Masyarakat Kota Solo/Education Support for Surakarta Community</i>
<i>Bupati</i>	: Head of District
CPI	: Centre Point of Indonesia
<i>Dinkes</i>	<i>Dinas Kesehatan/Local Health Agency</i>
DPPKA	: <i>Dinas Pendapatan, Pengelolaan Keuangan dan Aset Daerah/Local Agency for Revenue, Finance and Asset Management</i>
DPR	: <i>Dewan Perwakilan Rakyat/National Legislature</i>
DPRD	: <i>Dewan Perwakilan Rakyat Daerah/Local Legislature</i>
DPU	<i>Pekerjaan Umum/Public Works</i>
DSF	Decentralisation Support Facility
<i>Golkar</i>	: <i>Golongan Karya/The Party of the Functional Groups</i>
<i>Gubernur</i>	: Governor
<i>Hanura</i>	: <i>Partai Hati Nurani Rakyat/People's Conscience Party</i>
IGI	Indonesia Governance Index
JAMKESDA	<i>Jaminan Kesehatan Masyarakat Daerah/Local Health Insurance</i>
JAMKESMAS	: <i>Jaminan Kesehatan Masyarakat/National Health Insurance</i>
KADIN	: <i>Kamar Dagang Indonesia/Indonesian Chamber of Commerce</i>
<i>Komisi</i>	Commission of Local Legislature
KOMPIP	: <i>Konsorsium Monitoring dan Pemberdayaan Institusi Publik/Consortium for Monitoring and Empowerment of Public Institutions</i>
KOPEL	: <i>Komite Pemantau Legislatif/Legislature Watch</i>
KLH	: <i>Kementerian Lingkungan Hidup/Environmental Agency</i>
KPK	: <i>Komisi Pemberantasan Korupsi/Commission for Eradication of Corruption</i>
KPU	: <i>Komisi Pemilihan Umum/Local Electoral Commission</i>
LGSP	Local Governance Support Program

LSM	: <i>Lembaga Swadaya Masyarakat/Non-governmental Organisation (see also NGO)</i>
MTI	: <i>Masyarakat Transportasi Indonesia/Indonesian Transportation Society</i>
NGO	: Non-governmental Organisation (see also <i>LSM</i>)
OECD	Organisation for Economic Co-operation and Development
ORGANDA	<i>Organisasi Angkutan Darat/Land Transport Organisation</i>
<i>Pansus</i>	: <i>Panitia Khusus/Special Committee of the Local Legislature</i>
PATTIRO	<i>Pusat Telaah dan Informasi Regional/Center for Regional Studies and Information</i>
PERAK	: <i>Pendidikan Rakyat Anti Korupsi/People for Education on Anti-Corruption</i>
PDIP	<i>Partai Demokrasi Indonesia Perjuangan/Indonesian Democratic Party of Struggle</i>
<i>Perda</i>	: <i>Peraturan Daerah/by-law/local regulation</i>
PIP	: <i>Pusat Investasi Pemerintah/Central Investment Agency</i>
PKMS	<i>Pemeliharaan Kesehatan Masyarakat Surakarta/Health Insurance for People of Surakarta</i>
PKS	<i>Partai Keadilan Sejahtera/Prosperous Justice Party</i>
PMU	Project management unit
PT SMI	: <i>Perseroan Terbatas Sarana Multi Infrastructure/Indonesian state-owned infrastructure financing company</i>
PUSKESMAS	: <i>Pusat Kesehatan Masyarakat/local health clinic</i>
RDA	: Regional Development Account
ROD	Record of Decision
RPJMD	: <i>Rencana Pembangunan Jangka Menengah Daerah/medium-term local development planning</i>
RSUD	: <i>Rumah Sakit Umum Daerah/local public hospital</i>
RT	: <i>Rukun Tetangga/Small community unit consisting of households that live in the same neighbourhood or village</i>
RW	: <i>Rukun Warga/Larger community unit consisting of several RTs</i>
SKPD	: <i>Satuan Kerja Perangkat Daerah/subnational government agency or unit</i>
SLA	: Subsidiary loan agreement (sub-loan agreement/on-lending)
SMI	: <i>Sistem Manajemen Investasi/investment management system</i>
SOMPIS	: <i>Solidaritas Masyarakat Pinggiran Surakarta/Solidarity for Marginalised People of Surakarta</i>
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UPL–UKL	: <i>Upaya Pengelolaan Lingkungan Hidup–Upaya Pemantauan Lingkungan/environmental assessments</i>
US/USA	United States of America
USAID	United States Agency for International Development
USDRP	: Urban Sector Development Reform Project
<i>Walikota</i>	: Mayor

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.

CHAPTER 1: INTRODUCTION

1.1 Introduction

The current research, documented in this thesis, investigates governance practices among subnational governments in Indonesia. More specifically, it explores the relationship between governance practices and the objections faced by subnational governments from members of the local legislature (*Dewan Perwakilan Rakyat Daerah* [DPRD]) and non-governmental organisations (NGOs) during the development of loan proposals to formulate the local law/regulation on borrowing (known as *Perda Pinjaman*, hereafter *Perda*). Effective governance practices are needed to strengthen the legitimacy of the local Executive's (included here are head or deputy of subnational government and local agencies, hereafter Executive) decision to borrow, as loan proposal processes at the subnational government level involve a wide range of stakeholders including the Executive, the local legislature and other interest groups.

Borrowing is one of the mechanisms for financing local infrastructure development established by the central government as support for the fiscal decentralisation program in Indonesia. This program is marked by four major elements: inter-governmental fund transfers; greater subnational taxing power; allowing subnational borrowing; and grants.

Before decentralisation, borrowing by local governments was driven by either the central government or international donor agencies. There was often little sense of ownership by subnational governments of projects supported by these two funders due to heavy controls by the Central Government (Alm, Martinez-Vasquez & Indrawati 2004, p. 242; Devas 1989, p. 220; Lewis 2003, p. 1059; 2007, p. 39; Lewis & Woodward 2010, p. 69; Shah et al. 1994, p. 170) and many loans went into default (Lewis 2003, pp. 1049-51; 2007, p. 42; Lewis & Woodward 2010, p. 68).

However, since 2001, subnational governments have been allowed to initiate infrastructure development projects independently, and to apply for loans from the Central Government to finance these projects. Since 2007, the two most common loan sources have been the subsidiary loan agreement (SLA) mechanism, and domestic loans sourced from *Pusat Investasi Pemerintah* (PIP) (Central Investment Agency). The PIP loan is a direct loan that is channelled from PIP to subnational governments, and is now the preferred loan mechanism for many subnational governments accompanied by a decline in SLA use. According to Lewis (2007, p. 53), demand for SLAs from subnational governments has been declining since the 2000s due to the lengthy loan approval process and supply-driven loan projects from the Central Government.

Pusat Investasi Pemerintah (PIP) was established in 2007 by the Indonesian Ministry of Finance. In establishing PIP, the Ministry of Finance hoped that it would accelerate infrastructure development to boost economic growth at the subnational government level. At this level, the decision to borrow for specific infrastructure projects with funding sourced from PIP is negotiated between the Executive and the local legislature using established mechanisms. Meetings and public consultations are held to discuss the loan proposals, followed by approval from the legislature which should then be stipulated in the form of a local law or regulation (*Peraturan Daerah* or *Perda*), specifically in relation to borrowing approval.

By themselves, the development of loan proposals and procurement to produce a *Perda* is good governance practice. The process of formulation of a *Perda* was designed by the central government to support good governance. This formulation also requires negotiation between the Executive, the local legislature and other stakeholders, such as citizens and interest groups or NGOs, to legitimise local policy.

In practice, the development process of loan proposals and procurement sourced from PIP has been problematic. Feedback from disseminations held by the Indonesian Ministry of Finance in 2012, as witnessed by the author, suggested that some subnational governments have faced difficulty in obtaining approval for loans from Members of local Parliaments and have received many objections from civil society organisations. This has been the case, for example, in South Sulawesi Province and Bulukumba District. On the other hand, in some regions, the *Perda*-making process has been relatively smooth with few objections from members of local parliaments and civil society organisations, for example, in Surakarta Municipality and Karangasem District.

Objections by members of local parliaments were also raised as an issue in research conducted by the Decentralisation Support Facility (DSF), a government-led multi-donor trust fund that aims to support the decentralisation program in Indonesia. The DSF argued that a lack of support and objections from local members of parliament have become major constraints on borrowing at the local level and may impact negatively on the willingness to borrow for local infrastructure project (Decentralisation Support Facility 2011).

However, the DSF's claim in the above report regarding the causes of objections still needs further investigation as it was based only on interviews with members of the local Executive, and excluded the viewpoints of other key stakeholders, for example, members of the DPRD and interest groups, such as NGOs. Further work is needed on the extent to which objections to loans by both

parliamentarians and other stakeholders are driven by concerns about governance and fears that the loans may be misused.

There is now a growing body of literature on borrowing for infrastructure in Indonesia (Alisjahbana, Soemitro & Ramayandi 2002; Alm, Martinez-Vasquez & Indrawati 2004; Devas 1989; Hirawan 1997; Kehew & Petersen 2004; Lewis 2003, 2007; Lewis & Woodward 2010; Pakpahan, Mahi & Simanjuntak 2002; Peterson 1996; Shah et al. 1994; Winarso & Mattingly 1999). However, these studies have tended to focus on the performance of two specific schemes of the subnational government borrowing mechanism: the on-lending/SLA mechanisms associated with loans from international development partners and the regional development account (RDA) mechanism.

The approaches used by most subnational government borrowing studies in Indonesia have tended to focus on the market-based approach (see for example Alm, Martinez-Vasquez & Indrawati 2004; Hirawan 1997; Kehew & Petersen 2004; Lewis 2003, 2007; Pakpahan, Mahi & Simanjuntak 2002). Martell and Guess (2006, p. 90) defined market-based approaches as being focused on access to credit markets by subnational governments, in which the dominant issues included regulatory frameworks, creditworthiness, debt management and new borrowing alternatives. However, to date, no research has been carried out to address the question of governance in loan proposal development at the subnational government level: that is, how are proposals packaged, negotiated, and accepted or rejected, especially those loans sourced from PIP which has started to emerge since the decline of the SLA mechanism?

The proposed research is important because loan proposal processes at the subnational government level involve a wide range of stakeholders, including the Executive, the legislature and other interest groups, such as NGOs, that are demanding a greater role in the local policy-making arena. In recent years, a major shift has occurred in accountability mechanisms within the process of loan proposals. These mechanisms have moved from vertical accountability between subnational governments and the central government towards horizontal accountability between subnational governments or local Executives and other stakeholders, such as NGOs and local legislatures. It is important to study governance processes, particularly the processes of transparency and participation as part of the accountability mechanism during loan proposal development at the local level, to gain a broader and more up-to-date understanding of subnational government borrowing in Indonesia.

1.2 Aims

The objective of this research is to investigate the relationships between governance practices of the Executive and responses from legislature members and civil society organisations to

infrastructure loan proposals in two different levels of government area in Indonesia: South Sulawesi Province and Surakarta Municipality. The study focused on two specific cases: a loan for road improvement in South Sulawesi Province and a loan to build a hospital in Surakarta Municipality. In Indonesia, each province has a governor, a *Dewan Perwakilan Rakyat Daerah* (DPRD) (the local legislature) and local agencies. In the case of municipalities, each municipality has a mayor, a DPRD and local agencies. The location of these two subnational government areas in Indonesia is shown in Figure 1.1.



Figure 1.1 Research Site (South Sulawesi Province & Surakarta Municipality)

(Modified from CartoGIS - College of Asia and the Pacific - The Australian National University n.d.)

It is important to note that the aim of the research was not to compare governance practices at two different levels of government (province versus municipal) in Indonesia, but rather to investigate differences between the two sites with respect to the operation of the Perda process. Compared to the hospital project in Surakarta Municipality, the road project in South Sulawesi Province was more complex due to the scale of the project, the number of potential beneficiaries, and its distribution over several districts and municipalities. In both sites, however, the same Perda process applied, and it is this process that is the focus of analysis. This approach is consistent with other research that has examined particular issues across levels of sub-national government in Indonesia, including subnational government borrowing (Decentralisation Support Facility 2011), and the impact of decentralisation on local politics (Evaquarta 2008).

The current research proposes to contribute to the body of knowledge through examination of the following questions:

1. How do subnational governments exercise the processes of transparency and participation during the development of loan proposals, and what is the role played by members of the local parliament and civil society in this process?
2. How do subnational governments differ in terms of the application of transparency and participation principles during the development of loan proposals for these specific infrastructure projects? What factors influence the differences?

1.3 Significance of Study

Loan proposal processes at the subnational government level involve a wide range of stakeholders including the Executive, NGOs and the local legislature. During the development of loan proposals, good governance is needed to strengthen the legitimacy of the Executive's decision to borrow. Transparency is important to improve accountability by institutions (Florini 1999, pp. 4-5). Appropriate information would lead to people being better informed and more accepting of a policy that affected them (De Fine Licht et al. 2014, p. 127). On the other hand, participation is significant because it provides space for people to take initiatives to solve their own economic and social problems (Long 2001, p. 2). Through participation, recovery is seen in the decline of legitimacy over policy implemented by the government, as is improvement in the responsiveness of service delivery (Gaventa 2002, p. 1).

It is not adequate for the Executive to implement governance on its own. To create effective governance, the supply side of governance by the Executive and the demand side of governance by NGOs or civil society need to be balanced (Antlov & Wetterberg 2011, p. 2; Fox 2007, p. 665; Gaventa & McGee 2013, p. S20). In the context of this research, the works of Drew and Nyerges (2004); van Zyl (2014); Martin (2009); and Clark (1995) are applied to measure the supply and demand sides of both transparency and participation in South Sulawesi Province and Surakarta Municipality.

Previous studies of local borrowing in Indonesia have largely focused on the on-lending/SLA mechanism sourced from international lending agencies, such as the World Bank and the Asian Development Bank (ADB). These studies have mainly focused on market-based approaches, ignoring the issue of governance at the subnational government level.

What needs to be researched is the question of how the development of loan proposals at the subnational government level takes place, how are proposals packaged, negotiated, and accepted or rejected? This is the first study to investigate subnational government borrowing sourced from PIP

loans. Due to the decline in use of the SLA mechanism, the PIP loans have strong potential to provide subnational governments with infrastructure financing options.

In the public administration field, the concept of good governance has also emerged as an important subject in improving public services. In developing countries, the governance concept has been introduced and widely used to improve decentralisation programs. However, the effectiveness of the application of the governance concept in improving decentralisation has been debated by scholars. Some studies have argued that the implementation of governance is one of the key factors in the success of decentralisation programs (Azfar 2001a, p. 75; Bardhan 2002; Blair 2000, p. 35; Faguet 2014, p. 10; Peterson & Muzzini 2005, pp. 232-3). On the other hand, some studies have criticised the effectiveness of governance when it is applied to improve decentralisation (Grindle 2004; Hadiz 2004).

The current study contributes to the discourse on governance by adding examples of empirical evidence to the debates on the relationship between governance and decentralisation, especially in the context of infrastructure development at the subnational government level in Indonesia. This research is also significant to the debates raised by local governance studies on Indonesia, a country that is changing very rapidly, especially after the decentralisation that took place in the early 2000s.

1.4 Thesis Structure

This thesis comprises 10 chapters. Chapter 2 explores the theoretical frameworks of decentralisation, governance concepts (transparency and participation), local governance and infrastructure development. This chapter also discusses the supply and demand sides of governance that are used in Chapter 9 to analyse the implementation of transparency and participation during the development of loan proposals.

Chapter 3 discusses decentralisation in Indonesia and the history, legal framework and mechanism of subnational government borrowing in Indonesia. This chapter complements the discussion of decentralisation in Chapter 2 and explores in more detail the *Perda*-making process that is very closely related to the development of the loan proposal process, in particular, the proposal process for PIP loans. Discussion in this chapter guides readers through an exploration of the research findings at both sites, with this further discussed in Chapters 6 and 8.

Chapter 4 highlights the research method used to investigate the implementation of transparency and participation during the development of loan proposals. This chapter also discusses

the research framework that focuses on the loan proposal development process and presents the use of the supply and demand sides of the governance theoretical framework to analyse findings.

Chapter 5 explores the general background on South Sulawesi Province and the proposed road upgrade project. This exploration leads to the fieldwork result discussed in Chapter 6 which aims to answer questions about the process of transparency and participation during the loan proposal development, and the role played by members of the DPRD and NGOs in this process. South Sulawesi Province is led by Governor Limpo who is a descendant of a strong dynastic clan supported by the Golkar Party which dominates the local parliament. Local NGO numbers are growing in this era of decentralisation and many operate in anti-corruption and governance reform programs. The case study road upgrade project aims to boost local economic growth; it consists of 11 road sections across cities and districts within the province.

Chapter 6 highlights the findings on *Perda's* role in the loan approval process in South Sulawesi Province, with this written in chronological order following the six stages in the *Perda*-making process. This chapter shows that the levels of transparency and participation, as supplied by the Executive, are low and that, in contrast, the demand by NGOs is that these levels should be high. The Executive has already faced objections from the NGOs and DPRD members, and this continues to occur. The loan approval process is initiated by the Executive which has neither adequately informed nor consulted with either the DPRD or NGOs in the early stages of this process due to political contestation in the then upcoming election and the nature of the relationship between the NGOs and the Executive.

Chapter 7 discusses the general background of Surakarta Municipality, including the administration, governance, civil society and politics, as well as the proposed hospital project that is important to the analysis and discussion in this thesis. The background presented in this chapter is linked to the findings discussed in Chapter 8. At the time of the study, Surakarta was led by Mayor Joko Widodo who was supported by the *Partai Demokrasi Indonesia Perjuangan* (PDIP) (Indonesian Democratic Party of Struggle), the party that dominates the DPRD. Many NGOs operate in governance reform in Surakarta and collaborate with policy makers. The hospital project aims to improve health services for the poor to complement the local health insurance program introduced by the mayor.

Chapter 8 presents the findings from fieldwork research in Surakarta Municipality during the *Perda*-making process, and is based on stages in the *Perda* process to show the dynamics of the process and the interplay between actors or stakeholders. This chapter shows that a balance existed between the supply side of transparency and participation by the Executive, and the demand side by

NGOs. Local community forums and public consultation were conducted with a wider range of stakeholders to discuss the hospital project. The DPRD was consulted at an early stage and an NGO was involved in improving the proposed project. The development of the loan proposal process was quite smooth with few objections from stakeholders.

Chapter 9 provides a theoretical analysis and discussion based on the major themes derived from research findings on South Sulawesi Province (Chapter 6) and Surakarta Municipality (Chapter 8). The theoretical frameworks of the supply and demand sides of transparency and participation are used to explain the degree of governance implementation at both sites. In addition, this chapter addresses the research questions on the implementation of governance, the difference in the performance of governance during the development of the loan proposals in the two case studies, and how the governance principles of transparency and participation have allowed political and civil society representatives to play a meaningful role in the development of the loan proposal process.

Finally, Chapter 10 discusses the research's major findings. It also presents the implications of this research and its limitations as well as recommendations for future research.

CHAPTER 2: LITERATURE REVIEW

This chapter discusses literature on decentralisation, local governance and infrastructure development in the Indonesian context. It also explores literature on governance (in particular transparency and participation), and considers the supply and demand sides of governance that will be used to analyse the implementation of transparency and participation during the development of loan proposals in South Sulawesi and Surakarta.

2.1 Introduction

The aim of this chapter is to review the literature on governance relevant to the development of infrastructure-related loan proposals at subnational government level in Indonesia, with a focus on transparency and participation. It discusses the relationship between decentralisation and good governance, and also the concepts of supply of, and demand for, transparency and participation, and the relevance of these concepts to the implementation of good governance in decentralised institutions in Indonesia. These concepts will be used in later chapters to support analysis of research findings.

The chapter comprises five major sections. Section 2.2 goes on to consider the relationship between transparency and participation on the one hand, and accountability on the other. This section also discusses literature on both the supply of, and demand for, governance - the analytical framework for this study in Indonesia and internationally. In Section 2.3, the relationship between decentralisation and governance, and the role of civil society at the subnational government level in Indonesia is discussed. Research on governance at the subnational government level in Indonesia, including factors that influence local reform programs, is examined in Section 2.4. Section 2.5 reviews the relationship between governance and infrastructure development, with a focus on the Indonesian context. Section 2.6 concludes.

2.2 Concepts of Good Governance

In this section, the thesis presents a review of the definitions and elements of good governance. The review limits the discussion of governance elements based on the two major focuses of governance that are applied within this research, as proposed by Agere (2000, p. 7): transparency and participation.

The notion of governance has emerged as one of the most important tools for development. Bovaird and Löffler (2003, p. 9) stated that governance may refer to how different organisations interact to achieve better outcomes for their citizens and stakeholders (Bovaird & Löffler 2003, p. 9).

The concept of governance can be disaggregated into a number of domains. The World Bank (1992, p. 12), for instance, lists four domains: capacity and efficiency issues in public sector management; accountability; predictability in the legal framework; and information. Graham, Amos and Plumtre (2003, p. 3) cited the United Nations Development Programme (UNDP)'s five principles of governance: participation, direction, performance, accountability and fairness/the rule of law. Moreover, Arora and Batra (2011, p. 5) mentioned four components, namely, accountability, transparency, predictability and participation.

Governance is closely related to democracy and development. According to Agere (2000, pp. 9-10), accountability, transparency and the eradication of corruption are necessary to protect public resources, improve public prosperity and improve government responsiveness and, therefore, to strengthen the legitimacy of the political system. In addition, he added that an enabling legal and judicial framework would promote the rule of law, human rights and property rights which are critical for robust economic development. Participation was seen as a way to promote citizens' engagement and human rights, therefore, strengthening trust and reciprocity between citizens and the government.

As noted in the introduction, the focus of this study is on two elements of governance: transparency and participation. The selection of these two elements was in response to objections from legislature members and civil society organisations during the development of the loan proposal process at the subnational government level, with these objections indicating a possible lack of transparency and participation. Lack of transparency may reduce the public acceptance of certain policies by the Executive (De Fine Licht et al. 2014, p. 127). On the other hand, lack of participation may reduce the legitimacy of government (Bovaird & Löffler 2003, p. 279; Gaventa 2002, p. 1).

In this context, transparency mechanisms should facilitate information sharing between the Executive, the legislature and civil society organisations during the development of loan proposals.

Participation mechanisms should support the involvement of the legislature and civil society organisations throughout this process. Before discussing transparency and participation in more detail, the next section explores the concept of accountability that is closely related to transparency and participation.

2.2.1 Relationships of Transparency, Participation and Accountability

Although the current research is focused on transparency and participation, it is inevitable that accountability should be discussed as the study explores various relationships between different stakeholders, such as the Executive with the legislature (political accountability); the Executive with civil society (social/diagonal accountability); or the Executive as project initiator with PIP as the lending agency (vertical accountability).

The term ‘accountability’ is closely linked to other elements of governance as it is “the hallmark of modern democratic governance” (Bovens 2005, p. 182) and it controls the actions of those who hold power (Sarker 2009, p. 1103). The core of accountability is account giving, or how one actor provides explanations of his/her actions to other actors (Bovens 2007, p. 450; Brinkerhoff 2001, p. 2; Mulgan 2003, p. 10; Schillemans 2008, p. 177). While scholars disagree on many elements of accountability, most are in agreement that it involves a relationship between two actors (described by Pollitt as the accountant and the accountee), whereby the accountant has an obligation to justify and explain their conduct to the accountee (Pollitt 2003, p. 89).

The close relationships between accountability and other governance elements, such as transparency and participation, are shown in the works of Barberis (1998, pp. 451-70); Koppell (2005, pp. 94-108); Hood (2010, pp. 989-1009); Ferry, Eckersley and Zakaria (2015, pp. 345-61); Joshi and Houtzager (2012, pp. 145-62). With respect to transparency, Hood (2010, p. 990) identified the relationships between transparency and accountability as comprising three types based on certain conditions: Siamese twins; matching parts; and awkward couple. When referring to transparency and accountability as having the same interchangeable meaning, the term ‘Siamese twins’ is used. The term ‘matching parts’ refers to the condition where transparency and accountability have different meanings, but each supports the other. On the other hand, the term ‘awkward couple’ refers to transparency and accountability as totally different concepts, often creating conflict when seeking to improve governance.

Cornwall and Gaventa (2001, pp. 32-5) argued that citizen participation in the policy process, such as monitoring, lobbying, advocacy, consultancy, and attendance at public meetings and public hearings, will exert more pressure on government and improve accountability. Cornwall and Gaventa

(2000, p. 58) also asserted that such direct pressure from citizens to the government is much more effective in influencing government actions. On the other hand, indirect participation through the representative system is much less effective as the people affected by certain policies cannot negotiate and shape their preferences directly to the power holder without distortions.

In addition, scholars have highlighted that accountability intersects with transparency and participation. Barberis (1998, p. 467), for instance, has identified four elements of accountability that comprise forms of transparency and participation, namely: providing explanations to stakeholders; providing information to stakeholders; reviewing and revising systems or procedures based on stakeholder input; and providing remedies or imposing sanctions. Moreover, Koppell (2005, p. 96) proposed five dimensions of accountability comprising transparency, liability, controllability, responsibility and responsiveness.

When discussing accountability, it is also important to note the various types of accountability in the literature. Romzek (2000, pp. 24-7) classified accountability into four categories: hierarchical, legal, political and professional. Hierarchical accountability focuses on the relationship between the supervisor and the subordinate within an institution. On the other hand, legal accountability focuses on the relationship between the principal and the agent to ensure the compliance of the agent to the rules set by the principal. Professional accountability applies to individuals, such as experts at the government level. Their performance is controlled by professional standards. Political accountability focuses on how elected officials demonstrate their responsibility to their constituents or key stakeholders. Both hierarchical and legal accountability are applied to organisations with lower degrees of autonomy. In contrast, both professional and political accountability are applied to organisations with greater autonomy.

Scholars such as Barberis (1998, p. 466); Mulgan (2003, p. 16); Michels and Meijer (2008, p. 168); and Schillemans (2008, pp. 175-6) have argued that hierarchical/traditional/vertical accountability may not be sufficient to ensure good governance practice and that it may need to be complemented with horizontal accountability. The major difference between vertical and horizontal accountability is that:

horizontal accountability implies a shift from a more vertical ideal-typical model of government to a more horizontal model: more co-ordination than subordination since the actors are on equal footing, more negotiation than command since instructions and decisions cannot be imposed, more symmetrical communication since all parties are empowered and accountable to one another and ample autonomy since self-regulation takes the place of externally imposed frameworks (Michels & Meijer 2008, p. 166).

Horizontal accountability may provide broader accountability than traditional vertical accountability. Schillemans (2008, p. 179) characterised horizontal accountability as the relationship between an accountor and accountee whereby the relationship is legalised, acknowledged by the accountor, and the accountee does not have a vertical/hierarchical relationship with the accountor. Mulgan (2003, p. 13) argued that with horizontal accountability, the accountee may comprise press/media, other levels of government and interest groups.

In the case of horizontal accountability, a growing body of literature has recently developed a broader scope of accountability than the traditional scope that focused strong attention on the relationship between the power holder and civil society in the decision-making process in so-called social accountability (Ahmad 2008; Blair 2011; Blind 2011; Brinkerhoff & Wetterberg 2016; Bukenya, Hickey & King 2012; Joshi 2007, 2014; Joshi & Houtzager 2012; Malena, Forster & Singh 2004; Peruzzotti & Smulovitz 2006).

Scholars, such as Malena, Forster and Singh (2004, p. 3) and Cornwall and Gaventa (2001, pp. 32-5), have argued that social accountability allows citizens or civil society to have more control over power holders' policies via protests, advocacy, press activities and legal actions. In addition, social accountability works beyond the election mechanism as elections do not provide adequate space for people to be involved in specific policies undertaken by the government. Malena et al. (2004) added that the key elements of social accountability are the disclosure of information to the public space and initiating debate to draw greater attention from the public in order to undertake initiatives to exert pressure on power holders.

In summary, accountability has close relationships with transparency and participation, and works together with them to improve good governance. In the control of government operations, the various types of accountability ranging from vertical, political, horizontal to social complement each other to maintain good governance.

2.2.2 Transparency

The notion of transparency has grown recently after being introduced in the early 1990s with the establishment of Transparency International (Ball 2009, p. 295). According to Florini (1999, p. 4), transparency is a popular term that has various meanings and measurements. Florini (1999, pp. 4-5) defined the term 'transparency' as being the delivery of relevant information by organisations in order to maintain their accountability. On the other hand, Finel and Lord (1999, p. 316) described transparency as a set of legal, political and institutional structures that aim to provide information to

a wider range of stakeholders about government and society through forms such as public hearings, media publications and NGO establishment.

It is believed that transparency can provide advantages in many fields. In terms of government, for instance, research conducted by De Fine Licht et al. (2014, p. 127) showed that transparency can strengthen the legitimacy of the chosen policy. In an empirical study of representative decision making in the school context, these authors found that people were more accepting of a policy affecting them when they were better informed with proper information about the policy and its background.

In terms of corruption eradication, some scholars, such as Lindstedt and Naurin (2010, pp. 302-3) and Kolstad and Wiig (2009, p. 529), found that transparency may have a positive impact in reducing the level of corruption in the public sector while increasing the accountability of public officials. However, the effectiveness of transparency in combating corruption still depends on the level to which citizens have been educated about the available information.

According to Park (2001, p. 58), transparency policy can be classified into two different target entities, namely, administrative and social. Administrative transparency is closely related to how citizens gain access to information on public entities or government activities, while social transparency is closely related to how citizens gain access to information on private entities.

Lindstedt and Naurin (2010, pp. 305-6) distinguished transparency in relation to the roles of two major actors: agent-controlled transparency and non-agent-controlled transparency. Agent-controlled transparency refers to the disclosure of information by the agent (the government) to comply with the law and regulations. On the other hand, non-agent-controlled transparency refers to the disclosure of information from third-party institutions, such as the media, for example, in regard to monitoring government activities (pp. 305-306).

Heald (2006b, pp. 30-2) stated that the degree of transparency in the government can be broken down into three major stages: transparency of decision-making processes; transparency of policy content; and transparency of policy outcomes. The transparency of decision-making processes refers to the level of information provided by the government to the public in planning a particular policy and informing them about the logic behind it. The transparency of policy content refers to how a chosen policy will be delivered and how the government may handle the effect of this policy on its citizens. The transparency of policy outcomes refers to how the government can provide timely information to the public in regard to the implementation of a particular policy.

Despite the advantages of transparency, Heald (2006a, pp. 61-7) argued that transparency may have trade-offs and synergistic relationships with seven other principles: effectiveness, trust, accountability, autonomy and control, privacy, fairness and legitimacy. Due to the trade-off relationships between these principles, excessive transparency may harm the other principles. Heald (2006a, pp. 68-70) also asserted that transparency needs to be limited for the following three reasons: firstly, inappropriate varieties of transparency may reduce effectiveness and privacy; secondly, varieties of transparency may lead to deterioration of the pre-established social order; and thirdly, transparency does not mean releasing all government information to everyone.

In order to improve the quality of, and access to, information, studies conducted by Michener and Bersch (2011, p. 219); Mitchell (1998, p. 110); Fox (2007, p. 665); Fox and Haight (2007, pp. 29-30); Calland and Bentley (2013, p. 581); Gaventa and McGee (2013, p. 54); and Kristiansen et al. (2009, p. 70) have argued that transparency needs to be implemented in both the supply-side and demand-side strategies. In this sense, information should not simply be delivered proactively by power holders to users, but should be able to be delivered by the government as requested by users.

Fox and Haight (2007, p. 29) and Fox (2007, p. 665) argued that the supply side, delivered by government, is related to how proactive the government is in ensuring the delivery of information to the public, and in establishing the system of transparency. In contrast, the demand side of transparency depends on the extent to which citizens take the initiative to request specific information from government agencies. In addition, Coston (1998, p. 482) refers to the demand side as the role of civil society in creating pressures as a counterbalance to the government's authority. Calland and Neuman (2007, p. 3) stated that the key to having a high degree of transparency is having the ability to match both the supply and the demand sides.

With respect to the supply side of transparency, Fox and Haight (2007, pp. 27-8) argued that the supply side of transparency is needed for four major reasons. Firstly, it reduces the risks of misconduct by the power holder through strict oversight by the public. Secondly, by knowing the background to the policies made by the state, citizens can have a greater chance of influencing the policy-making process. Thirdly, the openness of information stimulates and provides space for policy advocacy by civil society. Fourthly, the openness of information provides education for the public so they can understand the government's programs and promote these public services.

Previous studies have tried to measure the quality of information supplied. Malena, Forster and Singh (2004, p. 13) stated that the key factors for success in social accountability rely on the availability and reliability of public documents. Thus, it is important for the government to provide

high-quality relevant information to the public. McGee and Gaventa (2011, pp. 21-2) have identified three major supply-side factors that play important roles. Firstly, higher levels of democratisation of the state where freedom of the press and civil expression exist will have higher impact on the performance of transparency and accountability. Secondly, higher political will and commitment to ensure the implementation of governance will improve the performance of transparency and accountability. Thirdly, the imposition of sanctions and a supportive legal framework for reform will improve the performance of transparency and accountability.

Drew and Nyerges (2004, p. 37); Drew, Nyerges and Leschine (2004, p. 1646) argued that the degree of transparency by the government can be measured by analysing four major aspects: clarity of information, integration of information, accessibility of information, and the logic/rationale for decisions. They used these four aspects of transparency with indicators (Table 2.1) to measure the extent of transparency of the United States Department of Energy in conducting a soil clean-up project at Hanford Site (a major nuclear weapons production site) by evaluating the Record of Decision (ROD) document. These sets of measurements are adopted from various studies in the literature on transparency and are very useful for obtaining more precise findings on transparency practices.

Table 2.1 Transparency Measurement

No.	Transparency Aspects	Indicators
1	Clarity of information	<ul style="list-style-type: none"> • Information is easy to obtain • No hidden meanings • Less jargon • Information is easy to understand
2	Integration of information	<ul style="list-style-type: none"> • Comprehensive • Consolidated • Provides adequate references • Contains detailed information such as tables
3	Accessibility of information	<ul style="list-style-type: none"> • People have free access to attend government meetings • People have free access to government documents • Exchange of information from the government to stakeholders and vice versa • Information provided in detail such as tables
4	Rationale for decisions	<ul style="list-style-type: none"> • Document explains a well-structured process • Documents provide strong reasoning on decisions

(Modified from Drew & Nyerges 2004; Drew, Nyerges & Leschine 2004, p. 1646)

As shown in Table 2.1, each transparency measurement has indicators that allow the researcher to conduct further investigation of information or documents provided by the government to other stakeholders. ‘Clarity of information’, for instance, can be broken down into indicators, such as ‘easy to obtain information’ and ‘easy to understand information’ ‘with minimal jargon’.

In the context of this research, the study has adopted the framework of Drew, Nyerges and Leschine (2004, p. 1646) to measure the quality of the supply side of transparency. This framework was adopted as it provides parameters (clarity of information, integration of information, accessibility of information and rationale for decisions) that are suitable for application to evaluating the quality of transparency in the *Perda*-making process. Moreover, the framework allows the researcher to investigate the quality of transparency supplied by the Executive to legislature members and NGOs during the *Perda*-making process, as obtained from interviews and government documents.

Scholars have defined the demand side of transparency as proactive measures by civil society to request transparent access to information from the power holder or public institutions (Ball 2009, p. 298; Florini 1999, p. 6; Fox 2007, p. 6; Gaventa & McGee 2013, p. S4; Joshi 2013, p. S31; McGee & Gaventa 2011, p. 7; Park 2001, p. 59; Welch 2012, p. 98). Park and Blenkinsopp (2011, pp. 256-7) stated that the greater demand for transparency is based on several factors: firstly, transparency or the right to information has become standard in democratic societies; secondly, transparency reduces corruption among public officials; and, thirdly, transparency supports accountability and builds trust.

Previous studies on transparency have also tried to measure the roles that can be played by civil society to demand transparency. Lindstedt and Naurin (2010, p. 304), for example, stated that the demand side of transparency is important as it can stimulate and exert pressure on the provision of information by the government to the public. These authors also noted the roles of the media and NGOs in helping the public to process and access information from the government.

Moreover, McGee and Gaventa (2011, p. 22) identified three major factors needed by civil society for its roles in improving performance in transparency and accountability. Firstly, citizens and civil society organisations must have the capacity to process and analyse the provision of information by the state and to communicate this to the public. This analysis can also be done with support from the media. Secondly, a collective approach through protests, advocacy and litigation will have a better impact than working alone. Thirdly, continuous civic engagement during the decision-making process from the early stage to the final stage will be likely to improve transparency and accountability.

Four major steps that civil society or NGOs can take in strengthening transparency and accountability were identified by van Zyl (2014, p. 348). These four steps were obtained based on 21 case studies in 11 different countries including Indonesia. The first step is to provide accessible, reliable and easy to understand information to other stakeholders. However, this step is often considered inadequate for exerting pressure on the government and it needs to be followed by the second step: directly demanding accountability of the government. At this stage, NGOs can use the media to bring wider attention from the public to bear on such issues when information access is hard to obtain. The third step is to encourage policy makers, such as the legislature and auditors, to improve accountability. This can be done by NGOs through initiating public hearings, establishing forums or providing evidence to auditors about specific cases. The fourth step is to encourage other actors to exert more pressure to improve transparency and accountability. This can be done when all efforts seem ineffective in improving the accountability of the government. NGOs can report cases to internal and external institutions within the government, such as donor agencies or political parties, to initiate changes.

In the context of this study, the framework of van Zyl (2014, p. 348) has been adopted to measure the role of NGOs during the development of the loan proposal process. This framework allows the study to measure how NGOs deal with a wider range of stakeholders, such as the media, the legislature, public officers, donor agencies and auditors, as well as with the complex accountability relationships that could appear during the development of the loan proposal process. Moreover, this framework was developed from a case study at the subnational government level, and is therefore relevant for use in this study.

In summary, transparency is the delivery of information from organisations as a form of their political and social accountability to the public (Romzek, 2000; Malena, Forster and Singh, 2004). Transparency helps the public to participate in policy making and improves the accountability of power holders. Improving the quality of information delivery can be attained by matching the supply and demand sides of transparency. The supply side can be improved through delivery of clear information, provision of access to information, integration of information and provision of a rationale for decisions (Drew, Nyerges & Leschine 2004, p. 1646). On the other hand, the demand side can be improved through strengthening of NGO roles in delivering easy to understand information to the public, directly demanding accountability, providing advocacy and supporting other parties to demand accountability (van Zyl 2014, p. 348).

2.2.3 Participation

According to Speer (2012, p. 2379), the notion of people's participation in the governance system was introduced in developing countries more than two decades ago. Almond (cited in Verba & Pye 1978, p. xiv) stated that the term of participation in a broader sense is not always simply connected to the electoral process, but can be expanded to include the ability of people to influence policy making in the governmental arena through exerting pressure, fostering of a free press and other active participatory measures. Bishop and Davis (2002, p. 14) asserted that participation can also mean the sharing of power between the people and the government through forms such as community meetings, citizen advisory committees, administrative law and citizens as customers.

Long (2001, p. 2) argued that, for more than two decades, that the importance of empowering people's participation in the development process has been recognised. Poor people are considered to know much better than anyone else about their economic and social conditions or problems and what kind of initiatives should be undertaken. On the other hand, scholars such as Gaventa (2002, p. 1) and Bovaird and Löffler (2003, p. 279), have argued that greater participation by the people is needed to recover the gap in legitimacy associated with a decline in relationships between government institutions and the people, often caused by the lack of responsiveness in government service delivery to the people they are supposed to serve.

To improve participation, initiatives from the government alone are not adequate. The Organisation for Economic Co-operation and Development (OECD (2001, p. 20) argued that, due to the complexity of global challenges, collaboration across sectors is needed. Antlov and Wetterberg (2011) emphasised the importance of matching the supply side of government and the demand side of civil society in participation, stating that: “[w]hen citizens and their elected officials work together for better public governance, it is argued, the outcomes will be a visible improvement in the quality of democracy, both at the local and national levels” (Antlov & Wetterberg 2011, p. 2).

With respect to the level of participation provided for stakeholders by the government, scholars, such as Arnstein (1969, pp. 217-23) and Martin (2009, pp. 286-7) have developed typologies of participation. Arnstein's (1969, pp. 217-23) typology aimed to measure the degree of community or citizen participation occurring within government. The eight rungs on Arnstein's participation ladder range (from the lowest to the highest) from manipulation, therapy, informing, consultation, placation, and partnership, through to delegated power and citizen control. Arnstein in turn classified these eight rungs into three major groups: non-participation, tokenism and citizen power.

In discussing Arnstein's typology, Martin (2009, p. 284) argued that it can be misleading to simply position some forms of participation as being far better than other forms, rather than exploring which form of participation may best serve a particular objective. Martin's (2009, pp. 284-6) framework consists of three major activities: information, consultation and co-production to empower people's participation. Information is critically required by people in order to engage in the decision-making process. Thus, the government needs to ensure that people are well-informed about the decisions to be made. In contrast with information, consultation is a two-way form of communication between people and the government in the decision-making process. However, the level of people's engagement during this process may be partial. Martin (2009) described the situation as tokenistic when people are given the opportunity to be involved or to participate at the last stage of the decision-making process. On the other hand, co-production refers to the active engagement of the people or citizens in the decision-making process.

In the context of this research, the study has adopted the framework developed by Martin (2009, pp. 284-6) to measure the supply side of participation by stakeholders. Martin offers a wider perspective of participation that can be used to analyse the development of the loan proposal process, rather than simply measuring the participation level supplied by the government.

With respect to the demand side of participation, Bishop and Davis (2002, p. 14) argued that the demand by civil society for a participatory approach towards involvement in the decision-making process can be fulfilled in many ways, such as community meetings and citizen advisory committees. The study by Clark (1995, p. 594) on the roles of NGOs in improving participation also argued that NGOs have a prominent role to play in facilitating communities' voices and their direct engagement in the development process. Clark (1995) stated that NGOs have emerged as one of the important actors that may influence the outcomes of development programs due to their ability to facilitate programs which meet the needs of poor people and that could not be provided by the government, through activities such as networking and advocacy. However, he also argued that the effectiveness of development programs is very much influenced by good relationships between NGOs and the government in which both parties share similar views. Advocacy by NGOs is most effective and sustainable when it is supported by the government.

According to Clark (1995, pp. 594-600), the demand side by NGOs can be formed in ways such as: providing information to the community about government programs; establishing consultation forums or hearings to discuss development plans with government officials; providing advocacy and political influence to help the poor; maintaining the accountability of government officials; and facilitating negotiations between the government and people affected by the

government's policies. Clark (1995) also argued that both NGOs and the government should develop a healthy relationship or a strong collaboration to support the sustainability and effectiveness of development programs. Creating a supportive environment and constructive relationships between each of the parties is important. Rather than taking a confrontational approach, building fruitful dialogues and consultations between each of the parties is strongly suggested for improving trust.

The framework by Clark (1995, p. 594) provides relevant roles for NGOs that are suitable for use in analysing the demand side of participation in the current study. Firstly, some of the approaches discussed by Clark (1995), such as consultation, collaboration with official institutions, public hearings, advocacy and facilitating negotiation by NGOs, might be used or adopted by NGOs during the *Perda*-making process. Secondly, NGOs in Indonesia use very similar strategies to those in Clark's framework in delivering their demands to government.

In conclusion, the notion of people's participation in influencing policy making by the government is crucial to improving the services provided by the government. Participation may increase the quality of services provided by the government to the people and, in the end, may improve the legitimacy of government (Bovaird & Löffler 2003, p. 279; Gaventa 2002, p. 1). Participation can be improved by matching the supply and demand sides. The supply side of participation can be implemented by providing information, consultation and co-production (Martin (2009, pp. 284-6). On the other hand, the demand side of participation through NGOs can take several forms, such as information delivery, establishing consultations and forums, advocacy and facilitating negotiations (Clark (1995, p. 594). The concept of the supply and demand sides of governance is important for improving the policy outcome and is discussed in more detail in the next sub-section.

2.2.4 Supply and Demand Sides of Governance (The Effectiveness of Good Governance)

The effectiveness of good governance in the policy-making arena cannot depend only on power holders to practice good governance, but should also be driven by the active role of civil society in demanding accountability from those power holders. In this context, a balance between the supply of, and demand for good governance is required to improve policy outcomes (Antlov & Wetterberg 2011, p. 2; Blair 2011, p. 43; Brinkerhoff 2001, pp. 22-3; Brinkerhoff & Wetterberg 2016, pp. 283-4; Calland & Bentley 2013, pp. S81-S2; Coston 1998, p. 482; Fox 2007, p. 665; Gaventa & McGee 2013, p. S20; Mitchell 1998, p. 126).

The supply side is described as the willingness, or the initiatives, of power holders to implement good governance to improve the quality and accountability of policy making (Brinkerhoff 2001, pp. 22-3; Coston 1998, p. 482). In the context of transparency, the supply side of governance

has advantages. McGee and Gaventa (2011, pp. 21-2), for instance, have identified the following three major supply-side factors that play important roles. Firstly, the higher level of democratisation of the state where freedom of the press and civil expression exist will have a higher impact on the performance of transparency and accountability. Secondly, greater political will and commitment to ensure the implementation of good governance will improve the performance of transparency and accountability. Thirdly, the imposition of sanctions and a supportive legal framework for reform will improve the performance of transparency and accountability.

The OECD (2001, pp. 19-20) argued that the supply of opportunities for participation by the government also has advantages. Firstly, this supports the government in making better policy. Different inputs and views from the public might help the government to solve complex issues and decide on strategies for their resolution. Secondly, increased opportunities for participation are consistent with the information society's demands for increased and faster interactions between the people and their government. Thirdly, opportunities for participation ensure that the public's voices are accommodated in the decision-making process. Fourthly, participation can be seen as a response to the public's demands for greater transparency and accountability. And finally, it improves trust in the government.

On the other hand, the demand side of governance is defined in terms of the active role played by civil society in improving governance and policy-making (Coston 1998, p. 482). In the context of transparency, the demand side is defined as proactive measures by civil society to request transparent access to information from the power holder or public institutions (Ball 2009, p. 298; Florini 1999, p. 6; Gaventa & McGee 2013, p. S4; Joshi 2013, p. S31; McGee & Gaventa 2011, p. 7; Park 2001, p. 59; Welch 2012, p. 98). In this context, the four major steps identified by van Zyl (2014, p. 348) for civil society or NGOs to play in strengthening transparency are discussed above.

The role of the media in demanding transparency has also been highlighted. Linstedt and Naurin (2010, p. 304) stated that the public needs the media and NGOs to act as intermediaries to obtain information. The public may gain information more quickly from media coverage and the advocacy of NGOs rather than having to directly request information from the government. The media and NGOs can also help citizens in processing and accessing information from the government.

McGee and Gaventa (2011, p. 22) identified three major factors needed to support civil society's role in improving the performance of transparency and accountability. Firstly, citizens and civil society organisations must have the capacity to process and analyse the provision of information by the state and communicate that information to the public. This analysis can also be done with the

support of the media. Secondly, a collective approach through protests, advocacy and litigation will have greater impact than working alone. Thirdly, continuous civic engagement during the decision-making process from the early stage to the final stage will be likely to improve transparency and accountability.

The demand side of participation is defined as initiatives undertaken by civil society to participate more actively and be involved in the decision-making process. This can be in forms such as community meetings and citizen advisory committees (Bishop & Davis 2002, p. 14). The demand side of participation can be formed in many ways. As noted above, Clark (1995) argued that NGOs have an important role to play in facilitating communities' voices to ensure they are engaged directly in the development process. This engagement includes providing information to the community about government programs; establishing consultation forums or hearings to discuss development plans with government officials; providing advocacy and political influence to help the poor; maintaining the accountability of government officials; and facilitating negotiations between the government and people affected by the government's policies (1995, p. 594).

In Indonesia, the role of NGOs in demanding participation has also been highlighted by Antlöv et al. (2008, pp. 11-2), who argued that role of NGOs includes: becoming an independent monitoring organisation or a government watchdog in combating corruption cases; forming a partnership with the government as a facilitator in government meetings in the formulation of regulations, or in community meetings to discuss this type of issue; providing assistance or advocacy to communities; and pushing for various reform programs to deliver basic services. Further discussion of the role of NGOs at each of this study's research sites is presented in Chapters 5 and 7.

Little research has been undertaken on the supply and demand sides of governance at the subnational government level in Indonesia. The small amount of research reveals some factors that have influenced the performance of local reform programs which might be important and which have contributed to the discussion in this thesis. A more detailed discussion on the supply side and demand side of governance is presented in the subsection 2.4. This will then be elaborated in Chapter 9 with respect to findings from the two case studies on supply of and demand for transparency and participation in South Sulawesi Province and Surakarta Municipality.

2.3 Decentralisation and Good Governance in Indonesia

There is a growing body of research on the implementation and progress of decentralisation and fiscal decentralisation in Indonesia. Sulistiyanto and Erb (2005, p. 7) argued that the decentralisation program introduced in the early 2000s has changed many aspects of government at

the local level, and in terms of the relationship between central and subnational government. More complexity is introduced as more actors are involved in the policy-making arena at both national and local levels, each of whom has different interests that may impact upon decentralisation.

In the context of Indonesia, there are three main actors involved in policy making arena: (i) the executive that comprising government and the administrative apparatus; (ii) parliament; and (iii) civil society, comprising media, interest groups, and NGOs. While there is no agreement on how civil society should be defined (Harney & Olivia 2003, p. 3; Chandhoke 2007, pp. 607-9; Way 2014, p. 36) it is generally agreed that these three aforementioned actors are important elements in civil society. Nyman (2006, p. 6) for instance argued that civil society is non-state actors that comprise of individuals, formal and informal institutions, and networks outside business organisations and political parties that tend to counter government policies. Carothers, Barndt, and Mustapha (1999, pp. 18-9) defined civil society as social movements that empower non-state actors to challenge the status quo and the state power. In the Indonesian context, civil society is defined by Budiman (2001, p. 2) as “the non-state sector of a society” with NGOs and intellectuals as the two main actors that voiced people’s interests, particularly during the New Order era under Soeharto’s administration. The prominent role of NGOs as civil society actors of is also noted by Uhlin (2002, p. 181) and Carothers, Barndt, and Mustapha (1999, pp. 19-20).

According to Hadiwinata (2003, p. 91) NGOs started to flourish in Indonesia in the 1970s during the New Order era, when they were initiated by former student activists, academics, and religious leaders, and formed to assist community development at the village level. NGOs focused on community development activities due to a strict government ban on grassroots political activities. During this era, many NGOs were hired as government consultants and trainers, and NGOs did not did not play a significant role at the grassroots level in challenging government policy.

Hadiwinata (2003, pp. 91-119) argued that during the 1980s, the relationship between NGOs and the Government declined as former student activists and religious leaders who were associated with NGOs became involved in anti-government protests and social movements, which resulted in the Government imposing more control over NGO activities in Indonesia. In the mid-1990s, the financial crisis that struck Indonesia was accompanied by massive grassroots protests and social movements initiated by NGOs that opposed government interests and fomented political instability. The fall of Suharto in 1998 drastically changed the political map of Indonesia. The state relaxed controls on freedom of expression and freedom of the press. In the post-Suharto era, NGOs grew rapidly and worked to assist international development agencies in implementing programs to support recovery from the financial crisis and prepare for the democratic transition.

NGOs in Indonesia can be categorised into different types. Based on activities of NGO, Nugroho (2011, p. 762) identified NGO into two main categories: social movement NGOs that mainly work to promote participation, civil and political rights; and development NGOs that mainly focus on poverty alleviation, welfare, and environmental protection issues. Hadiwinata (2003, pp. 103-4) identified two categories of NGO based on their philosophical orientations: development NGOs and movement NGOs. In contrast to Nugroho (2011, p. 762), Hadiwinata (2003, pp. 103-4) argued that development NGOs are more focused on participatory development of small business, poverty reduction, and provision of education, and tended to cooperate with the Government. On the other hand, Hadiwinata argued that movement NGOs are more focused on the establishment of people-centered movements to improve social justice and welfare and tend to be opposed to the bureaucracy.

With respect to the Perda process in Indonesia, NGOs play an important advocacy role. Research conducted by Prianto (2007, pp. 163-70); Rifai, Asterina & Hidayani (2016, p. 42); Noerdin & Aripurnami (2007, p. 65); Noerdin & Aripurnami (2007, pp. 123-8) argued that NGOs have been effective in promoting civic participation and also in lobbying subnational governments in districts and municipalities such as Surakarta, Makassar, Bandung, Klaten, Purwokerto and Manado to accommodate wider interests during the formulation of Perdas. In Makassar for instance, a coalition of NGOs has played important role in providing advocacy to the executive, the parliament, and the community during the formulation of a perda on spatial planning. NGOs also act as intermediaries in accommodating the interests of different stakeholders during the Perda process (Prianto 2007, pp. 167-8).

Despite the important role that NGOs have played in Indonesia in promoting advocacy, they have also faced a number of challenges. Firstly, there were instances of corruption associated with development funds held by NGO activists in some areas, such as West Java, East Java, Central Java, and North Sumatra (Hadiwinata 2003, p. 114). Secondly, not all developmental work by NGOs appeared to be in the interests of local communities. MacRae & Hodgkin (2011) show that in providing shelter for the earthquake victims in Jogjakarta, international NGOs such as OXFAM had a top-down approach, and did not adjust their approach to accommodate the needs of local communities, or take the perspective of local NGOs into account.

Since the New Order era, relationships between NGOs and the state have changed. During the New Order era, NGOs struggled to advocate for the interests of communities. In the decentralisation era, NGOs are now given more space to influence policy, and have been successful in pushing governance reforms at both central and subnational government levels. In spite of this success, NGOs

have faced criticism with respect to corruption and representation of local interests. The role of NGOs in the perda processes in the two case study sites is discussed more fully in Chapters 5 and 7.

Although decentralisation has increased political and administrative power at the subnational government level in Indonesia, criticism has been encountered about the progress of decentralisation. Corruption is a major problem, and is flourishing at subnational government level (province, municipal and district) across Indonesia, and has become the biggest challenge for government and other stakeholders (Azis 2003; Rosser 2012, pp. 255-9; Rosser & Joshi 2013, p. 182; Sumarto, Suryahadi & Arifianto 2004, pp. 1-37; Turner et al. 2003, pp. 1-181). The work of Rosser and Sulistiyanto (2013, pp. 558-60) and Rosser and Joshi (2013, p. 185) show the complexity of local policy making with regard to free basic education programs delivered by some subnational governments in the decentralised system in Indonesia. They found that problems are not only related to technical issues, but are also entangled with the political contestation of various interest groups.

In the overview of the decentralisation process in Indonesia, Eckardt and Shah (2006, pp. 269-71) mentioned some important lessons from Indonesia's experience of decentralisation. Apart from creating a clearer regulatory framework, building robust coordination between different levels of government, and strengthening institutional capacity, they argued for the importance of accountability and people's participation at the local level to meet the goals of development. These authors found that local accountability mechanisms in some subnational governments in Indonesia were weak with this possibly distracting public service delivery. Hence, it is important to empower participation, transparency and accountability at the local level.

Scholars have argued that good governance is an important part in the success of a decentralisation program. Turner et al. (2003, p. 74) argued that the notion of accountability as part of governance is important to the success of decentralisation in Indonesia where corruption and misconduct are prevalent. In addition, Cohen and Peterson (1999, p. 92) asserted that the absence of accountability has been harmful to the implementation of decentralisation programs.

The definition of governance can differ between different scholars and various institutions (Hyden, Court & Mease 2004, p. 12). The World Bank (1992, p. 1), for instance, defined governance as "the manner in which power is exercised in the management of a country's social and economic resources for development". On the other hand, the United Nations Economic and Social Commission for Asia and the Pacific (2009, p. 1) described governance as:

the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens

and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences.

Although the promise of decentralisation may deliver development closer to the people, questions remain regarding how decentralisation can work at its best. Cheema and Rondinelli (2007, p. 8) argued that the results of decentralisation may vary between countries and that it definitely is not the panacea for all development problems. In addition, Seabright (1996, p. 65) and Cheema and Rondinelli (2007, p. 8) asserted that the benefits of decentralisation in developing countries are often captured and enjoyed only by local elites.

The effectiveness of the governance concept in improving decentralisation has been debated by scholars. Some studies have argued that the implementation of governance is one of the key factors in the success of decentralisation programs (Azfar 2001a, p. 75; Bardhan 2002; Blair 2000, p. 35; Faguet 2014, p. 10; Peterson & Muzzini 2005, pp. 232-3). On the other hand, some studies have criticised the effectiveness of governance in improving decentralisation (Grindle 2004; Hadiz 2004).

Hadiz (2004, pp. 705-16) stated that good governance has failed to improve decentralisation in Indonesia. He argued that many elites with different vested interests have tried to gain control over local economic resources such as levies, taxes and business licences by taking advantage of the confusion over the unclear decentralisation regulations in the early 2000s. He illustrates his argument with the cases of several subnational governments where corruption has been shifting from central level to local level, thugs have been mobilised by local elites to control elections, and bribery and money politics are prevalent.

Many scholars have tried to create a linkage between decentralisation and governance that would aid development by achieving effective decentralisation. Faguet (2011, p. 2) argued that decentralisation improves governance in four ways: firstly, it improves the accountability and responsiveness of government through structural adjustment within government bodies; secondly, it reduces abuses of power; thirdly, it improves political stability through participation; and, fourthly, it improves political competition by giving politicians more room to carry out controls.

In a study conducted by Blair (2000, p. 35) in six countries, positive correlation was found between accountability and participation within decentralisation. In terms of participation, the study argued that decentralisation can empower women and minorities in the decision-making process. In terms of accountability, the checks-and-balances mechanism over government activity is gained through methods such as public meetings and opinion surveys. Moreover, in a study in the

Philippines, Azfar (2001b, p. 66) found that political accountability through voting and participation through media coverage has reduced the level of corruption.

To provide guidance in performing good governance at the national level, some institutions and scholars have developed taxonomies of key components. Arora and Batra (2011, p. 5) mentioned these four components as being accountability, transparency, predictability and participation. In addition, Agere (2000, p. 7) came up with five key elements of good governance, namely, accountability, transparency, combating corruption, participation, and an enabling legal framework. Agere (2000, p. 7) argued that accountability is defined as the ability of public officials to be responsible in their duties and, in the general context, it is also related to how public officials comply with rules and regulations. Transparency is defined as making information available to all stakeholders for policy-making purposes. Corruption is defined as the abuse of power and the misconduct by public officials or institutions for their own benefit. Participation is defined as the degree to which members of the public can make their voice heard to influence the decision-making process. An enabling legal framework is defined as the creation by government of a set of rules and regulations to support good governance practices.

In conclusion, the notion of governance is important to the success of decentralisation. A positive correlation is evident between governance and decentralisation. Good governance may avoid the capture of development by the elites. Elements of governance, such as transparency, accountability, participation and the rule of law, were developed to improve the outcomes of decentralisation.

2.4 Implementation of Good Governance in Indonesia

Little research has been conducted with respect to local governance in Indonesia. This is not surprising as the decentralisation program only began in Indonesia in 2001. Governance reforms, especially in relation to accountability and participation, have been promoted by the Central Government and development agencies in Indonesia. Several studies have analysed the role of governance in local government performance during the decentralisation era.

Von Luebke (2009b) provided important insights into democratic local governance in eight local government areas in Indonesia, including Surakarta. His analysis focused on demand-side, or societal, pressure, particularly from small- and medium-sized firms, and on supply-side pressure or government leadership initiated by district heads. His case study approach found that the quality of local leadership played a greater role in explaining a district's performance than societal pressure. A good tax environment, more efficient administrative procedures and lower levels of corruption were

found in districts with good leadership. Societal pressure was seen as having relatively little influence on local governance performance as local firms believed this could be costly and thus, not worth the risk.

In short, the study by von Luebke (2009b) found that governance in the sites he studied was influenced by local leadership. Local leaders acknowledged that reform agendas attracted votes and support from various stakeholders and, therefore, benefited their political careers. Societal pressures (business), on the other hand, failed to influence policy at the local level, largely owing to the legacy of authoritarianism in Indonesia. This suggests that according to Von Luebke's analysis, the Surakarta reform agenda was more influenced by the supply side (leadership from the mayor) than the demand side (pressures exerted by business actors).

Mardiasmo (2007) analysed the understanding of governance across five subnational governments in Indonesia. She found that levels of understanding varied between these subnational governments and identified 12 factors as impeding the implementation of good governance, including: communication disabilities, lack of governance guidelines, leadership issues, human resource capacity, political history, local culture, remuneration, minimum public service standards, and social involvement. Among these, she identified the two most prominent factors as political history and bureaucratic culture. Mardiasmo (2007, pp. 186-7) argued that the rapid transition in Indonesia from a centralised system to a decentralised system of government created confusion. She also argued that the culture of corruption, collusion and nepotism during the centralised era shaped the bureaucratic culture and has made it resistant to the implementation of good governance.

Kristiansen et al. (2009) assessed transparency and the extent of corruption in district budgeting in six cities/districts across three different provinces in Indonesia. Their research found low levels of performance in the bureaucracy across all districts due to extensive discretionary space and low levels of external accountability, with these associated with the lack of transparency in district financial matters. To maintain their discretionary power and low levels of external accountability, bureaucrats used strategies such as: failing to publish local budget details; non-implementation of central government policies that may block their discretionary power; non-publication of annual district spending; and non-implementation of performance indicators on budgeting, as regulated by the Central Government. In summary, current research suggests that lack of transparency and accountability has given local officials opportunities to be corrupt. Thus, there is a strong need to strengthen financial transparency and accountability through Central Government regulations.

Antlöv and Wetterberg (2011) focused on how civil society and citizen participation may improve democracy and local government performance by challenging existing power structures, such as bureaucracy, and patronage systems. Their case study involved four local governments that participated in the Local Governance Support Program (LGSP), a USAID-funded program conducted from 2005–2009 to support participatory and accountable governance. Antlöv and Wetterberg (2011) argued that during this period, local governance in Indonesia improved as Executives became more responsive and provided civil society with more control over local governance. Furthermore, these authors argued that local governments and civil society developed mutual trust and respect. However, they also identified challenges, such as the domination by local executives over policy-making processes which, in turn, created disincentives for active citizen participation. In summary, Antlöv and Wetterberg (2011) suggested that the supply side on its own is not sufficient for effective local democratic governance. Strong emphasis on the demand side from civil society is also important in shaping local policy to become more accountable and transparent.

FITRA, or *Forum Indonesia untuk Transparansi Anggaran*/Indonesian Forum for Budget Transparency – a well known Indonesia NGO that focuses on budget transparency, examined the performance of subnational government in budgeting processes in forty-two districts, five municipalities in five provinces (FITRA, 2010). The research was conducted with the support of thirty local NGOs. With respect to budget transparency, FITRA found that access to general budget planning documents such as the Perda on the budget is relatively easy. However, access to budget implementation documents that provide more detail on funding is limited. Moreover, the research found that most subnational governments did not have standard procedures for handling public information requests. With respect to participation in the budgeting process, the research found that participation is weak due to the low level of commitment of subnational governments towards involvement of communities and NGOs. With respect to financial accountability, the research found that in general, subnational governments implemented adequate procurement processes, but still needed to strengthen their systems to ensure blacklisted companies did not participate in procurement processes. In summary, FITRA (2010) suggested that subnational government needs to improve the supply of transparency, participation, and financial accountability in budgeting. On the other hand, they also suggested that NGOs need to strengthen their efforts to advocate for greater budgetary transparency, and improve community participation in the budgeting process.

Patunru, McCulloch and von Luebke (2012) examined the connection between local government, the business/private sector and the quality of the local investment climate by comparing two municipalities: Manado in North Sulawesi Province and Solo (Surakarta) in Central Java

Province. They found that the quality of local investment in Manado was low due to rent-seeking activities by local bureaucrats. Rent seeking was associated with a lack of transparency over licensing procedures, as well as red tape. These authors also found that government policies were not easily accessible and not equally applied to all private businesses. The exclusiveness and patronage systems fostered by Manado's local leader, which encompassed prominent local businesses, provided little incentive to pursue governance reform.

In contrast, in Surakarta, transparency over the licensing process reduced rent seeking. Moreover, the inclusive approaches of Surakarta's mayor through involving a wide range of private sector actors reduced popular resistance and provided the effective means to voice policy concerns. Strong leadership by Surakarta's mayor through open communication and negotiating skills also improved the performance of the bureaucracy.

The above studies have shown that governance at the subnational government level in Indonesia is influenced by several factors, including local leadership, which has emerged as an effective factor in the reform of governance. However, these studies also show that governance still needs to be improved at the local level. In this context, the supply side or leadership may not be enough. Governance is more effective when a strong emphasis is placed on the demand side from civil society to shape local policy.

2.5 Governance and Infrastructure Development

It has been argued that governance is one of the keys to improving the outcome of infrastructure development. The OECD (2015, p. 1) argued that governance practices may improve infrastructure projects in order to avoid project delays, over-budget projects, and poor project construction. Peterson and Muzzini (2005, p. 212) asserted that participation may help infrastructure development to match local preference needs and make projects more efficient. Mansuri and Rao (2013, p. 5) stated that participation improves infrastructure quality; however, there is a tendency that infrastructure provision will not provide many advantages to the poor as they are excluded in the process.

Some studies have related governance to infrastructure development in various countries (Chowdhury & Futoshi 2010, pp. 1-18; De 2012, pp. 153-80; Kenny 2007, pp. 1-32; Khwaja 2004, pp. 427-36; Li, Thomas Ng & Skitmore 2012, pp. 47-56; Mansuri & Rao 2013, pp. 161-224; Mukhopadhyay 2016, pp. 1-36; OECD 2015; Olken 2007, pp. 200-49; Peterson & Muzzini 2005, pp. 209-38), however, these studies have provided different results with respect to the effectiveness of governance in improving infrastructure development outcomes.

Empirical research on highway development in India by Mukhopadhyay (2016, pp. 21-2), for instance, argued that transparency improved the level of understanding of the project and the overall highway development process due to transparent bidding and access to project information. On the other hand, some studies have shown that governance may not always automatically improve infrastructure outcomes (Khwaja 2004; Olken 2007). Based on empirical research on infrastructure development projects in poor rural communities in Pakistan, Khwaja (2004, p. 434) argued that community participation worked more effectively in matching local preferences when selecting the specific type of infrastructure project. However, community participation was not of much help in dealing with project technical matters, such as designing a project or selecting project sites. In this case, technical agencies were much much better at providing and dealing with technical matters.

In the context of Indonesia, studies on the relationship between governance and infrastructure have recently been growing in number (Bakker et al. 2008, pp. 1891-915; Chong et al. 2016, pp. 64-73; Chowdhury & Futoshi 2010, pp. 1-18; Chowdury, Yamauchi & Dewina 2009, pp. 1-24; Olken 2007, pp. 200-49; Winters, Karim & Martawardaya 2014, pp. 31-42). As in the international context, research conducted in Indonesia shows varied results. Empirical research in Indonesia by Chowdury and Futoshi (2010, p. 15), for example, has shown that governance practices, particularly participation in the form of public meetings, can help the government to match the preferences of the community in local infrastructure development. In contrast, the empirical study by Olken (2007, pp. 232-3) of over 600 village road infrastructure projects in Indonesia also stated that community monitoring could not entirely reduce corruption in these projects. Community monitoring was effective in limited circumstances where corruption was relatively easy to see, such as in labour wages. It was less effective in reducing corruption with respect to the quality of materials that had more impact on the entire project's expenditure.

Research by Chong et al. (2016, pp. 64-73) on three subnational governments – Payakumbuh Municipality, South Lampung District and Sawahlunto Municipality – revealed some factors that play significant roles in wastewater project delivery performance. Some of the key successes of these projects were local leadership and demand from the community. In South Lampung District, for instance, lack of commitment from local leaders (the executive and the legislature) and the absence of demand from the community impacted on the overall wastewater project outcome. For example, public toilets built by the local government deteriorated quickly due to lack of community involvement and management.

Similar to the findings of Chong et al. (2016, pp. 64-73), the case study conducted by Winters, Karim and Martawardaya (2014, pp. 31-42) provided evidence that a strong commitment from

government, both from the executive and the legislature (supply side) and involvement from the community and civil society (demand side) were important for strengthening infrastructure project outcomes. This case study examined implementation of sanitation projects in three municipalities: Cimahi, Makassar and Surabaya. In Cimahi, a lack of commitment from the executive to allocate adequate budget to develop the sanitation system and the high transaction costs associated with approval of the Perda on sanitation, coupled with a lack of interest from the community and the legislature, impeded delivery of the sanitation project. On the other hand, the success of the sanitation project in Surabaya was attributed to strong collaboration between community, NGOs, the executive, and the legislature. In addition, Karim and Martawardaya (2014) found that in the case of Makassar, political factors impeded the delivery of the sanitation project to the community. Their findings suggested that rivalry between Mayor Ilham Arief Sirajuddin and the incumbent Governor Limpo in the upcoming election of 2013 delayed the delivery of one sanitation project in the Losari area. The provincial government withheld the project funds from the municipality government to prevent the mayor from gaining political advantage from the project delivery. Speculation from political insiders was that the delay was a result of the unwillingness of the mayor to pass on kickbacks from the sanitation project to the provincial level.

Research on Indonesia's local governments also provides evidence of the mobilisation of the local budget (*Anggaran Pendapatan dan Belanja Daerah* [APBD]) by the incumbent to attract more votes (Aspinall & As'ad 2015, pp. 177-80; McRae & Zhang 2015, p. 2). In a study of patronage in Indonesia's district elections, Aspinall and As'ad found that the delivery of development projects and other assistance by the district's incumbent to villages, with this sourced from the local budget, had become one of the keys to winning the election. Delivering the project would keep the voters loyal and they would vote for the candidate or the party in return (2015, pp. 177-80).

In addition to delivering development projects to win the hearts of the people, the incumbent usually uses bureaucrats as part of his/her electoral machine. Some recent research reveals the use of bureaucrats by the incumbent (Ngusmanto 2016, pp. 237-42; Prayudi 2013, pp. 32-5; Tans 2012, p. 50). This shows that the incumbent nurtured the patronage system through loyalty. The incumbent can control the bureaucrats to support his/her candidacy in return for a sustainable career. Bureaucrats that do not support the incumbent might find that their career stagnates and that they do not sit in strategic positions within the government's bureaucracy.

In summary, governance is salient to improve the outcomes of infrastructure development. However, the implementation of governance may be influenced by factors that can impact upon overall project outcomes. In the context of Indonesia, factors such as leadership, commitment from

the executive and the legislature, politics and demands from civil society have been identified by previous scholars as major factors in the success of governance performance and infrastructure development.

2.6 Conclusion

This chapter has provided a review of the literature on decentralisation, good governance, elements of governance (transparency, participation and accountability), the supply and demand sides of governance, and local governance and infrastructure development in the context of Indonesia, as they relate to the focus of this study. The introduction of decentralisation in Indonesia has provided a space for a wider range of stakeholders to participate in policy formulation. The formulation of *Perda* at the local level, for instance, provides space for the public to be involved in the policy-making arena together with the Executive and the legislature.

It is also argued that good governance practices may improve the outcomes of decentralisation. The provision of transparency, for instance, can strengthen the legitimacy of the policy chosen, with better acceptance of the policy by the people as they are well-informed. Moreover, participation may help the government to match infrastructure development to local preferences and improve the responsiveness of service delivery, with this, in the end, leading to trust. However, the effectiveness of the outcome also depends on the balance between the supply side of governance from the government and the demand side of governance from civil society. Empirical research in Indonesia, for instance, has shown that both supply and demand sides are essential for the pursuit of local governance reform. Leadership alone may not work effectively without the involvement of civil society.

With respect to infrastructure development, the implementation of good governance can also improve development outcomes. However, it is also important to note the factors that may influence governance implementation and overall project outcomes. In the context of Indonesia, factors such as leadership, politics and civil society demand have played central roles in the success of governance performance and infrastructure development. In the next chapter, the thesis discusses subnational government borrowing and the *Perda*-making process that is the focus of this research.

CHAPTER 3: STRUCTURE OF SUBNATIONAL GOVERNMENT, BORROWING AND LOAN APPROVAL PROCESS

This chapter discusses the structure of subnational government and subnational government borrowing in Indonesia which is a focus of this research. It provides an explanation of the structure of subnational government, as well as the history, legal framework and the mechanism of subnational government borrowing in Indonesia. This chapter also explores in more detail the *Perda*-making process which is very closely related to the development of the loan proposal process, in particular, to the PIP borrowing mechanism that is a focus of this research. This chapter provides guidelines to readers on the general process of *Perda*-making that will be connected with Chapters 6 and 8 in which the findings of the case studies in South Sulawesi Province and Surakarta Municipality are discussed.

3.1 Introduction

This chapter discusses the structure of subnational government that explains the changing roles played by local actors to provide background to the discussion of the policy-making process related to the subnational government borrowing mechanism at the local level. Discussion will also relate to the development of the loan proposal process sourced from *Pusat Investasi Pemerintah* (PIP) that includes a legal framework on subnational government borrowing, and a brief description of PIP and the PIP borrowing mechanism.

The purpose of this chapter is to provide background information to readers about the structure of subnational government, subnational government borrowing and detail the mechanism of PIP lending. Besides discussion on the borrowing mechanism, this chapter also covers the development of loan proposals or the *Perda*-making process that comprises various stages and a broad range of stakeholders. This chapter is divided into five major sections. The first section is about the structure of subnational government and will discuss the shifting of power structures at subnational government level due to decentralisation. The second section details subnational government borrowing and will discuss the borrowing experience and borrowing mechanism in Indonesia. The third section on the Central Investment Agency describes the PIP and its borrowing mechanism and procedures. The fourth section is about the *Perda*-making process and discusses how the development of the loan proposal process takes place. The final section is the conclusion.

At the end of the chapter, readers will have in-depth information about the structure of subnational government, process of subnational government borrowing and the *Perda*-making process that become focus of this thesis. This chapter also helps readers to follow the subsequent discussions of the thesis in Chapters 6 and 8 that examine the *Perda*-making process.

3.2 Structure of Subnational Government

In Chapter 2, how the decentralisation program has affected the shifting of power at the subnational government level is briefly discussed. In this section, more detailed discussion follows on how the introduction of the decentralisation program in the early 2000s changed the roles of local key players, such as the executive and the local legislature (DPRD) in the policy-making arena. Firstly, the shifting from a centralised to a decentralised system in the early 2000s is briefly discussed.

According to Pratikno (2005, p. 23), before the decentralisation program took place in 2001, Indonesia under the Suharto administration's New Order Era created a strong centralised hierarchical structure of government in order to enhance political and economic stability. The structure of local government during the period was divided into four tiers: Province, led by the Governor (*Gubernur*); District (*Kabupaten*) led by the District Head (*Bupati*); Municipality (*Kota*) led by the Mayor (*Walikota*); *Kecamatan* or subdistrict government; and finally the village government or *Desa*. Each level of government was responsible to the level above it.

Pratikno (2005, p. 24) and Marbun (2005, p. 92) stated that the role of local parliament or *Dewan Perwakilan Rakyat Daerah* (DPRD) during the New Order Era was very weak. For example, in terms of local election process, DPRD had only the right to propose a candidate but the appointment was made by the Central Government. Thus, the system made the locally elected Governor (*Gubernur*), Head of District (*Bupati*), or Mayor (*Walikota*) responsible to the President, rather than the DPRD.

Seymour and Turner (2002, p. 36) asserted that after the fall of the New Order in 1997, President Habibie, as the successor, took immediate action to apply a new administrative system and democratic condition to neutralise the state from a bigger risk by introducing the decentralisation system in Indonesia in 1999. Turner et al. (2003, p. 14) argued that there was also pressures from local governments on the Central Government through *Majelis Permusyawaratan Rakyat* (The People's Consultative Assembly) and development agencies such as the World Bank, the Asian Development Bank, and the United States Agency for International Development (USAID) to accelerate the decentralisation process.

As a result of this crisis and pressure, the government issued Law No. 22 Year 1999 concerning the Local Government Administrative System and Law No. 25 Year 1999 concerning the Fiscal Balance between Central and Local Government in Indonesia. These laws mandated the Central Government to devolve its administrative and fiscal powers to the subnational level. One of the areas that are regulated by Law No.25 Year 1999 is subnational government borrowing.

In implementing regional autonomy, Indonesia as a unitary state is implementing three basic approaches. They are decentralisation, deconcentration, and co-administration. According to the law, decentralisation is delegation of power from central government to subnational government. Deconcentration is delegation of power from central government to the governor (Gubernur) or head of provincial government as its representative. On the other hand, co-administration involves assigning specific duties from central government to subnational government and village administration; and from subnational government to village administration which should followed by adequate funding and resources to fulfil the duties.

Five major powers remained in the hands of the Central Government: fiscal and monetary affairs, religious affairs, national defence affairs, foreign affairs, and the judicial system. Apart from the five major powers, Central Government also holds other powers such as the national planning system, macro development control, fiscal balance, public administration system, national economic institutions, human resource management, use of natural resources and strategic high technology, conservation, and national standards.

Besides significant changes in the power relations between central and subnational government, the introduction of the new law also changed the structure of government, particularly within subnational government level.

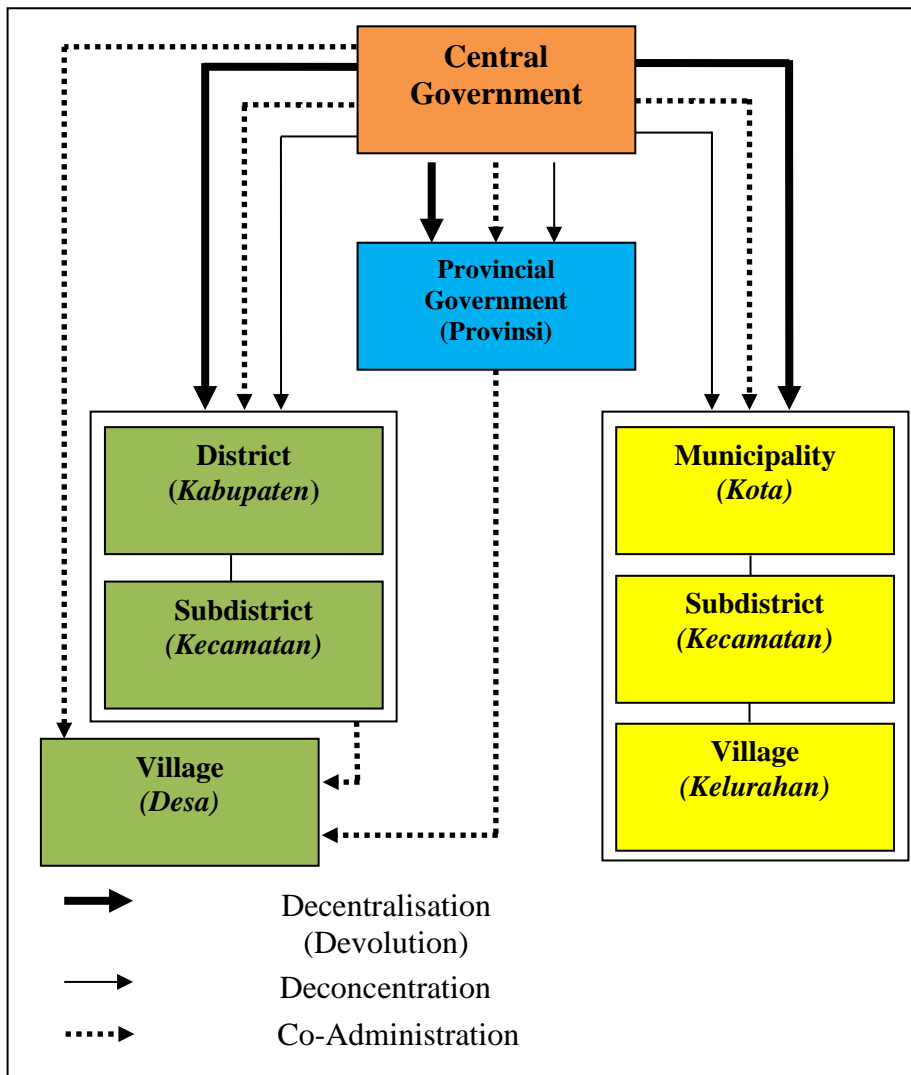


Figure 3.1 Framework of Government According to Law 22/1999
 (Usman 2001, p. 3)

Figure 3.1 shows that the structure of government according to Law No.22/1999 is divided into two tiers; central government and subnational government. Subnational government consists of three types that share equal levels of autonomy: provincial (*provinsi*), district (*kabupaten*) and municipality (*kota*). The district and municipal levels are no longer responsible to the provincial level as they were in the old system. In the current study, South Sulawesi Province and Surakarta Municipality were selected.

Although province, district, and municipal levels share equal position, governors (*gubernur*) have been assigned extra roles as the Central Government’s representatives. As the Central Government’s representatives, governors have to assist and monitor administrative tasks at district and municipal levels; coordinate administrative tasks among province, district, and municipal levels; and coordinate the co-administration function at province, district, and municipal levels. In the

context of the thesis, Central Java Province does not have authority to control Surakarta Municipality in taking a loan.

In terms of authority, the role of the province has been more limited than district and municipal levels. To avoid overlapping of authority and function, Central Government limited the role of province to only conduct cross district or municipal tasks; to conduct tasks which cannot be covered by district or municipal government; and to conduct other tasks assigned by the Central Government as its representative.

As the head of subnational government, the governor, the head of district (*Bupati*) and the mayor (*Walikota*) are given similar tasks: to lead and conduct administrative roles based on policy formulated together with DPRD; to propose drafting of local government regulations (*Perda*); to ratify local government regulations together with DPRD; to formulate and propose local budget spending or (*Anggaran Pendapatan dan Belanja Daerah* [APBD]) to the DPRD; and other tasks mandated under law.

Supardal (2005, p. 66) asserted that the DPRD is an important institution that exists in the structure of subnational government in Indonesia. Roles and powers of DPRD, however, are changing over time. In terms of decision making processes at subnational government level, during the New Order Era, DPRD was powerless and tended to be a rubber stamp for the Executive. Rasyid (cited in Supardal 2005, p. 66) argued that all *Perda* were heavily driven and proposed by the Executive. Furthermore, the DPRD was not provided with sufficient power to exercise their rights in the government system due to the strongly centralised nature of the system.

The introduction of decentralisation in 2001 significantly changed the roles and the powers of the DPRD compared to what they were in the centralised system. Law No.22 Year 1999 had given a powerful role to DPRD in the decision-making arena at subnational government level. The Law, for example, mandated the DPRD to appoint and elect the head of subnational government; to propose the appointment and dismissal of the head of subnational government; to formulate drafts of local government regulation together with the head of subnational government; to stipulate APBD together with the head of subnational government; to supervise subnational government policy; to supervise APBD; to oversee the accountability of the head of subnational government; and to propose drafts of *Perda*.

Marbun (2005, p. 154) stated that in subnational government system, *Perda* is significant. It is a set of formal rules formulated together by the Executive and the legislature at subnational government level. In general, there are two kinds of *Perda*. The first one is *Perda* in regard to the

local budget, or APBD, formulation which should be produced annually. Second, *Perda* with regard to other administrative or governance matters. In the context of this research, the thesis focuses on the second type. PIP requires borrowers, particularly subnational governments, to formulate *Perda* to secure the commitment of the Executive and the legislature to repay the loan. A more detailed explanation of *Perda* will be discussed later in Chapter 3.

In 2004, in order to improve the effectiveness of the decentralisation program in Indonesia due to problems which occurred during the early years of decentralisation, the Central Government introduced Law No.32 Year 2004. The accountability system at subnational government level is through direct election by the people. The head of subnational government is no longer accountable to *DPRD* but directly to the people. In line with the issuance of Law No.32 Year 2004, Central Government also revised Law No.25 Year 1999 by issuing Law No.33 Year 2004 concerning fiscal balance between central and subnational government in order to support the fiscal decentralisation system which includes borrowing.

DPRD power to dismiss *gubernur*, *bupati*, and *walikota* has been diminished. Under the new law, *DPRD* is only given power to propose the dismissal to the President in the case of *gubernur*, and to the Minister of Home Affairs for *bupati* and *walikota*. The new law has placed the *DPRD* in an equal position with, instead of being superior to, the Executive.

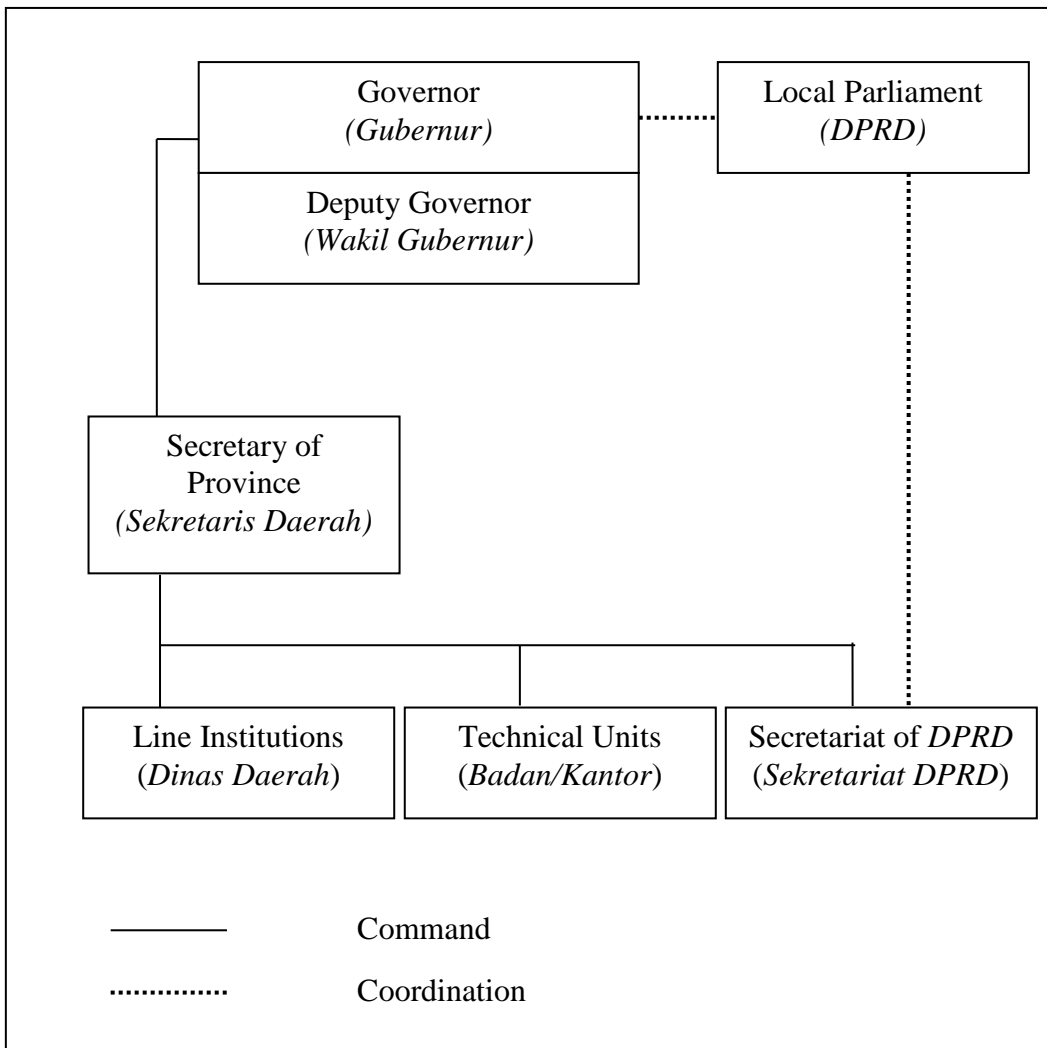


Figure 3.2 Structure of Province Based on Law 32 Year 2004
 (Modified by author based on Law No.32 Year 2004)

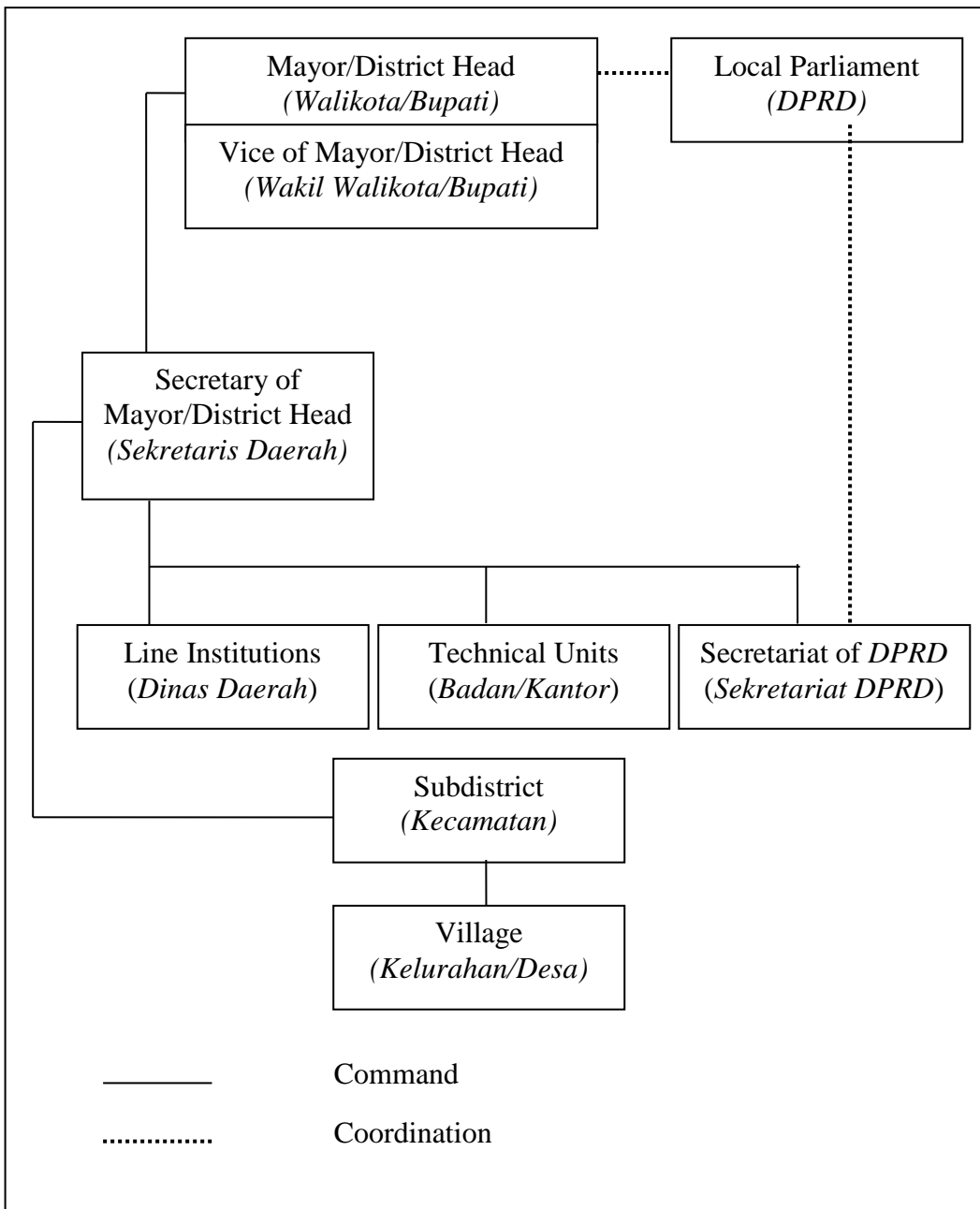


Figure 3.3 Structure of District/Municipal Based on Law 32 Year 2004

(Modified by author based on Law No.32 Year 2004)

Both figures above show that heads of subnational government (governor/ mayor/district) and DPRD share equal positioning. According to law, DPRD functions as a counterpart of the Governor in running the administration. Moreover, DPRD is also granted certain rights. These are the right of interpellation, the right to institute inquiries, and the right to speech. In general, DPRD is given three basic functions: legislation, budgeting, and supervision/monitoring.

In running the administration, heads of subnational government are also assisted by a deputy. Task sharing between a head of subnational government and the deputy is formulated based on the agreement between the two individuals. Thus, roles or tasks of the deputy may be different in each

subnational government. Besides the deputy, the head of the subnational government is also assisted by the secretary (known as *Sekretaris Daerah [Sekda]*). The *Sekda* is responsible to, and appointed by, the head of subnational government. The *Sekda* holds a very important role in subnational government as he/she coordinates all the administrative functions among local institutions such as line institutions, technical bodies (*badan/kantor*) and the secretariat of DPRD. In addition, every local institution is responsible to the head of subnational government through the *Sekda*.

Line institutions, known as *dinas*, are established to run and manage functions that have been decentralised such as health, education, and public works. *Dinas* are led by a *Kepala Dinas*, or Head of Agency, who is responsible to head of subnational government. Through the *sekda*, *dinas* can also receive tasks from the Central Government through the deconcentration mechanism. In the context of the thesis, *dinas* is involved strongly in coordinating and designing the proposed infrastructure projects.

Technical units (*badan/kantor*) are established at subnational government level to manage specific functions such as local planning, human resources, local hospitals, local libraries, archives, investment, and audits. Technical units are led by a head who is also responsible to the head of subnational government via the *sekda*.

Secretariat of DPRD is a unit that is established under the *sekda* to support local parliamentary administrative function. Secretariat of DPRD is operationally responsible to the chairman of *DPRD*, but administratively responsible to the head of subnational government, again via the *sekda*. In the context of the thesis, the secretariat supports the work of DPRD members, *panitia khusus/Pansus* (Special Committee), and commissions in the formulation of *Perda*.

In running the administration, the head of subnational government also delegates power to the subdistrict (*kecamatan*) and village (*kelurahan/desa*) levels. Coordination of subdistricts and villages is usually undertaken by the *sekda*.

In conclusion, the decentralisation program that was introduced in Indonesia in 2001 has dramatically affected almost every aspect of the country such as democracy, politics, economics, and structure of government. As a result of decentralisation, subnational governments have enjoyed greater power under law. Local parliaments and people have been empowered and given greater chance to influence the government's decision making process.

Head of subnational governments (governor/mayor/head of district) and local parliaments have become key players in formulating policy at the local level, together with media and interest

groups. *Perda*, as a set of rules formulated together by the Executive and the legislative at the subnational government level, has become a forum for the participation of many different parties. The *Perda*-making process consists of different and complex stages, and also involves different actors with different interests. More details of the *Perda*-making process are discussed later in Section 3.5.

3.3 Subnational Government Borrowing in Indonesia

The previous section discussed the implementation of regional autonomy laws that are changing the structure of power and democratic life by giving more space to local stakeholders to influence policy-making. In this section, the thesis will focus on the implementation of fiscal decentralisation law regulated by Law No.33 Year 2004 that provided scope for subnational governments to finance their work in delivering infrastructure projects to the local people through the borrowing mechanism.

The development of the loan proposals for a road improvement project in South Sulawesi Province, and a local hospital development in Surakarta Municipality were regulated under Law No.33 Year 2004 regarding Fiscal Decentralisation, and Government Regulation No.30 Year 2011 regarding Local Borrowing. In this section, the thesis will discuss some major points related to the regulations, particularly Government Regulation No.30 Year 2011 which stipulates the type of borrowing mechanism, source of borrowing, and requirements of borrowing. However, before discussing these major points, the thesis will firstly discuss subnational government borrowing in Indonesia, examining current and past experience, in order to provide background information about borrowing reform processes that have occurred in Indonesia, and create links to the development of loan proposals in South Sulawesi Province and Surakarta Municipality.

3.3.1 Subnational Government Borrowing in Pre-Decentralisation Era

Subnational government borrowing, or municipal borrowing, is one of the instruments used by governments worldwide to fund service provision and infrastructure delivery (Bird & Tassonyi 2001, p. 85; Davey 1989, p. 48; Freire & Petersen 2004, pp. 219-589; Rondinelli 1990, p. 44). Freire and Petersen (2004, p. 12) argued that borrowing drives better transparency and efficiency at subnational government level since the capacity of subnational government to manage funds will be scrutinised by lenders. In Indonesia, borrowing is an important financing tool that the Central Government expects will play a major role in local infrastructure development and boost economic growth.

Subnational government borrowing has been established in Indonesia since the 1970s. Devas (1989, pp. 215-7) stated that in the period from 1975 to 1986, borrowing was not often used by

subnational governments to finance developmental needs for three reasons. First, subnational borrowing was limited by the Central Government. Second, many subnational governments were less interested in taking out loans because they were unsure whether they had the ability to repay since they had limited revenue. Third, the capital market was less developed and there were not many lending sources available, except for multilateral lending agencies and Central Government.

According to Devas (1989, pp. 217-8) and Shah et al. (1994, p. 147), subnational government borrowing during the period of 1975 to 1986 was channelled through both foreign and domestic sources. The former came from international donor agencies such as the World Bank, and Asian Development Bank to the Central Government, to be passed on to subnational governments through Subsidiary Loan Agreements (SLAs), also known as the on-lending mechanism. This two-step process is still the largest source of loans for subnational governments in Indonesia.

With respect to domestic loans, according to Devas (1989, pp. 217-8), the loans are channelled by central government to subnational government from the state budget. Domestic loans include *Rekening Dana Investasi*, or Investment Fund Account (*RDI*), which provides loans to national and local public companies; *Penyertaan Modal Pemerintah*, or State Capital Participation (*PMP*), which provides loans to finance equity capital of local public companies; the *INPRES Pasar*, or President's Market Program, that provides loans to finance local market developments; and *Bantuan Uang Muka IPEDA*, or Local Development Dues, which provides loans for local projects such as roads, bridges, and irrigation.

According to Lewis (2003, p. 1048; 2007, p. 35), the two most common borrowing mechanisms used to finance local infrastructure are the Subsidiary Loan Agreement (SLA) and the *Rekening Pembangunan Daerah* (Regional Development Account [RDA]), previously called the *Rekening Dana Investasi* (Investment Funds Account [RDI]). Lewis (2007) described SLA as a long-term loan for infrastructure development that is channelled from multilateral donor agencies such as the World Bank and the Asian Development Bank to the Central Government which then channels the funds to subnational governments. RDA is a long-term infrastructure loan sourced mostly from government budgets, although it had minor funding support from donor agencies. Lewis (2007, p. 38) argued that both SLA and RDA have been used by the Central Government to finance multi-year infrastructure projects for all tiers of subnational government at province, municipal, and district levels, as well as to local water companies (*Perusahaan Daerah Air Minum [PDAM]*).

Alm and Indrawati (2004, p. 242); Lewis (2007, p. 39); and Lewis and Woodward (2010, p. 69) have stated that the subnational government borrowing mechanism during this period was mainly

centralised and donor-driven with minimal involvement of subnational government during the processes. According to Lewis (2003, pp. 1059-61), the performance of subnational government borrowing Indonesia during the periods of SLA and RDA from the 1970s to 1990s was also considered poor with problems such as weak loan repayment and high rates of arrears. Moreover, the centralised mechanism of subnational government borrowing during this period was cited as a major factor leading to the unwillingness of subnational governments to repay the loan that, in turn, led to the low performance of subnational government borrowing. Lewis (2003) suggested that the Central Government needed to implement reforms to address these problems. Some measures taken by the Central Government to reform subnational government borrowing will be discussed in the next section.

3.3.2 Subnational Government Borrowing during Decentralisation Era (1999 to present)

Some problems related to subnational government borrowing occurring before decentralisation, such as centralised borrowing systems, non-repayment and high rates of arrears were reformed through the introduction of two new laws on decentralisation: Law No.22 Year 1999 on Administrative Decentralisation, and Law No.25 Year 1999 on Fiscal Decentralisation. While the former focuses on the separation of administrative tasks and functions among levels of government, the latter provides arrangements on the fiscal relationship between central and subnational governments which includes borrowing mechanisms. The issuance of Law No.25 Year 1999 was followed by Government Regulation No.107 Year 2000 on Subnational Government Borrowing which provides more detailed mechanisms for the implementation stages.

Law No.25 year 1999, and Government Regulation No.107 Year 2001 have made a significant impact on the subnational government borrowing mechanism. According to Pakpahan, Mahi and Simanjuntak (2002, p. 1) and Kehew and Petersen (2004, p. 453), these regulations had powerful statements that marked the transition from a centralised to decentralised system, which to allowed subnational governments to propose borrowing to the Central Government. In this sense, a centrally driven borrowing paradigm had been transformed into locally-driven borrowing initiatives.

Although the laws already mandated a number of points, the implementation in the field was still problematic. Due to the sudden change from a centralised to decentralised system, there were lots of practical issues such as the capacity of subnational governments, and unclear separation of tasks and functions among government agencies. In the borrowing field, based on my personal experience as an officer at the Ministry of Finance of Indonesia, some subnational government borrowing projects or programs were still predominantly proposed and coordinated by central

ministries, although regulations stipulated that borrowing proposals should come from subnational government.

In the early days of decentralisation, Lewis (2003, pp. 1057-61) stated that the Central Government still faced major problems inherited from past borrowing experience, and that reform was needed to improve the creditworthiness of subnational governments and broaden borrowing options to support infrastructure development.

In 2004, Law No.22 and Law No.25 Year 1999 which had become the foundation of decentralisation/fiscal decentralisation in Indonesia were revised by the Central Government in order to create a sphere which was more comprehensive and supportive to the needs of decentralisation and good governance. In 2005, Government Regulation No.107 Year 2000 was also revised with Government Regulation No.54 Year 2006 to adjust to the new Law No.33 Year 2004. These amendments, in particular to Law No.25 Year 1999, were designed to create a more robust mechanism for subnational government borrowing.

There were some major reforms taken by central government to improve the borrowing mechanism as stipulated in the new laws and regulations such as: (1) the establishment of a debt ceiling based on Gross Domestic Product to avoid excessive debt by subnational governments; (2) restriction to borrow directly from international sources to avoid default; (3) establishment of fiscal transfer interceptions in order to provide warranty to the borrower and increase the creditworthiness of subnational governments; (4) proposed new procedures to process on-lending mechanisms to improve governance; (5) improving creditworthiness by not allowing subnational governments in arrears to borrow; and (6) creating classification of borrowing based on periods into short-, medium-, and long-term.

The short-term borrowing is designed for cash flow management which should be repaid in under 12 months. Medium-term borrowing is aimed to finance the non-revenue generating public investment programs that should be fully repaid before the administration periods of a head of subnational government is over. Finally, long-term borrowing is aimed to finance revenue-generating project investment and borrowing periods can be more than 12 months.

Although, in some respects, these new regulations could improve creditworthiness through the implementation of a fiscal transfer interceptions mechanism and debt ceiling, according to Lewis (2007, pp. 46-54), some measures taken did little to improve the borrowing mechanism. He raised some concerns on these new regulations such as: (1) limiting the scope of borrowing and creating burden to on-lending mechanism since the Central Government was only accommodating revenue

generating projects and do not allow non-revenue generating projects to be financed through the on-lending mechanism; and (2) the new procedures of the on-lending mechanism still required lengthy processes and created delays in disbursements. Lewis (2007) predicted that the new regulation would lead to the collapse of the on-lending mechanism which was the only available option used by international donor agencies to channel loans to subnational governments for infrastructure development projects. However, Lewis (2007) argued that the fall of the on-lending mechanism might create other alternative financing options, although it would not happen quickly.

In 2006, the Ministry of Finance established *PIP* during the collapse of the on-lending mechanism and the absence of available borrowing options to finance infrastructure projects. However, *PIP* only began operating effectively in 2010 due to regulatory settings. More detailed information on *PIP* will be discussed separately in section 3.3.

In 2011, the Central Government revised Government Regulation No.54 Year 2005 with Government Regulation No.30 Year 2011 to improve subnational government mechanisms for performance and governance. One of the main reasons to revise Government Regulation No.54 Year 2005 was to broaden the scope of borrowing by accommodating non-revenue generating types of projects into both medium- and long-term borrowing that was auspiced by international donors. Previously, non-revenue generating projects were eligible only for medium-term borrowing which created difficulties in using the on-lending mechanism which had long borrowing periods.

Government Regulation No.30 applies effectively to subnational government borrowing projects that were proposed after the issuance of this regulation in 2011. In this sense, the road improvement project that was proposed in 2012 in South Sulawesi Province, and the local hospital development proposed in 2011 in Surakarta Municipality are bound to this regulation.

To summarise, the thesis concludes that there were several measures taken by central government to improve borrowing mechanisms. Law No.25 Year 1999 and Government Regulation No.107 Year 2000 transformed the paradigm of subnational government borrowing mechanism from a centralised to decentralised system. These regulations were then revised by the issuance of Law No.33 year 2004 and Government Regulation No.54 Year 2006 to improve creditworthiness of subnational governments. In 2011, Government Regulation No.30 Year 2011 was introduced to revise Government Regulation No.54 Year 2006 in order to broaden the scope of borrowing options to finance non-revenue generating projects. In the following section, the thesis will talk about major arrangements of this regulation and link those to the projects that were proposed by South Sulawesi Province and Surakarta Municipality.

3.3.3 Sources of Borrowing

Government Regulation No.30 Year 2011 stipulated five sources of subnational government borrowing:

1. Central Government. This source refers to loans provided by the Central Government from domestic sources such as *Pusat Investasi Pemerintah/PIP* (Central Investment Agency) – one of the central government financing institutions – and international sources such as the on-lending mechanism from the World Bank, ADB, and other lenders. This has been the most frequent source of borrowing widely used by subnational governments in Indonesia.
2. Other Subnational Governments. This kind of source refers to lending that provided by other subnational governments. Although this option of borrowing is available, no lending proposals have been submitted by one subnational government to other subnational governments.
3. Banking Institutions. This type of borrowing refers to lending provided by commercial banks that operate within the Indonesian jurisdiction only. Many subnational governments have taken up this option for cash management purposes.
4. Non-Banking Institutions. This refers to finance institutions that operate in Indonesia.
5. Community or Citizens. This refers to funds collected by subnational governments from the community, particularly in the form of municipal bonds.

3.3.4 Types of Borrowing

As discussed previously in section 3.2.2, the scope of borrowing has been broadened by the Central Government in revising Government Regulation No.54 Year 2006 with Government Regulation No.30 Year 2011. The type of classification between the previous and revised versions remains the same, but there is a slight revision to the scope and purpose of borrowing. The three types of borrowing are based on terms as follows:

1. Short-Term Borrowing. This type of borrowing arrangement remains unchanged and is targeted to cash management purposes with a maximum repayment period of 12 months. Short-term borrowing can be from Central Government, and banking and non-banking institutions.
2. Medium-Term Borrowing. The scope and purpose of this type of borrowing also remains unaltered and is aimed to finance non-revenue generating public service programs, with repayment terms of greater than 12 months but should not exceed the administration periods of a ruling head of subnational government. This type of borrowing can be sourced from

central government, other subnational governments, and banking and non-banking institutions. With respect to the thesis, the development of a local hospital in Surakarta Municipality adopted a medium-term mechanism. Borrowing was proposed by Surakarta to be repaid within a five year period (2011 to 2016) under Joko Widodo's administration.

3. Long-Term Borrowing. The scope of this type of borrowing was broadened to accommodate more financing options by enabling subnational governments to propose borrowing for both revenue and non-revenue generating projects. This type of borrowing can be sourced from central government, other subnational governments, and banking and non-banking institutions, and have a repayment period of greater than 12 months. With respect to the case studies used in the thesis, the road improvement project in South Sulawesi Province has adopted this mechanism by proposing loan repayment over a seven year period (2013 to 2018).

3.3.5. Borrowing Requirements

Borrowing conditions are very important, particularly for the lending agencies, in order to provide assurance for loan repayment and improve creditworthiness of subnational governments. Past experience of subnational borrowing shows how lack of governance by the Central Government caused serious problems such as high rates of arrears. Lewis (2003, p. 1057) states:

... many second and third SLA and RDA loans were given to local governments with significant arrears on their first loans. In some cases an additional loan was awarded before the prior one came due and so no repayment history was available. Other times, arrears on first loans were apparently already starting to become problematic and additional loans were made anyway.

Government Regulation No.30 Year 2011 states very clearly in Article 3 that borrowing should adopt the principles of governance such as rule of law, transparency, and accountability. In addition, the government specifies the primary financial requirements that should be met by subnational governments before they are allowed to borrow, with these requirements also in place for the projects in South Sulawesi Province and Surakarta Municipality. The requirements are as follows:

1. Maximum outstanding debt of a subnational government is 75% of the previous year's APBD or general revenue.
2. Debt service coverage ratio must be at least 2:5 that will be calculated based on the data of the subnational government budget.
3. Must meet any other requirements as regulated by lending agencies.
4. Must not have any arrears from previous loans sourced from Central Government.
5. Borrowing must be approved by the local parliament or DPRD.

Borrowing requirements are not just regulated by Central Government, but also by lending agencies. As seen in point 3 above, PIP as a lending agency also imposed their own rules for the borrowers such as borrowing procedures, repayment scheme, project analysis, and establishment of *Perda* to approve borrowing for a project.

The establishment of *Perda* on borrowing is actually conducted under the requirements of PIP, rather than mandated by a government regulation. Point 5 is stipulated because Government Regulation No.30 year 2011 does not clearly state that a *Perda* must be established to approve a borrowing proposal. Therefore, approval can be established in any form such as an official letter from the heads of local parliament. Other borrowing mechanisms, such as the on-lending mechanism for instance, requires only a letter of approval from the DPRD. In this sense, the requirement to have a *Perda* on borrowing is regulated by the PIP with this discussed further in Section 3.3.1.

3.4. Central Investment Agency (*Pusat Investasi Pemerintah [PIP]*)

Pusat Investasi Pemerintah (PIP) (the Central Investment Agency) was established on 20th December, 2006, by the Minister of Finance. The general objective of the PIP is to stimulate national economic growth through various investments in strategic sectors. Compared to the SLA and RDA mechanisms, PIP loans use different mechanisms and offer quicker processing of loans to subnational governments. This new model of loan has been set up as a demand-driven measure to strengthen local ownership and avoid poor loan repayment.

PIP is led by a director with the support of three different divisions. The scope of PIP investment is not limited to channelling funds to subnational government for infrastructure projects, but consists of two major activities: (1) direct investment through capital injection, and channelling of lending to subnational capital governments, state owned enterprises, and limited liability companies; and (2) securities through bonds and stocks.

PIP have various investment sectors that consists of three major sectors: (1) infrastructure including electrical power, oil and gas, roads and bridges, transportation, telecommunication, markets, hospitals, bus stations, and water; (2) environmentally friendly technology that includes renewable energy, transportation, biomass, bioethanol, and waste management systems; (3) other sectors that create significant social and economic benefit to public that are regulated by the Minister of Finance. The funds managed by PIP can be sourced from the Central Government budget, third parties, and returns from investments.

The role of PIP to provide financing to subnational governments is crucial. During the collapse of the on-lending mechanism in 2006 that was discussed earlier, there was practically no available medium- or long-term borrowing options that could be used to finance infrastructure projects at the subnational level. Infrastructure projects require huge financial resources which are hard to cover by just using local budgets which are allocated mainly to pay local staff salaries.

Although PIP was established in 2006, due to regulatory setting and organisational preparation, it only began to operate effectively in 2010.

Table 3.1 List of PIP Loan Projects

No	Subnational Governments	Projects	Date of Agreement	Amount (IDR)
Ongoing Projects				
1.	Bandar Lampung Municipality	Road Upgrade and Overpass	2012	96,000,000,000
2.	Bangkalan District	Local Hospital Development	2013	96,000,000,000
3.	Boalemo District	Road Development	2013	51,000,000,000
4.	Bulukumba District	Local Hospital Development and Medical Equipment Procurement	2013	83,501,528,000
5.	Buton District	Road Development and Upgrading	2014	94,700,000,000
6.	Gorontalo Municipality	Bus Station Development	2012	35,000,000,000
7.	South Halmahera District	Road Development	2013	77,800,000,000
8.	Karangasem District	Local Market Development and Traditional Art/Craft Centre	2012	49,870,000,000
9.	Karangasem District	Local Hospital Development	2012	46,000,000,000
10.	Konawe District	Local Hospital Development	2016	231,974,000,000
11.	South Lampung District	Road Development	2013	90,982,000,000
12.	Lombok Tengah District	Road Development	2012	91,610,000,000
13.	Lombok Timur District	Local Market Development	2012	34,350,000,000
14.	Muna District	Local Hospital Development	2014	91,600,000,000
15.	Padang Municipality	Local Hospital Development and Medical Equipment Procurement	2014	83,307,000,000

No	Subnational Governments	Projects	Date of Agreement	Amount (IDR)
16.	Palu Municipality	Local Hospital Development	2012	100,000,000,000
17.	Pesisir Selatan District	Local Hospital Development and Medical Equipment Procurement	2014	99,000,000,000
18.	West Sulawesi Province	Local Hospital Development and Medical Equipment Procurement	2015	239,691,000,000
19.	South Sulawesi Province	Road and Bridge Development/Upgrading	2012	500,000,000,000
20.	Southeast Sulawesi Province	Road Development/Upgrading	2012	130,000,000,000
21.	Southeast Sulawesi Province	Local Hospital Development	2011	190,000,000,000
22.	Southeast Sulawesi Province	Road Development	2013	70,000,000,000
23.	Temanggung District	Local Market Development	2013	90,172,435,000
Finished Projects				
24.	Mukomuko District	Road and Bridge Development/Upgrading	2013	47,500,000,000
25.	Mukomuko District	Local Hospital Development	2012	53,670,000,000
26.	Pesawaran District	Local Hospital Development	2013	50,000,000,000
27.	Medan Municipality	Local Markets Development	2012	77,454,148,000
28.	Surakarta Municipality	Local Hospital Development	2011	40,541,000,000

(PIP 2017)

Table 3.1 shows that between 2011 and 2017, PIP channelled funds to 28 local infrastructure projects to various levels of subnational government; provincial, district, and municipality. Infrastructure projects were dominated by the development of local hospitals (13 projects), and followed by road projects (10 projects), local market development (4 projects), and bus station development (1 project). With respect to project delivery, the table shows that 11 projects were delivered in 2012, 9 projects in 2013, and 1 project in 2015 and 2016. The significant decrease in project delivery in 2015 and 2016 was related to the process of merging of PIP and PT Sarana Multi Infrastruktur (PT SMI) that was mandated by the Central Government. PT SMI is a state-owned public company that has operated in infrastructure financing since 2009. With the merger in 2016, PT SMI officially took on the role of PIP in channelling subnational government borrowing.

3.4.1. PIP Borrowing Mechanism

Every lending agency has its own mechanism for selecting projects. There are two major sectors that are prioritised by PIP in selecting projects: (1) infrastructure, and (2) renewable energy. In infrastructure sectors, PIP is targeting types of projects that will open access to the centres of economic zones at the local level such as roads and bridges, development of local hospitals, development of traditional markets, bus stations, and water supply. With respect to the development of renewable energy, PIP is targeting cooperation with subnational governments, local/national owned enterprises, and the private sector to invest in this area.

Besides the general rules stipulated in Government Regulation No.30 Year 2011, PIP has its own borrowing guidelines for the proposed projects:

1. Proposed infrastructure projects by subnational government are classified as a priority and must be in accordance with the *Rencana Pembangunan Jangka Menengah Daerah* or RPJMD (Medium Term Local Development Plan). With respect to South Sulawesi Province and Surakarta Municipality, PIP has argued that both projects are in line with the Medium Term Local Development Plan.
2. Subnational governments that propose borrowing must have undergone audit for the previous three years. Qualified audit opinion is given if financial statements are presented properly and in accordance with accounting standards, but with some exceptions (Nikolai, Bazley & Jones 2009, p. 261). This is to ensure that the borrower possesses the capacity to administer the loan and has a good track record of financial management. Audit statements from *Badan Pemeriksa Keuangan* or BPK (Financial Audit Board) shows that both South Sulawesi Province and Surakarta Municipality have unqualified audit opinion rating which is a level above the minimum requirement.
3. Borrowing initiative must be approved by DPRD with the issuance of *Perda*. As discussed previously in this chapter, this requirement is mandatory to guarantee loan repayment by the borrower. *Perda* provides governance and legitimacy as it is structurally the highest product of law produced at subnational government level negotiated between the Executive and legislature, and involves the public in its process. The loan for the road project in South Sulawesi Province was proposed to PIP by the subnational government in January 2012, and approved by the local parliament in December 2012. The loan for the health project in the Surakarta municipality was proposed to PIP by the subnational government in December 2010, and approved by the local parliament in August 2011.

3.4.2 *PIP Borrowing Procedure*

The PIP borrowing procedure consists of 10 different stages that must be followed by the subnational government during the development of loan proposals:

1. Head of subnational government submits a letter to the Head of PIP to propose borrowing by detailing the type of project, financing plan, loan repayment plan, and a description of the benefit of the project to community;
2. Discussions among subnational government and PIP to confirm that the plan to borrow has met general requirements and the proposed project is classified as a priority;
3. Presentation of proposed project from head of subnational government to the Head of PIP by involving heads of DPRD;
4. Submission of project proposal document to PIP that includes background of project, feasibility study, financing scheme, scheme of risks, and repayment scheme. The feasibility study is an important document required during the development of a loan proposal. It must include different aspects of projects such as legal, social, and financial aspects that relate to the infrastructure financing of the project. The financing scheme provides an overview of the financial management capacity of subnational government required to implement the project. The scheme of risks provides an overview of how the subnational government has assessed the risks that might occur in project implementation. The repayment scheme provides a repayment plan by considering factors such as financial capacity and the construction periods;
5. Analysis of feasibility and mitigation of risk conducted by PIP. After documents are submitted by the subnational government, PIP will conduct an analysis of feasibility and risk mitigation to ensure that the project is feasible and in accordance with rules and regulations;
6. Indicative offer by PIP. Indicative offer is submitted to the subnational government if a project has met all requirements based on the analysis conducted by PIP. The indicative offer is a letter from PIP that contains detailed arrangements of borrowing such as type of borrowing, interest rates, terms of borrowing, costs/fees, and penalties;
7. Negotiation of loan agreement. This is the stage where all terms and conditions of the loan are negotiated between subnational government and PIP. Once it is settled, the loan agreement will be signed by both parties;
8. Loan effectiveness. This is the stage that initiates the effectiveness of the loan. Although the loan agreement has been signed, it will remain ineffective until the subnational government submits the necessary documents to PIP. One of the documents is a *Perda* on borrowing signed by the head of subnational government and head of DPRD. Other documents are an

agreement letter signed by the head of the subnational government and head of DPRD, legal opinion from bureau of law at subnational level, and statement of responsibility by the head of subnational government regarding the project implementation;

9. Disbursement. Once all documents for the loan effectiveness are completed and submitted to PIP, then the funds are disbursed to the subnational government's account.

The PIP and *Perda* borrowing procedures are conducted simultaneously. In this sense, *Perda*-making on borrowing is established to meet the requirements mandated by PIP for loan effectiveness. Some stages of the *Perda*-making process also discuss requirements mandated by PIP such as the feasibility study and loan terms and conditions since *Perda* needs to confirm the terms and conditions of the loan to guarantee loan repayment.

3.5 *Perda*-Making Process

This section provides elaborated information about the *Perda*-making process that was discussed briefly in Section 3.2. In the context of borrowing, the local regulation (*Perda*) stipulates the details of borrowing arrangements such as the repayment mechanism, borrowing periods, interest rates, and approval to allow fiscal transfer interception if default occurs. The formulation of *Perda* requires close interaction between the Executive, the local legislature and civil society. According to the regulations, both the local parliament and the Executive have the right to initiate a *Perda*. However, in practice, a *Perda* on borrowing is usually initiated by the Executive. Despite negotiation between executive and legislature, civil society is also given space to participate in the *Perda*-making process via public consultation or public hearing. The complete process of loan approval and the *Perda*-making process on borrowing are shown in Figure 3.4.

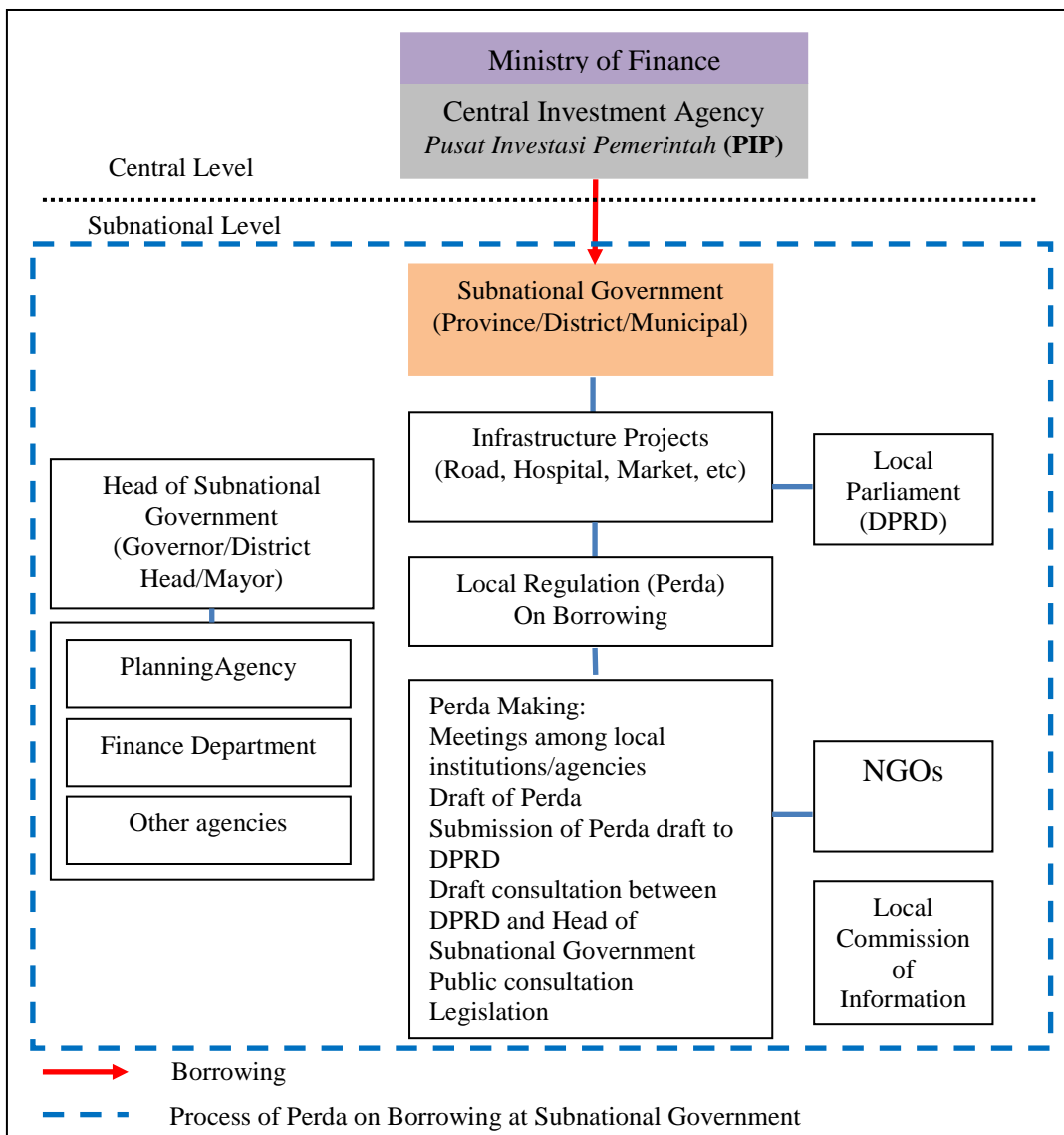


Figure 3.4 Loan Approval Process

Figure 3.4 shows that PIP channels loans for infrastructure projects to subnational governments after a *Perda* is approved by DPRD. The loan approval process in the form of *Perda* at subnational government level involves three major parties: the Executive, the legislature and NGOs. The Local Commission of Information is not directly related to the *Perda*-making process, however, it is included in Figure 3.1 for research purposes that focus on transparency of information and will be discussed in subsequent paragraphs. The Executive, led by the Governor, Head of District or Mayor can be also be represented by assigned local agencies such as the Planning Agency or Finance Department, for instance. Discussion on the proposed project by executive agencies is usually already communicated to relevant commissions at DPRD. This series of discussions/meetings usually starts the *Perda*-making process.

The first stage of *Perda*-making is a series of meetings among subnational government institutions that are coordinated by appointed local agencies. Appointed local agencies can be different in each subnational government based on the decision of the head of subnational government and the types of project. The aim of these meetings is to receive input from related local agencies or *dinas* to formulate the proposed project. Local agencies that are involved can also be different in each subnational government and each *dinas* works based on their function and authority. For example, *BAPPEDA* (Planning Agency) works to ensure that the proposed project is in line with the Medium-Term Development Plan (RPJMD), while the Finance Agency or DPKAD works to calculate financial capacity and costs of project. Proposed projects can be top-down or initiated by the head of subnational government, or bottom-up from *dinas* level. Proposed projects usually need to have a feasibility study. Feasibility studies can be done by local agencies or local consulting companies and submitted to PIP for approval. A feasibility study is required to have certain aspects such as a project review analysis that consists of general background information on the proposed project, demography, socio-economic impacts; the borrower profile that discusses local government capacity to support the project; legal and environmental assessment that analyses legal and environmental issue of the project; and financial capacity of the borrower that includes assessment of financing plan, risk management, and repayment mechanism.

After the project is formulated, local agencies will have other meetings to produce a policy paper (*Naskah Akademik*) and *Perda* draft. Although establishment of a policy paper is important to provide a legal basis and scientific review of a proposed *Perda*, according to Government Regulation No.16 Year 2010, a policy paper is not mandatory and it can be substituted with other documents that explain the substance of the proposed *Perda* (Government Regulation No.16 2010). With respect to a *Perda* draft, the policy paper is usually consulted first by the Executive to PIP as it stipulates detailed

terms and condition of the loan. Once the draft is produced, it will be submitted officially to DPRD by the Executive.

To initiate the process of consultation on the *Perda* draft, the head of subnational government will present the draft to DPRD officially in the *Rapat Paripurna* or General Meeting attended by all members of DPRD and local agencies. The consultation stage between head of subnational government and DPRD may comprise of different steps. The first step is a presentation from the head of subnational government to DPRD in regard to the substance of the draft. Second is an overview of the *Perda* draft from a member of DPRD based on the presentation delivered by the head of the subnational government. Thirdly, a series of meetings between the head of the subnational government and members of DPRD are held to finalise the draft. At this stage, DPRD usually establishes a Special Committee known as *Panitia Khusus* or *Pansus* that is tasked to investigate the borrowing more thoroughly and is involved in negotiation with PIP. The members of the *Pansus* are proposed by each faction in the DPRD. The composition of a *Pansus* is also based on the proportion of the seats that each party faction holds in the parliament.

After a series of meetings between the DPRD and the head of the subnational government, a draft of *Perda* will be released to the public in order to receive comments and input. DPRD usually invites relevant stakeholders, such as non-governmental organisations, community members, local figures, and academics, to participate in the consultation. Public consultations can be held on more than one occasion depending on the need. On this occasion, the public are also allowed to raise questions and request any information about the background of the draft, policy, or project from the subnational government. The subnational government is obligated to answer all questions put forward by the public as part of accountability. The *Perda* public consultation is often times conducted simultaneously with the consultation

3.5.1 Objections during the Perda-Making Process

As discussed previously, PIP mandates subnational governments to negotiate, discuss, and develop loan proposals together with the local legislature which then should be stipulated in the form of the *Peraturan Daerah* or *Perda*. By having a *Perda*, the legitimacy of a borrowing policy will be enhanced, there will be high project ownership, and loan repayments are more likely to be secured.

Getting approval from the legislature and other stakeholders in the development of loan proposals and stipulated in the form of *Perda* is not an easy task. Feedback from disseminations held by the Indonesian Ministry of Finance in 2012 experienced by the author suggests that many subnational governments have faced difficulty in getting approval for loans from local parliament

members and have received many objections from non-governmental organisations (NGOs). The phenomenon of objections by legislature members and NGOs in various subnational governments, such as South Sulawesi Province, West Sulawesi Province, and Bulukumba District, during the *Perda*-making process were also covered by local online media and NGOs (Hanapi 2015; Kindang 2013; KOPEL 2012; Sindo 2013; Wahyudi 2012b). In contrast, feedback from disseminations held by the Ministry of Finance in 2012 also found that some subnational government such as Surakarta Municipality, South East Sulawesi Province, and Karangasem District have experienced a relatively smooth process with few objections from legislature members and NGOs. No research to date has investigated the development of the loan proposal process, particularly the proposal for a PIP infrastructure loan.

Research that investigates the problem of objections by legislature members and NGOs during the development of the loan proposal process, in particular, a PIP loan, is yet to be conducted. The phenomenon of objection was identified in a report by the Decentralisation Support Facility or DSF (Decentralisation Support Facility 2011). In the report, DSF highlights objections by legislature members as the primary constraint of the subnational government borrowing initiative. DSF conducted research among five subnational governments to identify why such objections occur, and concluded that the objections were caused mainly by political considerations created by power contests between local leaders and opposition party members.

However, DSF's claim needs further investigation as their report was based solely on the perspectives of local executives, and excluded other key stakeholders such as legislature members and interest groups or NGOs. Moreover, the selection of research sites focused on five subnational governments that have a substantial borrowing capacity. Sites that had previous borrowing experience or were in the process of developing a loan proposal were ignored.

Besides the very limited research conducted to examine the objections during the development of the loan proposal process, research in the field of subnational government borrowing in Indonesia is also limited and has neglected good governance approaches. Existing research on subnational government borrowing in Indonesia tends to focus mainly on market-based approaches, or how to supply subnational government with more variety of credit financing (Alisjahbana, Soemitro & Ramayandi 2002; Alm 2013; Alm & Indrawati 2004; Hirawan 1997; Kehew & Petersen 2004; Lewis 2003, 2007; Lewis & Woodward 2010; Pakpahan, Mahi & Simanjuntak 2002; Peterson 1996; Shah 2004; Smoke 1999). Existing research has not focused on how the process of borrowing is governed and negotiated at the local level. The purpose of this project is to focus on the process of negotiating loans at the local level. As I explore interactions among local stakeholders, I will aim to develop a

better understanding of transparency and participation in the development of loan proposals by local governments in Indonesia. Changing roles of the legislature and civil society organisations in the decentralisation era underline the importance of an up-to-date study of this issue.

3.6 Conclusion

Decentralisation has changed the structure of power and democratic life by giving more space to local stakeholders to influence the policy-making arena. Subnational government borrowing is one of the options to finance local infrastructure to support fiscal decentralisation in Indonesia. Borrowing has been established since 1970s and dominated by two major mechanisms: SLA (on-lending) and RDA, which are problematic due to lack of debt management by the Central Government, lack of ownership from subnational governments, and centrally driven projects. The introduction of a fiscal decentralisation program in early 2000s reformed the subnational government borrowing mechanism in Indonesia. Laws and regulations were issued to ensure the effectiveness of subnational government borrowing in improving local infrastructure development.

PIP was established in 2006 as a new borrowing option during the collapse of the on-lending mechanism. PIP has its own borrowing requirements that must be met by the borrowers. One of the requirements is to mandate the subnational government to issue a *Perda* on borrowing for their proposed infrastructure project. A *Perda* is needed by PIP in order to guarantee loan repayment by the subnational government as borrower. The *Perda*-making process consists of six stages that generally involve three major stakeholders: the Executive, the legislature and the community. The *Perda*-making process provides space for all stakeholders to interact, negotiate and discuss the proposed policy.

The *Perda*-making process on borrowing is, however, problematic. Feedback from disseminations conducted by the Ministry of Finance of Indonesia and experienced by author found some objections from legislature members and NGOs during the *Perda*-making process, such as has occurred in South Sulawesi Province, West Sulawesi Province, and Bulukumba District. On the other hand, I also found that some subnational governments such as Surakarta Municipality, Southeast Sulawesi Province, and Karangasem District experienced a relatively smoother process with few objections from other stakeholders.

Research that reveals the correlation between governance practices and the objections from legislature and NGOs during the development of PIP loan proposal has not been conducted to date. Previous studies on local borrowing in Indonesia have largely ignored the issue of governance and have mainly focused on market-based approaches. Further work is needed on the extent to which

objections to loans by both parliamentarians and other stakeholders are driven by concerns about governance as there is no detailed academic research on the loan approval process (*Perda*-making process) at subnational government level in Indonesia. The next chapter discusses the methodology and approach in conducting this research.

CHAPTER 4: RESEARCH METHODS

This chapter presents the research method used to investigate the implementation of transparency and participation during the development of loan proposals. The case study approach is used in this study to best answer the research questions. In-depth interviews and document analysis are conducted with relevant stakeholders at the central government and local government levels to investigate the cases. Thematic analysis is applied to construct the case study in order to build causal explanation between each stage of the *Perda* making process. This chapter provides the background and rationale for the selection of the research method applied in this study.

4.1 Introduction

This chapter discusses the research methodology used to investigate governance practices in the case of infrastructure loan proposals in two subnational government areas in Indonesia: South Sulawesi Province (concerning a proposed loan for road improvement) and Surakarta Municipality (concerning a proposed loan to build a hospital). These case studies will be used to answer the following research questions:

1. How do subnational governments exercise processes of transparency and participation during the development of loan proposals, and what role do members of the local parliament and civil society play in this process?
2. How do subnational governments differ in terms of application of transparency and participation principles during the development of loan proposals for these specific infrastructure projects? What factors influence the differences?

The chapter is organised into seven sections. The first section discusses the case study approach used in this thesis. The second section discusses methods of data collection. The third section considers selection of respondents for the research, and the fourth section elaborates on the thematic analysis applied in this research. The fifth section reviews the research frameworks of transparency and participation, while the sixth section discusses research ethics, and the final section concludes.

4.2 Case Study Approach

The research for this thesis comprised two case studies in South Sulawesi Province and Surakarta Municipality. Yin (1994) states that:

... a case study allows investigators to focus on a case and retain a holistic and real world perspective- such as in studying individual life cycles, small group behaviour, organisational and managerial

processes, neighbourhood change, school performance, international relations, and the maturation of industries (Yin 1994, p. 3).

The case study approach was seen as appropriate for this study in order to retain an in-depth understanding of governance processes in subnational government borrowing initiatives. A case study approach allowed me to develop a broad understanding of governance implementation, especially in relation to accountability and participation during the development of loan proposals for infrastructure projects. Creswell argues that a case study approach investigates a real life experience and contemporary events using detailed and in-depth data collection methods such as interviews, observation, documentary analysis, and reports (Creswell 2013).

Yin (2014, p. 2) asserts that a case study is considered to be appropriate for: (1) research that mainly focuses on “how” and “why” questions; (2) research investigating contemporary events; and (3) questions where the researcher does not have any control over situations. The first of Yin’s suggestions is related closely to my research questions of how accountability and participation were implemented during the process of development of loan proposal by the subnational governments, and how the subnational governments differed in terms of the application of accountability and participation principles during the development of loan proposals. Yin’s suggestion is also supported by Thomas (2011 p. 4), who argues that the case study approach can help the researcher use in-depth detailed analysis to address both ‘why’ and ‘how’ questions.

Governance processes used by each subnational government are likely to have unique characteristics arising from specific policies and procedures such as local parliament regulations. Moreover, governance processes during the *Perda* of borrowing approval are complex and involve many stakeholders at both subnational and central government levels. Merriam (1998, p. 33) states that the case study approach is suitable for research that focuses on process. Process is described in this context as monitoring, and causal explanation. Monitoring refers to activities such as providing detail in the context of the study, examining the implementation of a program. With respect to my research, the two case studies focused on examining processes of approval relating to the borrowing initiatives and the extent to which good governance practices influenced these processes. My research also considered how implementation of good governance practices influenced the borrowing initiatives and the *Perda*-making processes.

Yin (2003, pp. 7-8) also states that case studies are suited to investigating contemporary events, particularly when the researcher does not have control over them. To investigate such events, researchers might require techniques such as interviews with individuals involved in the events, observation, and documentary research. In the case of this thesis, loan proposals for the infrastructure

projects under investigation occurred in 2011 in Surakarta Municipality, and 2012 in South Sulawesi Province. Thus, it was feasible to conduct interviews with actors involved in the development of these proposals since many of the people were still around and could be interviewed. The events investigated as part of this project are also contemporary in the sense that there has not been time for researchers to build up a body of literature on them. Yin's third rationale for a case study approach was in circumstances when the researcher had no control over events – the opposite of laboratory conditions. In this sense, it is very clear that the events which occurred in South Sulawesi Province and Surakarta were not controlled experiments.

A number of studies on governance at the subnational government level in Indonesia have used the case study approach (Antlov & Wetterberg 2011; Mardiasmo 2007; Patunru, McCulloch & von Luebke 2012; Rosser & Sulistiyanto 2013; von Luebke 2009a; von Luebke 2009b). In this section, the thesis will focus on three examples of case studies conducted by (von Luebke 2009b), Kristiansen et al. (2009), and Patunru, McCulloch and von Luebke (2012) to provide some general information about the specific research methodology and analysis that was used.

Von Luebke (2009a) designed a case study of eight local governments in four different provinces in west, east, and central parts of Indonesia. The aim of the study was to explore how investment climates vary across districts in Indonesia. Data was gathered through surveys of 1,000 businesses, direct observation, and 120 semi-structured interviews with different stakeholders at national and local levels. Business surveys, which asked questions about local perceptions on five indicators (integrity of district heads, political will, communication skills, power to change, and general popularity) were distributed to 125 participants in each district. In-depth interviews were conducted with local stakeholders and national policy experts about local business conditions, government performance, corruption, and democracy. Samples in each district comprised different participants: officials from different local agencies; business actors; social scientists from local universities; members of chambers of commerce; NGO activists, and local journalists. With respect to business surveys, von Luebke had local students in each district conduct the fieldwork.

Von Luebke (2009a) focused his research analysis on three performance indicators: (1) the quality of administrative regulation, as indicated by how local taxation regulations distorted the local economy; (2) evaluation of administrative procedures, as indicated by the efficiency and quality of licensing services; and (3) evaluation of administrative corruption, as indicated by the recruitment process for civil servants. Von Luebke found that decentralisation has not brought delivered results at local government level as promised. Many factors may influence the performance of decentralisation and governance at the local level. Based on the surveys, interviews, and observation,

the performance of governance in the eight research sites was found to be influenced by local leadership rather than by societal pressure. Societal pressure was not found to correlate with reform processes in the eight subnational governments. By way of contrast, strong local leadership was found to be consistently associated with performance in reform. This was because local leaders acknowledged that reform agendas would attract more votes and support from various stakeholders, and therefore benefit their political career.

Kristiansen et al. (2009) also implemented a case study approach in their study of six cities/districts in three different provinces in Indonesia. The main purpose of their research was to examine the implementation of good governance practices in administrative and political reform at the local level, in particular with respect to accountability and transparency in local budgets. The research was mainly qualitative, but supplemented with opinion surveys of bureaucrats, local parliament members, and civil society organisations. Data was gathered by a team of researchers, including local university researchers, in 2006 and 2007 in six districts through 200 in-depth interviews with three groups of local stakeholders: bureaucrats, members of local parliament, and civil society organisations. Interviews employed open-ended or guided questions. Focus group discussions were conducted at the end of data collection and attended by bureaucrats, local parliament members, and civil society organisations to discuss the preliminary findings and results of the research. Documentary data was also collected on laws and regulations on governance.

Perceptions of financial transparency by three major groups: bureaucrats, local parliament members, and civil society representatives, were elicited during interviews. Perceptions of bureaucrats and legislature suggested a high degree of financial transparency. In contrast, perceptions of journalists and civil society groups suggested that the level of financial transparency was low. Research found that mechanisms of transparency and external accountability were very poor in the six districts. Kristiansen et al. argued that the lack of transparency and accountability provided opportunities for local officials to be corrupt. Low performance of bureaucracy in the six districts was also associated with extensive discretionary space and low levels of external accountability. Thus, the authors suggested that there is a need for central government regulations to strengthen financial transparency and accountability.

Patunru, McCulloch and von Luebke (2012) conducted multiple case studies in two cities (Surakarta in Central Java Province, and Manado in North Sulawesi Province) to understand the correlation between local government and business/private sectors, and the quality of local investment climate. The research combined qualitative and quantitative approaches. Data were collected between 2007 and 2008 by using in-depth interviews and surveys. Around 20 in-depth interviews were

conducted at each research site with local firms, journalists, NGOs, legislature members, and government officials. Besides in-depth interviews, data were also gathered by surveying more than 50 business entities in each city to assess local perceptions on the investment climate; focus group discussions; and secondary data. With respect to a survey of licensing issues for small business in Manado, Patunru, McCulloch and von Luebke (2012) used existing survey results from a local NGO. In order to provide an explanation of differences in the investment climates between Solo and Manado, Patunru, McCulloch and von Luebke (2012) examined three aspects of local political economies: subnational competition, collective action and interest groups, and quality of the local leadership.

Based on analysis of the survey data, Patunru, McCulloch and von Luebke (2012) argued that higher rent seeking in Manado was a result of greater need to obtain additional campaign funds, which thus reduced local governments' incentive to reform. In Manado, rent seeking also appeared to be due to lack of transparency over licensing procedures, and red tape. On the other hand, transparency over licensing processes was seen to be reducing rent seeking in Surakarta. With respect to participation, the inclusive approach by Surakarta's mayor through the close involvement of a wide range of actors from the private sector was seen to be reducing popular resistance by the public. It also provided an effective means of voicing policy concerns. With regard to governance reform, strong leadership by Surakarta's mayor through open communication and negotiating skills increased the performance of bureaucracy. On the contrary, exclusivity and a patronage system with particular wealthy business people by Manado's leader had the effect of affording fewer incentives to pursue governance reform.

These examples of case studies on local governance show that each researcher used different approaches and techniques to suit their research design, needs, and resources. In-depth interviews, for instance, enabled researchers to dig out and explore more information related to key actors' perspectives. Surveys, focus group discussions, and secondary sources were used to complement and confirm the result of interviews for triangulation purposes.

von Luebke (2009b), and Patunru, McCulloch and von Luebke (2012), for example, used in-depth interviews, surveys, and secondary sources, while Kristiansen et al. (2009) used in-depth interviews, focus group discussions, and secondary sources. Respondents were from different sections of society and government in each of the studies, and findings were also varied across cases. However, they agreed that leadership is an important factor in governance implementation. Although a range of different techniques were used in the studies, in-depth interviews were used in all three

case studies in order to enable researchers to explore the perspectives of key actors on the events under investigation.

The use of multiple case studies by von Luebke (2009b), Patunru, McCulloch and von Luebke (2012), and Kristiansen et al. (2009) provided a deeper understanding of each case, and generated causal explanations and theories on the relationship between one event and another as proposed by Yin (2003). Von Luebke (2009b), for instance, proposed explanations on how variations in the business climate in each district were linked to local leadership and societal pressures.

However, the use of multiple case studies and extensive data collection methods conducted in these studies, required considerable resources including funding, human resources, and time allocation. Data collection for these studies was supported by teams of researchers consisting of local researchers, local NGOs, and local students. This helped reduce the costs associated with the extensive in-depth interviews or surveys that were carried out. As this thesis had access to fewer resources, and less time, only in-depth interviews will be used to complement and inform secondary resources such as websites and documentation for triangulation.

This case study approach was slightly different in that data collection method, type of respondents, data analysis, and research framework were adjusted to suit the process of development of loan proposals at the subnational government level and the researcher's limited resources. Survey was not applied in this study due to limitation of resources. Moreover, the population of individuals involved during the development of loan proposals at both sites was small enough and in-depth interview method was seen more appropriate to employ. Justifications and details discussion on the approach is provided in the next sections.

Furthermore, although some of the case studies are published in 2011 and 2012 (see for example Antlov & Wetterberg 2011; Patunru, McCulloch & von Luebke 2012; Rosser & Sulistiyanto 2013), research was conducted using data from between 2001 to 2009. Moreover, there have been lots of changes with respect to governance such as bureaucratic reforms, rapid socio-economic and political changes due to new elected local/national leaders, for instance, that may influence democratic life and leave some gaps to me to fill in the field of local governance.

4.2.1 Rationale for Adopting Multiple Case Studies

A multiple case study approach focusing on two different cases was adopted for this thesis. Patton states that the purpose of multiple case studies is to investigate the implementation of a program or a phenomenon in different environments. He adds that it is important to consider how

different cases in a multiple case study provide diversity across contexts, such as geography, and size of cities (2006, pp.23-25). According to Herriott and Firestone (1983, pp. 14-6), a multiple case study approach is more powerful than a single case study since it allows researchers to make cross-site comparisons of one particular program or event.

Studies by von Luebke (2009b), Patunru, McCulloch and von Luebke (2012), and Kristiansen et al. (2009) used different rationales for selecting multiple case studies. von Luebke (2009b) selected eight districts based on differences in local leadership, and societal pressures. Kristiansen et al. (2009) selected six districts in three different provinces based on Indonesia's geographical map: central, semi-peripheral, and peripheral. On the other hand, the selection of Surakarta, and Manado in the research of Patunru, McCulloch and von Luebke (2012) was based on three criteria: the size of the urban economy; differences in governance characteristics; and accessibility for the researchers.

In relation to the research in this thesis, the multiple case study approach was adopted to provide in-depth understanding of the implementation of governance practices in borrowing processes and provide an explanation of how and why (Yin 2003, pp. 5-6) subnational governments differ in terms of the implementation of governance.

In selecting multiple case studies, Stake (2006, p. 23) proposed three general criteria: (1) relevance to the phenomenon or context of study; (2) diversity across contexts, and (3) opportunity to learn about complexity and contexts (2006, p. 23). The first criterion refers to the program or phenomenon that will be studied by the researcher. In the context of my thesis, South Sulawesi Province proposed a road improvement project loan from PIP in 2012, while Surakarta proposed a local hospital project loan from PIP in 2011.

The second criterion is diversity across context. In this context, South Sulawesi Province and Surakarta Municipality were selected because, in developing their loan proposals, the two subnational governments had different experiences. Feedback from consultations held by the Indonesian Ministry of Finance in 2012 suggest that some subnational governments faced difficulty in getting approval for loans from local parliament members and received many objections from stakeholders in the local parliament and civil society. On the other hand, some subnational governments had smooth processes and received fewer objections from stakeholders.

In South Sulawesi Province, the borrowing initiative for the road project received many objections from non-governmental organisations, and members of the local parliament during the *Perda*-making process for borrowing approval. By way of contrast, Surakarta experienced a relatively smooth process with its local hospital project, which was supported by members of the local

parliament and other stakeholders. The contrast between these sites allowed me to look at different structures and processes in place in these jurisdictions that may have limited the number of objections in Surakarta, while seemingly causing a large number in South Sulawesi.

South Sulawesi Province and Surakarta Municipality also represent different levels of subnational government (provincial and city). Size and structure of government may influence the practices of governance during the development of loan proposals. With respect to geographic size and population, South Sulawesi Province is 46,083 km² in area, and comprises 21 districts, with 3 cities and a total population of 8.1 million (Indonesia Bureau of Statistics/BPS 2014). The proposed road improvement project in South Sulawesi was located across different districts and cities across the province. On the other hand, Surakarta Municipality is 44.04 km² in area, and comprises 5 subdistricts with a total population of 500,171 people (Statistics Indonesia 2012). This difference in geographical size could potentially influence the implementation of governance during borrowing initiatives.

Besides the difference in size, the scope of responsibility also differs between Governor (Province) and Mayor (Municipality), as governors have wider scope to coordinate policies in cities and districts within their jurisdiction. The provincial legislature is composed of members who are elected from different cities and districts across the province. This difference may influence decision making processes since legislature members come from different constituencies and may have different concerns.

Finally, South Sulawesi Province and Surakarta Municipality have different social, political, economic, historical, and cultural backgrounds that could influence the practice of governance during the development of loan proposals. In particular, it was expected that governance practices in South Sulawesi Province, where the Golkar Party dominates, might be different from practices in Surakarta which is dominated by the PDI-P Party. For example, there is a long history of local conflicts in South Sulawesi Province and of riots in Surakarta Municipality that could have influenced the implementation of good governance. This is explored further in Chapters 5 and 7.

The last proposal of Stake (2006, p. 23) in selecting multiple case studies is to provide opportunity to learn about complexity and contexts. In this sense, both sites provide an opportunity to understand governance around complex policymaking procedures at the subnational government level involving project planning, discussion and negotiation among stakeholders, and public consultation.

The issue of leadership is also important. Syahrul Yasin Limpo, Governor of South Sulawesi Province, is part of a strong local dynasty clan and started his career as a local bureaucrat (Buehler 2007). In contrast, Joko Widodo, Mayor of Surakarta, came from an ordinary family and had a background in business (Pratikno & Lay 2011, p. 269). Despite the difference in their respective backgrounds, both were known as strong leaders in their administrations. Previous studies on local governance in Indonesia, such as von Luebke (2009a, p. 280) and Patunru, McCulloch and von Luebke (2012, pp. 808-9), argued that leadership is one of the salient factors in the implementation and practice of governance. In this sense, we can explore the relationships between the leadership styles of both leaders and the implementation of governance.

However, it is also important to note that besides Stake (2006) suggestion, the selection of South Sulawesi Province and Surakarta Municipality was also related to access and resources to conduct research. When I was working for the Ministry of Finance, a consultation was held in 2012 on PIP lending that involved many participants from subnational governments. Officials from South Sulawesi Province and Surakarta Municipality were both involved. Contact with officials from both subnational governments has been maintained since then to obtain access for further research. Research on these sites was also feasible within time and other resource constraints such as funding, transportation, communication, and internet access.

4.3 Methods of Data Collection

The application of the case study approach requires multiple sources of information in order to gain in-depth understanding (Creswell 2013, p. 98). Evidence in case studies can be collected using many different methods (see for example Merriam 1998, p. 137; Stake 1995, pp. 60-8; Yin 2014, p. 106). Yin (2014, p. 105) proposes six methods of data collection: documentation, archival record searches, interviews, direct observation, participant-observation, and physical artefacts. Yin argues that no single method outweighs the others and that combinations of various sources of information will enrich the case study. Merriam (1998, p. 137) and Stake (1995, pp. 60-8) propose three methods of data collection in a case study: interview, observation, and documentation.

Collection of data in this study applies a combination of two methods proposed by Yin (2014, p. 105) that were seen as appropriate to the context of the research: in-depth interview, and documentation. These methods are discussed below.

4.3.1 *In-depth Interviews*

This study uses in-depth interviews as the primary data collection method. Chambliss and Schutt (2016, p. 215) define the in-depth interview as a qualitative technique that allows the researcher to collect comprehensive information with respect to the participant's experiences and perceptions using open-ended and semi-structured questions. Harrell and Bradley (2009, p. 10) argue that interviews are one of the best ways to find an explanation of conflicting information and verify that directly to the interviewee. The objective of applying in-depth interview within this study is to explore each participant's experiences and perceptions of the borrowing process.

Interviews in this research were semi-structured. According to Dearnley (2005, p. 22), the semi-structured interview allows the interviewer to raise further questions that are not listed in a structured list of questions. This method provides the flexibility to collect more detailed information from participants in order to enrich data generated. Barriball and While (1994, p. 330) state that semi-structured interviews allow the interviewer to ask follow up questions of participants in order to obtain clearer information and clarify participants' responses.

In the context of the present thesis, semi-structured interviews were used to follow up participants' responses regarding their experience during the development of loan proposals, and enable me to request more information and clarification. Interviews were conducted in Bahasa Indonesia and then translated and presented into English. Interviews were digitally voice-recorded and mostly conducted at participants' work places. Only three interviews were conducted at participants' homes at their request. I have not used participants' names in writing this thesis, in order to manage confidentiality. Where permitted, contact details of participants were kept in order to follow up and obtain updates.

In-depth interviews were conducted both at national and subnational government levels, involving different stakeholders who were concerned with the borrowing or *Perda*-making process, either directly or indirectly. At subnational government level, in-depth interviews were conducted mainly with three major types of stakeholders: (1) members of the Executive; (2) members of the legislature; and (3) civil society organisations. The Executive comprises local agencies such as planning, finance and other line agencies. The Legislature comprises members of the local parliament from different political parties. Lastly, civil society comprises non-governmental organisation activists. Selection of research participants is discussed in more detail in Section 4.4.

Research subjects were selected and approached to participate in in-depth interviews on the basis that they fitted into at least one of three categories: (1) they were a key actor in the borrowing

initiative process and/or *Perda*-making process; (2) they were familiar with subnational government borrowing experiences in Indonesia; (3) they were available and willing to talk about the process of borrowing. With respect to the profile of respondents, all members of executive agencies both at national and subnational government levels were key actors in middle to top management positions in their organisation. With respect to interviews with members of legislature, these were conducted with members from political parties that both supported, and raised objections to, borrowing proposals.

In-depth interviews were conducted in Indonesian language (Bahasa Indonesia). Interviews were digitally recorded and transcribed in the Indonesian language for analysis. For the purpose of writing this thesis, key parts of the transcripts were translated into English.

4.3.2 Documentation

Yin (2014, pp. 105-7) classifies documentation into six main categories: (1) letters, including e-mails, diaries, and notes; (2) written reports including agendas, announcements, and minutes of meetings; (3) administrative documents including proposals, progress reports, and other internal records; (4) formal studies relating to the case studied; (5) news/articles in mass media; and (6) the internet.

Bryman (1998, p. 543) also highlights the value of personal documents, official public documents, official private documents, press, and internet resources. According to Merriam (1998, p. 126), documents can be used as sources of information, or to corroborate hypotheses, or to track historical background. Bryman (1998, p. 555) further suggests that documents produced by institutions such as minutes of meetings can reveal issues raised in the meetings, discussion of issues, perspectives of different stakeholders, and further action taken.

This study collected documents that were closely related to research focused on borrowing and subnational government institutions. Documents were retrieved from three major sources: (1) official public documents; (2) official documents of non-governmental and civil society organisations; and (3) online news media. Official public documents were obtained with permission from both national and subnational government institutions that were involved during the *Perda*-making process such as the Ministry of Finance, PIP, DPRD, Commission of Information, and local line agencies. These official public documents included booklets, minutes of meetings, laws/regulations, project proposals, and official letters. Preliminary research was conducted in order to select important documents to be collected from these public institutions. Research participants were also consulted during interviews on available important documents that related closely to

borrowing processes. Public documents were also retrieved from the internet by visiting public institutions' website pages. In this way, information was obtained regarding press releases; tasks and functions of institutions; events and programs related to governance practices; development planning documents; local budgets; and laws/regulations.

The second source of documents comprises official private documents that were collected with permission from non-governmental organisations and civil society organisations that were involved during the *Perda*-making process. During the *Perda*-making process, analytical reports were issued by NGOs and members of parliament to counter subnational government proposals on borrowing, and these are an important source of information for the study. Besides analytical reports, documents collected from NGOs included booklets, press releases, and other publications related to their work. Some private documents were also retrieved freely from non-governmental organisations' websites to obtain information related to research, such as structure of organisations, historical background of organisations, roles and activities, programs to support governance practices, and press releases.

The third source of documents is online news media, and other online internet sources that cover the process of borrowing approval, in particular to PIP lending. Media coverage with respect to the borrowing initiative and the *Perda*-making process was found by searching through internet search engines with some keywords: *pinjaman pusat investasi pemerintah* (central investment agency lending), *pinjaman PIP* (PIP lending), *pinjaman PIP Sulawesi Selatan* (South Sulawesi PIP lending), *pinjaman PIP Surakarta* (Surakarta PIP lending), *utang Pemda* (subnational government debt), *Perda pinjaman daerah* (*Perda* on subnational government borrowing), *pansus pinjaman PIP Sulawesi Selatan* (South Sulawesi special committee on PIP lending), *pansus pinjaman Surakarta* (Surakarta special committee on PIP lending), *proyek pinjaman RSUD Surakarta* (RSUD Surakarta borrowing project), and *proyek pinjaman jalan Sulawesi Selatan* (South Sulawesi road borrowing project). This provided useful information such as interviews with stakeholders such as local leaders, members of parliament, NGO activists, and other local people whose views were not always included in official documents or reports.

Besides media coverage, information was obtained by searching through other available sources on the internet using some keywords such as *Perda pinjaman PIP Sulawesi Selatan* (*Perda* on South Sulawesi PIP lending), *Perda pinjaman PIP Surakarta* (*Perda* on Surakarta PIP lending); *akuntabilitas pinjaman PIP Sulawesi Selatan* (accountability of South Sulawesi PIP lending); *akuntabilitas pinjaman PIP Surakarta* (accountability of Surakarta PIP lending); *transparansi pinjaman PIP Sulawesi Selatan* (transparency of South Sulawesi PIP lending), *partisipasi pinjaman*

PIP Sulawesi Selatan (participation of South Sulawesi PIP lending); *partisipasi pinjaman PIP Surakarta* (participation of Surakarta PIP lending), *korupsi pinjaman PIP Sulawesi Selatan* (corruption of South Sulawesi PIP lending), and *korupsi pinjaman PIP Surakarta* (corruption of Surakarta PIP lending). Information obtained included blogs by research participants that provided personal views and other information with respect to the *Perda*-making process at subnational government level.

Analysis of these documents builds on the literature review in Chapter 2 relating to subnational government borrowing in Indonesia and internationally, in particular the historical background of borrowing initiatives in Indonesia since the 1970s, governance implementation, and the ‘big bang’ program of decentralisation in Indonesia in the early 2000s.

4.4 Selection of Research Participants

With respect to the selection of research participants or respondents, this case study used purposive or purposeful sampling. According to Bryman (2012, p. 418), in purposive sampling research participants are chosen by the researcher to fit certain criteria that are pertinent to the objectives of the research (2012, p.418). Patton (2002, p. 230) states: “[p]urposeful sampling focuses on selecting information-rich cases whose study will illuminate the questions under study”.

Selection of research participants was conducted in two stages. First, organisations directly and indirectly involved in subnational government borrowing processes were identified. Within these organisations, individual participants were selected on the basis of having knowledge and experience of, and information about, the development of loan proposals, or on the basis of having been closely involved in the development of infrastructure projects.

At the national level, PIP, as the lending agency, was the only organisation directly involved in the process. Nine officers from PIP were interviewed. At the subnational government level, the number of organisations directly involved was considerably greater.

Table 4.1 Selected Organisations in South Sulawesi Province

No	Organisations	Category	Persons Interviewed
1.	<i>Dinas Bina Marga</i> (Road Transport)	Coordinating Unit (Executive)	3 Officers
2.	<i>Biro Keuangan</i> (Finance Agency)	Supporting Agencies (Executive)	4 Officers
3.	<i>BAPPEDA</i> (Planning Agency)	Supporting Agencies (Executive)	1 Officer
4.	<i>Hubungan Masyarakat</i> (Public Relation Agency)	Supporting Agencies (Executive)	1 Officer
5.	<i>Komisi Informasi</i> (Commission of Information)	Central Government Agency in Subnational Government Level	1 Commissioner
6.	DPRD (Local Parliament)	Legislature	3 parliament members & 1 DPRD Staff
7.	KOPEL/Komite Pemantau Legislatif (Legislature Watch)	Local NGOs (Civil Society)	4 persons
8.	<i>Lembaga Pendidikan Rakyat Anti Korupsi</i> (Institute of People's Anti-Corruption Education or known as PERAK Institute)	Local NGOs (Civil Society)	1 person
9.	<i>Masyarakat Transportasi Indonesia – Sulsel</i> (Indonesian Transportation Society – South Sulawesi)	Local NGOs (Civil Society)	1 person

Table 4.1 shows that in South Sulawesi Province, eight agencies were selected to represent a range of points of view. *Dinas Bina Marga* (Road Transport Agency), *Biro Keuangan* (Finance Bureau) and *BAPPEDA* (Planning Agency) were the executive agencies involved in the road improvement project from planning to implementation stages. *Hubungan Masyarakat* (Public Relations Agency) was also selected as an agency of interest in order to examine how communication to the public was conducted by the Governor during the borrowing process. In total, nine persons were interviewed from these four organisations. The DPRD was chosen due to its important role as the counterpart of the Executive in the *Perda*-making process. Four DPRD members and staff were interviewed. Three NGOs, *Komite Pemantau Legislatif* (Legislature Watch or known as KOPEL, hereafter KOPEL), *Lembaga Pendidikan Rakyat Anti Korupsi* (Institute of People's Anti-Corruption Education or known as PERAK, hereafter PERAK Institute), and *Masyarakat Transportasi Indonesia – Sulsel* (Indonesian Transportation Society – South Sulawesi), were selected because of their key roles in commenting on or opposing the plan of the subnational government to borrow. It is important to note that these NGOs comprise a subset of all active NGOs in South Sulawesi (albeit an important subset). Therefore analysis of NGO participation in the *perda* process should be seen tentative. Six people from these three NGOs were interviewed. *Komisi Informasi* (Commission of Information of South Sulawesi) was selected due to its role in mediating a dispute between KOPEL and the Governor with respect to transparency of information during borrowing initiative process The Commission of

Information is a central government agency that operates in South Sulawesi Province and is tasked to ensure transparency of information within public institutions, and settle disputes between public institutions and the public or civil society across the province. One person from this organisation was interviewed.

Table 4.2 shows that nine organisations in Surakarta Municipality were selected due to their direct involvement in the development of the local hospital at Ngipang – Banjarsari.

Table 4.2 Selected Organisations in Surakarta Municipality

No	Organisations	Category	Persons Interviewed
1.	<i>Dinas Pendapatan Pengelolaan Keuangan dan Aset</i> (Finance Agency)	Coordinating Unit (Executive)	2 officers
2.	<i>Dinas Kesehatan</i> (Health Agency)	Supporting Agencies (Executive)	2 officers
3.	<i>BAPPEDA</i> (Planning Agency)	Supporting Agencies (Executive)	1 officers
4.	RSUD Ngipang (Ngipang Local Hospital)	Supporting Agencies (Executive)	1 officer
5.	<i>Hubungan Masyarakat</i> (Public Relations Agency)	Supporting Agencies (Executive)	1 officer
6.	<i>Dinas Perhubungan, Komunikasi dan Informasi</i> (Transportation, Communication, and Information Agency)	Supporting Agencies (Executive)	1 officer
7.	DPRD (Local Parliament)	Legislature	5 members
8.	PATTIRO	NGO (Civil Society)	1 activist and 2 local people who are living nearby the project site and members of PATTIRO's discussion forum.
9.	KOMPIP	NGO (Civil Society)	1 activist

Four organisations were related closely with the project: *Biro Keuangan* (Finance Agency) as coordinating agency; *Dinas Kesehatan* (Health Agency); *BAPPEDA* (Planning Agency); and *RSUD Ngipang* (Ngipang Local Hospital) as supporting agencies. Seven people from these agencies were interviewed. *Hubungan Masyarakat* (Public Relation Agency; one person interviewed) and DPRD (five members interviewed) were chosen for similar reasons as in South Sulawesi Province. However, PATTIRO and KOMPIP were selected due to their long involvement in improving the practice of good governance in Surakarta. Two activists from these organisations were interviewed, as were two local people affected by the hospital project and proposed as interview subjects by the activists. As is the case with respect to South Sulawesi, only a subset of NGOs was interviewed in Surakarta, and

therefore, findings in this thesis with respect to demand for transparency and participation from NGOs should be seen as tentative.

With respect to the selection of organisations with less direct involvement, the Project Management Unit of the Urban Sector Development Reform Project (PMU USDRP) was the only organisation selected. USDRP is one of the World Bank's lending projects for infrastructure development at subnational government level in Indonesia, and PMU USDRP is a central government unit responsible for management of USDRP, including project planning, selection of participating subnational governments, recruitment of consultants, monitoring and evaluation of projects, supervision of procurement, and reporting to the World Bank. The purpose of having PMU USDRP in this research was to extract information from their experience in managing projects and to obtain comparisons and better understanding between projects funded by PIP and the World Bank with respect to governance issues.

During the development of project proposals and at project implementation, the World Bank obliged participating subnational governments to implement good governance practices such as transparency of information, accountability, and participation. Including PMU USDRP in this research allowed me to develop a better understanding of the experience of PMU USDRP in managing the implementation of good governance practices at local level, and what kind of factors influenced governance implementation.

As noted above, interviews with NGOs in Surakarta led me to also conduct in-depth interviews with two local people who live very close to the project site and who are members of PATTIRO's discussion forum. The original intention was to only conduct interviews with the Executive, the local legislature and NGOs. However, these extra interviews were conducted to follow up on information from PATTIRO that local people who lived nearby the project were experiencing environmental problems as a result of the hospital construction. These local people were nominated for interview by PATTIRO.

4.5 Thematic Analysis of the Case Studies

The case studies were investigated using thematic analysis. Braun and Clarke (2012, p. 57) state that thematic analysis is a method of organising patterns of meaning or themes across a data set, and allows researchers to analyse shared meanings and experiences as written in the text or told by interviewees (2012, p.57). Guest, MacQueen and Namey (2012, p. 10) argue that thematic analysis is more than just about counting explicit words or phrases. It has a broader purpose of identifying explicit and implicit themes or patterns emerging from the data. Thematic analysis is therefore useful

for revealing important themes in a text (Attride-Stirling 2001, p. 387), and improving understanding and interpretation of information about people, events, and organisations (Boyatzis 1998, p. vi). Thematic analysis is one of the key methods used by scholars to analyse and interpret qualitative data as suggested by many scholars such as Aronson (1995); Boyatzis (1998); Patton (2002); Attride-Stirling (2001); Braun and Clarke (2006, 2012); Clarke and Braun (2013); Thomas and Harden (2008); Mills, Durepos and Wiebe (2010); Vaismoradi, Turunen and Bondas (2013).

The approach of Patton (2002, pp. 446-50) was used to develop the case studies. Patton's approach involves three steps:

1. Collecting raw data consisting of information about the person, program, institution, or setting;
2. Developing a case record in order to manage complex data;
3. Writing a final case study narrative by providing a descriptive story about a person, program, or institution in chronological order or on a thematic basis (2002, p.446-450).

In this research, I analysed the case study narratives in chronological order, from early planning process to the DPRD approval. this allowed focus on each stage of the *Perda*-making process, as well as pre-*Perda* and post-*Perda* stages. As discussed in Chapter 3, the *Perda*-making process encompasses the following stages:

1. Meetings among local institution/agencies;
2. Drafting of *Perda*;
3. Submission of *Perda* draft to DPRD;
4. Consultation on draft *Perda* with the DPRD and Head of Subnational Government;
5. Public hearing or public consultation; and
6. Legislation or approval.

After each case study was described in chronological order, thematic analysis was used to interpret the data. Braun and Clarke (2006, pp. 83-4; 2012, p. 58) argue that inductive or deductive approaches, or a combination of both, can be used to identify codes and themes. With an inductive approach, codes and themes emerge from the content of the data, and are not driven by the interests or concepts of the researcher. With a deductive approach, codes and themes are researcher-driven, and generated from theory. As Braun & Clarke state: "...researchers cannot free themselves of their theoretical and epistemological commitments, and data are not coded in an epistemological vacuum" (2006, pp. 83-4).

In this study, an explicitly deductive approach was used, where evidence from three main types of actor (the Executive, members of the DPRD [local legislature] and civil society activists) was organised into four broad themes: supply of transparency, demand for transparency, supply of participation and demand for participation, where indicators relating to each of these four themes are drawn from the literature (Clark 1995; Drew, Nyerges & Leschine 2004; Martin 2009; van Zyl 2014). More detailed discussion on these indicators is presented in the next section.

4.6 Research Framework

This research focuses on the deployment of two governance elements in the *Perda*-making process: transparency and participation. Florini (1999, pp. 4-5) defines transparency as the delivery of relevant information by organisations in order to maintain the accountability of those organisations to their stakeholders. Accountability is also about account giving by the power holder, and provision of explanations of actions to other stakeholders (Bovens 2005, p. 182; Mulgan 2003, p. 10). Some research uses the terms accountability and transparency interchangeably. As Koppel states “[t]ransparency is the literal value of accountability...Transparency is most important as an instrument for assessing organizational performance, a key requirement for all other dimensions of accountability” (2005, p. 96).

On the other hand, participation can be defined as sharing of power between people and government through community meetings, citizens’ advisory committees, administrative law, and citizens as customers (Bishop & Davis 2002, p. 14). It is important to involve citizens in policy-making processes to identify the needs and preferences of citizens, in order to create mutual trust and stability (Callahan 2007, p. 157). The research framework is outlined in Figure 4.1:

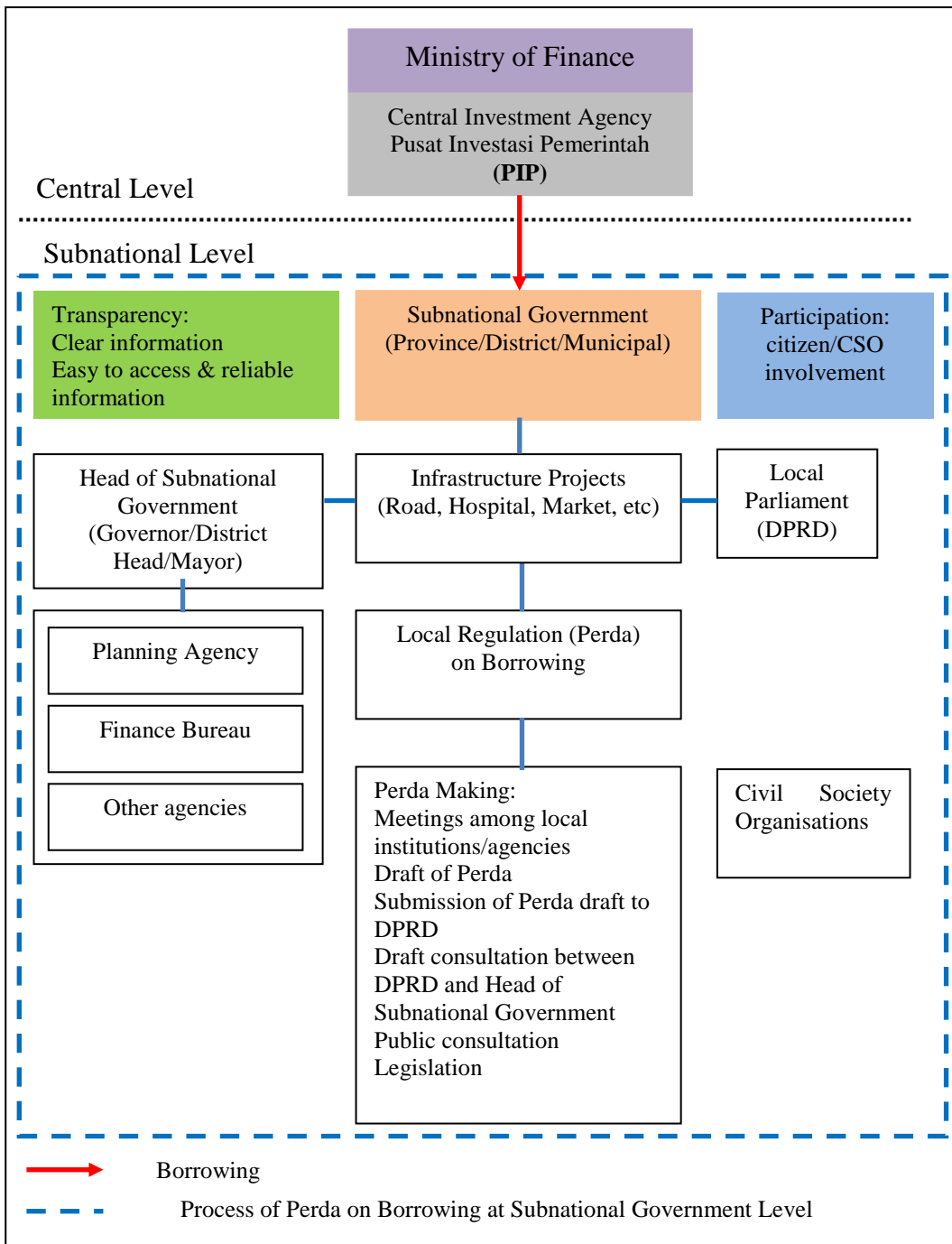


Figure 4.1 Research Framework

Figure 4.1 shows the enacting of transparency (green box), and participation (blue box) during the borrowing process. This research focused on exploring both the supply side (how subnational governments exercised governance) and the demand side (how civil society demanded better governance) of transparency and participation during the negotiation of loan proposals in the *Perda* mechanism.

The supply of transparency is investigated by using Drew, Nyerges, and Leschine's framework (2004, p. 1646). This framework looks at four major aspects of transparency supply:

clarity of information, integration of information, accessibility of information, and logic/rationale of decision. Demand for transparency is investigated by using the framework proposed by van Zyl (2014, p. 348). This identifies four major roles that NGOs can play in strengthening transparency and accountability: provision of accessible, reliable, and easy to understand information to other stakeholders; demanding accountability of government directly; providing advocacy and support to other horizontal institutions such as the legislature, and auditors; and encouraging more actors such as political parties, executive agencies, and donor agencies to demand accountability.

The provision of information during the borrowing process was explored in two respects: (1) political accountability, or provision of information by executive agencies to parliament; and (2) horizontal accountability, or provision of information by executive agencies to interest groups and non-governmental organisations.

With respect to participation, this research will focus on both the supply of (Martin 2009) and demand for participation (Clark 1995). Martin (2009) proposes three major elements in the investigation of participation: information, consultation, and co-production. On the other hand, Clark (1995) proposes that NGOs should engage directly in the development process by providing information to the public; establishing local forums and hearings; providing advocacy and political influence for the poor; and facilitating negotiations between the government and people affected by the government's policies.

The research in this thesis explores how the Executive involved local parliament members and interest groups in order to shape the development of loan proposals. It also examines the role of civil society in shaping subnational government policy during the borrowing process.

4.7 Research Ethics

This study was approved by the Flinders University Social and Behavioural Research Ethics Committee (SBREC) on August 12th, 2014 (Project Number 6595). Permission to conduct research in South Sulawesi Province and Surakarta was granted by the Ministry of Home Affairs of the Republic of Indonesia. Permission to conduct interviews and to collect documents was also obtained from all selected institutions at national and local level.

Signed consent was obtained from all individuals involved in this research to record the interview, and to use the recording or a transcription in preparing the thesis. Participation was voluntary. Participants could refuse to answer any questions, and were free to withdraw from the interview at any time without effect or consequences.

4.8 Conclusion

The scope of this research concerns the implementation of governance, in particular the principles of transparency and participation, during the development of loan proposals at subnational government level in Indonesia. This chapter has focused on research methods. A multiple case study approach (South Sulawesi Province and Surakarta Municipality) was proposed. Data were collected using in-depth interviews and documentary research. Selection of research participants was conducted purposively, involving those who had experience and knowledge of the development of loan proposal processes (the *Perda*-making process) and subnational government borrowing mechanisms.

Case study narratives were elaborated in chronological order, from early planning process to the DPRD approval. Thematic analysis was used to interpret the data. A deductive approach was used, where evidence from three main types of actor (the Executive, members of the DPRD [the local legislature] and NGO activists) was organised into four themes: supply of transparency, demand for transparency, supply of participation, and demand for participation. Indicators relating to each of these four themes were drawn from the literature (Clark 1995; Drew, Nyerges & Leschine 2004; Martin 2009; van Zyl 2014). In the next chapters, the thesis will elaborate on the background of the research sites, leading to discussion of findings from fieldwork in the two case study sites.

CHAPTER 5: SOUTH SULAWESI PROVINCE

This chapter provides general background on South Sulawesi Province, with this leading to the fieldwork findings in order to discuss the processes of transparency and participation during the development of the loan proposal and the role that members of the local Parliament and civil society play in this process. Moreover, this chapter also links to Chapter 9's discussion and analysis of the factors that influence the supply and demand sides of transparency and participation during the *Perda*-making process.

5.1 Introduction

This chapter discusses the general background of South Sulawesi Province with respect to geographical, historical, administration, governance, NGOs, politics, the road upgrade project, and past borrowing experience that is important to the analysis and discussion of thesis in Chapter 9, in particular to the factors influencing the supply and demand side of transparency and participation.

This chapter is broken down into eight sections. First, geographical and historical context of South Sulawesi Province which discusses the geographical characteristics and historical events that shaped the city. Second, local administration is discussed which includes the executive agencies and the legislature (DPRD) that were involved closely during the borrowing process. Third, local governance, discussing the experience of Surakarta in implementing good governance. Four, local politics which discusses the leadership of the mayor and his deputy. Five, non-governmental organisations that talks about the roles played by NGOs in South Sulawesi Province in governance reform. Six, the road upgrade project and the development process of the hospital. Seven, borrowing experience the fiscal capacity of South Sulawesi Province in managing past borrowings. The eighth and final section provides a conclusion.

At the end of the chapter, readers will have wider information and in-depth understanding about South Sulawesi Province and will be able to link it with the context of borrowing or *Perda*-making process and the implementation of transparency and participation (supply and demand side) that will be discussed in Chapters 8 and 9.

5.2 Geographical and Historical Context

Before going further into details about the province, the thesis will briefly discuss the geographical, socio-cultural and historical background of South Sulawesi that influenced and shaped current socio-economic, governance, and political life. South Sulawesi Province is located on the island of Sulawesi – the fourth biggest island in Indonesia, after Papua, Kalimantan, and Sumatera.

There are six provinces in Sulawesi: South Sulawesi, North Sulawesi, West Sulawesi, South East Sulawesi, Gorontalo, and Central Sulawesi. On the northern perimeter, South Sulawesi shares borders with West Sulawesi and Central Sulawesi. It also borders South East Sulawesi Province on the eastern side (Statistics Indonesia 2013, p. 3). The total area of South Sulawesi Province is about 46,717 square kilometres, with the capital city being Makassar. A map of Sulawesi, including provincial borders of South Sulawesi Province is illustrated in Figure 5.1:

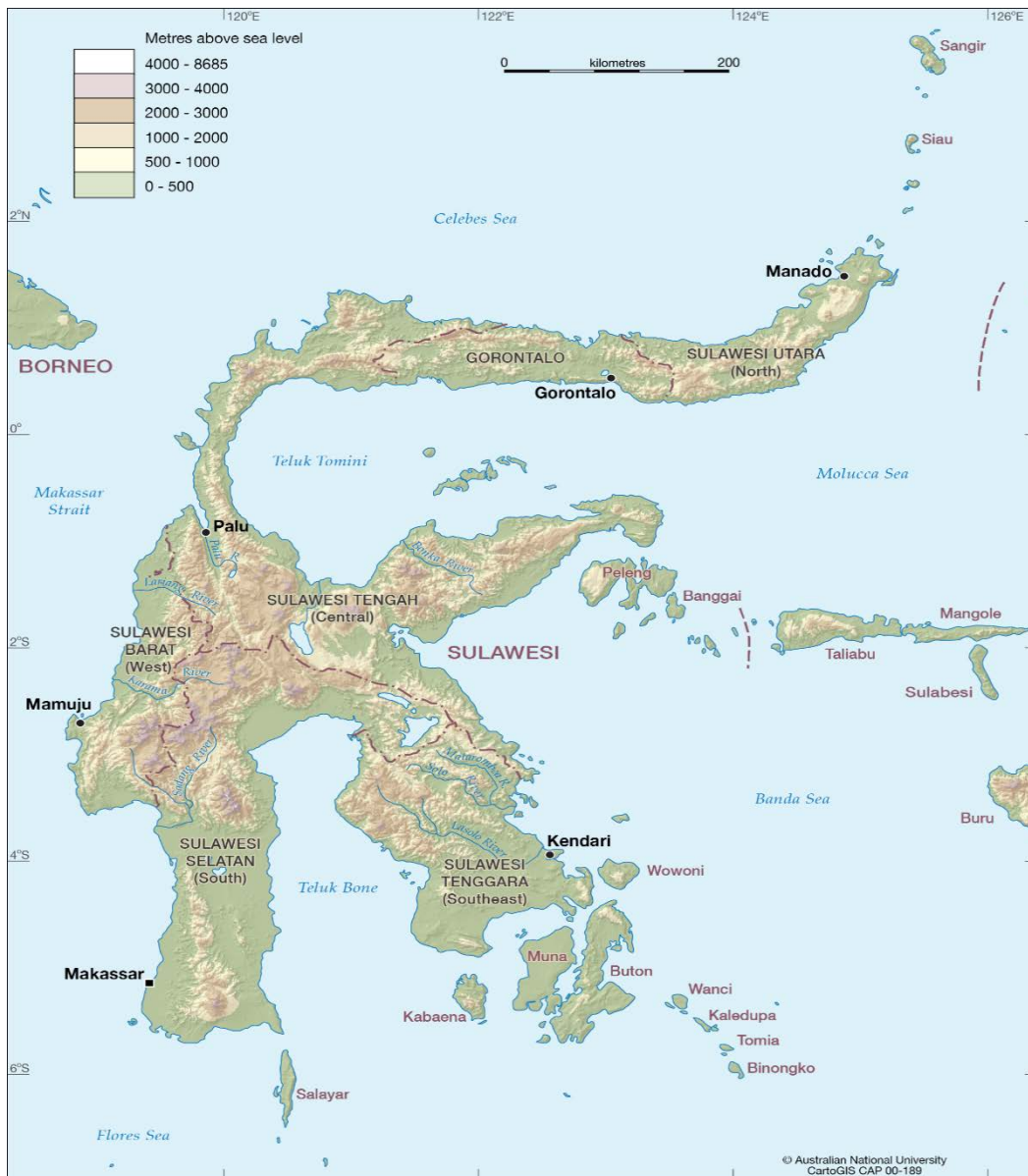


Figure 5.1 Map of Sulawesi Island
(CartoGIS - College of Asia and the Pacific - Australia National University n.d.)

The population of South Sulawesi Province is about 8.1 million distributed across districts and cities. South Sulawesi consists of 21 districts, and three cities. The location of districts and cities is shown in Figure 5.2. The targets portion of population in South Sulawesi is concentrated in the

capital city of Makassar, with approximately 1.3 million people, which is then followed by Bone District with around 700,000 of people, and Gowa District with approximately 600,000 people (Statistics Indonesia 2013, pp. 33-5).



Figure 5.2 Districts and Cities of South Sulawesi Province
(Statistics Indonesia 2014)

With respect to employment, more than 43% of South Sulawesi's total population work in the agricultural sector (Statistics Indonesia 2014, p. 42). According to Statistics Indonesia - South Sulawesi Province (2014), the agriculture sector is extremely significant to the province's economy. Agriculture has become the largest contributor to South Sulawesi's Gross Regional Domestic Product

at a rate of around 23-25% of total GRDP for the period of 2010 to 2013. It also plays a very important part in food sustainability, both locally and nationally, as South Sulawesi is the largest food crop producer in the eastern part of Indonesia, particularly rice production.

Besides the agricultural sector, the economy of South Sulawesi is also supported by trading as the second largest contributor (17.9%), followed by the service sector (17.4%), manufacturing sector (12.2%), and mining sector (6%) (Statistics Indonesia - South Sulawesi Province 2014). Examining GRDP by district or city, in 2012, Makassar contributed around 30% of total Gross Regional Domestic Product (GRDP) and had become the largest contributor to total GRDP (Statistics Indonesia 2013, pp. 200-11).

South Sulawesi is known as one of the more well-developed communities in Indonesia and also as the gateway to eastern Indonesia. In this section, the thesis will discuss the two main topics relevant to the research: socio-cultural life in South Sulawesi; and power and politics in South Sulawesi.

Firstly, South Sulawesi has particular characteristics, both socially and culturally, due to the very long history of the land and the people that has inhabited the region for centuries, long before Indonesia was formed as a nation and proclaimed independence in 1945. There are four major ethnic groups (listed from largest to smallest): Bugis, Makassar, Toraja, and Mandar. With respect to the elites, all of the governors of the province since 1945 have been Bugis, however, Syahrul Yasin Limpo, who was elected Governor in 2008, is Makassar. Limpo is discussed in greater detail below in Section 5.3.

Some studies on South Sulawesi have argued that relationships within the local community are based on a patronage system (see Chabot and Amal 1992; Pelras 2000; van Klinken 2008; Zuhro et al. 2009) and the system itself has operated since before the modern era (Pelras 2000, pp. 17-22; Zuhro et al. 2009, pp. 184-9). However, according to Pelras (2000, p. 20), the relationship between the superior and the follower is voluntary and can be non-permanent. In order to maintain loyalty, patrons should be able to provide security and welfare for their followers.

In South Sulawesi's modern political life for instance, Zuhro et al. (2009, p. 188) argue that the influence of the patronage system is still visible as the majority of the elected local parliament members are from noble families; many elected mayors or district heads are local noblemen; and noble families try to strengthen their power by appointing their own clan members to fill various strategic positions in their offices.

Zuhro et al. (2009, pp. 262-3) also add that the patronage system in South Sulawesi has created a situation of pseudo political participation in elections since it is highly mobilised and steered by the patron or the elites. A study of Bolong (2006, p. 267) in the coastal community of Galesong Utara and Pangkajene in South Sulawesi also suggests that the high level of political participation within both areas during local elections is actually due to the direct mobilisation of the people by their patrons.

Secondly, with respect to power and politics, South Sulawesi has been coloured by the strong presence of noblemen in leadership positions during the Dutch imperialist era (Harvey & Amal 1992, p. 15; Harvey 1977, p. 21; Mattulada 1998, p. 392), as well as in military leadership positions since 1945 (Amal 1992, p. 99) and in the communist movement (Amal 1992, p. 194). With respect to political party power, the Golkar party came to dominate in South Sulawesi in the 1960s after Suharto led the country and gave more important roles to military officers in strategic civil service positions to stabilise government and improve efficiency in the bureaucracy (Amal 1992, p. 133). During the 1960s, some of the founding fathers of Golkar were military men such as Colonel Muhammad Jusuf, an army leader of South Sulawesi during 1960s, and also Colonel Yasin Daeng Limpo, the patriarch of the Limpo clan (Amal 1992, p. 102; Buehler & Tan 2007, p. 49).

The more stable political condition in South Sulawesi during the 1970s brought economic improvement to the region. Amal (1989, p.135) argues that there was lots of funding available both from central budgets and international development agencies for various projects. This created a multiplier effect with the establishment of local and national enterprises within the region to take advantage of business opportunities.

According to Amal (1992, pp. 178-81), in the absence of accountability structures, elites, including governors, *bupati* (head of district) and military officers used their power to build a corrupt patronage system, where they colluded with business, which benefited from political connections. Corruption and collusion were widespread within the province during this period, as many projects were implemented by firms that had strong connections powerful elites both locally and nationally.

In conclusion, South Sulawesi has a long historical background which has unarguably shaped the current political power map. Power within the province was historically shared between military officers and noblemen. The revolution era, rebellion movement, and communist penetration made way for strong military men in South Sulawesi. The need to stabilise political conditions during the New Order also provided more space for military men to be appointed to rule the province. However,

in the absence of accountability, such great power held by military men nurtured collusion and corruption between them and the business sector.

5.3 Local Administration

This section discusses local administration in South Sulawesi. Section 5.3.1 provides a profile on the Executive (the Governor and his subordinates) while Section 5.3.2 discusses the structure of the parliament in South Sulawesi.

5.3.1 The Executive

In the period of 2009–2014, South Sulawesi administration was led by Governor Syahrul Yasin Limpo and his Deputy Governor Agus Numang who were supported by a coalition of four parties: PDI-P, PAN, PDS, and PDK. In 2014, the incumbent team won the local election and will hold power in the province for a term of five years until 2019. In running the administration, the Governor shares power with the Deputy Governor. The Governor is also supported by 47 different local institutions with specific duties, and whose leaders are appointed directly by him. Some of the local institutions involved during the development of loan proposal were *Badan Perencanaan Pembangunan Daerah/BAPPEDA* (Planning Agency), *Badan Pengelola Keuangan Daerah/BPKD* (Local Financial Management Body), and *Dinas Bina Marga* (Road Transport Agency).

5.3.2 The Legislature

In producing local laws, the Governor has to negotiate and formulate the proposed policy with *Dewan Perwakilan Rakyat Daerah/DPRD* (legislature). Policy proposals can be initiated by the Governor or the DPRD. During the period 2009 – 2014, there were 75 members of the DPRD.

Table 5.1 Composition of DPRD of South Sulawesi 2009–2014

No	Political Parties	Members	Factions
1.	<i>Partai Golkar</i> (Functional Group)	18 members	<i>Golkar</i>
2.	<i>Partai Demokrat</i> (Democratic Party)	10 members	Demokrat
3.	<i>Partai Keadilan Sejahtera/PKS</i> (Prosperous Justice Party)	7 members	PKS
4.	<i>Partai Amanat Nasional/PAN</i> (National Mandate Party)	7 members	PAN
5.	<i>Partai Demokrasi Kebangsaan/PDK</i> (Democratic Nationhood Party)	7 members	PDK
6.	<i>Partai Hanura</i> (People's Conscience Party)	7 members	<i>Hanura</i>
7.	<i>Partai Persatuan Pembangunan/PPP</i> (United Development Party)	5 members	PPP
8.	<i>Partai Demokrasi Indonesia Perjuangan/PDI-P</i>	3 members	<i>Fraksi Sulsel Bersatu</i>

No	Political Parties	Members	Factions
	(Indonesian Democratic Party-Struggle)		(Faction of South Sulawesi United)
9.	<i>Partai Damai Sejahtera/PDS</i> (Prosperous Peace Party)	2 members	
10.	<i>Partai Keadilan dan Persatuan Indonesia/PKPI</i> (Indonesian Justice and Unity Party)	2 members	
11.	<i>Partai Bulan Bintang/PBB</i> (Crescent Star Party)	2 members	<i>Fraksi Ummat</i> (People's Faction)
12.	<i>Partai Penegak Demokrasi Indonesia/PPDI</i> (Indonesian Democratic Vanguard Party)	1 member	
13.	<i>Partai Kebangkitan Bangsa/PKB</i> (National Awakening Party)	1 member	
14.	<i>Partai Bintang Reformasi/PBR</i> (Reform Star)	1 member	
15.	<i>Partai Gerindra</i> (Great Indonesia Movement)	1 member	
16.	<i>Partai Republika Nusantara</i> (Archipelago Republic Party)	1 member	

(DPRD of South Sulawesi Province 2015)

Table 5.1 shows that Golkar, with 18 members, was the strongest party in the DPRD during the period 2009 – 2014, followed by Demokrat Party with 10 members, and PKS, PAN, PDK, and Hanura with seven seats each. The remaining parties have only one or two seats in the DPRD. These parties came together to form factions (*fraksi*) in the DPRD. A faction is a group consisting of at least five DPRD members, and every DPRD member is expected to belong to a faction.

Table 5.1 also shows that, there were nine factions in the DPRD of South Sulawesi. Golkar, Demokrat, PKS, PAN, PDK, Hanura, and PPP formed their own individual factions. PDI-P, PDS, and PKPI parties, with less than five members each, combined to form a faction called *Fraksi Sulsel Bersatu* (South Sulawesi United Faction). PKB, PBR, Gerindra, PRN, and PPDI parties joined together to form *Fraksi Ummat* (People's Faction).

The position of chairman or head of DPRD during the period 2008 to 2013 was held by Mohammad Roem, a politician from the Golkar Party who was former *Bupati* (head of subnational government) of the District of Sinjai. His deputy chairmen in the DPRD were from the Demokrat, PAN, and PKS parties. The position of DPRD leader is a strategic one. Many heads of subnational governments have advanced their careers through DPRD leadership. One example is Arifin Nu'mang, a former DPRD Chairman who is currently Deputy Governor of South Sulawesi.

During the period 2009–2014, five commissions were positioned in South Sulawesi's parliament: (1) Commission A on Administration, (2) Commission B on Economics, (3) Commission C on Finance, (4) Commission D on Development, and (5) Commission E on People's Welfare. With regard to the PIP loan, two commissions (C and D) were involved during the *Perda* process.

5.4 Local Governance

Some reports have attempted to measure local governance in Indonesia (Kemitraan 2013, 2014; KPPOD & the Asia Foundation 2011, 2012). The most recent report on governance at provincial level was conducted by The Partnerships for Governance Reform, also known as *Kemitraan* (Partnership). In 2013, they released the Indonesia Governance Index (IGI) 2012. Research by *Kemitraan* has been widely used by official agencies in Indonesia such as the Commission of Corruption Eradication (KPK) and Ministry of Home Affairs, as well as international agencies such as OECD, and Ausaid.

The Report attempted to measure the performance of 33 provinces in four major areas: (1) government, (2) bureaucracy, (3) civil society, and (4) economic society, based on the six principles

of good governance: participation, transparency, fairness, accountability, efficiency, and effectiveness.

Data were collected from primary and secondary sources. Primary sources data (perception data) were collected using two main methods. Firstly, questionnaire and interview with 27 selected experts from various field in each province such as academics, NGO activists, business actors, and government officers. Secondly, an evaluation form that was completed by one researcher in each province by using governance indicators. Secondary sources were compiled from documentary research by investigating official government documents such as local budgets, medium-term development planning (RPJMD) documents, financial statements, government activities records, and annual accountability reports.

The rationale for *Kemitraan* to focus on the four major areas was because there was a belief that those four sectors are interrelated with, and have the potential to create optimal outcomes for, good governance for the advantage of the people. In other words, good balance and strong synergy among the four areas to achieve robust local governance is needed at the local level.

First, government, defined as high-ranking political officials driving the local policies, consists of the Executive and legislature. The Executive refers to the governor and deputy governor, while legislature refers to members of DPRD. Functions of government assessed include the implementation of regulatory frameworks, budget allocation, development, coordination, and monitoring.

Second, bureaucracy is described as implementation agencies at provincial level which serve the public. Functions of bureaucracy assessed by *Kemitraan* were revenue collection, quality of public service, and how those agencies regulate the economy. Third, civil society is defined as non-governmental organisations, and non-profit oriented organisations, associations, and foundations. The two key functions assessed by *Kemitraan* were how they provide policy advocacy, and support people's empowerment.

Fourth, economic society consists of profit oriented business entities which also provide advocacy and protection for a more business friendly environment. Functions assessed include the participation of business actors in improving the business climate, and how they promote local economic activities.

Kemitraan attempted to identify the most suitable principles of good governance within the socio-political context of Indonesia. The first principle is *participation* (stakeholder involvement in

the policy-making process within each area and sub area); second, *fairness* (equal treatment irrespective of gender, religious, status, and ethnic background); third, *accountability* (how local agencies respond to stakeholders); fourth, *transparency* (the extent to which local agencies are able to provide clarity of information to the public); fifth, *efficiency* (extent to which local agencies are able to use their resources optimally); and sixth, *effectiveness* (to what extent policy outcomes are achieved as planned) (Kemitraan 2013, p. 50).

The IGI uses a scale of 1 (very poor) to 10 (very good), with 5 rated as ‘fair’, to measure performance of each focus area. The index also allows comparison across provinces.

Table 5.2 South Sulawesi Province Governance Index 2012

Focus Area	Index per Focus Area	Participation	Fairness	Accountability	Transparency	Efficiency	Effectiveness
Government	5.20	6.40	2.92	5.80	5.20	5.44	6.06
Bureaucracy	5.39	2.28	6.18	7.73	3.25	4.88	6.78
Civil Society	6.40	6.40	6.40	6.40	6.40	6.40	6.40
Business	6.15	6.40	5.82	6.40	6.40	6.40	5.39

(Kemitraan 2013b, p. 75)

Table 5.2 gives a broad picture of the implementation of governance principles in South Sulawesi Province. Performance in the four focus areas and the implementation of the six elements of governance varies greatly, however, among the four focus areas, performance of civil society ranks the highest. In terms of the implementation of the elements of governance within the focus areas, the highest score (7.73) is for accountability of the bureaucracy. Two indicators of accountability were assessed: the Financial Audit Agency (BPK) opinion of annual budget; and compliance of economic policies with economic zoning area and environmental protection policies (Kemitraan 2013b, p. 62). *Kemitraan* states that relatively high scores for accountability among the 33 provinces in Indonesia are due to the use of procedural indicators such as BPK audit in this report, rather than performance indicators (Kemitraan 2013b, p. 16).

In Indonesia, it is compulsory for national and local agencies to comply with government accounting standards and audit by BPK. Compared to district and city levels, the quality of provinces' financial reporting is far higher. In 2012, 61% of provinces in Indonesia received unqualified audit status or *wajar tanpa pengecualian* (WTP) on BPK audit of their financial statements, while only 22% of districts and 38% of cities have earned the same status (Badan Pemeriksa Keuangan 2013, p. 42). WTP is a type of financial audit report conducted by BPK in order to monitor the ability of subnational government to provide sound financial statements that adhere to government accounting standards. However, this audit opinion is not related to the integrity or cleanliness of subnational government in terms of corruption practices for instance.

On the other hand, the weakest part of South Sulawesi is found in the participation within the area of bureaucracy with the score of 2.28. Four indicators are used by *Kemitraan* to assess participation within bureaucracy area: (1) the establishment of public complaint centre in the Provincial Revenue Collection Office; (2) the establishment of public complaint centre in health, education, and poverty eradication sectors; (3) the establishment of board of health, education, and poverty reduction; (4) the establishment of regular forums between public and subnational government to improve investment climate, employment rates, and local economic empowerment (Kemitraan 2013b, p. 62). In the context of this thesis, these indicators, particularly the establishment of regular forums between the public and subnational government in the policy-making arena might be relevant and useful in order to investigate the development of loan proposal process in South Sulawesi.

In terms of transparency, the table also shows that the area of bureaucracy is categorised as poor and is the weakest among other areas with the score of 3.25. Indicators used to assess transparency in bureaucracy are (1) accessibility of financial documents in bureaucracy such as *Rencana Kerja dan Anggaran Satuan Kerja Perangkat Daerah/RKA SKPD* (Local Agencies' Work and Budget Plan), *Daftar Pelaksanaa Anggaran Satuan Kerja Perangkat Daerah/DPA SKPD* (Local Agencies' Budget Implementation Document); and (2) accessibility to provincial investment regulations.

With respect to local transparency, this study suggested that transparency in government and bureaucracy areas is harder to implement than procedural accountability. *Kemitraan* reports difficulties in getting access to information in 19 provinces. It required personal lobbying and approaching certain *pejabat tinggi* or high-ranking officials in local agencies to obtain the documents which also suggests non-compliance with Law No.14 Year 2008 regarding Public Information Disclosure (Kemitraan 2013b, p. 16). In the context of this thesis, accessibility of information might

be relevant and useful to investigate the supply of transparency by the Executive to NGO and DPRD. Did DPRD and NGOs face difficulties in obtaining the documents related to the road upgrade project? To what extent did the Executive supply or provide project information to wider stakeholders?

Table 5.3 Governance Index of Provinces on Sulawesi Island

No	Province	Index Score	Category	Regional Ranking (Sulawesi)	National Ranking
1.	North Sulawesi	6.17	Fairly Good	1	9
2.	West Sulawesi	5.91	Fair	2	14
3.	South Sulawesi	5.67	Fair	3	21
4.	Gorontalo	5.64	Fair	4	23
5.	Central Sulawesi	5.47	Fair	5	25
6.	South East Sulawesi	5.05	Fair	6	27

(Kemitraan 2013b, pp. 75-7)

Table 5.3 provides a general overview of South Sulawesi’s governance position among the five other provinces in Sulawesi. South Sulawesi’s total index score is 5.67 and is categorised as fair. The top position is held by North Sulawesi with a total score of 6.17 while the bottom position is held by South East Sulawesi with a total score of 5.05. Within the national context, South Sulawesi is ranked 21 out of 33 provinces. South Sulawesi’s score was also below the national average for governance in the 33 provinces (Kemitraan 2013b, p. 36).

Table 5.4 Comparison of Governance Performance (National vs South Sulawesi Province)

Area	Index per Area	Participation	Fairness	Accountability	Transparency	Efficiency	Effectiveness
Government	5.20	6.40	2.92	5.80	5.20	5.44	6.06
	5.28	5.87	3.89	5.45	4.58	7.51	5.49
Bureaucracy	5.39	2.28	6.18	7.73	3.25	4.88	6.78
	5.68	3.96	5.91	6.17	5.04	6.98	5.38
Civil Society	6.40	6.40	6.40	6.40	6.40	6.40	6.40
	6.33	6.53	6.28	6.17	6.28	6.22	6.48
Business	6.15	6.40	5.82	6.40	6.40	6.40	5.39
	5.72	6.16	5.83	6.18	5.8	5.54	4.74

Legend:
 South Sulawesi
 National

(Kemitraan 2013b, pp. 37, 75)

Table 5.4 compares national average scores with those for South Sulawesi. With respect to participation, the Government (high-ranking political officials) in South Sulawesi receive a higher score than the national average, while Bureaucracy receives a lower score. Scores for Civil Society and Business are close to the national average. With respect to transparency, Government again receives a higher score than the national average, while Bureaucracy again receives a lower score, and the Civil Society score is close to the national average.

Although participation and transparency scores in Government area is higher than national average, *Kemitraan* (2013a, pp. 403-4) argued that the participation and transparency tended to be formalistic. Based on a workshop on governance, *Kemitraan* found many complaints from civil society in South Sulawesi Province, that participation is not substantive, but merely as an accomplice for the formal process of policy making. Moreover, access of information to budget documents is difficult, and there is a lack of transparency in the media. On the other hand, the participation score for Bureaucracy, which is lower than national average is caused by the absence of regular participation forums between government and civil society, according to *Kemitraan* (2013a, pp. 403-4).

In conclusion, the governance index provides useful information on how the government and bureaucracy of South Sulawesi Province implemented transparency and participation. Moreover, it also provides information about the roles of civil society in governance reform. Although research by

Kemitraan did not investigate *Dinas Bina Marga* (the road project coordinating agency), research findings might still be relevant to the topic of thesis since data collection was done during Limpo's administration. Furthermore, research by *Kemitraan* can enrich the analysis and discussion of the supply and demand side of transparency and participation as well as help the thesis to investigate factors that influence the performance of governance during the development of the loan proposal process discussed in Chapter 9.

5.5 Local Politics

Syahrul Yasin Limpo started his career as a local bureaucrat in South Sulawesi Province in 1980. He held several positions at the provincial and district levels before being appointed to more important positions. From 1994 to 2002, he was *Bupati* (head of subnational government) of Gowa District for two terms (Government of South Sulawesi Province 2015). In 2003, he was appointed by DPRD as Deputy Governor of South Sulawesi Province under Governor Amin Syam (Muannas & Amir 2002).

In 2008, Syahrul Yasin Limpo was elected Governor in the first local direct election held in South Sulawesi. His main opponent was Amin Syam, the incumbent governor who was nominated by Golkar Party. In the election, Syahrul Yasin Limpo was nominated and by PDI-P and PAN Party. However, to get support from Golkar voters, he nominated Agus Arifin Nu'mang, a former Head of DPRD from the Golkar Party, as his Deputy Governor (Buehler 2007).

Besides his experience in the local bureaucratic system and his extensive networks, Syahrul Yasin Limpo's power also grew with the support of the Golkar Party. Although he was not nominated or supported by Golkar Party in the 2008 election, he nonetheless had a long-standing career within Golkar (Buehler 2007). After he won the election, he restored his association with Golkar in 2009 and was appointed as Head of the Golkar Party of South Sulawesi until 2014, replacing Ilham Arief Sirajuddin who later became his opponent in the gubernatorial election of 2012.

According to Buehler and Tan (2007, p. 49), the relationship between Syahrul Yasin Limpo and the Golkar Party can be traced from his family background. His father Yasin Daeng Limpo, an army colonel, had a powerful role in *Sentral Organisasi Karyawan Swadiri Indonesia* (SOKSI), one of the organisations that formed Golkar Party in 1964. Yasin Daeng Limpo passed away in the age of 85 in 2009, but family members continue to hold important positions in the Executive and legislature. For a more comprehensive discussion about the Golkar Party in Indonesia, see Reeve (1985).

Tomsa (2005) argues that politics in South Sulawesi have been strongly influenced by local people who are prominent in the community and from a high social class, like Limpo's family, and that Limpo's family reputation stems primarily from money; a lot of supporters and loyal thugs. With respect to the thugs, Buehler (2007) argues that the key to the political success of the Limpo clan in South Sulawesi is first, intimidation by thugs controlled by the clan, and second, distribution of largesse through the provision of jobs and favours. Buehler points to several private security companies comprising hundreds of thugs that are controlled by the Limpo clan. These security companies usually control nightclubs and provide security at local events in South Sulawesi.

Even though Syahrul Yasin Limpo could be described as an oligarch, some progress has been achieved under his administration. With respect to financial accountability, South Sulawesi has enjoyed a very good reputation since it achieved unqualified audit opinion of financial reports from the Financial Audit Board for five consecutive years from 2010, which is quite rare in Indonesia. Although this audit does not correlate directly with zero practice of corruption, it is, however, a good result in terms of financial accountability. With respect to borrowing, an unqualified audit report is required by PIP in order to ensure repayments and funds will be managed in accordance with accounting standards and procedures.

5.6 Non-Governmental Organisations (NGOs)

Non-governmental organisations (NGOs) have influenced local policy making in South Sulawesi for more than a decade. The role of local NGOs in governance reform in South Sulawesi is quite significant (Antlov & Wetterberg 2011; BAPPENAS n.d.; SMERU 2000; Sumarto, Suryahadi & Arifianto 2004; Triwibowo 2012). The NGO movement in South Sulawesi Province has been flourishing for three decades with its rise during the 1980s to the 1990s triggered by the establishment of national government programs such as *Jaring Pengaman Sosial/JPS* (Social Security Net), and *Kredit Usaha Tani/KUT* (Subsidised Farming Credit) that involved NGOs as partners of government. Approximately 300 NGOs were operating in South Sulawesi Province in early 2000 (SMERU 2000, pp. 62-4).

During the 2000s, three main NGO forums operated in South Sulawesi: WALHI, a forum focusing on environmental issues; FORKES, a forum mainly targeting health issues; and FIK ORNOP, a forum on reinforcing communication and sharing information among NGOs by facilitating capacity building and partnerships (SMERU 2000, p. 64; Triwibowo 2012, p. 7).

Although there have been many NGOs in South Sulawesi working in various fields, corruption eradication is still the main trigger to initiate movements among NGOs. With respect to

challenges, NGOs in South Sulawesi also experience similar difficulties to many NGOs in Java, in particular to improve supply side of participation in the policy-making arena at all levels of government (ANSA-EAP 2012, p. 44)

Collaboration between NGOs and press or media is not new in South Sulawesi Province. Mangara and Syafei (2008) have written about a program broadcast by Mercurius FM—a local radio station in Makassar that since 2002 has discussed many local social, political, economic and cultural issues in order to educate local people in democratic life by involving many key persons such as members of parliament, bureaucrats, businessmen and academics. They also argue that discussions during the program have often times influenced the local policy-making arena in Makassar. Moreover, research by Triwibowo (2012, pp. 7-11) discusses collaboration between FIK ORNOP, Mercurius FM, and *Tribun Timur* (a local newspaper) to raise issues relating to local health policy that resulted in improved health services for the poor people and greater accountability between subnational government and citizens in Makassar City.

According to BAPPENAS (n.d., pp. 7-13), NGOs based in Makassar, South Sulawesi are mostly quite independent of government, but that their networking capacity appears to be limited, as they are split into two major factions. With respect to funding, the study found that NGOs are dependent mainly from donor agencies support. Funding support from subnational governments is minor and channelled through grants. As the government watchdog, monitoring is conducted through dialogues with government officials, participating in the formal public hearing process in parliament, and conducting press releases via mass media.

With respect to the process of *Perda*, NGOs in South Sulawesi are quite active in providing advocacy, promoting community participation, and facilitating discussion between the executive and the parliament during the process. Research of Prianto (2007, pp.164-8) that aimed to investigate the role of actors during the formulation of *Perda* on spatial planning in Makassar municipality argued that NGOs in South Sulawesi such as WALHI, FOSIL (Environmental Issues Study Forum), and KOPEL played important roles during the *Perda* process. During the dispute between the executive and the legislature on the proposed *Perda* on spatial planning for instance, KOPEL managed to facilitate dialogues among actors and accommodate wider interests into the *Perda*. According to their website, KOPEL was involved in the formulation of *Perda* thorough provision of assistance to the DPRD on the draft proposed by the Executive, to ensure benefits for a wider range stakeholder (www.kopel-online.or.id).

With respect to the borrowing project in South Sulawesi, some NGOs such as KOPEL and PERAK Institute were actively involved during the process. They worked together to pressure the government while, at the same time, providing advocacy and communication with other stakeholders such as law enforcement and members of parliament to monitor the project. In the next paragraph, I will discuss the background of KOPEL as the most vocal local NGO with respect to the borrowing project.

KOPEL was the most vocal NGO with respect to the borrowing project. KOPEL was established in 2000 in Makassar by local activists who were mostly university students and journalists covering the DPRD. Since 2000, KOPEL have conducted advocacy and assistance to disadvantaged groups such as women, children, fishermen, farmers, and disabilities people. According to their report, KOPEL (2011, pp.10-24) have initiated the establishment of parliament groups in cities and districts in South Sulawesi Province that consists of community leaders, women leaders, and youth leaders to pressure the executive and the legislature in formulating inclusive and transparent local budget. KOPEL argued that parliamentary groups had successfully increase direct participation of civil society in the development planning process and also in the formulation of the local budget. Beside advocacy and assistance to the grassroots, most of their work is focused on improving governance, in particular with respect to transparency, participation, and accountability through empowerment and monitoring of DPRD. They were also vocal on corruption. Indeed, Abraham Samad, the former chairman of Komisi Pemberantasan Korupsi/KPK (Commission of Corruption Eradication) which is a very powerful national agency for combating corruption in Indonesia, had previously worked for KOPEL as their legal advisor.

Besides focusing on governance and corruption, KOPEL also aims to empower DPRD through advocacy and capacity building to ensure that DPRD is able to function optimally to produce policies that serve the interests of the people, instead of simply acting as a rubber stamp for government which commonly occurred during Suharto's era. KOPEL also hold forum discussions with local parliament members and other interest groups. During my field work, I also had the opportunity to observe a discussion forum between KOPEL and some parliament members and other interest groups to discuss a regulation on the internal mechanism of DPRD.

KOPEL have developed extensive partnerships with national and international institutions to improve governance: Partnerships for Governance Reform in Indonesia, European Union, USAID, Ausaid, Ministry of Home Affair, UNDP, and several research institutions and universities. In South Sulawesi, KOPEL have also established representative offices in some cities/districts such as in Gowa, Sinjai, Luwu Timur, and Bulukumba. Although KOPEL has been supported by international

institutions and developing partnerships with bureaucracy, the work of KOPEL remains independent of the government, and can represent the local community. With respect to Hadiwinata's (2003, p. 103-4) classification of NGO that discussed previously on Chapter 2, KOPEL is both a development NGO and a movement NGO, since it conducts a wide range of activities that cover participatory development and social justice or population welfare. During my fieldwork, I also found that KOPEL tended to oppose the Executive, but had a close relationship with the legislature due to their advocacy to strengthen its role. However, in their activities, KOPEL do not mobilise mass or grassroots movements to protest government policy, but rather use the media to voice their concerns.

One of the important issues that triggered KOPEL to act during the borrowing process was the allegation of corruption involving the Executive, as the project was initiated during the candidacy of Syahrul Yasin Limpo, the incumbent governor who ran for a second term of office in 2012. KOPEL and other NGOs expressed concern that the incumbent and his subordinates might corrupt the project for their own advantage in the incoming election, for example by raising money to finance his campaign. This is discussed further in Section 5.8.

5.7 Previous Borrowing Experience and Local Capacity

This section will focus on the capacity of South Sulawesi Province's apparatus with respect to borrowing management and governance issues on development projects by discussing past infrastructure projects conducted within the Province. By exploring past infrastructure projects, we have more information about the capacity of the local administration in managing the project as well as their understanding of governance issues. This will feed into the analysis of governance practice during the *Perda* process.

South Sulawesi had previous experience of development projects sourced both from the Central Government and international donor agencies. Some documents report that the Province had experience in managing physical infrastructure projects and dealing with the Central Government and international donor agencies such as Japan International Cooperation Agency/JICA, and World Bank (JICA n.d.; World Bank 2010).

In 2007 for instance, South Sulawesi participated in a road infrastructure project, the Eastern Indonesia Region Transport Project – 2/EIRTP-2, funded by the World Bank. This project aimed to improve the road network across provinces and districts; strengthen management and planning responsibilities of civil works; and improve transparency in procurement and implementation. The project also had other components such as training and technical assistance to build capacity in local institutions with respect to planning and management in the road sector. In accordance with

governance principles, EIRTP-2 also required participating subnational governments to have anti-corruption action plans to reduce fraud. The World Bank argued that the implementation of the anti-corruption action plan, which included disclosure of information to the public, empowerment of civil society to monitor the procurement process, and complaint handling mechanisms increased transparency of information and showed satisfactory results (World Bank 2010, pp. 7-9).

South Sulawesi also actively participated in programs to promote local governance, including the Local Governance Support Program (LGSP), funded by USAID from 2004 to 2009. LGSP aimed to provide training and activities for government administrators, as well as legislature members, and civil society organisations/media in order to generate governance initiatives such as budgeting and participatory planning. This program also promoted public participation and transparency during the formulation of *Perda*, and other initiatives to strengthen accountability mechanisms. USAID reported that the implementation of governance in South Sulawesi Province had slightly better outcomes than in other provinces (USAID 2009). Programs such as the LGSP provided local staff with knowledge to manage projects and implement governance initiatives such as participatory planning and transparency.

5.8 South Sulawesi Project Background

The road project in South Sulawesi Province was officially proposed by Governor Syahrul Yasin Limpo to PIP on January 18, 2012 – a year before the upcoming local election – and approved by DPRD on March 1, 2013 through the issuance of *Perda* No.5/2013. The total amount of borrowing proposed by the subnational government was IDR500 billion (AUD50 million). The project had three main objectives: to support local economic development, in particular in the area of industry, trade/investment, agriculture, and tourism; to improve the road capacity to support an increase in traffic; and to increase accessibility to remote and isolated areas in order to improve distribution of goods and services; and also reduce costs of transportation.

The main rationale for the road improvement project was the poor condition of roads in the Province. According to Road Department (*Dinas Bina Marga*), a local institution responsible for the road development, out of 1147.5 kilometres of provincial roads categorised by the department into 27 sections, only 458.4 kilometres or 39.86% were in good condition, 34.80% were in average condition, 18.22% were in poor condition, and 6.5% were in very poor condition (CV Kiyoka Engineering Consultant 2012).

The project was organised and coordinated by *Dinas Bina Marga* which is responsible for management and maintenance of road infrastructure across the Province. *Dinas Bina Marga* worked

together with two other local institutions to manage the project: *Dinas Pendapatan, Pengelolaan Keuangan dan Aset Daerah* (Local Agency for Revenue, Finance and Asset Management), given responsibility to manage the budget allocation and financing plan for the project, and *Badan Perencanaan Pembangunan Daerah/BAPPEDA* (Local Planning Agency) which was given responsibility to align the project with local planning policy.

Before the project was implemented, in 2012, the subnational government hired a local consultancy company, PT Kiyoka, to conduct a feasibility study. The aim of the study was to map out South Sulawesi's road network and choose the most feasible road sections to be financed through a PIP loan. Seven indicators, outlined below, were developed by the consultant in order to determine the priority of specific road sections. However, only *Dinas Bina Marga* was consulted about the choice of these indicators:

1. Size of population residing in the area surrounding the project site. The project aimed to prioritise sections that served larger populations.
2. Conducive to policy on local development. This meant that the proposed road section should synergise with local policy such as the local development plan, and spatial plans by the subnational government.
3. Road condition. Sections with the poorest conditions were given a higher score and greater priority.
4. Support local economic growth. Particular road sections able to provide greater economic benefit were given a higher score.
5. Accessibility. Road sections able to increase accessibility and reduce regional disparity were prioritised.
6. Local potential or commodities. Road sections lying in strategic areas where local potential or commodities were growing were given higher priority.
7. Connectivity with the existing public transport system. Prioritisation was given to the road sections with more developed public transport services.

The consultant developed a weighting for each indicator by using the Analysis Hierarchy Process developed by Saaty (1990), in accordance with guidance on the formulation of feasibility studies for road and bridge development from the Ministry of Public Works of the Central Government.

In order to determine the weight for each indicator or criterion, responses to questionnaires provided to stakeholders were analysed. However, the composition of the sample of stakeholders who were consulted was not stated in the feasibility study.

Table 5.5 Analysis Results for Priority Indicators/Criteria

No	Priority Indicator	Weighting Score of Indicator
1	Number of Population	0.196
2	Matching with Policy	0.066
3	Road condition	0.119
4	Benefit of user	0.170
5	Accessibility	0.161
6	Economic Potential and Local Commodities	0.217
7	Public transport connectivity	0.072

(Modified from South Sulawesi Feasibility Study 2012, p.5-4)

Table 5.5 shows that economic potential and local commodities criteria were ranked as most important with a weighting of 0.217. The public transport connectivity criterion was the least preferred indicator, with a weighting of 0.072. After analysis of scores was conducted, the consultant then composed weighted scores for each road section. The weighted score ranged from 1 to 3 where a higher score represented a higher level of priority. The subnational government provided a score sheet of the road sections across the districts/cities within South Sulawesi Province. The consultant then composed weighted scores for each road section based on the seven indicators listed earlier. The subnational government provided a score sheet of the road sections across the districts/cities within South Sulawesi Province.

Table 5.6 List of Priorities for the Road Project

No	Road Tracks	Length	Population		Matching Policy		Road Condition		Benefit		Accessability		Commodities		Pub. Transport		Total Score	Priority
		(km)	0.196	0.196	0.066	0.066	0.119	0.119	0.170	0.170	0.161	0.161	0.217	0.217	0.072	0.072		
1	Sungguminasa – Malino – Batas - Tondong	151	3	0.587	3	0.197	2	0.238	3	0.509	3	0.484	3	0.651	2	0.144	0.401	Top Priority
2	Salonro - Pompanua	22.2	3	0.587	3	0.197	3	0.356	3	0.509	3	0.484	2	0.434	3	0.216	0.398	Top Priority
3	Pekkae - Batas Soppeng - Takalla	59.65	3	0.587	2	0.131	3	0.356	2	0.339	3	0.484	3	0.651	3	0.216	0.395	Top Priority
4	Solo Paneki - Kulampu	45.81	3	0.587	2	0.131	3	0.356	2	0.339	3	0.484	3	0.651	2	0.144	0.385	Top Priority
5	Cabbenge - Soppeng - Pangkajene - Rappang	78.82	3	0.587	2	0.131	2	0.238	3	0.509	2	0.322	3	0.651	3	0.216	0.379	Top Priority
6	Pinrang - Rappang	19.68	3	0.587	2	0.131	2	0.238	3	0.509	2	0.322	3	0.651	3	0.216	0.379	Top Priority
7	Pacciro - Galesong - Pattalasang	39.3	3	0.587	3	0.197	2	0.238	2	0.509	3	0.484	2	0.434	2	0.144	0.370	Priority
8	Ujung lamuru - Pallatae - Bojo	67.37	3	0.587	2	0.131	2	0.238	2	0.339	3	0.484	3	0.651	2	0.144	0.368	Priority
9	Palangga – Sapaya - Boro	93.57	3	0.587	2	0.131	2	0.238	2	0.339	3	0.484	3	0.651	2	0.144	0.368	Priority
10	Boro - Bantaeng	25.36	3	0.587	2	0.131	2	0.238	2	0.339	3	0.484	3	0.651	2	0.144	0.368	Priority
11	Boro - Jeneponto	33.83	3	0.587	2	0.131	2	0.238	2	0.339	3	0.484	3	0.651	2	0.144	0.368	Priority
12	Tanete - Tanaberu	57.36	3	0.587	2	0.131	2	0.238	2	0.339	3	0.484	3	0.651	2	0.144	0.368	Priority
13	Ujung Lamuru - Takkalalla - Cabbenge - Salonro	48.96	3	0.587	3	0.197	2	0.238	3	0.509	2	0.322	2	0.434	2	0.144	0.347	Priority
14	Taccipi - Waempubbu - Pompanua	38	2	0.391	2	0.131	2	0.238	3	0.509	3	0.484	3	0.651	2	0.144	0.364	Priority
15	Tanabatue – Senrego - Pallatae	31.34	3	0.587	2	0.131	2	0.238	3	0.509	3	0.484	2	0.434	2	0.144	0.361	Priority
16	Perintis Kemerdekaan - Parangloe	5.4	3	0.587	3	0.197	3	0.356	3	0.509	2	0.322	2	0.434	1	0.072	0.354	Priority
17	Access Centre of Indonesia (Bridge)	0.6	2	0.391	3	0.197	3	0.356	3	0.509	3	0.484	2	0.434	1	0.072	0.349	Priority
18	Tuppu - Bakaru(Salimbongan)	20	2	0.391	3	0.197	3	0.356	3	0.509	2	0.322	2	0.434	2	0.144	0.336	Less Priority
19	Salonro - Ulu Galung	20.04	2	0.391	3	0.197	2	0.238	3	0.509	2	0.322	2	0.434	3	0.216	0.330	Less Priority
20	Impa Impa - Anabanua	16.93	2	0.391	2	0.131	2	0.238	2	0.339	2	0.322	3	0.651	3	0.216	0.327	Less Priority
21	Pincara - Malimpung - Malaga - Kabere	27.02	2	0.391	2	0.131	3	0.356	2	0.339	3	0.484	2	0.434	2	0.144	0.326	Less Priority
22	Kajang - Sinjai	32.3	1	0.196	3	0.197	2	0.238	3	0.509	3	0.484	2	0.434	2	0.144	0.314	Less Priority
23	Jl. DR. Leimena - Antang - Syech Yusuf	13.88	1	0.196	3	0.197	2	0.238	2	0.509	3	0.484	1	0.217	3	0.216	0.294	Not Priority
24	Jl. Jend. Sudirman - Ratulangi	3.41	3	0.587	3	0.197	1	0.119	1	0.509	1	0.161	1	0.217	3	0.216	0.287	Not Priority
25	Malauwe - Surakan (Border of Pinrang)	28.02	2	0.391	2	0.131	2	0.238	3	0.339	2	0.322	2	0.434	2	0.144	0.286	Not Priority
26	Sa'seng - Border of West Sulawesi	26.98	1	0.196	2	0.131	1	0.119	1	0.339	3	0.484	2	0.434	1	0.072	0.254	Not Priority
27	Sabbang - Tallang - Sae - West Sulawesi Border	146.5	1	0.196	2	0.131	1	0.119	1	0.339	3	0.484	2	0.434	1	0.072	0.254	Not Priority

(CV Kiyoka Engineering Consultant 2012)

Table 5.6 shows that there are six road sections classified as ‘top priority’ level, 11 road sections classified as ‘priority’, five road sections classified as ‘less priority’, and five road sections classified as ‘not priority’. The subnational government only took on board the 17 road sections classified as top priority or priority.

From the 17 road sections, the subnational government then merged some road sections based on their localities into 11 project packages.

Table 5.7 Details of the 11 Packages of the Road Project

No	17 Priority Road Tracks	Total Score	Level of Priority	11 Proposed Road Tracks after Grouped by Location
1	Sungguminasa – Malino – Batas – Tondong	0.401	Top Priority	Sungguminasa – Malino – Batas – Tondong
2	Palangga – Sapaya – Boro	0.368	Priority	Palangga – Sapaya – Boro – Jeneponto
3	Boro – Bantaeng	0.368	Priority	
4	Boro – Jeneponto	0.368	Priority	
5	Tanete – Tanaberu	0.368	Priority	Tanete – Tanaberu
6	Tanabatue – Senrego – Pallatae	0.361	Priority	Ujung Lamuru – Pallatae – Bojo
7	Ujung lamuru – Pallatae – Bojo	0.368	Priority	
8	Ujung Lamuru – Takallala – Cabbenge – Salaonro	0.347	Priority	Pekkae – Batas Soppeng – Takallala – Ujung Lamuru
9	Pekkae – Batas Soppeng – Takallala	0.395	Top Priority	
10	Salaonro – Pompanua	0.398	Top Priority	Salaonro – Pompanua – Taccipi
11	Taccipi – Waempubbu – Pompanua	0.364	Priority	
12	Solo Paneki – Kulampu	0.385	Top Priority	Solo Paneki – Kulampu
13	Cabbenge – Soppeng – Pangkajene – Rappang	0.379	Top Priority	Soppeng – Pangkajene – Pinrang
14	Pinrang – Rappang	0.379	Top Priority	
15	Pacciro – Galesong – Pattalasang	0.37	Priority	Pacciro – Galesong – Pattalasang
16	Perintis Kemerdekaan – Parangloe	0.354	Priority	Perintis Kemerdekaan – Parangloe
17	Access Centre of Indonesia (Bridge)	0.349	Priority	Access Centre of Indonesia (Bridge)

(CV Kiyoka Engineering Consultant 2012)

Table 5.7 shows the 11 projects (each with its own colour), consisting of 10 road projects and one bridge development. For example, the light blue colour group (Palangga–Sapaya–Boro–Jeneponto) consists of three road sections: Pallangga–Sapaya–Boro; Boro–Bantaeng; and Boro–Jeneponto.

At the initial stage, these 11 projects were proposed to PIP for financing. However, these projects had still not been discussed with legislature members. As a result, the projects were facing objections from legislature members and civil society organisations at an early stage, before the *Perda* process.

Later on, during the *Perda* process, some parliament members representing Luwu Utara District managed to pressure the Executive to include the Sabbang–Tallang road section into the borrowing proposal. The Sabbang–Tallang road section is in Luwu Utara District area and, according to the feasibility study conducted in 2012, is not classified as a priority (Table 5.10). A more detailed discussion on the negotiation process is presented in Chapter 6. It is important to note that the Sabbang–Tallang road section is not located near Limpo’s political stronghold of Gowa.

Following discussion between the Executive and legislature in the *Perda* process, it was decided that the Sabbang–Tallang road section would also be proposed to PIP. As a consequence, there are two versions of the feasibility study proposed by the subnational government to PIP: the one proposed initially which comprised 11 package projects without the Sabbang–Tallang road section, and the second version which included the Sabbang–Tallang road section but dropped the Sungguminasa–Malino–Batas–Tondong road section as a result of negotiation during the *Perda* process. The Sungguminasa–Tondong road section is located in the Gowa District and was previously classified as highest priority. Projects in the original and the second feasibility study are discussed in more detail below.

5.8.1 Original Projects Based on Feasibility Study 2012 (Pre-Perda Process)

The initial project comprised 10 road sections and one bridge. The locations of the project are shown in Figure 5.4.

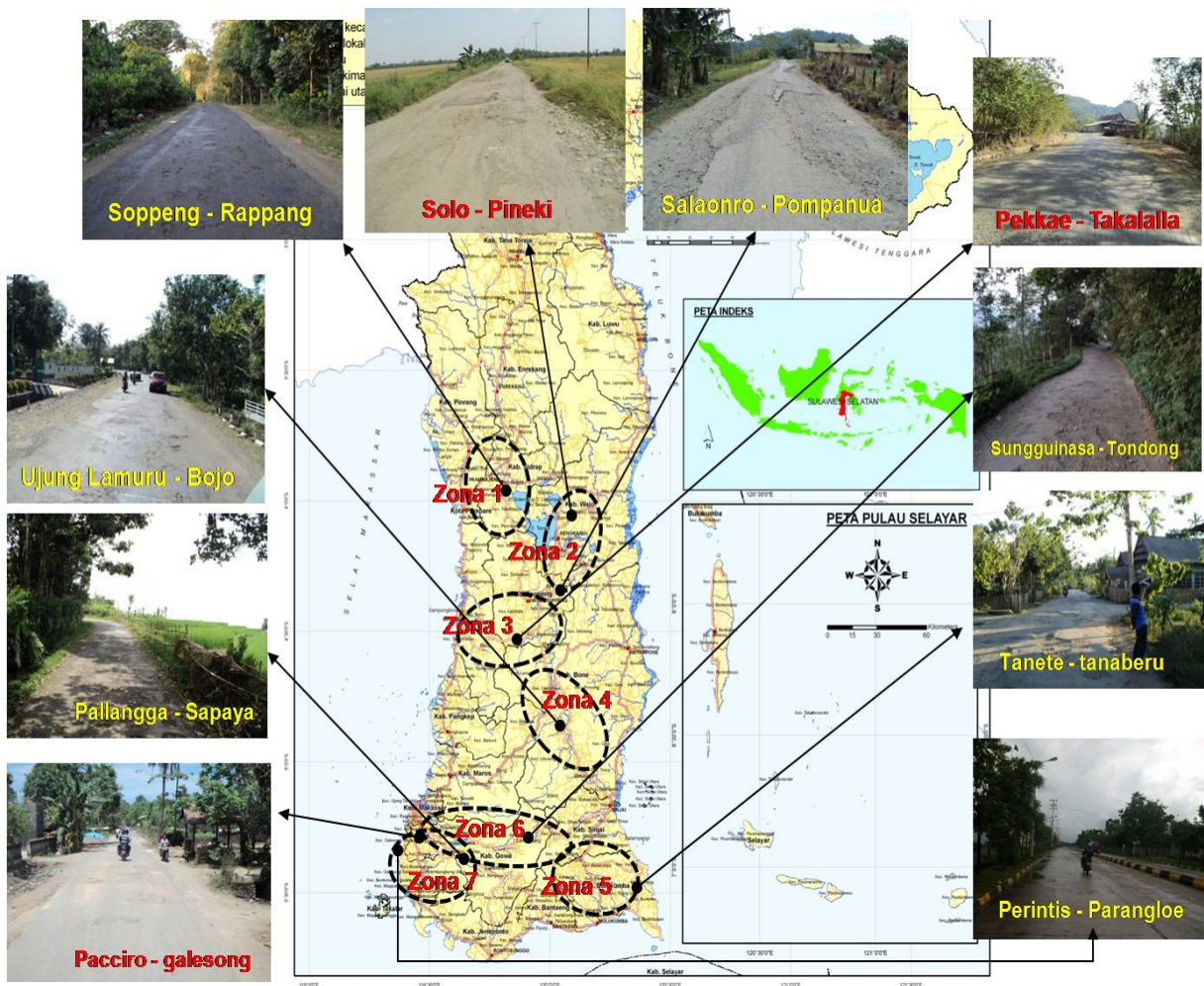


Figure 5.4 Distribution of Locations of the Proposed Road Sections
(CV Kiyoka Engineering Consultant 2012)

The Figure shows that the subnational government divided the road section project into seven different zones based on locations across province:

1. Sungguminasa – Malino – Batas – Tondong Road Section

This section provides access between Sungguminasa in Gowa District and Sinjai in Sinjai District. Based on the feasibility study, the road surface is in poor condition, and generally built without drainage alongside the sections. According to the feasibility study, this road section is classified as the highest priority. Land use consists of settlement, rice fields, and plantations. Local commodities transported from this area include vegetables, clove, cocoa tree, and hazelnut.

2. Pallangga – Sapaya – Boro – Jeneponto

This section connects Sungguminasa with surrounding areas such as Takalar District, Jeneponto District, and Bantaeng District. It is considered a strategic road since it bypasses the national road network, and provides interconnectivity across districts to support mobility of local people. However, the road surface is in fairly poor condition, with limited drainage, and high risk of landslides. The section serves residential areas, rice fields, and plantations. Land use of the area includes rice fields, settlements, plantations, and limited production forest. Commodities produced in this area include vegetables, rice, cloves, cocoa, coffee, hazelnuts, and forest products.

3. Tanete – Tanaberu

This road section connects Barru District with Pare-pare District. The condition of the road surface is generally fairly poor, with parts of the section still paved with gravel, and limited drainage. Land use includes settlements, rice fields, and plantations. Commodities from this area include fisheries, rice, coconut, banana, and other local plantation products.

4. Ujung Lamuru – Pallatae – Bojo

The Ujung Lamuru – Bojo road section connects some parts of Bone District, Soppeng District with Sinjai District. Road surfaces on this section are poor with lack of drainage, and some parts of the section are paved with gravel. Land use consists of settlements, rice fields, and plantations. Local commodities are rice, cocoa, coffee, and local community plantation product.

5. Salaonro – Pompanua – Taccipi

This road section connects the districts of Soppeng, and Bone. It is considered as a strategic road to support people's mobility since it bypasses the national road network. Road surface condition is fairly poor with limited drainage. Land use consists of rice fields, settlements, and plantations. Local products are rice, cocoa, onion, and other local plantation products.

6. Pekkae – Batas Soppeng – Takalalla – Ujung Lamuru

Pekkae – Ujung Lamuru road section provides connection between Makassar, the capital city of South Sulawesi Province and its other neighbours, such as Soppeng District, Wajo Districts, Sidrap District, and Bone District. The section also bypasses the national road network. The road surface is poor with limited drainage system, and a high risk of landslides. Land use consists of rice fields, settlements, and plantations. Local commodities include rice, cocoa, coffee, and other local plantation products.

7. Solo – Paneki – Kulampu

This road section connects part of Bone District with Wajo District, and some parts of Luwu District. The section bypasses the national road network from Bone District to Palopo City. The road surface is fairly poor, and some parts of the section are gravel, with limited drainage. Land use consists of rice fields, settlements, plantations, and fisheries. Local commodities are rice, cocoa, and fish.

8. Soppeng – Pangakajene – Rappang – Pinrang

The Soppeng – Pinrang road section connects Soppeng City with other cities such as Pangkajene, Sidrap, and Pinrang, and also bypasses the national road network. Based on the feasibility study, the road surface is fairly poor. Drainage systems in urban areas are generally established, but limited in rural areas. Land use consists of rice fields, settlements, plantation and livestock. Local commodities are rice, cocoa and poultry.

9. Pacciro – Galesong – Pattallasang

This road section provides access that connects some parts of Gowa District and Takalar District with the capital city of Makassar. It is considered a strategic road since it connects with the national road network from Makassar-Gowa-Takalar. Due to heavy load trailer traffic which transports mining products from Gowa District, the road condition is poor without drainage. Land use includes rice fields, settlements, and plantations. Local commodities are mostly rice, and local community plantation products.

10. Perintis – Parangloe

Perintis – Parangloe road section development is urgently needed to reduce heavy traffic in the capital city of Makassar. This road section provides access from the Sutami Toll Road to the intersection of Perintis Kemerdekaan Road. It is hoped that this section will provide an alternative for the road users while reducing heavy traffic at particular spots during busy hours. By developing this road section, incoming traffic from Maros District entering Makassar will be dispersed from the existing main road.

11. Access of Centre Point of Indonesia (Bridge)

Centre Point of Indonesia (CPI) is an area that will be developed by South Sulawesi Province as an icon for the region. It is an integrated area that consists of major buildings, such as Indonesian State Palace, mosque, public parks, hotels, apartments, and shopping centre. Development of the bridge to access CPI is urgently needed to support the area development and activities. The bridge will connect Metro Tanjung Bunga Road with the CPI area.

In summary, the road conditions in all sections are generally poor. All of the sections are considered to have strategic function to improve mobility of people and to transport local commodities. There are two new developments, one for new road section (Perintis – Parangloe) and one for a bridge (Access of Centre Point of Indonesia).

5.8.2 Second Version Project Based on Feasibility Study in 2013 (During Negotiation Process)

The project changed slightly during the *Perda* process. During negotiations between the subnational government and parliament members, it was decided that the subnational government would add one road section to be financed through borrowing - the Sabbang – Tallang section at Luwu District - and drop the Sungguminasa – Malino – Batas – Tondong road section. The decision to take on board Sabbang – Tallang was to accommodate pressure from members of parliament representing the Luwu Utara constituency. According to an interview with one DPRD *Pansus* (Special Committee) member on borrowing, some DPRD members from Luwu constituency formed a caucus and pressured the government to accommodate their demands, otherwise they would not approve the draft of the *Perda*. The subnational government finally decided to accept the request so that they could continue the project and ratify the *Perda*. In order to obtain more information about

the negotiation process, a request for an interview with a member of DPRD from Luwu constituency was proposed, but an interview was not granted.

Furthermore, as part of the negotiation to take on the Sabbang – Tallang road section, the subnational government had to drop one road section as the funding commitment proposed earlier to PIP was set at the specific amount of IDR500 billion (AUD44 million). It was decided to drop the Sungguminasa – Tondong road section and finance it through South Sulawesi’s own budget, instead of from the PIP loan.

In order to proceed with the proposed Sabbang–Tallang road section for financing, the subnational government would need to compose a revised feasibility study to be submitted to PIP. The revised feasibility study only covered the Sabbang–Tallang road section and was conducted by a different consultancy company called CV. Saribuana Joint PT. Yodya Karya. The revised feasibility study applied some adjustments to take into account the negotiation result during the *Perda* process.

5.8.2.1 Sabbang–Tallang Road Section

The Sabbang–Tallang road section is about 146.5 kilometres long and located in *Luwu Utara* (North Luwu) District. Based on a survey by a consultant, only 24 kilometres of the road surface is in good condition, while about 33 kilometres of the surface is in very poor condition. Moreover, 71 kilometres of the road section from Sabbang to the border of West Sulawesi Province is dirt road surface and not yet connected as the photo in Figure 5.5 shows.



Figure 5.5 *Dirt Road on Sabbang–Tallang Road Section (photos)*
(PT Yodya Karya and CV Saribuana 2013)

As explained previously, the Sabbang – Tallang road section was not classified as a priority in the first feasibility study report. However, based on negotiations between the Executive and the legislature during the *Perda* process, it was decided that this particular road section would be financed through the PIP loan.

The rationale for revising the feasibility study was based on three considerations:

1. The subnational government has a policy to develop organic agriculture that is a focus of production around Sabbang. Improvements to the road infrastructure are necessary in order to increase productivity of organic agriculture activities in the area.
2. As a result of heavy rainfalls and landslides, the Sabbang – Tallang road section is in very poor condition. This has impacted the mobility of agriculture products in surrounding areas.
3. There is a need to connect the Sabbang – Tallang road section which is directly adjacent to the area of Kalumpang and Batuisi in West Sulawesi Province to synergise regional development between the two provinces. In 2013, West Sulawesi Province aimed to explore and develop Kalumpang and Batuisi area for gold and coal mining activities.

Based on this rationale, and in order to accommodate the political agreement between the Executive and the local legislature in the *Perda* process, the consultant then applied some adjustments to the weighted score of the Sabbang–Tallang road section. The revised feasibility study report used the same indicators, but added some adjustments that changed the total score and made this particular road section a priority. A more detailed negotiation process is discussed in Chapter 6.

Table 5.8 Comparison of Original and Revised Feasibility Study Report Scores for the Sabbang – Tallang Road Section

No	Indicators	Score		Description of Revision
		Original	Revised	
1.	Number of population	1	1	No significant changes in the population between the original and revised feasibility studies
2.	Matching policy	2	3	New policy of subnational government to improve organic farming in Sabbang and the surrounding areas that needs to be supported with the development of road system. As a result, the weighted score is increased.
3.	Road condition	1	3	Due to heavy rainfall and landslides, erosion of the Sabbang – Tallang road section has accelerated. Thus, the weighted score is changed significantly from 1 to 3.
4.	Benefit of project	2	3	In line with the subnational government's policy to develop Sabbang and the surrounding areas as a centre of organic farming, the weighted score is increased to 3.
5.	Accessibility	3	3	In the previous feasibility study Sabbang was considered an isolated area, therefore there was no change on given weighted score.
6.	Economic Potential and Local Commodities	2	3	The policy to develop Sabbang as centre of organic farm aimed to improve local potential and commodities within the area. Therefore, the weighted score was increased from 2 to 3.
7.	Public Transportation Support	1	1	It was assumed that there would be no significant changes on the number of public transport serves the area.

(Modified from PT Yodya Karya and CV Saribuana 2013)

Table 5.8 provides information on how adjustment and changes were made by the subnational government in order to make Sabbang – Tallang feasible and to accommodate result of negotiations during the Perda process. Four changes were made to indicators on matching policy; road conditions, benefit of the project; and local economic potential and local commodities. The biggest adjustment was applied in the case of the indicator relating to road condition, where the priority score was revised upwards from 1 to 3.

Based on the adjustments listed in Table 5.8, consultant then recalculated the final score to determine the level of priority of Sabbang – Tallang road section as shown in Table 5.9

Table 5.9 Comparison of Weight Scores and Level of Priority Changes

No	Road Tracks	Length	Population		Matching Policy		Road Condition		Benefit		Accessability		Commodities		Pub. Transport		Total Score	Priority	Notes
		(km)	0.196	0.196	0.066	0.066	0.119	0.119	0.170	0.170	0.161	0.161	0.217	0.217	0.072	0.072			
1	Sabbang - Tallang - Sae - West Sulawesi Border	146.5	1	0.196	2	0.131	1	0.119	1	0.339	3	0.484	2	0.434	1	0.072	0.254	Not Priority	Feasibility Study 2012
2	Sabbang - Tallang - Sae - West Sulawesi Border	146.5	1	0.196	3	0.131	3	0.119	3	0.339	3	0.484	3	0.434	1	0.072	0.352	Priority	Revised Feasibility Study 2013

(Modified from CV Kiyoka Engineering Consultant 2012; PT Yodya Karya and CV Saribuana 2013)

The Table shows that the changes significantly increased the total score from 0.254 to 0.352, raising the Sabbang – Tallang road section to ‘priority’. The revised proposal was submitted to PIP by subnational government, but in the end failed to get approval from PIP since the original feasibility study had already stated that Sabbang – Tallang is not a priority. Moreover, based on analysis by a consultant company hired by PIP, the Sabbang – Tallang road section could not feasibly be funded from the PIP loan.

5.9 Conclusion

This chapter has discussed the geography and history of South Sulawesi Province, its administration, governance and politics, the role of NGOs, past borrowing experiences, and the road upgrade project which was the subject of a PIP loan. This information provides background to the discussion of the development and approval of the loan proposal process which is discussed in Chapter 6: the negotiation process between the Executive and DPRD, and interactions between NGOs and the Executive, and the role of the media. This information also provides background for analysis of the supply of, and demand for, transparency and participation during the development of loan proposal process, which is discussed more fully in Chapter 9.

CHAPTER 6: THE ROAD PROJECT: FOR WHOM?

This chapter presents findings on the Perda on loan approval based on in-depth interviews with actors in that process and documentary research in South Sulawesi Province. The findings are written in chronological order following the six stages in the Perda-making process. This chapter aims to show how transparency and participation were implemented during the Perda-making process, and provides information to support the analysis and discussion of the supply of, and demand for, transparency and participation in Chapter 9.

6.1 Introduction

Chapter 5 provides context for the road project in South Sulawesi for which a loan was sought from PIP. In this chapter, I present findings from South Sulawesi on the process of development of the loan proposal, particularly in the *Perda*-making process. Findings are based on documentary research and interviews with members of the Executive, the legislature, civil society organisations and other agencies involved in the road project. My aim in describing these findings is to show the different actors' perspectives on the road project and its associated PIP loan, and governance relating to its approval by DPRD. These findings will be further discussed in Chapter 9, in comparison with those from Surakarta.

The remainder of this chapter comprises seven sections: Section 8.2 provides an overview of the *Perda* process and key stakeholders in the *Perda* on borrowing in South Sulawesi. This section also discusses the timeline of the *Perda* process. Section 8.3 discusses early process of the *Perda* before it was submitted to DPRD. Section 8.4 examines the submission of the *Perda* draft to DPRD and consultations that followed between DPRD and Governor. Section 8.5 then goes on to discuss the public consultation process during the development of the loan proposal, while Section 8.6 considers the final stage of borrowing approval in the *Perda* process. The post-*Perda* process is discussed in Section 8.7, while Section 8.8 concludes.

To summarise, the research findings presented in this chapter suggest that transparency and participation were lacking in the development of the loan proposal process in South Sulawesi Province. Members of the DPRD members stated that the Executive did not inform them or discuss the project with them adequately, in particular at its early stages. NGOs complained that they were not involved in the process, and that vital project information was kept from them. On the other hand, the Executive argued that they involved a wide range of stakeholders in the process, including not only DPRD, but also professional associations and academics.

6.2 Overview of Perda Process and Key Stakeholders in Perda on Borrowing in South Sulawesi

Before I discuss the *Perda* process in detail, this section describes the overview of the *Perda* process and the key stakeholders involved in South Sulawesi. The *Perda*-making process in South Sulawesi is shown in Figure 6.1.

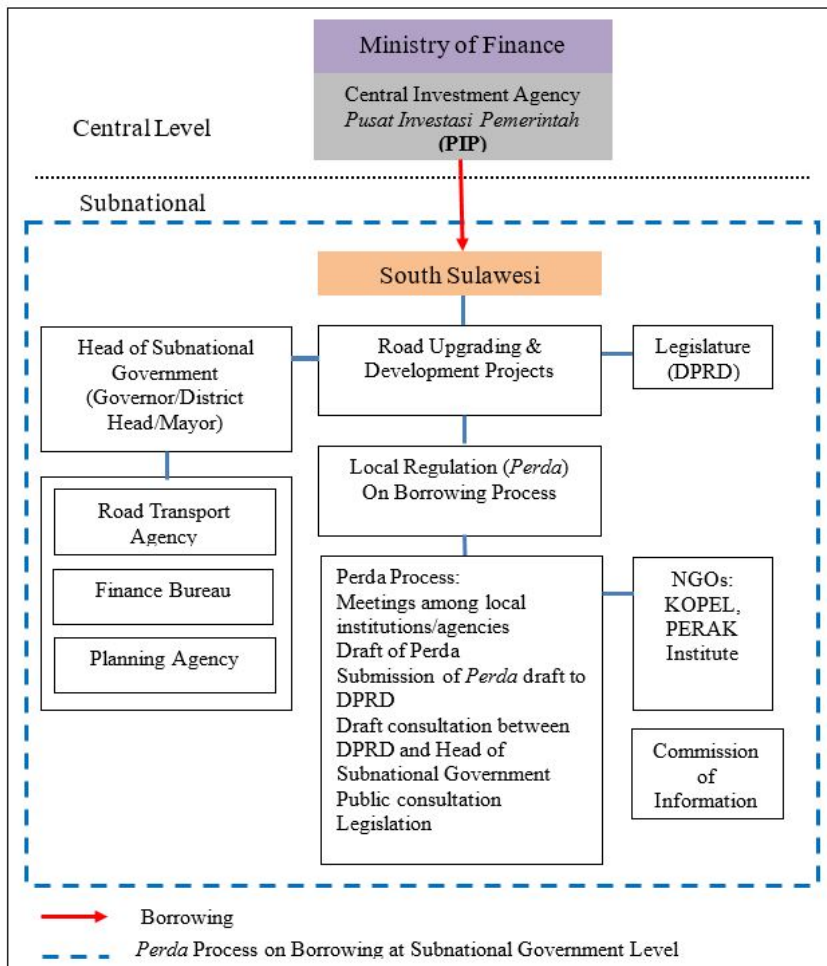


Figure 6.1 *Perda* Process in South Sulawesi

As shown in Figure 6.1, the *Perda* process involved three major stakeholders: the Executive, the local legislature (DPRD) and NGOs. The Executive was represented by the Governor who spoke on behalf of the subnational government during the *Perda* process. The Governor was supported by local agencies in this process. The Road Transport Department was the lead agency responsible for coordinating and managing the whole project. The Finance Agency was responsible for the local budget and for managing loan repayments to PIP. The Planning Agency was responsible for local planning development strategies.

As the people's representative body, the DPRD or Legislature has to discuss and approve the draft *Perda* initiated by the Governor. The DPRD is also responsible for monitoring the implementation of the *Perda*. The DPRD in South Sulawesi formed a *Pansus Pinjaman* (Special Committee [*Pansus*] on borrowing) on 18 September 2012. This consisted of 31 members of parliament. The *Pansus* was chaired by Hoist Bachtiar from Fraksi Golongan Karya/Golkar Party (Faction of Functional Group Party). Ariady Arsal from Fraksi Keadilan Sejahtera/PKS Party (Faction of Prosperous Justice Party) was appointed vice chairman. In undertaking their tasks, the *Pansus* conducted several activities such as visits to districts to check the proposed project sites; and visits to central government agencies such as PIP, Ministry of Finance, and Ministry of Home Affairs to verify loan arrangements and check regulations related to borrowing. The *Pansus* also conducted public consultations with interest groups and civil society organisations to hear their opinions on the road project.

Civil society has an important role in the *Perda* process. Involvement of civil society is designed to improve public participation in the decision-making process. In South Sulawesi, civil society plays a significant role in pressuring the subnational government and legislature in the policy-making arena. With respect to the borrowing process, some civil society organisations in South Sulawesi such as KOPEL and PERAK Institute have played an active role in consulting the Executive and the legislature, creating forums to advise legislature members, and conducting discussions to analyse issues with other stakeholders.

Table 6.1 also includes the Commission of Information, which played a role in the *Perda* process. The role of the Commission of Information is to ensure the settlement of disputes about the disclosure of information during local policy-making processes, including the development of loan proposals or *Perda* processes.

Besides the key stakeholders, the development of the loan proposal process can be categorised into three major stages: the pre-*Perda* process, the *Perda* process and the post-*Perda* process. The pre-*Perda* process consists of actions by the subnational government, including preliminary discussions with DPRD commissions, dissemination, and local forums. The post-*Perda* process includes events that have arisen after the *Perda* legislation, such as project implementation. A timeline for the development of the loan proposal process is outlined in Figure 6.2.

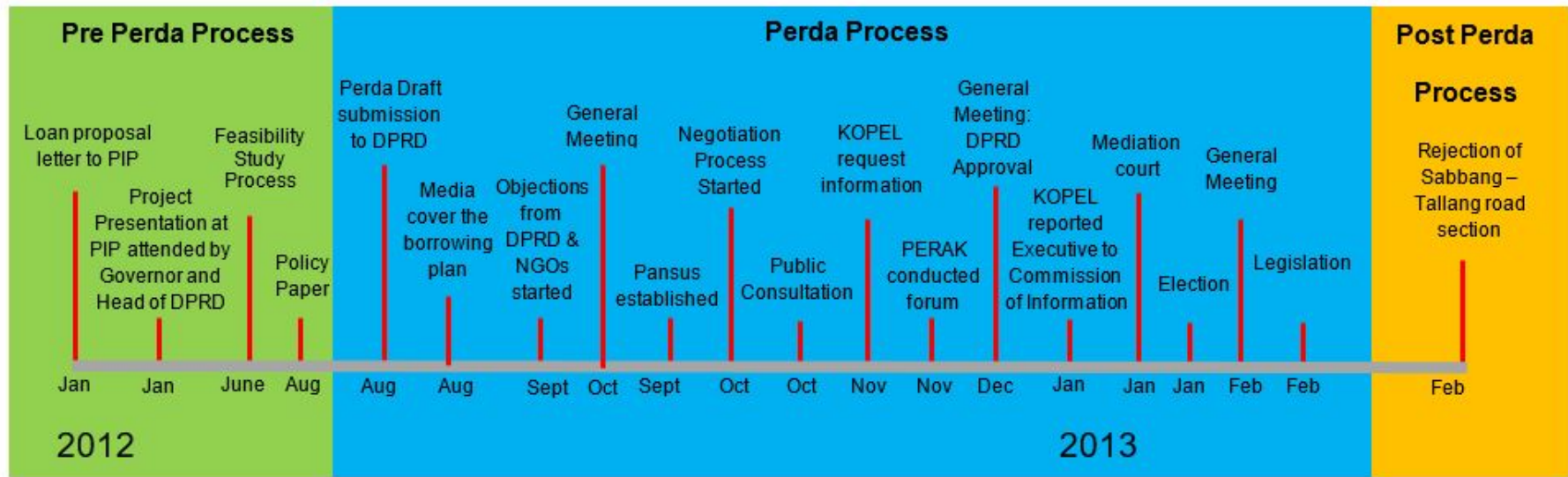


Figure 6.2 Timeline of Development of Loan Proposal Process in South Sulawesi Province

Figure 6.2 shows that the entire process from the date of the first proposal by the Executive to PIP to the rejection of the Sabbang–Tallang road proposal by PIP, took just over two years. While the Executive made their first proposal to PIP in January 2012, it was August before the DPRD were officially informed and the proposal was published in the local media. Many local NGOs, community members and DPRD members first heard about the borrowing initiative of the Executive through the local media.

6.3 Meetings between Subnational Government Institutions and Drafting of *Perda*

Meetings among subnational government institutions and drafting of *Perda* are the two early phases of the *Perda* process that give shape to the rest of the process, as they set the agenda for other events such as preliminary discussions over the borrowing initiative in DPRD, meetings with PIP, local agency meetings, and drafting of the *Perda* by the executive agency. At this stage, the Executive dominated the process. The DPRD and civil society organisations were not involved. Here I discuss how the initiative for the proposed loan for the road project emerged.

Discussions about poor road conditions in South Sulawesi Province are nothing new. The Executive and the legislature, particularly members of parliament assigned to Commission D on Development, one of the DPRD commissions responsible for road infrastructure, had discussed this issue many times with the road transport department. However, discussions had not previously covered any initiative to borrow money.

In an interview, one of member of Pansus in the legislature stated:

...so in the early stages [of borrowing via] PIP, it was not discussed by DPRD. Later on, after the government had submitted the loan proposal to DPRD, only then did DPRD deliberate on it with the formation of Pansus. (Interview with author 2014)

The idea of borrowing money to pay for road improvements was first raised by Governor Limpo with his subordinates towards the end of 2011, about a year before the local elections were held. At that time, three candidates were competing for the position of Governor: Limpo, the incumbent and head of Golkar Party of South Sulawesi; Ilham Sirajuddin, the Mayor of Makassar, and head of Democrat Party of South Sulawesi; and Rudianto Asapa, former head of district of Sinjai in South Sulawesi. According to Antara, a local media outlet (Daniel 2012a), the incumbent Governor was supported by eight political parties: Golkar Party, PDIP, PAN, PPP, PDK, PDS, PKPI, and PKNU, who together amassed 49% of votes at the previous local election.

Ilham, who at the time was the Mayor of Makassar, was supported by 20 parties including the Democrat Party, PKS, Hanura, PKB, PBB, PBR, PRN, PPRN, PPDI, PKPB, Patriot Party, PPD, Pioneer Party, PKP, PDP, PSI, PNI Marhaenisme, Labor Party, PDS, and PBR which had together won about 45% of votes at the previous local election. Rudianto was supported by Gerindra Party and some minor parties (Daniel 2012a).

According to interviews with agency officers at the Road Transport Department and the Finance Bureau, the Governor is known as a great leader. He likes jobs to be done quickly and to challenge his staff to find solutions to problems. As the unit responsible for managing roads in the Province, the Road Transport Department looked at options to finance the project. As the local budget was very limited and already allocated to other programs, the department sought other sources of finance, and thus discovered the borrowing option offered by PIP. Negotiations with PIP on a possible loan followed.

After PIP and South Sulawesi had reached mutual understanding, the Governor sent an official loan proposal letter to PIP. As regulated in the PIP borrowing mechanism, PIP then requested the Governor to make a presentation on the proposed project to the Head of PIP. Besides the Governor, PIP also recommended that representatives from the South Sulawesi Legislature attend the presentation, so that both the Executive and the legislature had a common understanding of the project. Mohammad Roem, the chairman of DPRD from the Golkar party, attended the presentation. The presence of Roem at this presentation was later criticised by some members of parliament, particularly those from opposition parties such as PKS, Demokrat and Hanura. Firstly, they argued that even though he attended to represent DPRD, he did not inform or consult with other DPRD members. Secondly, DPRD had not granted approval for the loan. Thirdly, although Roem was the head of DPRD, he did not represent DPRD as an institution.

The presentation at PIP's office went well and was followed with a request from PIP to submit the loan proposal or project feasibility study. The Road Transport Department hired a consultant company, CV. Kiyoka Engineering Consultants, through a competitive bidding process to conduct the feasibility study. Information for the feasibility study was also provided by related agencies such as BAPPEDA (Planning Agency) and BPKD (Finance Department). The feasibility study did not involve the DPRD, and all measures or indicators used to select priority road sections were selected by the Executive. In the feasibility study, the Executive proposed a total of 11 projects comprising ten road sections, and one bridge (see chapter 5). Later, the selection of the road projects was criticised heavily by civil society organisations and members of parliament.

Soon after the feasibility study was completed, the Road Transport Department sent the document to PIP to be analysed and approved by the PIP Board. Once it was approved, PIP would send an indicative offer to South Sulawesi. An indicative offer would contain the terms and conditions of the loan offered by PIP and was subject to negotiation between the parties.

While waiting for approval, the Road Transport Department and other related agencies prepared a policy paper and draft of the Perda on borrowing to be submitted to the DPRD as the second step of Perda. At this point, there were no objections from civil society organisations and members of parliament as they did not yet know about the proposal.

After the Executive and its agencies had completed the drafting process, the Perda process moved to another stage: submission of the draft to DPRD, and consultation between the Executive and the legislature.

6.4 Submission of Draft Perda and Draft Consultation between DPRD and Governor

This section discusses two stages of the Perda process together (submission of draft Perda and consultation between DPRD and Governor), since they occurred almost simultaneously. The submission of the draft Perda started the negotiation process between the Executive and the legislature. It was followed by a series of draft consultation meetings conducted between the Executive and the legislature in order to negotiate the substance of the draft.

On 7 August, 2012, the Governor officially submitted a letter to the DPRD to request that the DPRD formulate the Perda on borrowing by attaching the Policy Paper and draft of Perda by the Executive (see Chapter 3 for detailed description of Policy Paper and Perda draft). In this sense, the Policy Paper still proposed 11 projects to be financed through a PIP loan, as stipulated in the original feasibility study. Meanwhile, on 28 August 2012, the Board of PIP met to discuss the feasibility study and borrowing proposal from South Sulawesi, and gave their approval. On submission of the Perda draft to DPRD, the head of DPRD assigned internal bodies of DPRD to discuss the issue. Firstly, Badan Musyawarah (the Deliberative Body) was tasked with communicating the proposal from the Executive to the factions, and providing a recommendation to form Panitia Khusus (Pansus), or Special Committee, to more specifically investigate the borrowing proposal. On 7 September, 2012, a Deliberative Body meeting reached agreement to form a Pansus Pinjaman (Special Committee on borrowing).

Secondly, the head of DPRD assigned Badan Legislatif (Legislative Body) to discuss the inclusion of this Perda proposal in Program Legislasi Daerah or Prolegda (Local Legislation Program which formulates an annual prioritisation plan for legislative matters). The involvement of the Legislative Body in this process was due to the fact that the formulation of the Perda on borrowing was not listed on the annual prioritisation plan for DPRD. A recommendation from this body was needed to continue the process. On 10 September, 2012, a Legislative Body meeting recommended to the head of DPRD that the proposal should be processed further.

Based on both recommendations, the heads of DPRD decided to continue the process by establishing Rapat Paripurna or General Assembly Meeting to open consultations between the Executive and legislature to discuss the initiative to borrow for the road project. On 17 September, 2012, a General Assembly Meeting was held, attended by Heads of DPRD, members of DPRD, the Governor, and heads of local agencies. This meeting marked the commencement of the negotiation process in the Perda-making. It was also at this point that objections were first raised by Members of Parliament who had not been informed by the Executive about the project. These objections were covered widely in the local media and finally attracted the attention of NGOs that later also objected to the proposed project.

At this stage, the delivery of information from the Executive as project initiator to the stakeholders was very limited and unclear since DPRD, civil society organisations, and the public were not involved in the project planning. Some local online media reported the issue. Fajar Online, a local newspaper, managed to interview some members of parliament, asking them to comment on the initiative to borrow. Fajar's interview with Aerin Nizar from Democrat Party revealed that the plan to borrow had not been actually discussed in Commission D (Interview with Aerin Nizar 2012).

A DPRD member from PKS also revealed that DPRD was not informed about the initiative at an early stage:

... so in the early stages [of borrowing via] PIP, it was not discussed by DPR. Later on, after the government had submitted the loan proposal to DPR, only then did DPR deliberate on it with the formation of Pansus. (Interview with author 2014)

Another Member of Parliament from Golkar stated:

In those early stages, there was no public consultation before [the loan proposal] came to us. Eventually, after a lot of hard work on community consultation, we really got hit hard ... We were criticised from all directions. (Interview with author 2014)

Delivery of information by the subnational government on the project to the public was also very limited. Delivery of information on the project was the responsibility of the Road Transport Department as the the project implementing agency. When I asked one of the officers of the Road Transport Department about any particular plans to deliver the information to public with respect to the road project, the officer stated:

We figured we wouldn't have that [information delivery program] because we weren't doing the [road] expansion... oh, sorry, yes we did a little, but only in certain locations. But, on average, we didn't need it because there were already roads and they were in bad condition and the community really needed that [better roads]. (Interview with author 2014)

The feasibility study on the road project conducted by the private consultant also confirmed the lack of information provided by the subnational government to the public. The study stated that about 79% of respondents in the project location had not yet been informed about the plan to upgrade the provincial road (CV Kiyoka Engineering Consultant 2012, pp. 7-9).

With respect to the delivery of information, one of the activists from KOPEL added that there was no forum or plan by the subnational government to disseminate information on the road project to the public:

There was a plan to take out a loan of 500 billion from PIP but that [information] was not released. Even the DPRD members only found out after the media ruckus [about it]. (Interview with author 2014)

A Google search in Bahasa Indonesia using the search terms 'South Sulawesi', 'PIP borrowing', 'DPRD', and 'objection' for the period January 2011 to March 2013 reveals that it was

between May and June, 2012, that the media began to cover the Executive's plan to borrow for the road project (Daniel 2012b)

However, the media coverage did not attract much attention from Members of Parliament as the plan was not officially submitted to the DPRD for discussion. The media coverage escalated in September and October as the subnational government officially submitted the draft to DPRD and commenced negotiations. During this period, the media started to report interviews with members of parliament and non-governmental organisations with respect to the borrowing plan (Tribun Timur 2012; Wahyudi 2012a).

In one of the news articles about the PIP loan, Tribun Timur, a local media outlet, quoted Yusa, a Member of Parliament from the Democrat Party:

If we refer back to RPJMD South Sulawesi 2008-2013 in Perda 12 2008, the regional loan proposal to PIP had neglected crucial points about prioritisation and stakeholder involvement in the process of regional development planning. (Tribun Timur 2011)

The article also stated that Yusa believed that the subnational government had breached regulations with respect to the planning process in proposing the loan as they had ignored DPRD as an institution and conspired with the Chairman of DPRD, Mohammad Roem (Tribun Timur 2012).

Besides a lack of information from the Executive about the project, there were also concerns about corruption raised by KOPEL. One KOPEL activist stated:

... rumours emerged that [the funds] might be used for the Governor's own campaign fund. Incidentally, he was running for his second term at the time. There was a lot of press coverage about that, but we at Kopel weren't transfixed on that. We were more interested in what PIP was all about and how much would have to be repaid for a loan of IDR500 billion. (Interview with author 2014)

Another NGO also raised similar concerns on corruption. Quoted from Tribun Timur online media, Abdul Muthallib from the Anti-Corruption Committee, an NGO that focuses on reducing corruption, stated that like KOPEL, he also believed that there may be a case of misconduct as the Executive did not first discuss the plan with DPRD. He stated that:

One form of white collar corruption is the violation of procedures for lodgement and disbursement of treasury funds and manipulation of the lending process. Funds from PIP are a loan that becomes part of the treasury account and the repayment is an encumbrance on the local budget. (Tribun Timur 2011)

Besides concerns over corruption, NGOs also highlighted an issue of loan fees applied by PIP.

A KOPEL member stated:

When colleagues looked at the loan proposal, there were some issues highlighted. Firstly, there were three fees: upfront fee, management fee, and administration fee, each of them 0.5%. That was also highlighted. Why? This is state money, so why does there have to be fees? (Interview with author 2014)

Questions about PIP loan fees were also raised by a PERAK Institute activist during an interview. The activist also suspected that graft was involved between PIP and the Executive:

Whether we are involved or not, it really doesn't matter. But at least there is a truly reliable study that [shows that] the region is has the capacity to follow through on this plan. Then, there was a process that was quite disorderly. We were regretful about it. "What? The Pemprov [Provincial Government] has this other secret plan". Then we 'saw' that PIP is actually quite progressive, and quite aggressive in approaching local governments and persuading them to borrow. Well, it's pretty hard to prove it but plenty of people said that there must be fees behind it. Especially since there were elections coming up. (Interview with author 2014)

Such questions on PIP and the loan mechanism were raised during interviews with NGOs because they were not familiar with PIP as a newly established financial institution. Neither the Central Government nor PIP disseminated information about PIP loans to NGOs. Dissemination was conducted with local government officers and legislature members. Thus, the problem of a lack of knowledge existed among NGOs, specifically about the borrowing mechanism.

Returning to the process of Perda, on 18 September, 2012, a Pansus was officially formed by DPRD. It consisted of 31 members from different factions. Hoist Bachtiar from the Golkar Party was elected as the chairman of the Pansus, and Ariady Arsal from PKS Party as the Deputy Chairman. Golkar was the largest group in the Pansus with seven members; followed by the Democrat Party with four members; PKS, PAN, PDK, Sulsel Bersatu Faction, Ummat Faction, and Hanura with three members; and PPP with two members. In order to investigate the proposal, Pansus made several visits and consultations with different institutions in order to clarify information on the road project.

On 19 September 2012, Pansus went to South East Sulawesi Province, one of the provinces that had previously proposed borrowing to PIP, and consulted with the local Executive and legislature. On 1 October 2012, Pansus visited proposed project locations in districts including Gowa, Takalar, Bulukumba, Bone, and Pinrang. These fact-finding missions were discussed within the Pansus itself and brought to other related meetings, such as the General Meeting and other internal meetings within DPRD bodies and executive agencies.

On 5–8 October 2012, DPRD held General Meetings attended by the Executive with an agenda to address concerns of factions with respect to the borrowing proposal. PKS raised three major issues. First, the contradiction between the borrowing plan and the local medium-term development plan, or RPJMD (see Chapter 5 for more detail on RPJMD); second, that the Perda was not listed in the annual prioritisation plan; and third, that the biggest allocation of road projects was to the Gowa district, one of the Governor’s strongholds, where his younger brother Ichsan Yasin Limpo served as Bupati (district head). One PKS party member stated in interview:

Gowa had routinely been allocated funds. Politically he is no good. He has served two terms as head of district and is the Governor’s younger brother. Well, meanwhile, there is one area called Luwu Raya that has four districts. Tana Toraja and two [other] districts didn’t receive any budget allocation from the PIP loan ... surely we agree that there should be uniform distribution across all areas in South Sulawesi. (Interview with author 2014)

The PKS party member also added:

Like we agreed with DPR, since this loan is a government loan, it will later be repaid with public money. [The proceeds] must be [equally] distributed so that all of the people of South Sulawesi can reap the benefits. That’s how the proposal to include the track in Luwu district came about; an addition of a track. It replaces the one here, the track in Gowa district. (Interview with author 2014)

Similar to PKS, the Hanura faction also questioned the relationship between the project and the local development plan (RPJMD). Hanura also recommended to the Executive that the loan proposal be postponed until the new governor was elected to avoid objections from the public.

The Democrat faction also raised some concerns: first, lack of planning by the Executive, because the borrowing plan was not in accordance with the local RPJMD that prioritised the health and education sectors over road improvement; second, because DPRD was not involved from the beginning of the process; third, because the Perda was not listed in the annual prioritisation plan for legislation; and fourth, because the borrowing proposal from the incumbent governor might burden the newly elected governor.

As one of the Pansus members from the Democrat Party said:

Actually, supposing that time wasn't a high political period with the preselection of the gubernatorial candidate, it wouldn't have been taken so far. But because the gubernatorial election was imminent, we at the DPR were far more cautious in deciding whether or not to agree. So why was there such a stir? With the ease of flow through the DPR at the time, it was only the head of the DPR who was asked for approval. So that letter from the Governor only went to the head of DPR. So according to them, their faction, the letter was valid with just the signature of DPR leadership. In this case it was just the chair and the vice chair of DPR. That was enough. Although, if you look at the regulation it's not a matter [only] for DPR leadership but [the] DPR as a whole. (Interview with author 2014)

The same person also added:

So that's the mechanism. At first I was mad that there was [such] a mechanism ... At first it definitely reeked of the gubernatorial election. Our candidate was running against the [incumbent] Governor ... Because of the mechanism, you can't just get a letter from the government, in this case the provincial government, but it has to go through DPR. Only DPR leadership can give direct approval. (Interview with author 2014)

Besides those issues and the competition during local election, this Member of Parliament also raised an important issue about the selection method for the road project locations:

... there was bias in [favour of] all the southern areas. The [budgetary allocation for] construction there was sizeable ... in Gowa, Takalar, Jeneponto. Then there were areas that got nothing at all even though their need was greater; Luwu, for example, contributes a great deal to revenue. This is what we questioned. How come nothing was allocated there? Why the [Governor's support] base areas ... why were they all given so much? (Interview with author 2014)

When an officer at the Road Transport Department was asked about this issue, the officer denied that the government favoured the Governor with respect to the selection of roads:

When selecting [the areas for new] road tracks, we conducted FS [feasibility studies] of all provincial tracks to see what was feasible to be tackled immediately. So we entered all of the data and whatnot to produce rankings. The areas with [favourable] rankings, they were the ones we address. So in selecting [areas] for road track [development, we weren't just making things up ... (Interview with author 2014)

The officer also stated the following: "There was no interference from the Governor with respect to technical issues" (interview with author 2014).

During this meeting, other factions such as PAN, Golkar, PPP, PDK, Sulsel Bersatu, and Ummat also raised some concerns. Golkar asked why the road project was only proposed in 2012,

and why the projects were more heavily concentrated in the southern area rather than the North. PPP reminded the Executive to be transparent and accountable in managing borrowing. The Ummat Faction asked the Executive to disseminate the borrowing plan responsibly to avoid misconduct. In addition, PDK asked about the criteria for selecting the project location. Some factions enquired about financial capacity issues and requirements imposed by PIP. All of the concerns raised by the factions were addressed to the Executive to be responded to at the next meeting.

Going back to the PIP process that ran simultaneously with the Perda process, on 9 October, after analysing and reviewing the project feasibility study, the board of PIP approved the proposal and sent an indicative offer to South Sulawesi Province. At this stage, however, the approval of PIP was still based on the original feasibility study from the Executive that proposed 11 projects. The indicative offer stipulated terms and conditions of the loan, such as interest rates, fees, repayment schedule, and loan period. Later on, this issue was also brought up by the Executive for consultation with DPRD (Pansus) in the Perda meetings.

After approval from the PIP, DPRD conducted public consultation forums with different stakeholders. These were conducted simultaneously with the draft Perda consultation process. The public consultation was conducted by Pansus in the second half of October 2012. This is discussed in more detail in Section 6.5.

Besides the public consultation, during the period of 17-22 October 2012, DPRD was also busy discussing the draft of Perda and indicative offer from PIP with the Executive. To make the discussion more time-efficient, DPRD distributed the tasks to the DPRD Commissions simultaneously. Two commissions were given responsibility to discuss the proposal with the Executive: Commission D (Development) to discuss the feasibility of the road project; and Commission C (Finance) to discuss the financing liabilities such as interest rates, fees, and loan period of the project as it impacted the local budget.

Based on discussions with the Executive, Commission D made four recommendations: (1) to support the Executive's choice of 11 road sections as proposed originally by the Executive; (2) to urge the Executive to discuss any proposed infrastructure development projects earlier with DPRD; (3) to recommend equal distribution of proposed locations of road sections; and (4) that monitoring be conducted to ensure the quality of the road works. Commission C made three recommendations: (1) that an interest rate be proposed based on the Bank of Indonesia rate plus 1% (6.75%); (2) that administration and management fees should be 0.25% of total loan; and (3) that the term of the loan should be between 5 and 10 years.

Based on those recommendations, on 22 October 2012, DPRD agreed to pass these issues to the Executive. On 23 October 2012, the Governor proposed the terms to be negotiated with PIP together with Pansus based on the DPRD's recommendation. On 29 October 2016, PIP sent a final offer in response, with a loan term of 5 years, loan fees of 0.5%, and interest rate of 7.75%.

In discussing the final offer from PIP, DPRD agreed to communicate the recommendations of Commissions C and D to each faction. Meetings among factions were held from 19 November to 22 November 2012. On 20 November 2012, during the meeting with heads of factions, the Head of DPRD also informed the participants that KOPEL had sent a letter asking DPRD to cancel the plan to borrow (see Section 6.5). In the letter to DPRD, KOPEL insisted that DPRD cancel the borrowing plan in order to avoid future problems as they believed that the borrowing arrangement was in breach of laws and regulations. According to the minutes of the meeting, the head of DPRD stated that KOPEL wanted DPRD to cancel the loan proposal. Moreover, in order to respond to the objections from KOPEL and the public, he asked all factions to be wiser and fair in dealing with the plan to borrow. On this occasion, he was also offering a win-win solution by persuading factions to consider equal distribution in the selection of project locations. It was at this stage that some members of parliament from different parties representing the Luwu constituency began to suggest inclusion of the Sabbang-Tallang road section in the loan project.

Responding to the Head of DPRD's proposal, each faction raised concerns. PDK, Sulsel Bersatu, and Ummat factions agreed with the plan to borrow, but recommended that DPRD refer this matter to the Financial Audit Board (BPK) and legal institutions in the interests of prudence. The PAN faction suggested that DPRD clarify some technical issues such as interest rates and loan period that were not clarified in the commission's meetings.

Two factions opposed the Governor; the Democrat and PKS factions stated clearly that they rejected the borrowing plan. The Democrats raised several objections: (1) the Executive ignored the recommendation from Commission C with respect to the equal distribution of project locations and DPRD was being used as a rubber stamp; (2) the loan was proposed towards the end of the Governor's administration period and might burden the next elected governor; and (3) the loan proposal was against regulations, since it did not yet have approval from DPRD. Similarly, PKS also argued that the terms and conditions of PIP loan did not benefit South Sulawesi Province.

On the other hand, Golkar as the biggest political party and supporter of the Governor, proposed a win-win solution by offering an option for equal distribution of the project locations, and recommended that DPRD consult with institutions as suggested by some factions such as the Ministry

of Finance, Ministry of Home Affairs, PIP, and the Financial Audit Agency in order to ensure that the loan proposal was not breaking laws or regulations.

These consultations were conducted in the period of 22-28 November 2012. The Ministry of Finance confirmed that South Sulawesi Province was financially capable to borrow money from PIP. The Financial Audit Agency stated that borrowing is allowed as long as it has been discussed through the Perda mechanism. However, prudence in the loan management was needed by South Sulawesi Province to avoid non-repayment and other problems in the future. Consultations with central government agencies convinced the legislature that South Sulawesi Province was sound financially to take loan, and was not breaking the regulations.

On 6 December 2012, heads of DPRD held a meeting with heads of factions and Pansus in order to follow up on the previous series of consultations with related central agencies. This meeting was also important because some of factions such as PKS, Democrat, and Hanura had started to propose new road sections to be included in the project. The proposal to include new road sections located in Luwu District originally came from members of parliament representing the Luwu constituency. The proposal was pushed more strongly after Pansus and heads of factions had conducted consultations with PIP since they knew that the selection of locations was still subject to negotiation between the Executive and legislature.

To gather information about the background of the new road sections that had been proposed, I tried to contact several legislature members from Luwu constituency during my fieldwork. Unfortunately, many of them were no longer in office as they had not been re-elected and had moved to their home towns away from Makassar. Only one member responded to the request for interview, but he did not want to participate in the research. As an alternative, I spoke with other members of parliament who were not from Luwu constituency, but were closely involved during the Perda meetings. One of the Pansus members stated:

... apparently it is more crucial because it is a main area for flow of traffic carrying goods, commodities pass through there. But we explained again, "PT Nickel [Nickel Company] is there and PT Nickel is the major contributor to revenue. We also get tax from them. Secondly, there are [crops of] coffee and cacao in Luwu. How come there's not more attention given to improving infrastructure there when it's the responsibility of the province? (Interview with author 2014)

Later, the same member of Pansus added:

Perhaps it could also be noted why Sabbang was included. Because there was a coalition [formed]. While it's a Golkar area, there is a coalition of elected members from that electorate. (Interview with author 2014)

An interview with a Pansus member from Golkar also showed that there was pressure to negotiate the new road section at Luwu:

...actually if (Luwu) wasn't included in the original plans, we knew that it would be difficult to conduct a feasibility study because the area is difficult [to access] with steep terrain. But colleagues, especially from that electorate, really pushed hard for it. (Interview with author 2014)

From the Executive point of view, one officer stated:

Yes. We had already given an explanation that this track was not a priority; the track towards West Sulawesi. Not much traffic passes through there, mostly motorbikes and horses. (Interview with author 2014)

The officer then explained why they were finally agreed to include the Sabbang Tallang section:

This is a northern area, the Luwu Utara district. Politically, Golkar, Demokrat and many other parties have voters there. They thought, why is that area not included? Anyway, they insisted- and it was cohesive- it wouldn't align with regulations if that area wasn't included ... (Interview with author 2014)

Based on consultation with factions and Pansus, on 6 December 2012, heads of DPRD recommended that the Executive propose the Sabbang–Tallang road section located in Luwu District to be submitted to PIP (see Chapter 5 for details of this road section). As an adjustment for taking on board the Sabbang–Tallang road section, DPRD agreed to cancel the works on the Sungguminasa–Malino–Batas–Tondong road section located in the Gowa District. Following this meeting, the Executive via the consultant revised the original feasibility study and proposed the new project that included Sabbang–Tallang to PIP.

On 13 December 2012, DPRD held another meeting to finalise the loan proposal and to hold a General Meeting (Rapat Paripurna) with the Governor. Heads of DPRD and heads of the Planning Agency, Finance Department, Road Transport Department, Law Department, and Economic Bureau also attended the meeting. In this meeting, all factions reached agreement to continue with the loan proposal. Although Demokrat, PKS, and Hanura had agreed to the process, they also voiced their opinion during the meeting by putting heavy emphasis on the commitment to include Sabbang – Tallang road section into the project.

The meeting on 13 December 2013 was a positive sign for the Executive and legislature to continue the finalisation or legislation of the Perda process. However, before we discuss the legislation process, I will provide an overview of the process of public consultation.

6.5 Public Consultation

The public consultation process was held simultaneously with the draft consultation process discussed in Section 6.4. Public consultation started in mid-October 2012. From 11–17 October 2012, Pansus conducted a series of public hearings with stakeholders. Meetings were held with district and city governments across the province in Gowa, Takalar, Jeneponto, Bantaeng, Sinjai, Bulukumba, Bone, Soppeng, Wajo, Luwu, Sidrap, Pinrang, and Makassar. Pansus also consulted with professional associations with an interest in the road project such as Masyarakat Transportasi Indonesia/MTI (Indonesia Transportation Society), Asosiasi Aspal Beton Indonesia/AABI (Asphalt and Concrete Association of Indonesia), Lembaga Pengembangan Jasa Konstruksi/LPJK (Institute of Construction Services Development), Kamar Dagang Indonesia/KADIN (Trade Chamber of Indonesia), and Organisasi Angkutan Darat/Organda (Land Transport Organisation). Some academics were also invited to the hearing sessions.

One member of Pansus from the Democrat Party explained about the public consultation process during the Perda:

So that's how consultation happens, DPR issues invitations. During construction, usually relevant NGOs are invited, and academics, financial institutions, as well as the business sector. We involve everyone and ask for input... and that's the model of public involvement we used when drafting Perda. (Interview with author 2014)

A member of Pansus from the Golkar Party talked about the result of public hearing with these associations:

The transportation society is on our side and they don't care if it [the project] is before or after the election. They don't really get involved in politics. They are just interested in people's needs so they are focused on that. (Interview with author 2014)

On 17 October 2012, Pansus also conducted a hearing with the Executive, district and city governments, academics, and associations. The Executive was led by Assistant II acting for the Governor, and attended by the head of BAPPEDA (local planning), and head of BPKD (finance). From district and city governments, the heads of the road departments from Bulukumba, Wajo, and Bone also attended, as did academics from the department of Civil Engineering at the local university, and business associations such as head of MTI, LPJKD, Himpunan Pengembang Jalan

Indonesia/HPJI (Association of Road Developer Indonesia, and Persatuan Insinyur Indonesia Sulse/PII (Engineers' Union of Indonesia – South Sulawesi).

With respect to the hearing, one of Pansus member from Golkar Party said:

They showed us [the roads] there [and told us] if these roads aren't fixed then transport costs will increase. For example, potholes... if you use a private car then fuel consumption and maintenance costs will increase. And there will be higher costs for public transport too which will be passed on to passengers. (Interview with author 2014)

However, public hearings that were held by DPRD were criticised by non-governmental organisations, particularly those who operated in the field of governance and anti-corruption in South Sulawesi Province such as KOPEL and PERAK Institute. They both stated that there was a lack of involvement of NGOs during the process of Perda on borrowing. One KOPEL activist stated:

There was no involvement ... then it escalated...though we are welcome to request that it be discussed, it didn't happen. There was no public consultation on the Perda. (Interview with author 2014)

He also added how KOPEL had tried to participate in the Perda process:

We had been to DPRD with respect to this loan, because we wrote a letter to them to be tabled as community input. As a form of [community] participation, we went to the DPRD and discussed the loan with elected members and gave a presentation [requesting information about] what the repayments would be like if the province takes out a loan. That's what we presented to the DPRD. (Interview with author 2014)

As an NGO that supported the role of DPRD, KOPEL had been involved by DPRD numerous times in discussing Perda issues and in public consultation processes. However, in the Perda on borrowing, KOPEL encountered a very different situation. They felt that the process was less engaging and less transparent than any other Perda that they had been involved in previously with DPRD. One activist stated:

For other [matters], we were invited as per usual. Even for [discussion of] other Perda. But financial matters are very sensitive. (Interview with author 2014)

Discussion about financial matters above refers to the PIP loan worth IDR500 billion (AUD50 million). With the exception of discussion about local budgets, most *Perda* are about regulating local policy arrangements and development. The activist then continued with his views on other *Perda* that he had worked together with DPRD on in order to show the anomaly: “[With respect to] the [*P*]perda

on public services, we even prepared a policy paper to later discuss with DPRD” (Interview with author 2014).

KOPEL was established as a legislature watchdog body in South Sulawesi Province. Although in name it is associated with DPRD, it is active in providing advocacy and criticising the policies of the subnational government. In the case of the development of the loan proposal, there were major issues raised by KOPEL with respect to the initiative to borrow. Firstly, KOPEL stated that the loan proposal had not yet been discussed with DPRD for approval in the early stages. Secondly, the proposal to borrow towards the end of gubernatorial period potentially breached Central Government borrowing regulations. Thirdly, one of the road projects financed by the PIP loan involved the development of a bridge in the area of Centre Point of Indonesia (CPI). CPI is a mega-project of land reclamation established by the subnational government in 2010 (Figure 6.3). The Government planned to build a business centre, hotels, tourist destinations, sports centres, and entertainment facilities to boost economic growth. However, according to KOPEL, the project was not in line with the local development plan (RPJMD) and associated with corruption. KOPEL argued that the project had wasted billions of rupiah in public money with poor results. KOPEL believed that the plan to finance the bridge through the PIP loan would create further losses for the public purse. In April 2016, KOPEL succeeded in submitting a report on the allegations of corruption by the Executive on the CPI project to the KPK (Corruption Eradication Commission – Indonesia). This report is still under further investigation by KPK.



Figure 6.3 Project Model of Centre Point of Indonesia – South Sulawesi
(Tribun Timur 2016)

KOPEL’s heavy criticism of the government, particularly with respect to the road project during the incoming election period was, however, criticised by other civil society organisations and

the Governor's support team. Many critics stated that KOPEL had a conflict of interest in this case since Syamsuddin Alimasyah, the Director of KOPEL, was recruited by Ilham Arief Sirajuddin (one of the Governor's competitors in the election) to join his campaign support team.

One source raised this issue during an interview:

Syamsuddin Alimasyah is a vocal person who owns KOPEL. But he was particularly intense [vocal] towards the provincial government. Why? Because he's a local government man, in this case [aligned with] the Mayor ... Ilham. Ilham and the Governor were in competition with each other). (Interview with author 2014)

In order to obtain more information about this issue, online research was conducted to search for references to the two related actors' names and the local election campaign team. Research found some relevant information from local online media such as Tribunnews.com and Rakyat Sulsel.com with respect to this issue. Tribun Timur, a national news network, reported that some student movements, civil society organisations, and supporters of the incumbent Governor raised concerns that as the Director of KOPEL, Alimasyah's conduct was not acceptable because he should be neutral and independent to avoid conflicts of interest. Quoted from Tribun Timur, Djusman, a NGO activist in South Sulawesi, stated:

Our organisation is suspected of being non-partisan, especially if it's already clear as day that it's partisan. The organisation is officially non-partisan, but if the coordinator is partisan, and he represents the organisation ... (Wahyudi 2012c)

Tribun Timur, a local media outlet, interviewed Professor Aswanto, Dean of the Faculty of Law of Hasanuddin University, and the Chairman of Ethical Committee of KOPEL about Syamsuddin Alimasyah's involvement in the Ilham Arief's campaign team, who reported:

Syamsuddin is a professional. If he is asked for advice in his capacity as KOPEL coordinator by any of the candidates, then it is accepted and unbiased. I, as the chair of the KOPEL Ethics Board, know how Syamsuddin can be objective, and [within his reasoning] can situate himself both within, and outside of, KOPEL. Syamsuddin's involvement in IA was not a problem and Syamsuddin's personal views did not influence [his work for] KOPEL because KOPEL is about teamwork and if there's a problem it is discussed by the team. There was no problem with Syamsuddin in IA. Public servants are forbidden to participate in campaigning and Syamsuddin is not a public servant. (Irham 2012)

Aside from KOPEL, PERAK Institute also had quite a similar experience with KOPEL with respect to public hearing processes. One PERAK activist stated:

For sure, colleagues from NGOs had almost no involvement. It may be labelled as participation when, for instance, we hold discussions that are separate from the government, and it may be viewed as participation and having input. But it was an initiative by civil society organisations to undertake analysis and discussion to criticise the policy. (Interview with author 2014)

The activist added:

Honestly, there was no engagement. Because we knew that from the media... We only found out after the big blow up in the media “oh, turns out there is this plan to borrow funds”. That’s what we regret. What I mean is it’s OK that some colleagues [agree with taking the loan] except for the Ant-Debt Coalition who are consistently against borrowing. But we also have to be realistic. The existing APBD can’t finance the whole thing. But we should at least be accountable with this loan. There must be a preliminary process where there is community involvement in the review. Whether our financial capacity is good enough to take on a loan and so forth. (Interview with author 2014)

When I asked about PERAK Institute’s perspective on the lack of involvement of NGOs such as PERAK Institute by the subnational government in the policy-making arena, one person stated:

The unfortunate thing is that a number of activities or policies that are released or discussed, tend to involve NGOs that firstly aren’t concerned with that issues and, in our opinion don’t have the capacity to contribute anything. These are the groups that are involved. We also must realise with NGOs that there are many NGOs that, as my colleagues would say, are phony. All they do is knock on the SKPD’s door and knock on the government’s door asking for something rather than contributing constructively. There are lots of NGOs like that. [And] Journalists too. (Interview with author 2014)

A Road Transport Department officer confirmed that the Executive still held the opinion that some NGOs are fraudulent. However, the officer did not mention the names of any of these NGOs during the interview. When discussing NGOs, the officer stated that there are many types of NGOs with different motives:

Yes, there are all sorts. There are some that make a lot of noise but all they want is money. But there are definitely genuine ones too. When we confront them [they say] “yes, that’s right”. Journalists from the newspapers are like that too. (Interview with author 2014)

Corrupt NGOs usually used detailed information of the project, such as locations, related institutions, related officers in charge, and amount of funds to find such wrongdoings or misconduct within the government projects. Once they found such misconduct, they blackmailed the officer or

institution involved to pay money hush money. Later on, the officer stated that he had to deal with threats from NGOs that he would be reported to law enforcers:

Sometimes we deal with a lot of this stuff, mainly with NGOs. It's their character. There are some who deliberately try to scare us, even inferring that we might be jailed. Yes, Sir. But we're used to this and just get on with things. I don't think I'm doing anything wrong. They deliberately come here, making phone calls to their solicitors, that kind of thing... (Interview with author 2014)

Some NGOs were also not afraid to directly ask for money:

Yes, [it was done] brazenly. If they think they've caught us out making a mistake, on site for instance. Then they want to 'make peace' is the term [settle the matter for cash]. Sometimes that happens. (Interview with author 2014).

The officer also stated that one of the NGOs had reported the department to the district attorney during the development of the road project about disbursement of the loan. According to the loan conditions, once contractors finished their work they get reimbursed from the PIP via the subnational government account. Once the subnational government received funds, payment was made to the contractors within 48 hours of receipt. However, due to lack of knowledge among NGOs regarding the disbursement mechanism, they alleged that funds received by the subnational government were not paid to the contractors, but were deposited to gain bank interest, or for fraud. The case was closed after the officer went to the District Attorney's office and clarified that such misconduct would not have occurred since they are obliged to transfer the funds to the contractors within 48 hours, and that PIP was conducting strict monitoring on their project and would have applied sanctions if such misconduct had occurred.

Going back to the public consultation process, based on my findings in the field, DPRD did not involve non-governmental organisations, such as PERAK Institute and KOPEL, that did not support the borrowing plan, although these NGOs were known to be very active in providing recommendations to the Executive and legislature, in particular, in the fields of governance and corruption issues. Reasons not to involve NGOs, such as KOPEL, PERAK Institute, and others that opposed the borrowing plan, are unclear. However, long before the public consultation on the borrowing proposal was held, KOPEL had been criticising the government heavily, particular in respect to the allegations of corruption related to the Centre Point of Indonesia (CPI) project, for which one bridge was to be funded through the PIP loan. There is a significant possibility that the DPRD and government already knew that KOPEL and other anti-corruption movements would reject anything related to this matter in the consultation.

During the public hearing process, DPRD only involved associations that operated in the areas of transportation and infrastructure construction, such as ORGANDA (Organisation of Land Transport), MTI (Indonesia Transportation Society) and KADIN (Chamber of Commerce), rather than NGOs. ORGANDA, for instance, is an association of transportation business owners, and MTI is an organisation for transportation professionals from various backgrounds such as government, academics, pilots, and others. Some MTI members are also public officers in the Road Transport Department.

Although MTI was listed as one of the organisations involved in the Perda on borrowing process, one of the top managers of MTI surprisingly stated that they actually never received any formal invitation from DPRD to attend the public hearing or any early planning stage of the road project. As one top MTI manager stated:

So, sometimes, [if the invitation] goes to a member of MTI, that MTI member won't tell anyone, they just go by themselves. Well, sometimes it's like that, they'll act on our behalf without us knowing. Even though that's not supposed to happen. It's usual when a meeting is held to get people's opinion for there to be an honorarium of IDR100,000 or thereabouts. That's what they're after... and they don't report back to us about the result of the meeting. (Interview with author 2014)

Besides the surprising statement, the manager also criticised the subnational government for not involving MTI in the first place:

Yes. Only when they have problems do they come to us. Like when a bridge collapses, only then do they call us. Why has it collapsed? We go out there. What kind of design is this? There's a fault in the original design. The foundation has not been built in accordance with the calculations. (Interview with author 2014)

Going back to the chronological account of the road improvement project, on 2 November 2016, KOPEL submitted a letter to the Road Transport Department to request information such as terms of reference of the project (the feasibility study), the indicative offer from PIP, and the approval letter from the Head of DPRD. However, KOPEL's request was not well received by the Road Transport Department or Governor. In one of the interviews, one of KOPEL's activists stated:

There's no reason. But, this is a fiasco. Perhaps it's because most of the local governments (SKPDs) are worried that this [information] could be used for blackmail. There have been many cases of this. We have made a commitment to the provincial government and the DPRD that we are not like that. We're more about analysis and providing input to the local government and DPRD. But still [the information] isn't released. So we take the matter to court. Only when we got to the mediation hearing were the documents handed over. (Interview with author 2014)

The mediation court was organised by the Provincial Commission of Information – a government institution tasked with ensuring implementation of transparency and to settle disputes with respect to transparency between the public and government institutions. The mediation court hearing between KOPEL and South Sulawesi Province took place on 31 January 2013. KOPEL won the case, but it was too late to get all the information since the DPRD had already approved the Perda in December 2012. Under the law, the mediation court could only be established 90 days after the letter from KOPEL had been submitted, requesting the documents which the public agencies failed to provide. To gather more information about the mediation court, one of the Commissioners of the Provincial Commission of Information was interviewed. The Commissioner stated why the Executive did not release the information: “He didn’t know [about the transparency regulations]. Secondly, he must request permission from the Governor or Sekda [Secretary] to release [the information]” (Interview with author 2014).

One of the officers of the Road Transport Department stated:

“It was still early stages of the process. We were still undertaking the process and then the NGO requests all of the data. We thought, ‘the data shouldn’t be released prematurely, the process is still ongoing...’ Then we were reported the Provincial Information Commission. (Interview with author 2014)

The officer added:

The first thing I’ll say is that it wasn’t transparent. But then it turned out that there were all kinds of ways that we could get letters that we weren’t supposed to know about. (Interview with author 2014)

However, arguments from the Road Transport Department that the feasibility study was still in process are contradicted by interviews with PIP officers and documentary research, which shows that the PIP Board had given approval for the borrowing proposal from subnational government on 28 August 2012. Moreover, the letter of indicative offer from PIP to South Sulawesi Province was already issued on 9 October 2012, or around a month before KOPEL requested the feasibility study from the Governor and Road Transport Department on 2 November 2012. The PIP Board would not have given approval and issued a letter of offer to the subnational government unless the feasibility study and other related documents had been submitted by the borrower to PIP.

The lack of transparency during the Perda-making process was not only criticised by non-governmental organisations (NGOs); Pansus members from the Democrats and PKS were also feeling the same way. A Democrat member of the DPRD stated: “The first thing I can say is that it was not

transparent. However, using a variety of methods we were finally able to get letters that we were not supposed to get” (Interview with Author 2014). The same Member of the DPRD added that even the loan proposal was only cursorily circulated and told me how he did manage to review it:

It wasn't an official channel. We got copies from friends who were sympathetic to our cause. Then when we were able to show that we knew of the existence of a certain letter, only then would that letter be officially tabled in DPRD. For example, it was usually like this... There would be an activity. The government would organise it. So they would take care of all the details. Sometimes in DPR, they would only give the big picture. Because if we knew too much, then we would ask too many questions ... So they'd give us a letter with the big picture only. With this letter, there'd be no attachments. They weren't provided to us. Turns out those attachments would have the information we needed to understand [what was happening] and to determine whether or not it was the right decision. When we [finally] got the attachments, “What? Turns out this is the amount”. For instance, the percentage. “This was never in the formal letter”. Yeah, the interest rate. “The interest rate is this much. You never told us this. This rate is really high! We don't agree with this!” Then in the proposal to PIP it turns out there are points to be addressed. You submit [the work], but you're waiting for information from DPR that isn't there yet. Then it turns out it was there... (Interview with author 2014)

The lack of transparency experienced by one of the Pansus members from the Democrat faction impacted on trust between the legislature and the Executive during the Perda-making process. The member of the DPRD stated:

Yes, for example, the provincial government says,

“OK, we'll include that.”

“Well, we don't believe you. Where did you include it? Let us see the document.”

Because it could still be deleted from the document before it is submitted. (Interview with author 2014)

The Member of Parliament later stated clearly:

There was no trust at all ... It is because they have tried to cover this since the beginning, no transparency. So, we would certainly did not trust them for their promise. (Interview with author 2014)

In the same month of November 2016, Lembaga Pendidikan Rakyat Anti Korupsi, known as PERAK Institute, initiated a forum to discuss the subnational government's borrowing initiative with related stakeholders such as members of parliament, academics, and the coalition of non-

governmental organisations that operate under the name Koalisi Anti Utang (Anti Debt Coalition). The forum recommended cancelling the loan proposal, as stated by one of PERAK Institute activist:

There were a number of recommendations resulting from the discussion ... one of them was a recommendation to not take the loan based on a variety of considerations. For example, according to analysis from an academic, protocols were breached... (Interview with author 2014)

The initiative to establish this forum was appreciated by the members of parliament. One Democrat member of parliament said:

Fortunately, the community supported us in this process. Speaking of community participation, there were NGOs that organised a public discussion [and] brought in academics just to get feedback about this. And we were invited too. (Interview with author 2014)

The period of public consultation by Pansus ended in October 2012. The public consultation forum did not involve NGOs such as KOPEL and PERAK Institute that heavily criticised the proposal to borrow. In addition, the Executive did not trust the NGOs because some NGOs had been involved in fraud, and because KOPEL's director was on the support team of Ilham, the strongest competitor against Limpo in the gubernatorial race. Nonetheless, KOPEL and PERAK Institute made strong efforts to influence the Perda-making process by pressuring the Executive and the DPRD. This is evidenced in their activities in delivering different perspectives to the local media, initiating discussion forums with other NGOs and legislature members, and submitting letters to the subnational government, DPRD and PIP. In the next section, we will discuss the last stage of the Perda-making process of the loan proposal: the legislation. This final stage proceeded after the DPRD had finished the stage of drafting the Perda consultation, and the public consultation.

6.6 Legislation

Following public consultations during October 2012, and based on recommendations from meetings of heads of DPRD, executive officers, party factions, commissions, and Pansus, the DPRD agreed to proceed with the process of the loan. At the final meeting on 13 December 2012, DPRD agreed to include the Sabbang – Tallang road section in Luwu district in the project and cancelled planned works on the road sections in Sungguminasa – Malino – Batas – Tondong located in Gowa District.

In order to wrap up the process, on 21 December 2012, DPRD held a general meeting (Rapat Paripurna) with the Governor. The main agenda of meeting was to hear final speeches by party

factions and the Governor with respect to the loan proposal. At the meeting, all party factions agreed to grant approval for the loan proposal. In order to follow up on the general meeting result, the Head of DPRD issued a decision letter (Surat Keputusan) to recommend approval for the loan proposal.

Since loan approval had already been granted by DPRD, South Sulawesi Province could continue the process of signing the loan agreement with PIP. On 29 December 2012, both South Sulawesi Province and PIP signed the loan agreement. Although the loan agreement was already signed, Pansus was still busy finalising the Perda. On 4 January 2013, Pansus held a meeting with executive agencies to discuss terms and conditions that had to be stipulated in the Perda. Besides technical issues, finalisation of the Perda also had to wait until after the local elections in mid-January 2013. The decision to delay the legislation of Perda became a major point of negotiation among party factions. As discussed above in Section 6.4, the Democrat faction did not want the loan to create a burden for the newly elected governor. Thus, they would approve the Perda after the election.

As stated by one Pansus member from the Democrat faction:

Secondly, we said the disbursement of funds would take place after the gubernatorial election ... We deliberately delayed the process... we didn't want to sign it... we deliberately didn't have our whole faction present so there wouldn't be a quorum, we didn't attend meeting so that there wasn't a quorum ... That's what we did. That's how we manipulated the dynamics in the DPRD. (Interview with author 2014)

Local elections were held in South Sulawesi on 22 January 2013 and the incumbent Governor Limpo with his Deputy Nu'mang were re-elected for a second term. Based on the election results and previous negotiations between the Legislature and the Executive, the Perda approving the loan was finally legalised by the Governor on 18 February 2013 (Perda No.1 Year 2013).

6.7 Post-Perda Process

This section provides information about the events that occurred in relation to the road project after the legislation process. One of the interesting findings is the rejection by PIP to finance Sabbang–Tallang road section after the Perda was ratified by DPRD. In the previous section, it was revealed that the Sabbang–Tallang road section was endorsed by DPRD to support equal distribution of the selection project locations that were mainly allocated to Gowa District which was the incumbent governor's stronghold. In order to accommodate the DPRD's request, some adjustments were made by the consulting company based on negotiations between government and DPRD in the Perda process (please see Chapter 5 for details of the adjustment).

The new feasibility study for the Sabbang –Tallang road section was submitted to PIP for approval after the negotiation process between the Executive and DPRD members ended (but before the legislation process), but the result (rejection) was issued by PIP just after the legislation process. The decision was taken after an analysis by PIP’s consultant company was conducted. This particular analysis is always conducted with respect to every borrowing proposal from subnational governments in order to mitigate the risk of loan default and maintain accountability of decision-making.

The PIP’s consultant company found that the Sabbang–Tallang feasibility study was not consistent with the previous feasibility study conducted and submitted previously to PIP (before the Perda draft was submitted to DPRD) that actually classified the Sabbang–Tallang road section as a lower priority and less feasible to be financed by the loan. PIP decided to refer to the first feasibility study and decided not to finance the Sabbang–Tallang road section that it considered unfeasible. An interview with one of officers of PIP revealed:

The legislature itself had differing opinions. [They believed] that Sabbang-Tallang should be a priority... We analysed this. Why is there a difference? Well, the consultant didn’t batt an eyelash. Stayed resolute... this is based on our analysis as to what we can be accountable for, and this is the priority. (Interview with author 2014)

As PIP did not approve the amended proposal, the Sabbang–Tallang road was dropped from the project. In response, the Executive agreed to allocate its own budget to finance the Sabbang–Tallang road section. The road upgrade project funded by PIP was completed by the Road Transport Department in 2015 and is scheduled to be fully repaid in 2017.

Other interesting findings after the legislation process occurred in 2016. KOPEL and other NGOs accused the Executive of corruption on the mega-project, Centre Point of Indonesia (CPI), where one of the bridges was built and funded by PIP, and reported these allegations to the KPK (Corruption Eradication Commission). The report by KOPEL is still being investigated by KPK.

6.8 Conclusion

This chapter discussed findings relating to the loan proposal process in South Sulawesi Province. Based on the perspectives of the Executive, DPRD, and NGOs, the study found that the implementation of transparency and participation during the *Perda*-making process was lacking. The Executive stated that dissemination of information about the project is not necessary because the local community would inevitably be pleased about the proposed project. On the other hand, some DPRD

members and NGOs stated that they did not have adequate information and were less involved by the Executive during early stages.

Members of DPRD and NGOs heard about the plan to borrow from the local media. The public consultation process only involved business and professional associations that supported the plan and did not involve NGOs, particularly those who opposed the plan. However, this thesis also found that there was a lack of impartiality by one of the NGOs (KOPEL) during the *Perda* process since one of the directors was aligned with the campaign of Ilham Arief – the biggest rival of incumbent Governor Limpo in the upcoming election.

Despite the lack of impartiality, the thesis found that the role of NGOs is supported by the local media and is significant in influencing the development of loan proposal process. Pressures from NGOs to the Executive and DPRD pushed the Executive to reallocate one of the road sections in Gowa District to Sabbang–Tallang in Luwu District. Although it was rejected for financing by PIP, it was later funded by South Sulawesi Province’s own local budget. A more detailed analysis of these findings will be discussed in Chapter 9 within the framework of supply of, and demand for, good governance. The next chapter discusses the Surakarta Municipality as the second research site of this research.

CHAPTER 7: SURAKARTA MUNICIPALITY

This chapter provides a general background on Surakarta Municipality (City) including its administration, governance, civil society and politics, as well as the the proposed hospital project that is important to the study's analysis and discussion. The background discussed in this chapter is linked to the study findings discussed in Chapter 8 and leads to the findings on the supply and demand sides of transparency and participation discussed in Chapter 9.

7.1 Introduction

This chapter aims to discuss the general background of Surakarta Municipality. Discussing backgrounds is crucial in order to gain wider and in-depth understanding of Surakarta in order to analyse its influence on the borrowing process as well as the implementation of transparency and participation discussed in Chapter 9.

This chapter is broken down into eight sections. First, geographical and historical context of Surakarta that discusses geographical conditions and past events that shaped the municipality. Second, local administration that discuss briefly about the executive agencies and the legislature (DPRD) that are closely involved in the borrowing process. Third, local governance that discusses the experience of Surakarta in implementing good governance. Four, local politics that discusses the leadership of the Mayor and his Deputy. Five, civil society which talks about the roles played by NGOs in Surakarta in relation to governance reform. Six, borrowing experience that discusses the capacity of Surakarta in managing past borrowings. Seven, the hospital project which outlines the development process of the hospital. Section 8, as the final section, provides a conclusion.

At the end of the chapter, readers will have an in-depth understanding about Surakarta and be able to link it with the context of the borrowing or *Perda*-making process, and the implementation of transparency and participation (supply and demand side) that will be discussed in Chapters 8 and 9.

7.2 Geographical and Historical Context

This section provides the geographical and historical context for Surakarta that shaped modern socio-economic-political conditions within the municipality. Surakarta is located in Central Java Province and has a total area of about 44 square kilometres which is smaller than other cities within the province. The location of Surakarta and other cities and districts in Central Java Province is provided in Figure 7.1 below:



Figure 7.1 Surakarta among Other Cities/Districts in Central Java Province
(From Cribb 2010, reproduced with permission)

Figure 7.1 shows that Surakarta is bordered by three other districts: Boyolali, Karanganyar, and Sukoharjo. Surakarta has also five *kecamatan* (subdistricts) and 51 *kelurahan* (villages). The subdistricts are Laweyan, Serengan, Pasar Kliwon, Jebres, and Banjarsari, as shown in Figure 7.2.

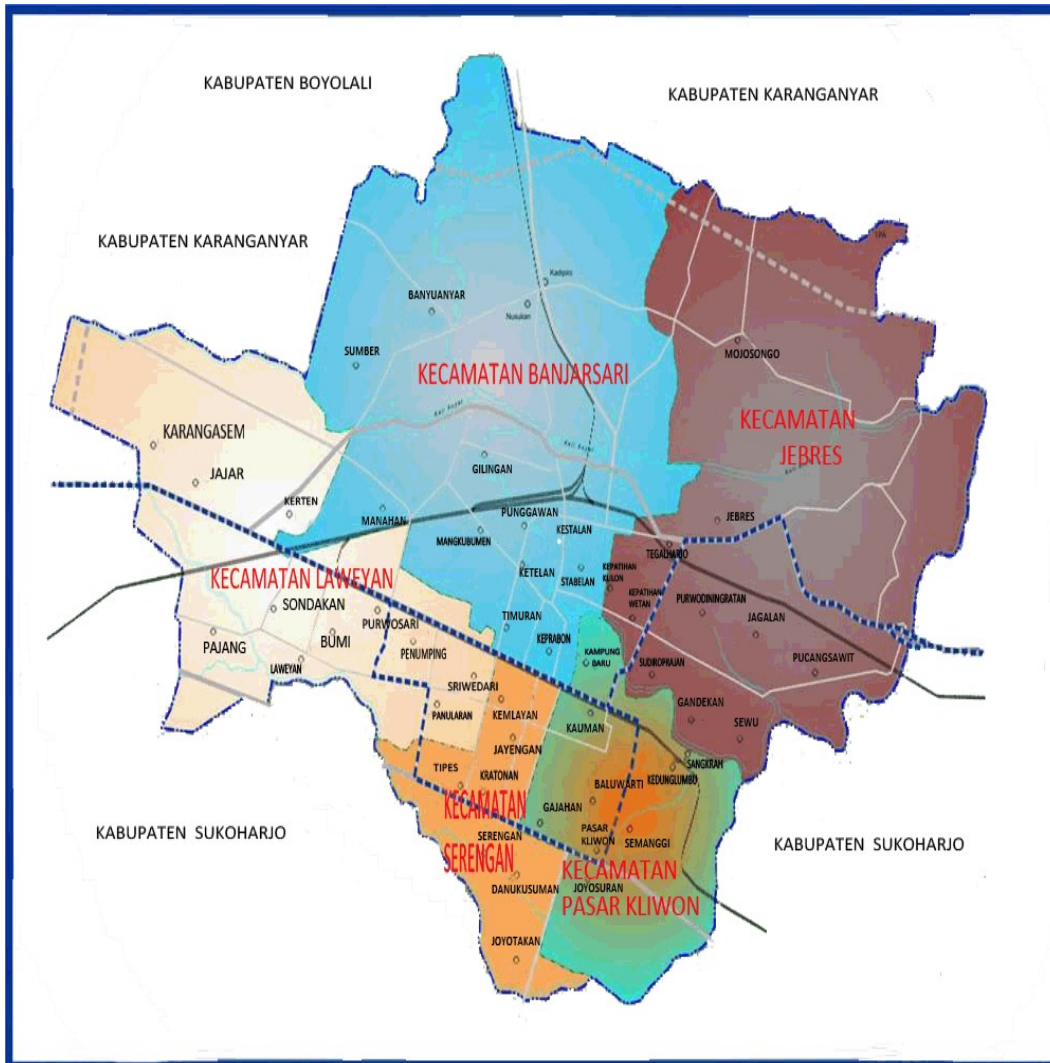


Figure 7.2 Map of Surakarta
(Statistics Indonesia 2012, p. iii)

Figure 7.2 shows that Surakarta is divided into two major areas. The Northern area consists of Banjarsari and Jebres subdistricts. Banjarsari is the subdistrict where the Ngipang hospital was proposed. The southern area comprises Laweyan, Serengan, and Pasar Kliwon subdistricts which have better infrastructure, and more economic activity than the northern area, as the city centre and many businesses are located there.

The population of the municipality is 500,171, distributed almost evenly across all subdistricts. Surakarta relies more on trade and services to support its economy, such as tourism activities, and retail business. Surakarta is well known as a popular tourist destination, attracting both local and international tourists. With respect to employment, most people in Surakarta work in three major sectors: trade, industry, and construction (Statistics Indonesia 2012).

Societal structure in Surakarta is quite heterogenic and consists of different religions, ethnic backgrounds, and socio-economic background. The majority of the people are Muslim. Based on the socio-economic characteristics of the area, research by Kartono argued that subdistricts in Surakarta have their own distinct characteristics. Banjarsari subdistrict, which also became a site for the local hospital project, is characterised as a slum area with agricultural activities dominating, while Serengan subdistrict is characterised as an industrial area, and Laweyan as an entrepreneurial and urban area (2004, cited in Widianingsih & Morrell 2007, p. 4).

According to Suparno, Ismunandar and Rochimah (2005, pp. 41-3), Surakarta was established in 1745 during the period of Dutch colonialism under Dutch East Indies Company (VOC) when the Mataram kingdom was still very powerful on the island of Java. Due to power conflict within the elites of the kingdom, the Dutch managed split the kingdom into two smaller kingdoms with two distinctive administration areas: Kasunanan Surakarta, and Mangkunegaran. From 1757, the two kingdoms ruled Surakarta, and in 1946, the Central Government decided to diminish the power of the kingdoms by assigning a mayor to govern the municipality.

Although, the power of the monarchy was limited after 1946, Soejatno (1974, p. 1) argues that Surakarta's traditional social and cultural structure has been strongly influenced by the feudal system and is characterised by three social classes: the *sentono dalem* (the royal family); the *abdi dalem* (the bureaucrats of the kingdom); and *kawula dalem* (the masses). The first two classes were known as *priyayi* (noblemen) who enjoyed privilege and power, while *kawula dalem* was bound to, and ruled by, the *priyayi*.

Society in Surakarta is split along ethnic as well as class lines. Pratikno (2002, pp. 10-1) argued that although Chinese and Arabs are minorities in Surakarta, the Chinese have been dominant in running economic activities of the municipality. In contrast, the Javanese as the majority are less dominant. This situation has been associated with violence and riots, which, as discussed later, has influenced politics in the municipality. Surakarta was also, from the early 20th Century, a centre of nationalist agitation against Dutch colonial rule. This in part grew out of resentment of Chinese traders in the municipality, but over time grew into a broader political movement against Dutch rule (Shiraishi 1990, pp. 41-7).

According to Pratikno and Lay (2011, pp. 48-9), violence and instability continued to plague Surakarta in the period after independence, when it became a stronghold of the Indonesian Communist Party (PKI). In the New Order administration of Suharto, the PKI was banned and severely repressed. During the New Order era, Golkar dominated political power in Surakarta.

However, according to Suparno, Ismunandar and Rochimah (2005, pp. 56-7), PDI was growing in strength in Surakarta and was able to follow Golkar in the second position from 1977 to 1992. They argued that the victory of Golkar in Surakarta over PDI was just a result of the repressive policies implemented by Suharto during his administration. This argument was proven when Suharto was toppled in 1998. From 1999 onward, PDI have done consistently well in Surakarta elections, receiving more than 50% of the popular vote. In the 2014 the election, PDI-P won 24 out of 45 seats in the local parliament, with the other seats shared among seven other parties.

Surakarta also known as a city of riots. There has been research that discussed violence and riots occurring in Surakarta (please see Fahmi et al. 2015; Larson 1979; Pratikno 2002, 2004; Pratikno & Lay 2011; Shiraishi 1990; Von Luebke, McCulloch & Patunru 2009; Widianingsih 2005a; Widianingsih & Morrell 2007; Wijssen 2013). The two main targets of the riots were the ethnic Chinese, and the government (Pratikno 2002, p. 11).

Some of the biggest riots occurring in Surakarta involved sentiment over the ethnic Chinese who had dominated the local economy for a very long time. According to Pratikno (2002, p. 11), the biggest riots attacking the Chinese occurred in 1998 just before Suharto resigned as the president. Many shopping malls, banks, shops, factories, and Chinese residential areas were burnt down. Purdey (2006, p. 82) argued that violence against ethnic Chinese in Surakarta is caused by various factors such as economic frustration and culture. The Chinese, who owned more than 75% of the local shops, were often seen as a symbol of wealth by the rioters. From the social and economic perspective, Pratikno (2002, p. 11) argued that the cause of the riots was distrust of the subnational government whose officials were often seen to privilege to the Chinese, and received bribes from them.

Pratikno (2002, p. 12) also stated that the traumatic experience of the riots will not easily forgotten by the Chinese nor the government as the dominant groups in Surakarta. He believed that the history of rioting in Surakarta has helped grass roots movements to gain confidence in their struggle against economic and political domination. It created pressure on the government to be more careful. Widianingsih (2005a, p. 7) states: “In Solo [Surakarta], rethinking the development paradigm was crucial because the city’s diversity has contributed to a high level of conflict and social disintegration”.

7.3 Surakarta’s Local Administration

During the development of *Rumah Sakit Umum Daerah* Ngipang, or Nigipang Local Hospital (RSUD) in 2011, Surakarta was led by Mayor Joko Widodo (Jokowi) and Deputy Mayor FX Hadi

Rudyatmo (Rudy), who were in office between 2005 and 2012. In 2012, Jokowi was elected Governor of Jakarta Province. When Jokowi moved to Jakarta, Rudy was elected as the Mayor of Surakarta replacing Jokowi.

Like other cities in Indonesia, the mayor and deputy mayor are supported by the *dinas* (line agencies) whose chief officers are appointed directly by the mayor. During the process of borrowing, four *dinas* (agencies) were involved: *Dinas Pendapatan, Pengelolaan Keuangan, dan Aset/DPPKA* (Finance Agency), *Badan Perencanaan Pembangunan Daerah/BAPPEDA* (Planning Agency), *Dinas Kesehatan/Dinkes* (local health agency), and *Dinas Pekerjaan Umum* (public works agency).

Like other subnational governments in Indonesia, Surakarta has its own local parliament (DPRD) elected by the people. During the period 2010 to 2015, the Surakarta DPRD comprised 40 members from eight different political parties.

Table 7.1 Composition of DPRD Surakarta

No	Political Parties	Members	Factions
1.	Partai Demokrasi Indonesia Perjuangan/PDI-P (Indonesian Democratic Party Struggle)	15 members	PDIP
2.	Partai Demokrat (Democrat)	7 members	Demokrat
3.	<i>Partai Keadilan Sejahtera/</i> PKS (Prosperous Justice Party)	4 members	PKS
4.	Partai Amanat Nasional/PAN (National Mandate Party)	4 members	PAN
5.	Partai Hanura (People's Conscience Party)	2 members	Nurani Indonesia Raya Faction
6.	Partai Gerindra (Great Indonesia Movement Party)	2 members	
7	Partai Golkar (Functional Group Party)	4 members	Golkar Sejahtera Faction
8	Partai Damai Sejahtera/PDS (Prosperous Peace Party)	2 members	

(KPU Surakarta 2010)

Table 7.1 shows that PDI-P dominated the DPRD with 15 seats, followed by Democrat Party with seven seats. Hanura, Gerindra, and PDS won two seats each. The table shows that there were six factions. Unlike the DPRD in South Sulawesi Province, each faction in the Surakarta DPRD had to have a minimum of four members. Hanura and Gerindra therefore formed one faction with their combined four members (the Nurani Indonesia Raya faction). Golkar and PDS formed the Golkar Sejahtera faction with their six members.

In the period of 2009-2014, DPRD Surakarta was led by a chairman (YF Sukasno from PDI-P) and two deputy chairmen (Supriyanto from Democrat Party, and Muhammad Rodhi from PKS).

The role of the Chairman was important during the borrowing process with respect to leading meetings and signing the borrowing approval on behalf of the DPRD together with the Mayor.

DPRD Surakarta formed four commissions (*Komisi*) in order to discuss government programs or plans: (1) Administration; (2) Local Development; (3) Economics and Finance; and (4) People's Welfare. Planning of the hospital project was raised by the Executive and discussed with Komisi 4 on People's Welfare as a counterpart of the Health Department. Before a *Perda* is proposed, *Komisi* are usually informed and consulted first. In order to examine the proposal to borrow from PIP, the DPRD formed the *Pansus Pinjaman* (Special Committee on Borrowing), chaired by Honda Hindarto of PDI-P to monitor and investigate the borrowing process, including the negotiations process with PIP. Pansus usually works on special agendas or events that require further investigation.

7.4 Local Governance

Studies of local governance argued that Surakarta developed good systems of governance under the Jokowi administration, in particular with respect to citizen participation (Bunnell et al. 2013; Majeed 2012; Morrell, Tuerah & Sumarto 2011; Phelps et al. 2014; Pratikno & Lay 2011). In terms of civic engagement or participation, Surakarta is considered by many development agencies as one of the pioneers and a role model of participatory planning in Indonesia (Pratikno & Lay 2011, p. 34). According to Sugiartoto (2003, pp. 26-7), a participatory development planning program in Surakarta was launched by Mayor Slamet Suryanto in 2004. He also introduced a new development paradigm called '*nguwongke wong*' or humanised development that encouraged respect for human rights and equity.

The program itself is described by Sugiartoto (2003, pp.27-34) as a bottom up development planning program that involves participation from the lowest level of administration (village) to the highest level (municipality) in order to formulate the municipal budget. It also involves many other stakeholders such as non-governmental organisations and academics.

Some studies argue that the implementation of participation in Surakarta is closely related to the 'short-fuse' character of the people and the history of riots that occurred in 1998 and 1999 which led to the burning of municipality hall and surrounding areas (Pratikno 2002, p. 17; 2004, p. 178; TEMPO 2009, p. 34; Widianingsih 2005a, p. 7; Widianingsih & Morrell 2007, p. 3).

However, Pratikno & Lay also argued that the introduction of participatory planning in Surakarta originated from rivalries between the Executive and the local legislature (DPRD) in the

early 2000s. During this period, many of the Executive's development program initiatives were rejected by the DPRD. Hence, in 2004, Mayor Suryanto issued a decree to implement participatory development planning. Pratikno and Lay (2011) argued that by introducing the program, the Mayor gained legitimacy and support from civil society, and used this to face down the DPRD (2011, pp. 41-2). Regardless, many studies contend that the participatory initiative was successful in increasing the level of participation in policy debates in Surakarta compared to previous experiences (Histiraludin 2004, p. 99; Sugiartoto 2003, p. 40; Widianingsih 2005a, p. 97; 2005b, p. 11).

Besides the participatory development planning program, Surakarta has also been praised by scholars and the media for implementing a smooth process of street vendor relocation in 2006 under Jokowi's administration (Bulan 2014; Bunnell et al. 2013; Majeed 2012; Phelps et al. 2014; Pratikno & Lay 2011; Sumarto, H 2008b). Jokowi, who had just won the local mayoral election by defeating Slamet Suryanto, was willing to relocate more than 980 street vendors in Banjarsari Monument area to the new designated vending area in the Notoharjo Market. The old location was occupied by vendors who had lost their jobs when the monetary crisis struck Indonesia in 1998. Their numbers continued to grow and this created major problems for the local residents who demanded that the Government relocate the illegal street vendors. However, the government's first relocation plan was rejected by the vendors who were perceived as capable of causing massive riots in the municipality (Pratikno & Lay 2011, pp. 52-3).

In order to tackle the situation, the Jokowi administration engaged in a long series of dialogues with the vendors, involving multiple actors including NGO activists. With help from Deputy Mayor Rudy, who is a charismatic local PDI-P leader, he was able to mobilise support from the grassroots movements. The Government held more than 50 meetings and dialogues with the vendors, who finally accepted Jokowi's offer. The relocation process was celebrated with a huge cultural carnival led by Jokowi to pay respect to the willingness of the vendors to be relocated within the municipality (Bulan 2014, pp. 4-5; Pratikno & Lay 2011, pp. 53-4).

Not all sources agree that the process was peaceful or free from violence. Sudarmo's (2008, p. 147) research about the relocation of street vendors in Surakarta found that although dialogues were held, outside the meetings vendors were still intimidated and pressured by the police who spied on and threatened the vendor's own internal meetings. Sudarmo argues that this intimidation scared and forced the vendors to accept the relocation program.

With respect to transparency, some studies argue that Surakarta has a good level of transparency of information (PATTIRO 2011; Saidi 2008; von Luebke 2009b, 2012; von Luebke,

McCulloch & Patunru 2009). According to von Luebke, McCulloch and Patunru (2009, p. 277), and Patunru, McCulloch and von Luebke (2012, p. 804), Surakarta under Jokowi's administration conducted several bureaucratic reforms to improve public services. One of them was the establishment of a One Stop Service (OSS) to cut red tape and corruption in the provision of business licenses. Based on interviews and surveys, (von Luebke, McCulloch & Patunru 2009, pp. 284-6) it is argued that transparent fees and procedures at the OSS succeeded in cutting delays in service, and reduced corrupt behaviour among government apparatus. Moreover, around sixty per cent of respondents were pleased with access to licensing information. With respect to local budget transparency, Saidi (2008, p. 101) argued that the level of transparency still needed to be improved, and that budgets of local government units were still inaccessible to the public. An NGO activist, whom I spoke with during my fieldwork, recounted a similar experience when they tried to access a local unit budget. He argued that budget transparency is not yet implemented due to lack of procedures in transparency of information, particularly within the lower levels of bureaucracy (Interview with NGO activist 2014).

From the perspective of a civil society organisation, PATTIRO (2011) argued that Jokowi's leadership showed a strong commitment to transparency of information, in particular to local budget allocations to communities. With the support of PATTIRO and other actors, Jokowi initiated a method to deliver local budget transparency through the distribution of posters to communities. One activist who I interviewed also argued that the distribution of posters and pocket books as part of the local budget initiative was a breakthrough at that time as in many subnational governments in Indonesia, budget allocations were not released to the public (interview with NGO activist 2014).

With respect to financial accountability during the period of 2010 to 2012, Surakarta achieved unqualified audit opinion (*Wajar Tanpa Pengecualian/WTP*) for their financial report (similar to South Sulawesi Province). WTP is a type of financial audit report conducted by BPK in order to monitor the ability of subnational governments to provide sound financial statements that matched government accounting standards. However, this audit opinion is not related to the integrity or cleanliness of subnational government in terms of corruption practices, for instance.

In 2010, Transparency International Indonesia—a non-governmental organisation that focuses on transparency and corruption—released a report on the index of corruption perceptions in 50 cities in Indonesia. The index was based on a survey conducted with various business actors to measure their perceptions of corruption with respect to subnational government behaviours and practices such as bribery, gratification, conflict of interest, and the efforts of subnational governments

to combat corruption practices. According to the report, Surakarta achieved a good result, being one of the three least corrupt cities of the 50 surveyed. In terms of the perception of local business actors towards Surakarta's government's efforts in combating corruption, the survey put Surakarta in the highest position out of the 50 cities. In contrast, Makassar, the capital city of South Sulawesi Province, was rated the fourth most corrupt of the cities surveyed. The survey reported that, in terms of business actors' opinion of the city government's actions to reduce corruption, Makassar was ranked 28th out of 50 cities (Transparency International Indonesia Report 2010).

To sum up, Surakarta local governance during the period of 2010 – 2012 was generally impressive, in particular with respect to participation. Although there is evidence of police pressure and intimidation during the street vendor relocation program, in general it went smoothly. The achievement of Surakarta's high level of local governance is a combination of many factors: strong leadership, familiarity of local staff with the participation model, experience of riots, and pressure from civil society organisations. The experience of riots, for example, contributed to driving the subnational government to change its development approaches by involving stakeholders in the policy-making arena through dialogue. Under Jokowi's administration from 2005–2012, Surakarta also showed a strong commitment to transparency of information with respect to budgetary matters and business licensing. With respect to financial accountability, Surakarta achieved unqualified audit opinion from 2010–2012, and was successful in reducing levels of corruption based on the perception of local business actors.

7.5 Local Politics

Joko Widodo (Jokowi) and FX Hadi Rudyatmo (Rudy) were elected Mayor and Deputy Mayor in 2005, with 35% of the total vote. They were supported by PDI-P and PKB Parties (Zaenuddin HM 2012, p.10; Lay & Pratikno 2011, p.52). Unlike Syahrul Yasin Limpo, the Governor of South Sulawesi Province who came from a strong dynasty of leaders, Jokowi came from the *wong cilik* (common people with less wealth) culture. He was raised in a rented house in a slum area near the Karanganyar River in Surakarta. His father had a small furniture business, but occasionally operated trucks and buses to feed the family (TEMPO 2014, p. 38). After finishing university, he experienced some success in his own furniture business. He also became chairman of business associations, such as KADIN Surakarta (Chamber Trade of Indonesia) from 1992 - 1996, and Asosiasi Permebelan dan Industri Kerajinan Indonesia Surakarta (Association of Furniture and Craft Industry Indonesia Surakarta) from 2002 – 2007 (Zaenuddin 2012, p. 6).

Jokowi's strong leadership in Surakarta is highlighted by scholars as one of the main factors that drove the success of bureaucratic reforms in the municipality (Bulan 2014; Bunnell et al. 2013; Phelps et al. 2014; Pratikno & Lay 2011). From the perspective of urban development, Bunnell et al. (2013, pp. 863-7) argued that Jokowi was successful in Surakarta in four major areas: (1) use of dialogue and negotiation during the street vendor relocation; (2) implementing pro-poor policies; (3) providing support for people's economic activities, such as street vendors, and the development of traditional markets to compete with modern shopping malls; and (4) developing community and civil society participation in the municipality's policy-making arena.

Rudy is also an important figure in Surakarta. Rudy is a politician from PDI-P, and one of 12 siblings born poor in Surakarta. His family was evicted several times without compensation due to local development policies and forced to reside near the river bank. While still of primary school age, he had to help his mother sell vegetables at the local market and also busked to pay school fees for his secondary school education. These difficult experiences heavily influenced Rudy's policies towards marginalised people in Surakarta. After he finished his secondary school education, Rudy worked for some companies and became chairman of a trade union before eventually leading the PDI-P branch of Surakarta and becoming a DPRD member (Adi 2012).

Rudy's respect from the grassroots community and his influence on them is in part a result of his ability to control thugs and gangsters due to his position as local PDI-P party leader. In Indonesia, many parties have paramilitary forces to provide internal security at events such as party congresses. However, these forces are also often associated with thugs and gangsters due to their members' networking in the criminal world. Wilson (2010a, pp.203-4) states that these forces are known as *Satgas/Satuan Tugas* (Task Forces) – party based security units established during the New Order era under military control. Many Party *Satgas* recruit thugs and local strongmen. Party leaders support local strongmen to obtain important positions in neighbourhood associations so they can win control over security services and extract protection money from local small businesses. In return, local strongmen are mobilised to influence people's votes. Wilson (2010a, pp. 203-4) argues that among all the political parties in Indonesia, PDI-P has recruited the largest number of thugs in order to gain popularity among *wong cilik*.

According to Pratikno and Lay (2011, p. 53), PDI-P *Satgas* were used by Rudy to accompany him during dialogues with community during the relocation of street vendors in 2006. However, Pratikno & Lay did not provide any information on whether the *Satgas* used coercive power to influence vendors to relocate. With respect to the hospital development project, a government officer

stated in an interview with me that one of the keys to the success of the hospital development was Rudy's influence to control the local thugs' activities that might disrupt the project, such as demanding protection money from contractors (Interview 2015).

Jokowi and Rudy complimented each other in many ways in Surakarta. Jokowi with his *blusukan* style (impromptu street corner discussions) had been effective to control municipal apparatus in conducting reform. On the other hand, Rudy's wide networking and his popularity among the grass roots communities contributed much to Jokowi's initiatives. Due to Surakarta's significant improvement under their watch, Jokowi and Rudy gained trust from the public. In the 2009 local election, they won again, getting more than 90% of the vote (Zaenuddin 2012, p. 90). Saidi (2008, pp. 95-6) argues that trust from the public enabled Jokowi to implement bureaucratic reform and good governance principles with less resistance from the local apparatus, and political support from PDI-P as the majority in the parliament helped smooth the implementation of his policies and programs.

In summary, under the leadership of Jokowi and Rudy, Surakarta made significant progress in bureaucratic reform and governance. Pro-poor policies and dialogue with a wide range of stakeholders were hallmarks of their administration. However, the role of Rudy's close connections with the PDI-P *Satgas*, and the thugs it controlled, in smoothing the progress of policy has also been raised in this context.

7.6 Non Government Organisations (NGOs)

According to Suparno et al. (2005, pp.58-59), civil society movements in Surakarta were evident during the New Order era in the 1980s. However, during that period, movements only dealt with specific local issues such as development, resettlement, and environment problems. In the 1990s, the movements began to focus not only on local issues, but also on national issues. This was triggered by student movements as a result of the establishment of a local university in Surakarta. Later, small groups of students started to form alliances which then transformed into bigger movements.

The fall of the New Order in 1998 opened a new chapter for civil society movements in Indonesia. Riots that occurred twice towards the end of 1990s, coupled with the reform agenda and funding support of international development agencies, pushed the development of civil society in Surakarta in terms of numbers and activities of NGOs (Rifai 2009, p. 35).

One of the largest NGOs established with the support of international development agencies is KOMPIP or *Konsorsium Monitoring dan Pemberdayaan Institusi Publik* (Consortium for Monitoring and Empowerment of Public Institutions), a consortium of three different NGOs in Surakarta which aims to advocate for marginalised groups of people such as street vendors and parking attendants (Pratikno 2004, p. 177). During the negotiation process of street vendor relocation in 2006 under Jokowi's administration, KOMPIP played prominent role in bridging the negotiation process between the municipal government and the vendors (Pratikno & Lay 2011, p. 43). According to Handayani (2006, pp. 21-3), in 2001, KOMPIP also promoted the establishment of SOMPIS or *Solidaritas Masyarakat Pinggiran Surakarta* (Solidarity for Marginalised People of Surakarta). Handayani states that SOMPIS comprises several communities such as street vendors, pedicab drivers, parking attendants, and labourers who merged to formed a strong civil society organisation to fight for their rights that were often ignored by the municipal government.

During my fieldwork, a KOMPIP activist stated that a long mutual relationship between NGO activists and Jokowi helped to smooth the subnational government's policies and reduce tensions over policies, in particular with respect to the relocation of street vendors. Activists played prominent role working behind the scenes, facilitating meetings and dinners within both parties to reach agreement. The relationships between KOMPIP and marginalised communities is very close, as KOMPIP often provides advocacy and assistance to in order to protect those whose interests are often not accommodated by the Municipal Government (Interview 2015).

In most cities in Indonesia, marginalised people are often blamed by the government for social disorder, and are rarely involved in policy making. But in Surakarta, Sumarto, HS (2008, p. 14) states that marginalised associations and the street vendors union have significant influence on local policy-making, such as pressuring the revision of *Perda* on the management and supervision of street vendors.

Another large NGO in Surakarta is Indonesian Partnerships for Local Governance Initiative, or IPGI, established in 2000 and funded by the Ford Foundation. It aims to improve local governance through partnerships among stakeholders, such as bureaucrats, academics, and NGO activists. IPGI was the part of first partnership between civil society and government in Surakarta, and initiated the participatory planning program in the post-Suharto era (Pratikno 2004, p. 178; Rifai 2009, p. 37; Sugiartoto 2003, p. 53).

Civil society and government in Surakarta also received support from development agencies to develop their capacity in dealing with governance issues. One of the programs funded by

development agencies to support NGO capacity is the Local Governance Support Program (LGSP). In Surakarta, this program provided training to members of civil society, as well as members of DPRD and the Executive, with respect to participatory planning (Sumarto 2008a, pp. 13-4; USAID 2009)

In contrast to South Sulawesi, subnational government and NGOs in Surakarta have been developing mutual partnerships such as what occurred in IPGI and during the relocation of street vendors and many other events. The Executive often consults and involves NGOs in decision-making processes. Thus, the role of NGOs in Surakarta's policy arena is very prominent and central in reducing the gap between civil society and government. In South Sulawesi Province, mutual partnerships remain less developed, particularly with NGOs that tend to oppose government policies.

With respect to the Perda process, NGOs in Surakarta also play a significant role in empowering community and advocacy. Research by Rukmini & Herwanto (2011, p.53) for instance revealed the important role of PATTIRO Surakarta or *Pusat Telaah & Informasi Regional Solo* (Centre for Regional Information and Studies) to advocate for women's and children health services during the formulation of Perda on the local budget of Surakarta. Advocacy conducted by PATTIRO resulted in an increased budget allocation for women's and children's health services in Surakarta. Moreover, research by Bunnell et.al (2013, p.866-7) and Rifai, Asterina & Hidayani (2016, p. 23-5) also argued how NGOs such as KOMPIP and IPGI brought the marginalised group of people in Surakarta in formulating the budget and development planning.

Two NGOs in particular in Surakarta were involved in the hospital project: PATTIRO, and KOMPIP. PATTIRO was established in Surakarta in 2001 to improve good governance through research, training, and advocacy on participation, and transparency of information in the public service. In promoting governance and advocacy activities, PATTIRO has partnered with the subnational government since the early 2000s to empower citizen participation in the policy-making process, including budgeting and *Perda*-making. PATTIRO also established several forums to enhance networking in civil society for more effective results, such as establishing *Forum Peduli Anggaran* (Forum on Budget Awareness) with NGOs in Surakarta, *Forum Partisipasi Kebijakan* (Forum on Participatory Policy) with local NGOs, and *Aliansi Lintas Sektoral* (Cross Sectoral Alliance) with pedi-cab drivers, street vendors, parking attendants, and labour organisations.

According to ANSA – EAP (2010, p.55-6), in 2003, PATTIRO organised women to get involved in planning and budgeting processes to improve gender-sensitive budgeting and the health system in Surakarta. This was a new initiative, since women had never been given the space to voice their interest in the budgeting process. As a result of this initiative, municipal government

acknowledged the need to include women's voice and formalised women's involvement in local regulation. Besides organising women, PATTIRO with other NGOs in Surakarta also organised marginalised groups such as pedicab drivers to form Forum Kerukunan Keluarga Becak (Pedicab Drivers Forum) that allowed pedicab drivers to voice their interest in the local policy making process. The forum managed to gain attention from the municipal government and as a result, they were provided with facilities by the government to improve their situation.

In the interviews I held, PATTIRO activists stated that during the hospital project development, PATTIRO was involved in improving transparency of the information system for the hospital, public hearings, and in discussions about budgeting. After the hospital development, PATTIRO also supported the local community in raising complaints with hospital management about problems of water shortages due to the development of a deep well water system operated by the hospital. Details of the role of PATTIRO in the hospital project are discussed in more detail in Chapter 8.

In interviews with the author, NGOs acknowledged the significant role played by Mayor Jokowi in improving governance in Surakarta. The mayor involved them in local policy planning, had a good ability to listen to others, and was able to maintain relationships with NGO actors, such as Eko Sulistio who was formerly a KOMPIP leader and head of the local election committee of Surakarta. The relationship between these actors contributed towards improving policy for the municipality as Eko Sulistio provided advice on local issues and how to handle them (Interview 2015).

Applying Hadiwinata's classification of NGOs (2003, p.103-4) discussed previously in chapter 2, NGOs in Surakarta play the role of both development NGO and movement NGO. NGOs in Surakarta also have the ability to mobilise the grassroots in protesting subnational government policy and pressurise the subnational government, as was shown when the government proposed relocating the street vendors.

To summarise, civil society in Surakarta plays a prominent role in the local policy-making arena. A long-standing partnership between subnational government and NGOs that developed from the early 2000s provided advantages to both parties. The operation of NGOs in Surakarta is supported by many international donor agencies. However, NGOs in Surakarta are quite independent and still represent the needs of the local community. This was shown in the case of the relocation of street vendors, and in a number of cases regarding formulation of Perda. The subnational government involved NGOs in policy-making initiatives, and NGOs could facilitate community involvement

through advocacy. PATTIRO is one of the NGOs that played an important role during development of the hospital project. This is discussed in more detail in Chapter 8.

7.7 Past Borrowing Experience

This section discusses the local capacity of Surakarta with respect to borrowing management and governance issues. Previous borrowing experience by Surakarta may provide some information on the extent to which the municipality is familiar with, and has the capacity to, manage borrowing. Previous borrowing programs undertaken by Surakarta, in particular the on-lending or on-granting mechanism from multilateral donor agencies such as World Bank and ADB, may also have included provisions relating to transfer of knowledge on governance practices.

Surakarta's first experience of borrowing was in the 1970s through the Kampung (Urban Village) Improvement Program or known as KIP, a borrowing program funded by World Bank through the on-lending mechanism. The aim of KIP was to upgrade urban villages with respect to roads, drainage, water sanitation, and solid waste. Besides physical works, the World Bank also provided training for local government staff with respect to project management, including procurement, monitoring, evaluation, construction, and maintenance (World Bank 1978).

Another experience of a borrowing program undertaken by Surakarta is the Semarang-Surakarta Urban Development Project/SSUDP that started in 1994 and was funded by World Bank. The aim of this project was to improve the urban infrastructure in the cities of Surakarta and Semarang; strengthen their financial independence; and to reduce poverty in the cities through improved access to basic infrastructure. The project comprised physical works such as roads, water supply, sanitation, sewerage, and drainage. It also included technical assistance to develop institutional capacity on project management (World Bank 2001, pp. 1-3)

Besides previous borrowing experience, the Surakarta government also participated in programs funded by multilateral donor agencies in order to promote local governance, in particular in the beginning of the decentralisation era, for example, the Indonesian Partnership for Local Governance (IPGI) discussed in Section 7.6 above.

In summary, Surakarta, similar to South Sulawesi (see Chapter 5), is shown to have capacity to manage infrastructure projects. With respect to governance issues, the Executive, the local legislature (DPRD) and civil society have all received training and assistance from several programs to implement governance principles during the formulation of *Perda*.

7.8 Hospital Project Background

In contrast with the South Sulawesi road project, the hospital project in Surakarta was smaller in size and cost. The development process and planning was also simpler than South Sulawesi's project since it was a single project site. It was developed by the Municipal Government with the cooperation of various local agencies and departments such as *Dinas Kesehatan* (Health Department), BAPPEDA (Planning Agency), *Dinas Pekerjaan Umum* (Public Work Department), *RSUD Setabelan* (old Local Hospital), *Biro Hukum* (Bureau of Law), and DPPKA (Finance Department), instead of by a third-party project consultant. However, only four departments were heavily involved in the process of borrowing: DPPKA as the leading agency, RSUD Setabelan, the Health Department, and BAPPEDA.

The hospital project in Surakarta was proposed by Mayor Joko Widodo to PIP on February 11, 2011, and approved six months later by DPRD on August 25, 2011. A loan of IDR40 billion (AUD4 million) was proposed. The new hospital is located in Ngipang, thus the project is more commonly known as *Rumah Sakit Umum Daerah/RSUD* (Local Hospital) Ngipang.

The need to have a proper local government hospital was first discussed in 2008 when the subnational government launched a free health service program designed in particular for poor people which was called *Pemeliharaan Kesehatan Masyarakat Surakarta* (PKMS). This program allowed poor people to access free health services at Surakarta's health providers such as local health centres known as *Pusat Kesehatan Masyarakat* or *Puskesmas*, and local hospitals which are known as *Rumah Sakit Umum Daerah* or RSUD. PKMS patients were also allowed to go to Surakarta's health provider partners such as private hospitals and province-owned hospitals, however, they needed to claim for reimbursement (Government of Surakarta 2011).

The PKMS program had a very positive response from the community and increased the number of visits to local health providers. As a result, the subnational government health budget allocation to pay for claims to 13 partner hospitals rose significantly between 2008 and 2010 from IDR 12.1 billion to IDR 19.9 billion (AUD1.21 million to AUD1.99 million)

The growing number of patients during the period of 2008 – 2010 created huge problems for the municipal government.

Table 7.2 Number of Patients' Visits to Health Providers in Surakarta during 2008–2010

No	Type of Health Provider	2008	2009	2010
1	Puskesmas (local owned health centre)	85.723	312.583	329.818
2	RSUD Surakarta (local owned hospital)	11.027	17.237	20.347
3	Partners hospitals (Private, Province, Ministry of Health, etc)	6.112	16.188	19.327
	TOTAL	102.862	346.008	369.492

(Government of Surakarta 2011)

Table 7.2 shows the numbers of patients visiting health care providers in Surakarta between 2008 and 2010. During this period, most patients visited *Puskesmas* which provided only limited health services, but was located closer to people and available in each village level. Only a small number of patients visited RSUD and partner hospitals.

The only existing local hospital owned by the subnational government located in Setabelan – Banjarsari Subdistrict was unable to provide adequate healthcare services to the community. The hospital is situated on a very narrow plot of land of 2,215m², and was not designed to function as a hospital since it was designed as a birth centre with only 30 beds (Surakarta Local Hospital Project Framework 2011). Partner hospitals, in particular private hospitals, were only willing to provide 25% of their beds for the PKMS patients as they did not receive any subsidy from government funds.

In order to solve these problems, the subnational government planned to build a new hospital in a new location. They had planned to build a type C hospital that was able to provide four basic medical specialists service in the areas of surgery, maternity, internist, and paediatrics.

The subnational government, through the Health Department, proposed the location of the hospital development to be in the Ngipang – Banjarsari Subdistrict which is situated in the northern area of Surakarta. There is more land available in that subdisrict, which suited the subnational government's interest to have greater hospital capacity. Furthermore, the selection of the location was also conducive to Surakarta's intention to develop the northern area of the municipality, as it is less developed than the southern area (Government of Surakarta 2011).

At first, the Municipal Government was not planning for the project to be financed via the borrowing mechanism. The health department first tried to propose funding from a Central Government grant mechanism in 2009 and managed to secure a grant of IDR7 billion or AUD700,000 in 2010. With that money, however, the health department was only able to build the foundations for the hospital. Since the Central Government could not provide a commitment to allocate more money for the construction in the next year, the department had no means to finish the building.

The mayor ordered DPPKA (Finance Department) to identify alternative sources of finance and DPPKA approached PIP to discuss the possibility of a loan for the hospital project. After discussions with DPRD members and PIP, the Mayor proposed to borrow money from PIP to continue the hospital development.

In summary, the impetus to build the hospital came from the subnational government's wish to improve community health by providing health infrastructure to support the free health service program (PKMS) that had been in operation since 2008. There was limited capacity among existing health providers in Surakarta to serve PKMS patients, and Surakarta did not have a proper hospital to support the PKMS program. The hospital was proposed for the northern area of Surakarta as that was less developed than south. However, the failure to obtain an adequate grant allocation from the Central Government pushed the Municipal Government to propose a loan from PIP (Government of Surakarta 2011).

7.8.1 Development Plan

The new hospital development was planned to be built in Ngipang, north of Surakarta on 8508m² land, about eight kilometres north of the city centre. By locating the project site in this area, the subnational government hoped to stimulate development in the north area of Surakarta, which was underdeveloped relative to the south (Government of Surakarta 2011).

The hospital is situated in a rural area and surrounded by rice fields and local houses, with narrow street access (Figure 7.4). Based on my interviews with the local people, access to electricity for the local community was installed after the hospital development. Water supply from the local water company *Perusahaan Daerah Air Minum* (PDAM) is limited. Local people and the hospital both depend on wells to supply water. To overcome this water shortage, the hospital built a deep well water system that later on prompted complaints from the local neighbourhood since the system interfered with local people's water supply.



Figure 7.4 View of Front of Ngipang Hospital
(Government of Surakarta 2014)

Aside from providing the four basic medical specialist services of a Type C hospital (surgery, maternity, internist and paediatrics), RSUD Ngipang provides an inpatient service, dental clinic, mothers' and children's clinic, dermatology clinic, emergency service, and pathology. It also has 150 beds (Government of Surakarta 2011).

Surakarta estimated a total of IDR40 billion (AUD4 million) to finance the five major components of the hospital project:

1. Physical construction of the 3-storey building for IDR32,4 billion (AUD3.24 million);
2. Construction of Hospital Waste System for IDR948 million (AUD94,800);
3. Gas system instalment for medical purpose for IDR1.96 billion (AUD196,000);
4. Health equipment for IDR2 million (AUD200,000);
5. Other supporting equipment for IDR3.1 million (AUD310,000).

Surakarta planned to split the loan repayment across three years, from 2012 to 2014, which equalled repayments of IDR13.7 billion (AUD1.37 million) annually in 2012, 2013 and 2014.

7.9 Conclusion

This chapter discusses the general background of Surakarta Municipality including history, administration, governance, politics, civil society, the proposed hospital project, and past borrowing experience. This chapter is essential to provide in-depth understanding about the municipality and enable readers to link these circumstances with the discussion in the following chapters, in particular to the fieldwork findings and analysis of supply and demand side of both transparency and participation in Surakarta. The next chapter details the chronological process of the development of the loan proposal process (the *Perda*-making process) that occurred in Surakarta.

CHAPTER 8: THE HOSPITAL PROJECT: A SMOOTH PROCESS

This chapter presents findings from the fieldwork research based on in-depth interviews and documentary research in Surakarta Municipality during the *Perda*-making process on loan approval. The findings are written in chronological order based on the stages in the *Perda* process to show the dynamics of the process and the interplay between actors or stakeholders. This chapter aims to show the implementation of transparency and participation during the *Perda*-making process as well as provided a foundation to support the research analysis/theoretical discussion provided in Chapter 9.

8.1 Introduction

In Chapter 7, the thesis provided a comprehensive background of Surakarta Municipality and the hospital project proposed by Mayor Joko Widodo that aimed to provide better health services for the poor people of Surakarta. In this chapter, research will discuss the findings from the fieldwork based on interviews with different stakeholders related with the *Perda*-making process on the proposed hospital project, and documentary research.

This chapter has six sections: (1) key stakeholders in the formulation of the *Perda* on borrowing that will identify the roles of each actor during the *Perda* process; (2) the first phase of hospital development process that talks about some of the events which occurred during the construction process of the hospital that was funded from the central grant in 2010; (3) meetings between subnational government institutions and drafting of the *Perda* that discusses the pre-*Perda* process before it was submitted to DPRD; (4) submission of the draft *Perda*, draft consultation between the DPRD and the mayor, and legislation, including the discussion of the negotiation and legislation process among the Executive and DPRD; (5) public consultation which discusses the interaction between the Executive and NGOs during the *Perda*-making process; and (6) the conclusion. This chapter guides readers toward gaining an in-depth understanding about the implementation of transparency and participation from three major and different points of view (the Executive, the DPRD [local legislature] and NGOs) that connect and lead to the analysis of the supply and demand side of transparency in Chapter 9.

8.2 Key Stakeholders on *Perda* on Borrowing

The overview of *Perda*-making process and key stakeholders in Surakarta Municipality is shown in Figure 8.1.

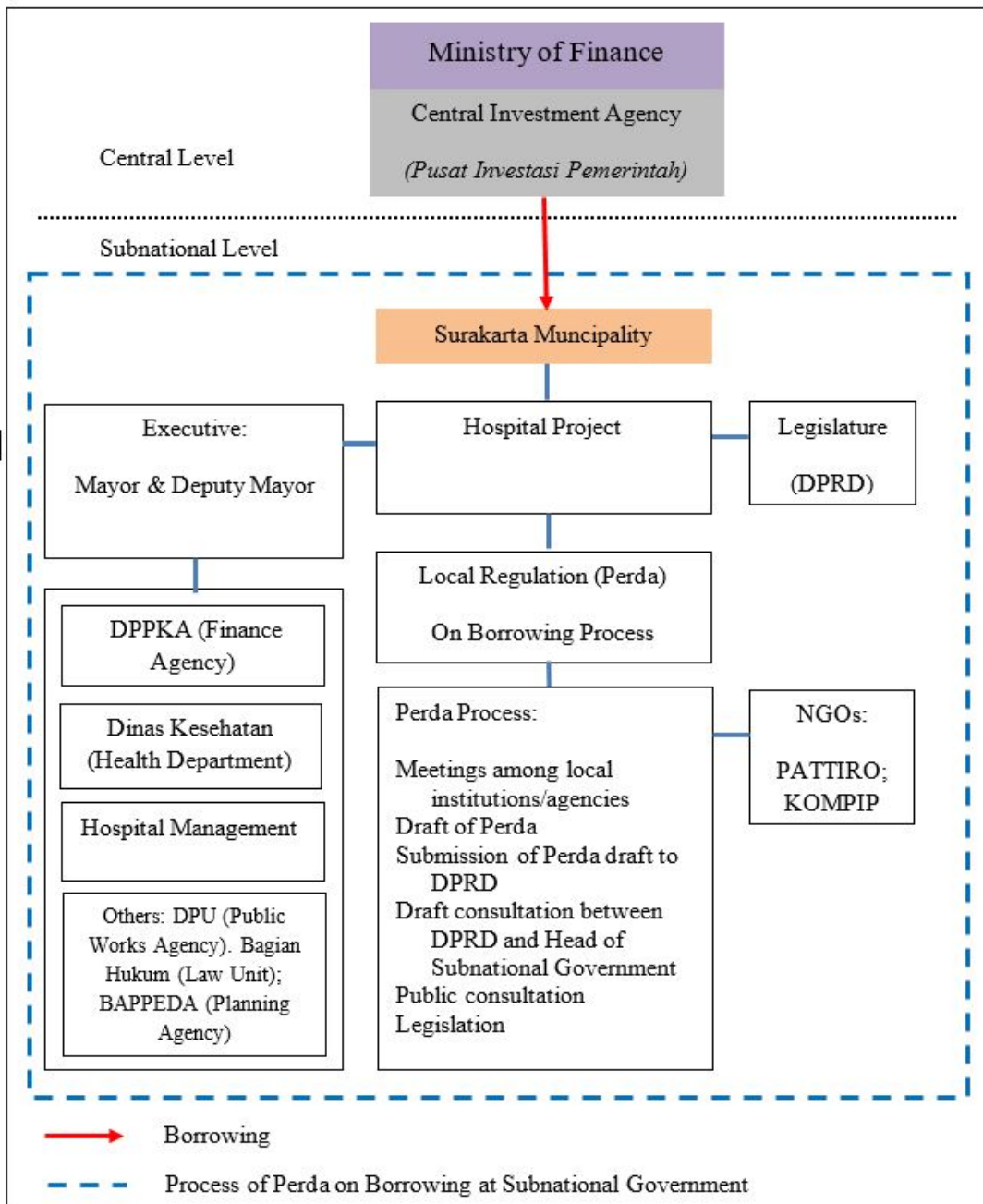


Figure 8.1 Perda Process in Surakarta Municipality

From Figure 8.1, it can be seen that three major stakeholders play major roles in Surakarta: the Executive, the local legislature and civil society organisations. With respect to the Executive side, Mayor Joko Widodo, known as Jokowi, was representing and leading the process of the hospital project proposal with the support of local government agencies. In the first phase of development, Jokowi appointed the Health Department as the lead agency. In the second phase, Jokowi instructed the DPPKA (Local Finance Agency) to lead the process in order to find a feasible lending agency that could support his plan. In order to hasten the process, Jokowi also instructed and delegated responsibility to other local agencies to support DPPKA such as BAPPEDA (Planning Agency),

RSUD (Local Hospital Management), DPU (Public Work Agency), and *Bagian Hukum* (Law Agency).

With respect to the role of the legislature, DPRD Surakarta is similar to its South Sulawesi counterpart in its role of discussing proposed policies of the Executive during the *Perda*-making process as the people's representative. In Surakarta, the DPRD also formed a *Pansus* (Special Committee) on borrowing to intensively discuss and form the draft of the *Perda* with their government counterpart and report back on their work to the heads of DPRD.

The *Pansus* on borrowing was formed officially on 1 April 2011 soon after the Mayor submitted the request letter to DPRD to discuss the government plan to borrow for the hospital project. As discussed in Chapter 7, the *Pansus* consisted of 11 members from six different factions (*fraksi*) and was chaired by Honda Hindarto from PDI-P. Hendro Purwanto from the Democrats was appointed as the Deputy Chairman. Similar to the *Pansus* on borrowing in South Sulawesi Province, the *Pansus* in Surakarta also conducted several investigations into the borrowing proposal such as field visits to PIP and other central government agencies, public consultation, and legal drafting.

The third stakeholder was civil society organisations or non-governmental organisations. In Surakarta, NGOs have played very important roles in improving local reform and representing the people's voice. With respect to the local hospital project, my research involved interviews with two NGOs: PATTIRO and KOMPIP. Both played active roles in the reform of local governance and health programs. These two NGOs also assisted local communities in Surakarta in negotiating local policy-making. With help from PATTIRO, my research was also able to include interviews with two local people who lived near the hospital. Unlike the fieldwork undertaken in South Sulawesi Province that involved the Commission of Information, in Surakarta the Commission had not yet been established.

Besides the key stakeholders, the development of the loan proposal process can be categorised into three major stages: pre-*Perda* process, *Perda* process, and post-*Perda* process. The pre-*Perda* process consisted of events conducted by the subnational government to discuss the plan to borrow, such as preliminary discussions with DPRD Commissions, and disseminations or local forums. On the other hand, the post-*Perda* process consisted of events that had arisen after the *Perda* legislation, such as project implementation.

In order to provide guidelines for readers, the development of the loan proposal process is illustrated in Figure 8.2.

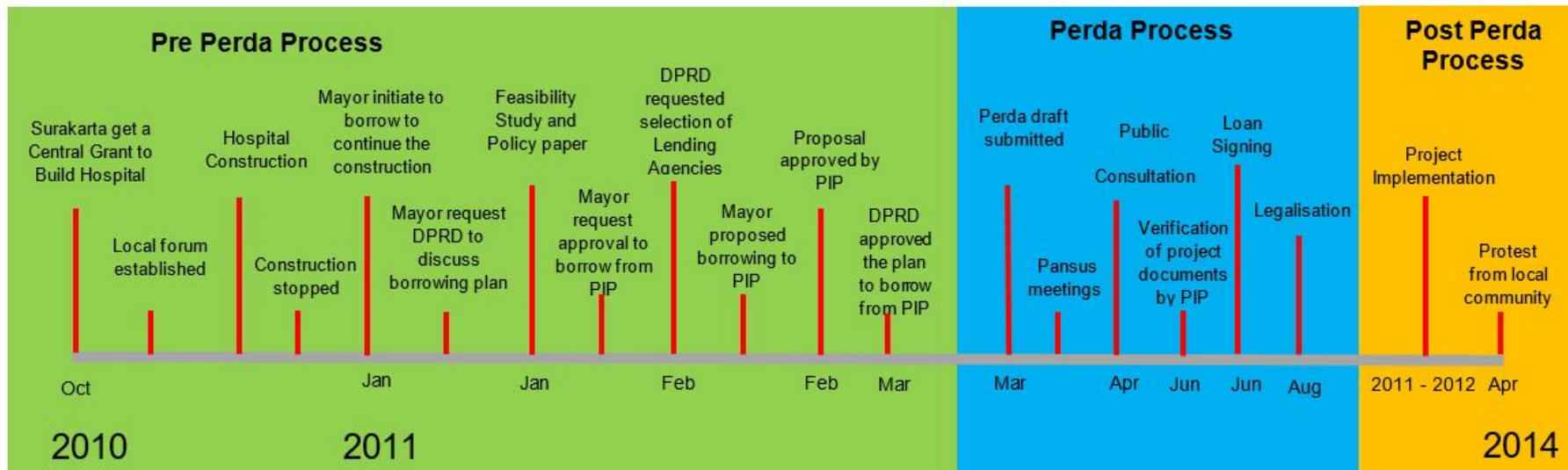


Figure 8.2 Timeline of Development of Loan Proposal Process in Surakarta Municipality

Figure 8.2 shows the overall process of the development of the loan proposal in Surakarta that consist of three major stages: pre-*Perda*, *Perda*, and post-*Perda* process. These three different stages also consist of different events that are interrelated and influence each other. The pre-*Perda* process consists of the first phase of hospital development funded by a Central Government grant and meetings among subnational government institutions, project preparation process, and the legal drafting that occurred before the official submission of draft *Perda* to be negotiated in the DPRD. The *Perda* process consists of events that occurred after the submission of *Perda* draft to legislature, such as negotiation between the Executive and DPRD, public consultations, loan signing, and other related events that occurred during the period. The post-*Perda* process consisted of events that occurred after the *Perda* process related to the project implementation, such as protests from the local community that occurred in April 2014. In the next section, the thesis will discuss, in chronological order, the complete process of the development of the loan proposal that started with meetings within the subnational government (pre-*Perda* process) to the post-*Perda* process.

8.3 First Phase of Hospital Development Project (Pre-Borrowing Proposal/*Perda*-Making Process)

As discussed in the previous chapter, the hospital project consisted of two phases. The first phase was conducted in 2010 and was funded through a central government grant, and the second phase was conducted in 2011 and funded through the PIP loan. Although they are different with respect to the financing mechanism, both phases are very connected to one another. Thus, this chapter discusses both phases in order to provide readers with a broader background and a more comprehensive picture of the process. This section will discuss findings on the first phase of the hospital development process funded by the central government grant. Agencies that played major roles during the development process were RSUD (Local Hospital Management), and *Dinas Kesehatan* (Health Department) as the grant was allocated through these agencies. However, the thesis will not discuss the process of the development of the grant proposal, but will instead focus on the important events related to the governance implementation, such as transparency and accountability, and participation which are the main foci of this thesis.

The hospital development was implemented in 2010 after the incumbent Mayor Jokowi won the election with 90% of the people's vote. The plan to build the hospital had actually already been discussed and approved by the DPRD and the government in 2010 when they were proposing a grant mechanism to the central government. An interview with one Member of the local Parliaments from PKS party revealed some background to the hospital development:

Firstly, at that time there was a Jamkesda [Local Health Insurance Program] in Solo called PKMS- [it was] one of the outcomes of our work meeting discussion with the Health Department. We had already for a long time had a regional hospital, but at that time it wasn't adequate; its status was unclear, the building was just like a small clinic, and it was mainly for maternity services. Then, in the midst of those discussions, particularly around the PKMS that was in partnership with Moewardi General Hospital which was managed at a provincial level, and also with 10 private hospitals, there were a lot of difficulties in working with the private hospitals; people objected to it, whether it was Jamkesmas [National Health Insurance Program] or Jamkesda, our own PKMS, the community made many complaints and so forth ... (Interview with author 2014)

An interview with another DPRD member from Hanura Party revealed the problem of hospital capacity with limited beds to serve PKMS patients:

We experienced difficulties when working with both private and public hospitals in Surakarta. Sometimes providing healthcare to the community was hard because the class three areas in the hospital were already at capacity. Furthermore, the class three facilities that were available were inadequate. That was the initial thinking. Then in partnership with the government we considered establishing a regional hospital. (Interview with author 2014)

Hospital rooms in Indonesia are usually divided into different classes from class 1 to 3. Class 3 facilities offer the most affordable health service and are popular among low income patients. The introduction of PKMS (Health Insurance Program) by Jokowi's administration in 2009 received a great response from constituents, evidenced by the significant increase in the number of people accessing PKMS each year (as discussed on Chapter 7). However, the PKMS program had been experiencing problems in the field because Surakarta did not have a government hospital with adequate facilities. The municipality depended heavily on a provincial hospital located in Surakarta as well as private hospitals. Unfortunately, these hospitals also had limited bed capacity for PKMS patients. The public later complained about this situation. It also created a financial burden on Surakarta as they had to cover the hospital fees for provincial and private hospitals. The only government hospital that Surakarta had could not serve the needs of the public due to limited facilities. An interview with an officer of the local hospital revealed the condition of their old hospital. The hospital officer stated:

The regional hospital building in the old location, in Banjarsari, it doesn't fulfil the requirements of a hospital. So I said to Pak Jokowi at the time, "Pak, I've been asked to manage the hospital, and I can't possibly do that properly because the hospital itself is no good, and it's just not possible for me to improve it. There's only 2,000 square metres of land. How can I work with that? Right now we want to place doctors there but there's just not the space." There were only 30 beds then ... (Interview with author 2014)

The plan to build the new hospital was obviously related directly to the establishment of the PKMS program. However, the decision to implement PKMS was actually a result of long discussions between the Executive, local legislature, and NGOs in Surakarta. Research interviews with one of the KOMPIP activists revealed that the decision to launch PKMS was not a quick process. It had been discussed for some time in a series of meetings with NGOs which aimed to reform the health service for the poor. The activist stated:

Back then in 2008, there was a meeting and a discussion raised by colleagues at SOMPIS [one of local NGOs] directed at the Health Department and also the mayor, with respect to many accounts about health service provision for poor families ... (Interview with author 2014)

During that period, KOMPIP wanted the subnational government to provide easier and quicker access to healthcare services for the poor without a complex bureaucratic processes often faced. Based on a series of meetings and discussions with the subnational government, the PKMS program was finally introduced. With respect to that, the activist stated:

[It was] the outcome of the long negotiation processes which many colleagues contributed to. If they [the government] ‘claim’ it as theirs, then they shouldn’t think so highly of themselves, because there were many colleagues who contributed towards it. (Interview with author 2014)

Dialogues and mutual relationships between NGOs and the Executive in the local decision-making process in Surakarta have been commonplace for quite a while, as discussed previously in Chapter 7. Research by Pratikno and Lay (2011, pp. 42-4), for example, stated that Surakarta is already familiar with participatory initiatives among different stakeholders, such as NGOs, academics, and government officers, since the 2000s. When Jokowi was elected as Mayor of Surakarta, he conducted many dialogues and discussions with different stakeholders to solve local issues, such as the relocation of almost a thousand street vendors which was facilitated by KOMPIP (2011, pp. 43-54).

During my interview at KOMPIP, one of the activists stated that there was also a local figure who played an important role in channeling the voices of NGOs to Jokowi. His name is Eko Sulistiyo, a former director of KOMPIP who was later is elected as the head of Komisi Pemilihan Umum Surakarta (KPU) (local election committee). The activist stated: “So, behind Jokowi there was Eko Sulistiyo, who was formerly the Director of Kompip. He was the Head of the Electoral Commission for two terms” (Interview with Author 2014).

The activist then added:

What I mean is that we were assisted informally, because Eko was there. Politically, if a mayor were to advance [run for election], then they have to go through the Electoral Commission, and the communication processes [between the two] also had influence, like a consultant working behind the scenes. So that was the experience of colleagues around the basic service constraints, and eventually that card [informal assistance] was played. There was PKMS, in education there was BPKMS, and so on. Then in Jakarta, the Indonesian Health Card. Those were early days. (Interview with author 2014)

With respect to the leadership of the Mayor, the activist stated:

So if we look at it, from the empirical evidence from our colleagues at SOMPIS, Jokowi is a good listener, and this can inform policy. For example, there was the [health] card system in place. There were obstacles along the way, but that kind of thing is to be expected. At least it can be more systematic and not so convoluted. And our colleagues' expectations can be met as well. (Interview with author 2014)

Input from NGOs and initiatives from Jokowi to establish a robust local health system finally produced the PKMS program that could be enjoyed by the public, in particular the poor people. The success of PKMS, however, brought other problems for the subnational government. because so many people were using it, there had been problems with the provision of hospital services such as lack of room. Jokowi attempted to address these problems by establishing a new hospital that was to be located in northern rural area of the municipality. The strong willingness of Jokowi to speed up the hospital construction is praised by one of his officers from the Health Department. The officer stated:

If my boss has said [to build a hospital], then surely he'll go to PU [Local Public Works Agency] and order them to do it, right? That's how it goes. Jokowi is the key. Believe it. Well, Jokowi believes it. But I didn't think I could do it... because the hospital didn't have the means and this was cross-sector work. Others also couldn't [undertake this task]... But with enthusiasm and support from leadership like AD I [Jokowi], AD II [Rudi] [it can be achieved], and the support from Jokowi and Rudi is also quite significant ... (Interview with author 2014)

Before the construction phase took place, the Health Department was very concerned about problems that may arise with the project as well as with the local community that lived nearby the project site. Because the Surakarta Government was to build the hospital at Ngipang – Banjarsari, a less developed part of Surakarta located in the rural area, there was limited access to infrastructure such as roads, water supply, and electricity. At that time, the government did not have many options in selecting the site, since they only had limited land space on which to build the hospital. However,

Jokowi was able to convince the Health Department to continue with the project and ordered related line agencies to assist.

In order to minimise problems with the local community, the Health Department facilitated formal and informal events. The Health Department were aware that the construction process would prompt protests from the local community since the rural roads would be damaged by heavy vehicles, and there would be medical waste issues and pollution. During the construction process, the Health Department were particularly concerned with damage to roads. Suara Merdeka, one of the local media outlets, reported that the road to the hospital was severely damaged due to heavy construction vehicle traffic. However, the problem would be fixed by the Public Works Department (Suara Merdeka 2012, p. 28). With respect to the problem, the Health Department officer stated:

To be honest, the approach to the community is formal-informal; informal is most important. To me informal [is important] because it's a narrow road to enter the village and to build a road, it must first be broken. I have confidence in that approach. Myself, and the mayor as well as AD I and AD II. "Sir, in this environment, I leave it in your hands ... I have done the groundwork, gathered the community ... (Interview with author 2014)

The officer then added:

Yes, we told them that establishing a hospital would in turn stimulate the economy of the northern region. I took an informal approach. I used to be the head of a health clinic so I was in that area for a long time. "Where there is sugar, there are ants" so with the development of the economy, people can trade and do all kinds of things. That was the informal approach that I used. Later, during community outreach, he [the mayor] further reinforced [this message]. (Interview with author 2014)

Another interview with a different Health Department officer also revealed the process of information delivery to the local community:

Having secured the site and before construction began, we planned to conduct community consultation with the mayor. We invited people [to meet] with the mayor. It was the mayor who explained the details [of the project] and the advantages [it would bring] to the community. Although, in its construction, there would be some impact to the surrounding area, and to the roads, as well as noise and such. But, as the mayor explained, these are the consequences of development and advancement. At least in the future, from a socioeconomic perspective, there would be improvements. At least there would be an increase in [local] revenue with the provision of accommodation and sales of goods. At that time, there was no dissent at all. There were only a few requests from the community that anything damaged [during the construction process] would later be slated for restoration the following year. (Interview with author 2014)

The formal and informal approaches conducted by the Executive could reduce the objections from local community toward the project construction. As the officer stated:

... so that's how it all started. After that, the mayor gave his full support, and I know because I was inspecting the building site after sahur [early meal before fasting] and I ran into Jokowi there [at the site]. I was really stressed then. The timeframe was very short. I was responsible for the financial management and there were deadlines. But fortunately there were no obstacles from the local community, such as opposition [to the project]. That was my good fortune. I had health cadres [who assisted]. I was formerly the head of the health clinic in Banjarsari so I was able to use those cadres to approach people in the religious sector. Jokowi and Rudi also had their own cadres who assisted in their approach [to the community]. Yeah, the road was damaged, but the community did not object. (Interview with author 2014)

The statement from the Health Department officer was also confirmed by one of the officers of the local hospital. The hospital officer stated:

The mayor plays a big role in appeasing the community because he's very influential. That area [overwhelmingly] voted for PDIP. The mayor visited there. Before the construction commenced, I also went there with KLH [the Environmental Agency] to conduct the UPL-UKL [Environmental Assessment]. (Interview with author 2014)

Besides problems with damaged roads, the Health Department was also concerned with the local criminal activity that would delay the hospital construction process. In the Indonesian context, local thugs often illegally demand protection money from local businesses (Wilson 2010a, p. 3). The officer of the Health Department was worried that local thugs would extort money from the hospital contractor and disturb the project which would result in delays. As the officer stated:

Usually when the trucks come, the thugs extort them [for money]. But it didn't happen there. I was surprised. Even though when I built the clinic here, the thugs extorted the contractors. But they're not game to try it with me. (Interview with author 2014).

The officer also explained that there were fewer disruptions from thugs in this particular project:

“No. That's what the contractor said. Of course they wouldn't try it on with me. At the very most, [I thought] I'd go there and usually there'd be guys with tattoos, but nothing. It was smooth sailing. I asked the foreman there:

“How's it going? Anyone asking for handouts?”

“Yeah, but they're just asking for cigarettes”

“Are they making trouble?”

“No.” (Interview with author 2014)

The statement of the Officer of the Health Department about fewer disruptions from thugs is in accordance with one of the hospital officer’s account. In the interview, the hospital officer stated:

The thugs were still there, but they weren’t targeting us, they were targeting the contractor. If there was a big delivery of [construction] materials, they first had to give an envelope [of cash] to the thugs to be able to enter [the site]. We spoke with the gangs, asked them to keep things orderly. We won’t stir up trouble with you [the thugs] but don’t you get in the way of construction. If the project is delivered late, then the government loses out and so does the contractor. The son of one of the thugs was given a job there as a coordinator so that things would go smoothly. (Interview with author 2014)

The Health Department officer then added that the roles of Jokowi and his deputy, Rudy, were very prominent in delivering the project. The officer stated:

Maybe Rudi is quite formidable too. Jokowi is always about the place looking at the site. Maybe [the thugs] aren’t game to disrupt the project. I was also there almost every day. Sometime I’d run into them [Jokowi and Rudy], and sometimes not. Sometimes Jokowi would be there in the morning and I’d come in the afternoon. There were no set times. (Interview with author 2014)

The officer expressed how influential both leaders were during the construction of the hospital. Jokowi was known for his blusukan (impromptu street corner discussion) style to monitor his subordinates and his programs, while Rudy was the local PDI-P party leader with many loyal grass roots followers. According to Lay & Pratikno, Rudy also often conducted dialogues with local people and was accompanied by Satgas PDI-P, PDI-P’s wing organisation that is often associated with thugs and militia who have a tendency to employ standover tactics (2011, p. 53). Wilson also argued that PDI-P Satgas was the organisation that accommodated the largest number of thugs in Indonesia. These tactics are often used as a tool to win elections through the formation of loyalist groups around candidates, and to intimidate the opposition (2010b, pp. 204-7). However, during the interviews in the fieldwork, research did not uncover any statements from interviewees about the use of coercive power by PDI-P Satgas during the construction process.

With respect to the role of local leaders during the construction process, one of the hospital officers stated:

Yes, if there was a major problem, like if the contractor was under too much pressure [from the thugs], I’d say so [to the mayor]. “Sir, the problem is such-and-such. Honestly, I wasn’t intimidated. It was just that if [it] were I who had to confront them

in a heated situation, then there would constantly be friction with me working there. (Interview with author 2014)

The hospital officer then explained that there were many pressures arising during the construction process:

Yes, there were various [issues]. Issues with waste management. I'm talking about waste water, solid waste, air pollution. The first issue they raised was the recruitment of workers. Then it was the disruptions to transport because it was just a [narrow] village road. And so on and so forth. Sometimes the road would be closed so how would an ambulance get through? Rather than I having to deal directly with the community, I'd take it to the mayor and he'd delegate [the problem] to a SKPD [local agency] who would go there [and sort it out]. Sometimes the mayor himself would go down there. (Interview with author 2014)

Besides their influence at the grassroots level, both leaders were also influential in the parliament to garner support for the hospital project. The officer from the Health Department stated that the parliament had never interrupted them and that they supported their efforts as they shared the same goal of having a new hospital (interview with author 2014).

The exceptional leadership of the Mayor and the Deputy Mayor was supported by the Health Department during the hospital development. The informal and formal approaches that were used to inform the people who lived nearby the project helped smooth the project development. When doing an interview with PATTIRO, one of the NGOs that focuses on local governance reform, one of the activists stated that the Health Department is one of the local agencies that has a strong willingness to share information with them. The activist stated:

The parliament also didn't cause any disruption [to the project]. They supported it 100% because maybe they too wanted to have the hospital built. Perhaps it was that we all had the same vision to see that the building of a hospital would be achieved and achieved swiftly" (Interview with author 2014)

Although the hospital construction process ran quite smoothly, Surakarta failed to get further grant allocation from the Central Government. As a result, Surakarta's subnational government needed to find other financing options to continue the construction process. The Executive finally found that PIP was willing to finance the hospital project. The development of the loan proposal process by the subnational government of Surakarta will be discussed in the next section.

In summary, the development of the hospital in Surakarta was undertaken to support the PKMS program in order to provide better health service to the public. Hospital development plans had been discussed between the Executive and legislature. Before the construction process began, the

Mayor and his subordinates had conducted informal and formal methods to deliver information to the public, in particular to local neighbourhoods to reduce objections. The role of the Mayor and his deputy in delivering the project was very prominent. Their great influence and relationships with NGOs, local community, and DPRD helped to fast track project delivery and reduce objections. Moreover, the willingness of the Health Department to conduct discussions or meetings with NGOs such as PATTIRO, and KOMPIP to improve health service and other reform agenda had a positive impact on their relationships in delivering government policy.

8.4 Meetings between Subnational Government Institutions and Drafting of Perda

This section discusses meetings and events which occurred among subnational government institutions and other stakeholders in order to plan the hospital project that came to a halt in 2010. At that time, the Minister of Health (Central Government) failed to secure the hospital budget allocation for Surakarta. As soon as the subnational government became aware of this, Jokowi instructed DPPKA (Finance Agency) to quickly search for other financing options to continue the hospital construction process. The initial grant could only cover the construction of the building foundations and needed further funding to complete construction and equip the hospital to an operational standard.

This stage was a bit different to the first phase of hospital development where the Health Department and Hospital Management were playing major roles. At the second stage, the role of DPPKA became more dominant than other local agencies since the Mayor had appointed them as lead coordinating agency for the project due to the nature of their work in allocating local budget and loan/debt management. Despite the difference in leading agency, the smooth execution of the first phase of development process by the Health Department and collaboration with legislature and NGOs helped to expediate the second phase of the development process funded by PIP. This was able to occur because the DPRD, NGOs, and the public were quite well-informed about the project. Moreover, the fact that the project was halfway built also had a major influence on the community's support to take immediate action to finish the hospital.

In order to get detailed information about events which occurred during this stage, I conducted interviews at DPPKA as the leading agency appointed by the Mayor. An interview with one of the officers of DPPKA revealed that although the role of DPPKA was dominant at this stage, there were six other local agencies that were also closely involved in the meetings to formulate the borrowing proposal and feasibility study of the hospital project. The agencies were BAPPEDA (Local Planning Agency); Dinas Kesehatan (Health Department); RSUD (Hospital Management); Bagian Hukum (Law Agency); Inspektorat (Inspectorate Office); and Badan Lingkungan Hidup (Environmental

Agency). Under the coordination of DPPKA, these agencies worked together to collect materials in order to formulate the feasibility study to be discussed with DPRD in the Perda-making process. Unlike South Sulawesi Province that hired a consultant company to conduct feasibility study, government of Surakarta conducted the study themselves.

With respect to the initial process of borrowing initiative that took place in 2011, the DPPKA officer stated:

In 2011, I was given the task of working out how we could secure a loan [of funds]. I sought information from all over the place, from friends and the like. It turned out that the Ministry of Finance could no longer channel loans via SMI [Investment Management System], we used to be able to borrow through SMI... SLA [Subsidiary Loan Agreement] and RDA [Regional Development Account]. But now we couldn't do that because a new policy wouldn't allow it. So we were searching out information and we came across PIP. A colleague told me about it. That it [PIP] could do that [administer loans]. Finally, I tried to approach PIP... I reported back on my return. I reported it to my superior and my superior reported to the mayor, "we've approached PIP for a loan". (Interview 2014)

On 4 January 2011, the Head of DPPKA submitted a letter to the Mayor to report on PIP and request permission to follow up on the plan to borrow. The officer then also added: "From there we already had a good idea of the situation. Then the mayor sent a letter to [the] DPRD about our plans to borrow" (Interview 2014). Although DPPKA approached PIP, they were still keeping their options open with other lenders such as private and government banks. DPPKA consulted DPRD before selecting PIP. The details of the process will be presented in the next few paragraphs.

According to documentary research, the mayor submitted the letter to the DPRD to discuss the borrowing plan on 5 January 2011. In the interview, the officer added that based on the letter from mayor, the DPRD established a Pansus (Special Committee) to investigate the borrowing plan before PIP asked the mayor to present the proposal in front of their board. Compared to the South Sulawesi case, the establishment of the Pansus in Surakarta was very different since it was conducted in the very early stages and DPRD already knew about the plan to borrow.

On 13 January 2011, the DPRD held a Rapat Paripurna (General Meeting) attended by all members of parliament. On this occasion, the Mayor made an official speech to deliver the plan to borrow to the DPRD members. At this stage, the Executive had not yet submitted the draft of the Perda to the DPRD, but wished to gain permission from the DPRD to approve the initiative to borrow first. On the next day, each DPRD faction delivered official statements in response to the Mayor's speech. The Democrat faction raised questions as to whether there was a lending agency that would

offer low interest to finance the project. PDI-P raised some issues on the proposal such as which lending agency would be selected, what is the benefit of borrowing, project timeline, and what would the Executive do to inform the public about the plan to borrow for hospital project. The PKS faction also raised some related issues such as how feasible is the project, did the Executive already conduct feasibility study, what is the financing plan, and how far the Executive had progressed with approaching a financing agency. Differing from the other three factions, the Hanura faction proposed that the Executive should search for financial support from Central Government, instead of proposing borrowing due to local budget concerns.

On 14 January 2011, DPPKA submitted the feasibility study to the Mayor to be discussed together with DPRD. In contrast to South Sulawesi Province who hired a consultant company, the feasibility study of the hospital was conducted by executive agencies and coordinated by DPPKA. At that time, the Mayor distributed tasks to related local agencies to support the hospital development process. The Public Works Department, for example, was responsible for construction issues, while the Hospital Department worked on the proposed health equipment, and the DPPKA focused on the financing plan.

Back to the General Meeting of DPRD, in response to the issues/statements of factions, on 17 January 2011, the Mayor delivered a speech at the General Meeting of the DPRD. He stated that subnational government was still in the process of finding the most feasible lending agency based on ease of process, terms and conditions of loan, level of interest, and repayment period. Moreover, he also explained that the Executive had some options for lending agencies to be approached, including banks, and PIP. With respect to the hospital project, the Mayor stated that it was hoped to be operational by 2012 and the subnational government would inform the public through media, health events involving the community, and would also improve local infrastructure and public transport access to the hospital.

Soon after the DPRD held the General Meeting on 17 January 2011, together with executive officers, the DPRD planned to conduct consultations with related institutions such as the Ministry of Finance. Some DPRD members from different parties also visited PIP on 22 January 2011 to gain information about PIP and their possibility to finance the hospital project. During the meeting with PIP, DPRD found that PIP had the capacity to finance the project. However, after the visit, the DPRD did not provide direct approval to borrow from PIP. DPRD asked the subnational government to first consider other lending agencies in order to maintain accountability and transparency to the public (DPRD Surakarta - Minutes of meeting 2011).

On 11 February 2011, the DPRD asked the Executive to hold a meeting to investigate feasible lending agencies to finance the project. Some national and local banks such as Bank Mandiri, Bank Niaga, Bank BTN, Bank BNI, and Bank Jateng were invited to present their proposals to finance the project. In the meeting, some banks proposed their offers, terms and conditions of the loan such as interest, and repayment periods. Bank Jateng, for instance, offered 11% interest per annum, while Bank BRI offered 13% interest per annum. Bank BNI stated that they could not offer a loan for the hospital project due to their internal regulations. From the meeting, the DPRD and Executive agreed that PIP was the most feasible lending agency. This was because during the previous meeting held at the end of January 2011 between PIP, the Executive, and DPRD, PIP informed DPRD that they would charge 8.75% interest per annum for the proposed hospital project.

With respect to the process during this stage, one of the DPRD members from PKS Party stated that the process was clear and transparent. The Member of Parliament stated:

At that point, the mayor was being represented by a relevant department, and when we were asked to come and report on issues that were problematic and the like, we would meet with them. The Executive even told us this, "This is how it is. We go to them, what is the interest rate at this bank? They check it out, we get Bank Jateng to crosscheck and verify it. It turns out it's exactly as per the Executive's review and if that's the case then it's fine. OK, so we have a variety of considerations at hand. The Executive says, "PIP is this much, and Bank Jateng is this much, and another bank is this much". We can see that PIP has the lowest rates so we go with PIP. (Interview with author 2014)

The Member of Parliament also added:

When we requested data it was given [freely]. Nothing was withheld so everything went smoothly although the process was quite long. Going back and forth to PIP was amazing! We went there once or twice. The mayor came with us too. (Interview with author 2014)

In accordance with the PIP selection process, a member of the PDIP party also stated:

Actually, there were numerous considerations- this donor agency, that bank, and so on. All of them are capable of providing finance. But we finally decided on PIP based on the interest rate and that it is government owned. (Interview with author 2014)

Another Member of Parliament from Hanura also stated that the process was transparent:

In my view, [this process] is particular to PIP. I could see that the DPPKA and Health Department as well as the hospital director were quite good. They provided us with transparent information without covering anything up so that we could follow [all processes] well. (Interview with author 2014).

With respect to the selection of PIP, one of the DPPKA (Finance Agency) officers stated:

Aside from us requesting information from PIP, we also invited [information from] the banking sector. We sent letters to parties from the banking sector asking them to present proposals. If we were to borrow this amount of money over this period of time, what would their offers be? There were proposals from Bank Jateng, BRI and a number of [other] banks who submitted [proposals] to us. We then presented these offers to Pansus [Special Commission of DPRD], “like this and this and this”. Then Pansus drew comparisons, “It turns out PIP is offering the better deal,” then Pansus decided, “first we’ll try with PIP, and the banking sector is an alternative plan if it doesn’t work out with PIP”. Finally we decided that we would go with PIP. (Interview with author 2014)

After DPRD and the Executive had agreed to select PIP as the lender, the Mayor submitted a letter to PIP to propose borrowing. On 22 February 2011, PIP invited the Mayor to present Surakarta’s borrowing proposal on the hospital project. Two days after the presentation, PIP decided that the proposal could proceed to the next level. Based on previous meetings and discussions between the Executive and DPRD, DPRD finally approved the Executive’s proposal to borrow through the issuance of DPRD Decree No.13 Year 2011. At this stage, no draft of a Perda was submitted to the DPRD as the Executive was still focusing on general approval of the initiative to borrow first. Request from the Executive to discuss the draft of Perda to DPRD will be presented in the next section.

With respect to the delivery of information and involvement of NGOs, this research found that DPPKA did not actually have a particular forum to deliver the information to NGOs, except in the public consultation during the Perda-making process that will be discussed later in this chapter. However, based on interviews with BAPPEDA (Local Planning Agency), the public and NGOs already knew about the municipality’s plan to establish the hospital since RPJMD (Medium Term Local Development Planning) was formulated and discussed with NGOs, local people and the Executive.

Based on an interview with a PATTIRO activist, the research also found that PATTIRO was not yet involved by DPPKA at this stage, but they were having similar concerns as the Executive with respect to the budget issue over the PKMS program. The activist stated:

We were not involved in the implementation; however, we definitely support the government. Economic policy issues are important because Solo didn’t have its own regional hospital. That’s why we pushed for it there... (Interview with author 2014)

Although they were not involved at the early stage, the activist stated that they made some efforts to push their reform agenda:

A number of times with regard to construction, we just supported funding measure so that it could later be regulated. The government shouldn't just continue to invest and then lose out. It's not about profit and loss, but rather about services that are inadequate and people not wanting to go there. So what kinds of infrastructure, human resources, and SOPs [Standard Operating Procedures][are there?]. . . (Interview with author 2014)

The activist also stated why PATTIRO supported the hospital project:

Because the issue is so fundamental and linked to the hospital and basic healthcare provision. What remains to be sorted out is the issue of regulation. . . and the hospital will also become a BLUD [independent body], a hospital that can be considered high quality in comparison to [those of] other regions. It can become a benchmark or barometer. (Interview with author 2014)

In summary, based on findings from the fieldwork during the early stages of the Perda-making process of the hospital project in Surakarta, this research found that the DPPKA (Finance Agency) was assigned tasks by the Mayor to find a feasible lending agency and to coordinate the development of the loan proposal. During this stage, the Executive had already involved DPRD since the beginning of the process. DPRD was actively involved in finding the most feasible lending agency and finally selected PIP after conducting consultation with PIP and comparing other lending agencies. Based on the information gained from the series of meetings with the Executive, and other institutions such as PIP, DPRD finally granted general approval to the Executive to borrow for the project. Involvement of the DPRD in Surakarta in the early stage of Perda-making process is in contrast with what had occurred in South Sulawesi Province during the development of road project where there was less information and involvement of DPRD. On the other hand, involvement of NGOs at this stage is not yet facilitated by DPPKA. However, during the process, PATTIRO pushed the government on the budgeting issue, public information issue, and the preparedness of the hospital to provide good service to the public.

8.5 Submission of Draft Perda, Draft Consultation between DPRD and the Mayor, and Legislation

This section will discuss the submission of the draft Perda, consultation between DPRD and the Mayor, as well as legislation because this all occurred almost concurrently. During the Perda-making process, public hearings were actually running simultaneously with the consultation process. However, in order to have more detail about the public consultation process, the thesis will discuss that in a separate section. To begin with, the thesis first discusses the submission of the draft Perda from the Executive to the DPRD.

On 16 March 2011, the mayor submitted a letter to DPRD and requested a meeting to discuss the draft Perda. On 28 March 2011, the DPRD held a meeting to listen and discuss the explanation from the Mayor about the draft Perda. The Mayor explained that Surakarta would need to have a Perda in order to proceed with the hospital project borrowing proposal to the PIP. The Mayor also stated that Surakarta would require IDR41 billion (AUD4.1 million) to build and equip the hospital. To start the consultation process, the Mayor submitted the draft to be discussed and negotiated with DPRD. Unlike the process in South Sulawesi Province that included a Policy Paper (Naskah Akademis) in the Perda draft, Surakarta provided a feasibility study and written explanation from the Mayor about the proposed project.

Responding to the Mayor's explanation, on 30 March 2011, the DPRD held a meeting to listen to factions' opinions about the draft. The PDI-P factions, for example, raised concerns over the budget allocation for repayment, the readiness of hospital management with respect to staffing at the new hospital, and the capacity of the hospital to provide services to patients. On the other hand, Golkar, and Hanura factions questioned how Surakarta would repay the loan. The Democrat Party raised the question as to whether the proposed amount of borrowing would be sufficient to cover the construction and equipment for the hospital.

With respect to those questions, the Executive managed to explain some issues. The Executive explained that they would allocate budget from the hospital revenue and from other revenue to repay the loan. To tackle lack of staffing, they also explained that government had already planned to recruit new staff in 2011. The Executive also stated that the proposed amount of borrowing would be sufficient to serve the needs of the community with a total of 126 beds, with 108 beds allocated for the poor patients.

On 1 April 2011, DPRD established a Pansus in order to discuss the Perda draft with the Executive more intensively. Besides discussing the draft with the Executive, Pansus was also given the task to conduct the public hearing that took place on 24 April 2011 as will be discussed next in Section 8.6.

After Surakarta got the approval from PIP, the Executive and DPRD were still meeting to formulate the Perda draft. Besides formulating the Perda draft, the Executive was also busy arranging other meetings with PIP to settle the terms and conditions of the loan to finalise PIP's offer. Discussions on the terms and conditions of the loan took quite a while from the middle of March to the mid-August 2011 since there was a dispute over the procurement mechanism between PIP and subnational government due to contradictory national regulations that sometimes occur in Indonesia.

PIP was referring to Presidential Regulation No.54 Year 2010. The implication of the regulation is that the contract of the project could be done at once although the project would run in two different financial years of 2011 and 2012. On the other hand, Surakarta was referring to the Minister of Home Affairs Decree No.21 Year 2011. The implication of the decree was that the project should be split into two different contracts based on the project duration spanning 2011 and 2012.

The mayor and the Executive took this issue seriously since they did not want to breach any laws that could create any legal risks and problems for them in the future. On 20 May 2011, the Executive sent a letter to DPRD to request an update on the issue and asked DPRD to join them in the discussion with PIP to maintain transparency and accountability. In order to settle the dispute, in June 2011, the Executive undertook consultation with Badan Pemeriksa Keuangan (Supreme Board Audit). After consultation, the subnational government decided to procure the project twice as proposed. In August 2011, PIP could finally accept Surakarta's decision and revise the terms and conditions of the loan.

On 1 August 2011, the Head of DPRD requested that each faction prepare a final response to the Perda draft. All factions recommended legislating the draft. In response to the recommendation of factions, DPRD held a General Meeting in August the 25th to deliver the final report from Pansus about the Perda draft and provide approval. In that event, Pansus' recommendation was for the heads of DPRD to legalise the Perda draft and continue with the legislation of the Perda. Perda was finally legalised on 25 August 2011.

With respect to the transparency and involvement of DPRD during the consultation process, interviews with members of parliament from different political parties revealed that the process was transparent and DPRD was involved early in the process including negotiations with PIP. A Pansus member from PDI-P Party stated:

[We were] always involved with each commission that dealt with [particular areas]. For example, in Surakarta in the portfolio of Health, its counterpart or working partner is Commission IV. There's always a meeting like that. It begins with planning, site location, the size of the site, then what would be built first, and most of this takes place in Surakarta. (Interview with author 2014)

The Pansus member then added how they got involved during the negotiation process with PIP:

We were involved on three occasions. At that time, we formed Pansus to develop the loan agreement, and that had to involve us. We were involved, we formed Pansus, we

examined how the mechanism would work, the regulations, interest rate, penalties, and other such details. We discussed this within Pansus- Special Independent Committee. (Interview with author 2014)

When asked about the transparency of the Perda-making process, a member of DPRD from HANURA Party also had a similar view to other members and stated that they received all information and it was clear and transparent from the beginning (Interview with Author 2014). A similar statement about the Perda-making process was also expressed by one of the heads of DPRD:

Oh, yes that. It was transparent and everything. With the construction planning and all of that, even I didn't know who won the tender to undertake construction. In my opinion, that's not my job, so I didn't get involved. That was for the commission [to handle]. (Interview with author 2014)

Another head of DPRD also talked on the general processes that were implemented during the Perda-making. One of the DPRD heads stated:

Before we discussed the problem of finance, our commission discussed it. Then it emerged that it had to be done... we reported that... we lobbied our friends at Banggar (DPRD Budgetary Body), and all the factions. So we were all on the same page. The Executive also made sure that everyone was of the same thinking across SKPD, that there would be finance [for the project]. Thanks God it worked. The process adhered to regulations that to take on a debt and so forth, there must be involvement from DPRD. So there was the formation of Pansus and permission and agreement from DPRD. (Interview with author 2014)

Based on findings in the field, the research concluded that during the submission of the draft, consultation between DPRD and the Executive, and legislation, transparency and involvement of DPRD is quite good. Data requested by DPRD was given by the Executive and the comprehensive involvement of DPRD with the negotiations process with PIP occurred on several occasions. A minor problem occurred due to the contradictory laws referred to by PIP and the subnational government, however, the case was resolved after the Executive consulted on the issue with Badan Pemeriksa Keuangan (Supreme Audit Board).

8.6 Public Consultations

This section will discuss findings surrounding public consultation process that established by Pansus DPRD that were running simultaneously with the consultation process. In Surakarta, public consultation meeting is conducted at the DPRD in April the 25th 2011 to hear views from the public about the borrowing plan for hospital project.

Hearing was involving related stakeholders such as NGOs, Ikatan Dokter Indonesia (Association of Doctors of Indonesia), academics, local informal leaders, local agencies, Lurah (head of village), Camat (head of subdistrict), and Lembaga Pemberdayaan Masyarakat Kelurahan (Empowerment Body of Village Community). According to interviews with different stakeholders, research found that the public did not object to the borrowing plan. However, there were some concerns from the public about the capacity to repay the loan and why Surakarta need to borrow money.

As stated by one of the Pansus member from HANURA Party:

I could see at the public hearing, because we could see that everyone in Surakarta, they all had a positive attitude towards the project. There was just one reservation: do we have the capacity to repay the loan? (Interview with author 2014)

On a different interview occasion, a Pansus member from PKS Party also stated:

That's just the norm. Whether we agree or disagree. We must hold a public hearing. We invite [the people]. We always invite [the people] each time there is a Pansus or Perda meeting. Especially when it's about borrowing funds. There needs to be a public hearing. "What is it that we are borrowing for? This, that and the other" Not everybody has to agree with everything, but so long as we can produce a policy, and fulfil responsibilities, it goes ahead. We did all of the calculations and considerations. It can be paid within this many years, with our APBD, our annual repayment is this much, it's all been calculated. So long as it's measured and calculated and accountable in the public eye, then it is settled. (Interview with author 2014).

Another Pansus member from PDIP Party also stated about the hearing process at DPRD:

Yes, at the DPRD building. We invited all of the academics and other organisations and asked them to examine costs and benefits. We asked their input about the local government borrowing money to undertake this project. There were no objections at all. Even then there were people supporting [the project] because it's important because the municipality might not have a public hospital. It's a critical need in terms of healthcare and the government must address the health [needs] of the community. A building for other purposes is different, maybe it would not be approved, and there would be opposition, like maybe building a park that costs tens of billions of rupiah. But this is a basic need and it's a [government] obligation. (Interview with author 2014).

The interview with one DPPKA officer also confirmed that the public hearing went smoothly without objection from the public:

Yes. So all of the aspects relevant to stakeholders were conveyed at the public hearing, that we were requesting the loan of funds in such a way, with certain benefits and consequences. We presented this [information] openly to the public. The benefit was that we could immediately build the hospital. If we borrowed in 2011, then by 2012 we could have a functional hospital. If we had a functional hospital, then PKMS will

improve. We planned to have 150 beds available so that PKMS that were denied care in private hospitals we could accommodate here. (Interview with author 2014)

The officer added:

The consequence was that APBD would be burdened with debt repayments of about 12 billion [rupiah] per year. Our plan was to have a medium term loan rather than long term. So in our initial calculations, that [repayment would extend until 2015. So it was 2011 and we'd start making repayments in 2012, 2013, 2014 and 2015. We would make repayments over four years. If a debt of 44 billion [rupiah] is divided over four years plus interest, that's about 12 billion per year. 12 billion won't overburden APBD, which should be enough to build other facilities, but this is to repay the debt. We also conveyed this information, but the public response was that "it's not a problem; what's important is that the hospital is built soon". The response was positive. There was no opposition. (Interview with author 2014).

In order to get information about the public hearing process, research also interviewed PATTIRO – one of the NGOs that has been dealing with governance reform in Surakarta since 2001. The interview revealed that PATTIRO is invited to the hearing session and participated in other events by the Executive. PATTIRO also made opinions in the local newspaper to criticise the project. The activist stated:

With respect to the PIP issue, it has already been a long time. We have been involved [in this process] since 2011. We were invited to a public hearing. Most recently I spoke with Pak Martono about institutional arrangements, the regulations that need to be in place so that RSUD [the hospital] can be truly independent, a BLUD [independent body]. There are a great many requirements. We were also there to assist with Sub Satu [one of the hospital units], encouraging the implementation of SOPs and information services in line with the mandates of public information legislation that every public body must have SOPs and channels for dissemination of information to the community, the structure for information delivery. We were facilitating that. (Interview with author 2014)

The activist then told the interviewer about the response from the Executive with respect to PATTIRO's initiative to support the public information service for the hospital:

Yes, [the response was] quite good. Because from the beginning there was the KIP [Public Information] legislation, so PATTIRO was quite concerned [about it]. The first time it was done, for example in 2005 it was Jokowi who signed it and we encouraged the publication of the APBD poster. That had Jokowi's signature [on it]. In early 2005, it was he [Jokowi] who made that breakthrough. It was on view and distributed to all of the villages. It was said to be a crazy move and a number of the SKPD heads responded quite negatively... The idea was then accepted by Jokowi though there was considerable resistance from the bureaucracy. But in the end they accepted it too. The local government again published the poster in 2008 and have continued to do so until now. (Interview with author 2014)

The initiative to open up local budget into poster was a breakthrough at that time since most local government in Indonesia thought that local budget is confidential and not supposed to be consume by the public. This initiative by Jokowi have stimulate budget transparency of local budget in Surakarta so that the public can do a self-check to the allocation of development program. This initiative has also been followed and copied by other subnational governments.

With respect to the PATTIRO involvement in the Perda-making process, the activist stated that PATTIRO had more concern to advocate to the Executive about the readiness of the hospital management in delivering service to the public. The activist stated:

A number of times with regard to construction, we just supported funding measure so that it could later be regulated. The government shouldn't just continue to invest and then lose out. It's not about profit and loss, but rather about services that are inadequate and people not wanting to go there. So what kinds of infrastructure, human resources, and SOPs [are there?]. Lest it reach the point where the local government are burdened with the maintenance of it when not many people are going there. What I mean is, don't just throw money away on infrastructure and staffing if people don't want to go there. (Interview with author 2014)

Despite the involvement of PATTIRO in the development of the SOP, but the Executive is still needed to improve the provision of information to the public. Interview with PATTIRO activist revealed that information about the hospital, such as how the hospital budget is managed (post PIP loan process) and recent progress about their services was still limited.

The leadership of Jokowi in opening up more space for participation is also confirmed by one of the NGO activists of KOMPIP that stated: "In the subjective view of colleagues, Solo [Surakarta] is relatively good in terms of participatory planning. Because in Jokowi's era, the mayor was quite open with the community" (Interview with author 2014).

Despite the leadership of Jokowi that open up more space to participation and transparency, one of KOMPIP activist is also explained some factors that made people of Surakarta are quite common with participation and why Surakarta's bureaucracy is willing to provide participation spaces. Firstly, there is a political awareness among people toward subnational government. As stated by the activist:

Culturally, in Solo, [all kinds of people] from pedicab drivers right up to academics, [they] can be considered activists. Even at this level, at the hiks [small food stalls], you can see it. People are having discussions. So in the community in Solo, maybe it started from here [at the grass roots level]. (Interview with author 2014).

The activist also stated about the history of riots in Surakarta that influenced the behaviours of local bureaucrats in dealing with the local people:

The municipality is known to have a short fuse, and I think it also started with their tendency to be critical. That short fuse is evident when there is a gap. There have been 12 occurrences [of riots] in Solo ... both before and after independence, according to historians at UNS [state university]...it's actually because of factors relating to economic inequality ... I think the leaders here in Solo are conscious of that. (Interview with author 2014)

Secondly, collaboration exists between NGOs and media to pressure government. As the activist stated:

In terms of media also, I think Solo Pos is still one of the most well known media outlets in Solo. I'm not trying to fan the fire ... but it's quite balanced [in its reporting] and non-partisan. So if any group or element criticises our performance, they can report on that to their heart's content. (Interview with author 2014)

Going back to the public consultation, I also interviewed one of the top management level at the local hospital to dig out more information about the interaction between NGOs and the Executive during the development process. The officer stated that there were many NGOs concerned about the development and raised questions:

In the long run, initially they were questioning the legal position... but in the end they were questioning the budget. We were open [about that], that there was 47 billion (meaning 40 from the loan and 7 billion from the central government in 2010) and that could build quite a good hospital. Though in other places, a hospital like that would cost hundreds of billions. So there's nothing to worry about, "what are you hoping to see?" A tender process has been undertaken. We've already explained everything. (Interview with author 2014)

From the interaction between NGOs and the Executive, it appeared that NGOs such as PATTIRO and KOMPIP are tended to gain information from the Health Department and local hospital, rather than with DPPKA. The close relationship between NGOs and Health Department had been going for a while when they were conducting discussion on the health reform program such as PKMS. Besides that, the good performance of Health Department in public transparency is also quite helpful in creating the good relationship among them.

Although the partnership between the Executive and PATTIRO is quite close, in particular to Health Department and RSUD (local hospital) since they have been supporting subnational government to conduct reform, but that does not make them lose their independency to criticise government and become facilitator to voice public concerns. Apart from the public hearing session, there is an issue between the hospital and local community about the water supply in 2014 after hospital is operated. At that time, hospital was operating a new water deep well system, but it turns out to have impact on the local neighbourhood's water supply. Local community had difficulty to get

surface water supply for their house and protested the hospital management for causing the trouble. Solopos – one of the local media also covered the news about the protest by the local community (Ricky 2014). With respect to the event, the activist of PATTIRO described the situation:

[There was] A recent [happening] that got quite heady, I'm talking about PATTIRO. One of the [people from the] local communities near the hospital, his name is Mr X [fake name] he got a complaint from people in the area. The construction had already begun, and in the initial agreement only one deep well was to be built, I'm not sure of the depth... but during the development process people were having trouble drawing water. (Interview with author 2014)

The activist then told that hospital and local community had actually agreed to build one deep well, but then the hospital built another one without communicating that first to local community. To solve the dispute, PATTIRO then facilitate and accompanied local community to meet with the director of hospital. Finally, the hospital decided not to operate the new deep well system until further investigation (Interview with Author 2014). Protests from local community had also gain attention from DPRD. According to Joglo Semar – one of local media, Head of DPRD instructed the Executive to form a team to investigate the case. Moreover, one of the Public Work officer urged hospital management to communicate this issue to the locals in order to minimise protests (Winaryani 2014). The activist also explained the role of PATTIRO to help the local community:

Yes. We held mediation sessions so that each policy could be communicated [to the community]. So if there was to be an impact on the community, it was communicated so they knew what to expect. If it we didn't communicate [these aspects], then all of a sudden we'd be having problems with the community. Actually, we all had the same priorities because water is also needed to care for patients, but on the other hand it also impacted on the community. So what is the solution? We had to ensure a win-win situation... (Interview with author 2014)

With the help of PATTIRO, research also able to contact and interview local community members that lived nearby the hospital to investigate any forum that established by the Executive during the hospital construction process, and gain their perspective over the water supply issue. PATTIRO have been providing advocacies and assistance to local community in Surakarta to improve people participation and other reform initiatives. PATTIRO also have monthly regular meetings with these local communities around Surakarta to discuss any issues related to local public service and governance.

When asked about forum that established by the Executive to discuss or deliver information during the construction process, one of the local community member confirmed that such forum is occurred before the construction begin in 2010 and attended by mayor and members of parliament.

The Executive quite often establishes local forums to deliver information about government policies to the public. One of the local leaders stated:

Oh, with the government, there is always [community consultation]. For instance, at the village level there was consultation about Perda from the local government or from SKPD. Most recently it was about IMB [housing permits]. Representatives from RT level were invited to the village for consultation. Along with that, if there was relevant information it was also consulted at the RW [local small neighbourhood] forum. (Interview with author 2014).

However, the hospital did not deliver any information in the local forum to about the plan to build the new deep water system to the locals. One of the local leaders stated: “There was no [warning]. It just happened all of a sudden... Actually we intended to consult about the deep water well; what I mean is not just with me [but with others also]...” (Interview with author 2014).

The new deep water well system impacted local water surface supply. Some households are reported to have water shortage. One of the local neighbourhood leaders stated that there were about twenty households impacted due to the deep well construction (Interview with Author 2014).

One of the local neighbourhood leaders also revealed how their protest could be covered by the media and reached wider attention:

I mean we had undertaken preparations as to who would go there and PATTIRO as well as journalists would also be briefed [to attend]. If we hadn't done that, then the community would be intercepted at the entrance and we wouldn't be allowed to enter. We just acted like we wanted to see the Director. Not long after, PATTIRO arrived and so did the press. (Interview with author 2014)

After the media coverage and protest from local people, the director of hospital finally stop the operation of the deep water well system (Interview with PATTIRO 2014). As reported by Solo Pos, the head of DPRD also formed a team to investigate the case to find the solution (Winaryani 2014, p. 5). In another news article, Solopos also cover the statement of one Member of Parliament that recommend the hospital to provide a temporary water supply to local community to tackle the shortage (Rahayu 2014)

In conclusion, public consultation process is conducted by Pansus DPRD and involved related stakeholders such as academics, local informal leaders, NGOs, and local agencies. There was concern about the capacity to repay the loan during the consultation, but in general the public could accept the plan to borrow for hospital project.

The role of PATTIRO is quite significant in the hospital project. They provide assistance to the Hospital Management to develop the delivery of public information and provide inputs in the local newspaper to the project. Besides the active role from PATTIRO, the Executive also had

significant contribution to the process. Their openness and willingness to engage with PATTIRO is very helpful to smoothe the process.

8.7 Post-Perda Process

The hospital project funded by PIP is completely built in the mid of 2012 and have operated since then. The loan is also fully repaid to PIP in 2014. Although the hospital project is supported by local community, but in 2014 there is also a protest from local community with respect to the shortage of water supply.

The plan of hospital management to operating a new deep well water system is failed to be communicated to local community and unfortunately it impacted to local livelihood. However, with the help of PATTIRO and the media, the case could get an extra attention from wider public and DPRD. As a result, the operation of the deep well system by the hospital is temporarily closed down.

8.8 Conclusion

This chapter discuss findings of the development of loan proposal process (the Perda-making process) in Surakarta. Thesis found that the implementation of transparency and participation are adequate based on perspective of three major actors (the Executive, the local legislature and NGOs). The Executive stated that they had been transparent and involve DPRD and NGOs. DPRD and NGOs stated that they were involved by the Executive in the development of Surakarta's hospital project.

Both stages of hospital development plan by the Executive were discussed and negotiate with DPRD through different forums. Public consultation process was also involved different stakeholders and in general, the public accept the Executive's proposal over the borrowing plan. Despite the fact that transparency and participation is implemented in the development of loan proposal process, but in the case of water shortage, the new hospital management did not deliver any information about the deep well construction plan that impacted on the local neighbourhood. The next chapter discusses and analyses these findings from the theoretical points of view of the demand and supply sides of transparency and participation.

CHAPTER 9: ANALYSIS AND DISCUSSION

This chapter seeks to link the findings discussed in Chapters 5 - 8 to the theory on governance. The chapter helps to address the research questions on the implementation of governance based on the supply and demand sides, and on the differences in governance performance during the development of loan proposals in two case studies. The research reported in this chapter found that the lack of governance in South Sulawesi Province led to objections from the DPRD and NGOs. On the other hand, adequate governance in Surakarta Municipality led to a smoother process for the development of the loan proposal.

9.1 Introduction

In previous chapters, we discussed findings for both subnational governments and the roles that each stakeholder played during the *Perda*-making process. Three major issues in governance were analysed: transparency; participation; and factors that influence governance implementation. The analysis in this chapter addresses how South Sulawesi Province and Surakarta Municipality differed in terms of the application of transparency and participation principles, and why transparency and participation are important during the development of loan proposals for their requested infrastructure projects.

This chapter is organised into five major sections: (i) ‘Supply and Demand Sides of Transparency and Participation’; (ii) ‘Comparison of Governance Performance’; (iii) ‘Importance of Transparency and Participation during the Development of Loan Proposals’; (iv) ‘Significance of the Research’; and (v) ‘Summary’. The first section discusses the implementation of transparency and participation at both research sites by using the supply and demand side approach. In the second section, the factors that lead to the differences of governance performance at the two different sites are considered. The third section discusses the roles of governance practices in the development of loan proposals. The fourth section talks about the significance of the current research to the body of knowledge. The final section concludes the discussions.

Based on the study findings, the implementation of transparency and participation in South Sulawesi Province and Surakarta Municipality is summarised in Table 9.1

Table 9.1 Findings on Transparency and Participation

Sites	Transparency		Participation	
	Supply	Demand	Supply	Demand
South Sulawesi Province	DPRD: Low NGOs: Low	N/A NGOs: High	DPRD: Low NGOs: Low	N/A NGOs: High
Surakarta Municipality	DPRD: High NGOs: High	N/A NGOs: High	DPRD: High NGOs: High	N/A NGOs: High

(Author)

As shown in Table 9.1, transparency and participation are still lacking in South Sulawesi Province, despite the high demand by NGOs for governance, whereas in Surakarta Municipality, a high degree of both supply of, and demand for, transparency and participation is present. Political competition influenced the performance of governance in South Sulawesi during (at that time) the incoming election, as did the nature of the relationship between NGOs and the Executive. On the other hand, in Surakarta Municipality, strong collaboration between all stakeholders influenced the performance of governance as did strong leadership by the local leaders. With respect to the role of governance, I argue that in South Sulawesi, the lack of governance driven by political interests became one of the factors that led to objections during the loan proposal development. On the other hand, in Surakarta Municipality, good governance practice smoothed the process of the development of the loan proposal.

9.2 Supply and Demand Sides of Transparency and Participation

As discussed in Chapter 2 ('Literature Review'), having a balance between the supply and demand sides of governance is important for improving the effectiveness of local policy making. The effectiveness of good governance in the policy-making arena cannot heavily depend on the active role of power holders to practise good governance, but should also be driven by the active role of civil society in demanding accountability from power holders.

In the context of transparency, the study used the framework of Drew, Nyerges and Leschine (2004, p. 1646) to analyse the degree of the supply of transparency by the Executive for local policy making. These authors argued that the supply of transparency needs to be clear, integrated and accessible, and must provide the rationale for decisions. On the other hand, in order to evaluate the degree of the demand side of transparency from NGOs, van Zyl (2014, p. 348) provided four major steps that can be taken by NGOs: providing accessible and reliable information to stakeholders; directly demanding accountability of the government; stimulating other policy makers (the legislature

and auditors) to improve accountability; and involving other actors (donor agencies and political parties) to improve transparency and accountability.

The current study used Martin's (2009) typology of participation to measure the supply of participation. Martin argued that the government can empower people's participation by conducting three major activities: providing information, undertaking consultation and undertaking co-production. On the other hand, the demand side of participation was measured by using Clark's framework (1995, p. 594), which suggests that the demand side of participation by NGOs can be formed in ways such as providing information to the community about government programs; establishing consultation forums or hearings to discuss development plans with government officials; providing advocacy and political influence to help the poor; maintaining the accountability of government officials; and facilitating negotiations between the government and the people affected by the government's policies.

In the next section, the implementation of transparency and participation principles in both South Sulawesi Province and Surakarta Municipality is analysed using the supply and demand side approach. The analysis links the findings on transparency and participation in the *Perda* process, as discussed in Chapters 6 and 8, with the theoretical framework discussed in Chapter 2. South Sulawesi Province is discussed first and then Surakarta Municipality.

9.2.1 Transparency and Participation in South Sulawesi Province

Based on the findings presented in Chapter 6, the supply and demand side of transparency and participation in South Sulawesi Province can be summarised as shown in Table 9.2.

Table 9.2 Transparency and Participation in South Sulawesi Province

Transparency	
Supply	Demand
<p>DPRD: Low</p> <ul style="list-style-type: none"> • Only the Head of the DPRD from <i>Golkar</i> (the government party) received information about the borrowing plan in the early stage • The borrowing plan was not communicated to all Members of the local Parliament in the early stage, with many members hearing about the plan from the media • Information was not easily available. The DPRD had to ask for more detailed information on the project • Access to information for members of the DPRD from opposition parties was limited during the negotiation process. The DPRD had to use other channels to obtain some information. • Information was not integrated. Loan interest and project selection methods were partially delivered and kept by the Executive to avoid more questions being raised by <i>Pansus</i> members during the consultation • Lack of information available to the DPRD members in the early stage on the rationale and decision for having the road project 	<p>N/A</p>
<p>NGOs: Low</p> <ul style="list-style-type: none"> • No information shared with NGOs • Information delivered only to business associations, academics and transportation associations that supported the road project • No forums to inform local people affected by the project • Information was delivered after the NGO (KOPEL) won the case in the Mediation Court conducted by the Commission of Information 	<p>NGOs: High</p> <ul style="list-style-type: none"> • NGOs (KOPEL and PERAK Institute) delivered information to the public by releasing their analysis of the project on their website, and by comments in local media • KOPEL requested information from the Road Transport Department on the borrowing plan • KOPEL filed a case with the Commission of Information due to the lack of transparency by the Road Transport Department

Participation	
Supply	Demand
<p>DPRD: Low</p> <ul style="list-style-type: none"> • Less involvement of the DPRD • Opposition parties were not involved and informed from the early stage • The DPRD was not consulted in the early stage about the selection of road sections. The involvement of the DPRD only started after the submission of the <i>Perda</i> draft 	N/A
<p>NGOs: Low</p> <ul style="list-style-type: none"> • No involvement of NGOs during the <i>Perda</i>-making process • Public consultation only conducted with business associations, academics and transportation associations that supported the road project • Lack of political will by the Executive to involve NGOs and local people 	<p>NGOs: High</p> <ul style="list-style-type: none"> • KOPEL and other NGOs commented in the media to exert pressure on the government • KOPEL sent a letter expressing its objection to the borrowing plan to the DPRD • KOPEL and PERAK Institute convened a forum to discuss the borrowing plan • KOPEL produced a report on the allegation of corruption on the CPI Project where one of the road sections was built

Notes: CPI=Centre Point of Indonesia; DPRD=*Dewan Perwakilan Rakyat Daerah*/local legislature; KOPEL=*Komite Pemantau Legislatif*/Legislature Watch; *Pansus*=*Panitia Khusus*/Special Committee of the Local Legislature

Table 9.2 shows the imbalance between the supply side and demand side of both transparency and participation during the loan proposal process in South Sulawesi Province. Transparency and participation by the Executive on the supply side to both the DPRD and NGOs are low. In contrast, these are both high on the demand side by NGOs to the Executive.

Using Drew, Nyerges and Leschine's (2004, p. 1646) transparency framework, the current study found that information was not integrated, was opaque, had limited access and lacked logic, in particular in the early stage of the development of the loan proposal process. Information was only shared by the Executive with the Head of the DPRD from the government party, *Golkar*, and not with all Members of the local Parliament; NGOs had no access to information about the project documents; and opposition party Members of Parliament were lacking detailed information with respect to the terms and conditions of the loan.

In South Sulawesi Province, *Golkar* has dominated the political landscape since the New Order era. During Governor Limpo's administration from 2009–2012, of the total 75 seats (as

discussed in Chapter 5), *Golkar* dominated the parliament with 18 members and managed to place one of its members, Mohammad Roem, in the role of Head of the DPRD. On the other hand, the Democrat Party and *Partai Keadilan Sejahtera*/Prosperous Justice Party (PKS) only had 10 and seven members, respectively, in the parliament. However, during the election race, Governor Limpo was mainly supported by *Golkar* and the coalition of eight other parties in the parliament that, in the end, gave them a majority. In the case of the *Perda*-making process, interviews with one member of the Democrat Party revealed that the Executive released limited information during consultations with *Pansus* members in order to avoid too many detailed questions from them (as discussed in Chapter 6). This phenomenon is in accordance with Grimmelikhuijsen and Welch's (2012, p. 565) statement that, in a low competition environment where one political party dominates for a long period of time, it is more likely that they will prefer to keep information private. They will also be less responsive to demands for transparency from the minority parties as they have a greater hold on political power.

As with the supply side of transparency, the current study used Martin's (2009) typology of participation framework, finding a low level of participation by the Executive to both the DPRD and NGOs. The provision of information as the first entry point to participation was not adequately conveyed to the DPRD members in the early stage, while NGOs were not informed at all by the Executive. Neither a consultation process nor a two-way dialogue with people affected by the project and NGOs was conducted by the Road Transport Department. The public hearing only involved business associations and academics who supported the project. In this case, the Executive tended to use associations and academics simply to formalise the *Perda* process. Moreover, this phenomenon is consistent with Purwanto's research (2011, p. 14) that focused on the process of local policy making in six districts in Indonesia. He argued that people's involvement during local policy making was formalistic and procedural. As the provision of information and a consultation process were not conducted by the Executive to NGOs, co-production, as the third concept of Martin's (2009) typology, would be difficult to achieve. The absence of NGOs and people's participation in shaping both the infrastructure project and the *Perda*-making process for borrowing showed that the Executive and the legislature were still dominating policy making in South Sulawesi Province. This phenomenon has been criticised by Bingham, Nabatchi and O'Leary (2005, p. 555) who argued that governance processes should promote increased collaboration between government, business, civil society and citizens.

In contrast with the supply side, the demand side of transparency and participation by NGOs was found to be high. By using van Zyl's framework (2014, p. 348), the study found that some NGO activities, particularly those by KOPEL, such as releasing project analysis to the public via press conferences; comments in the local media about the project; directly requesting information from the

Executive; and involving the Commission of Information to gain access to project documents were conducted to demand transparency and accountability. In addition, collaboration between NGOs and the local media was quite strong during the loan proposal process, with the local media frequently citing comments by NGO activists in their news reports. Moreover, a high demand for participation by NGOs in South Sulawesi Province was consistent with previous governance research (ANSA-EAP 2012, p. 44; SMERU 2000, p. 64; Triwibowo 2012, p. 7). In addition, NGOs have collaborated with the press or other media in South Sulawesi Province to influence policy making in different sectors, such as health, economic issues and social issues (Triwibowo 2012, pp. 7-11).

In the context of participation, using Clark's framework (1995, p. 594) on the roles of civil society organisations, the study found a high demand side for participation by NGOs. KOPEL and other NGOs, for instance, expressed comments in the local media to exert pressure on the government. A local forum was also established by the PERAK Institute to discuss the borrowing plan with legislature members.

In addition, KOPEL succeeded in reporting the allegation of corruption by the provincial government on the CPI (Centre Point of Indonesia) project (see Chapter 6). The submission of the report by KOPEL to the KPK (the Commission of Corruption Eradication) was considered a great effort by civil society in reducing the risk of corruption. As stated by Joshi (2013, pp. S40-1):

The first and often strongest set of claims in relation to service delivery is that accountability and transparency initiatives expose and reduce corruption. Transparency, in particular, is expected to help in exposing corruption, by highlighting discrepancies in public accounts and triggering more formal accountability mechanisms such as audits and investigations ... social accountability mechanisms have impact when they can trigger traditional accountability mechanisms such as investigations, inspections and audits.

From the analysis of the supply and demand sides of transparency and participation, the current study's findings on this phenomenon are in line with previous research on governance conducted in South Sulawesi. Research by Kemitraan/Partnerships (2013b, p. 75) on the Indonesia Governance Index (IGI) 2012 stated that the supply side of transparency by the government (the Governor and the DPRD) is categorised as fair, while transparency of the bureaucracy is viewed as poor. The degree of transparency is measured by looking at the access to information on the local budget, development planning, local parliament spending, minutes of meetings and financial documents for these two sectors (government and bureaucracy) on their websites. On the other hand, the participation level by bureaucracy in South Sulawesi Province is categorised as the lowest or very poor, while participation by the government, civil society and business are classified as fairly good (see Chapter 5).

The results of both IGI 2012 and the *Perda*-making process show that the bureaucracy in South Sulawesi Province still displayed a lack of involvement by citizens and NGOs in policy making. In contrast to the lack of transparency for NGOs, the supply of information to PIP, as the lending agency, worked very well. Based on interviews with PIP officers, documents that PIP sought, such as the feasibility study or the local budget, were delivered by the Executive as approval to borrow would not be given if the Executive did not deliver the required documents. The PIP officers had a very positive perception of the Executive: “[g]ood coordination ... there was a great synergy between Finance Bureau and the Road Transport Department” (Interview 2014). The high level of vertical accountability of subnational governments to PIP, as shown in the study findings, is closely related to PIP’s position as the lending agency for the road infrastructure project. The failure to provide transparency and accountability of the project to PIP could lead directly to the cancellation of project approval and disbursement.

From the research findings, this thesis argues that the implementation of governance in South Sulawesi during the *Perda*-making process on borrowing has applied traditional accountability that tends to focus on a hierarchical/vertical relationship (Schillemans 2008, pp. 175-6) to PIP and on formal political accountability that focuses on legislature bodies (Haque 2000, p. 606) or, in the study context, to the DPRD. The Executive in South Sulawesi Province has not yet expanded accountability to wider stakeholders such as NGOs. As Mulgan (2003, pp. 6-7) stated, traditional vertical accountability, which focuses on hierarchical relationships, needs to be expanded due to modern democracy which involves more complex networks and stakeholders who emphasise that the government must be more accountable to the people.

9.2.2 Transparency and Participation in Surakarta Municipality

Based on the findings presented in Chapter 8, the supply and demand side of transparency and participation during the development of the loan proposal in Surakarta Municipality can be summarised as shown in Table 9.3.

Table 9.3 Transparency and Participation in Surakarta Municipality

Transparency	
Supply	Demand
<p>DPRD: High</p> <ul style="list-style-type: none"> • DPRD informed from an early stage about the borrowing plan • Before proposing borrowing, the mayor requested permission from DPRD • Information is clear and disclosed by the Executive to DPRD and Pansus members • DPRD and Pansus had access of information about the project • Information about project design and lending agency is shared with DPRD • Rational to propose hospital project is adequate 	N/A
<p>NGOs: High</p> <ul style="list-style-type: none"> • In wider context, in 2005 Mayor Jokowi mandated local budget to be published in all village offices • NGOs gained information through discussion and involvement with Health Department in formulating health reform program • Health Department and Hospital Management welcomed PATTIRO initiative in developing public information system for the hospital • Access of information to the project is adequate • According to PATTIRO, Health Department had been quite transparent • Strong political will by the Executive to work and share information with NGOs 	<p>NGOs: High</p> <ul style="list-style-type: none"> • In a wider context, PATTIRO initiated transparency of budget in Surakarta from 2005 • PATTIRO initiated the development of public information system for the hospital • PATTIRO collaborate with the local media in addressing statements about the project to inform the public

Participation	
Supply	Demand
<p>DPRD: High</p> <ul style="list-style-type: none"> • DPRD involved and informed from an early stage • DPRD is consulted by the Executive and involved in selecting the lending agency and other decisions during <i>Perda</i> process • DPRD is involved in the selection of lending agencies 	N/A
<p>NGOs: High</p> <ul style="list-style-type: none"> • In wider context, the mayor had involved NGOs such as PATTIRO and KOMPIP in local policy making 	<p>NGOs: High</p> <ul style="list-style-type: none"> • In wider context, PATTIRO and KOMPIP facilitated local communities in articulating their interests

Participation	
Supply	Demand
<ul style="list-style-type: none"> • Consultation with NGOs in health reform program such as PKMS is held quite intensive by the Executive • Hospital management involved and consulted PATTIRO in developing public information system for the hospital • Local community forum is established before hospital construction 	<ul style="list-style-type: none"> • During <i>Perda</i>-making process PATTIRO advised the Executive to focus on the provision of human resource issues and infrastructure to support hospital operation • Criticising subnational government on the construction of deep well system of the hospital • Collaborate with media to raise the case to public to gain more attention

Table 9.3 shows that there is a balance between supply and demand side of transparency and participation in Surakarta Municipality during the development of loan proposal process. The high demand of governance by NGOs towards the hospital project proposal is matched with adequate supply of governance from the Executive to NGOs, and DPRD.

With respect to the supply side of transparency, using Drew, Nyerges, and Leschine's frameworks (2004, p. 1646), the thesis found that the involvement of DPRD at an early stage helped DPRD members to obtain clear and complete information about the project. DPRD members also had adequate access to information and received any information they asked for from the Executive. In addition, the fact that the subnational government needed to borrow to continue the hospital development and to improve PKMS (Health Insurance for People of Surakarta) service for the poor provided a strong logic for the project. Similarly, the supply of information to NGOs was also adequate. Willingness by the mayor to enhance transparency was followed by local agencies such as the Health Department and Hospital Management, which provided access to information and collaborated with NGOs in running their programs.

Supply of participation by the Executive was also high. Consistent with Martin's (2009) framework, provision of information as one of the keys to participation was delivered adequately to the DPRD and NGOs. Consultations with the DPRD were conducted at an early stage to discuss the project and select the lending agency. Unlike in South Sulawesi Province, public consultation during the *Perda*-making process involved a wide range of stakeholders such as NGOs, and members of local communities. The Executive also collaborated with NGOs in developing public information systems for the hospital management and in other reform programs in Surakarta.

With respect to demand side of transparency and participation, NGOs in Surakarta played a prominent role in influencing the development of the hospital project, consistent with the frameworks proposed by van Zyl (2014, p. 348) and Clark (1995, p. 594). PATTIRO initiated many transparency reform initiatives, such as initiating public budget transparency in 2005, and proposing the development of a public information system for the hospital. Similarly, PATTIRO also played a

prominent role in advocating for the public, establishing local forums and facilitating negotiation between people and government.

NGOs in Surakarta such as KOMPIP and PATTIRO had actually pushed for more reform programs in some basic services, in particular in health and education sectors. PKMS, for example, is one of the health reform programs that pushed by KOMPIP through several meetings with executive agencies. The success of PKMS then brought another demand by NGOs and the public to improve health services such as the development of the local hospital at Ngipang-Banjarsari that became the focus of this research.

One of the most interesting roles played by PATTIRO with respect to the hospital development was providing advocacy to the local community. PATTIRO established a routine forum to discuss any local policies that might impact on local people. When the issue of water shortage affecting local households arose, caused by the development of deep well system by the hospital, PATTIRO provided advocacy and facilitated the local community to demand accountability directly from the hospital management. Moreover, PATTIRO also collaborated with local media to cover the event in order to add more pressure on the Executive. This phenomenon provides evidence that despite strong collaboration between PATTIRO and the Executive, PATTIRO could still maintain its independence.

The balance of supply and demand side in Surakarta is in accordance with previous research in local governance field. In local participatory studies Bunnell et al. (2013, p. 866); Hudalah, Zulfahmi and Firman (2013, p. 26); Phelps et al. (2014, pp. 44-5); Sumarto, H (2008a, pp. 13-4); Widianingsih and Morrell (2007, p. 12) stated that the supply of participation was high during Joko Widodo's administration. People's involvement in local policy making in Surakarta was not just formalistic or procedural during the development of loan proposal process. Participation was implemented well by the Executive without the pressure or presence of the lending agency, or donors, or the Commission of Information that had not yet been established during this time. This finding is in contrast to that of Purwanto (2011, p. 14), who argued that community involvement during the *Perda* making process at six districts in Indonesia was formalistic and depended largely on the presence of a donor agency.

9.3 Comparison of Transparency and Participation Performance between South Sulawesi Province and Surakarta Municipality and Factors influencing this Performance in the *Perda*-Making Process

This section compares the performance of governance at both sites and provides analysis of differences between them with respect to transparency and participation. This comparison is

conducted in order to highlight relative strengths and weaknesses in approaches in each site and also to help identify such factors that influence the performance of transparency and participation.

Given the similarities between the sites with respect to process (development of loan proposal mechanism/process, stages of *Perda*-making process, and stakeholders), the thesis will explore how substantive differences between the sites (government structure, nature of project, geographical size, and jurisdiction) may have impacted on the different approaches to transparency and participation. In general, low performance of transparency and participation in South Sulawesi Province was influenced by political competition, lack of political will, bad relationships between NGOs and the Executive, and the size and geographical spread of the project. In contrast, the strong performance of transparency and participation in Surakarta Municipality was influenced by good leadership and political will of the Executive, high demand for participation by the local people, strong collaboration between NGOs and the Executive, willingness by the ruling party to share power, and the smaller project size.

Both sites have showed similarities as well as differences. NGOs at both sites had quite high demand for transparency and participation. NGOs at both sites made significant attempts to influence local policy making by developing collaboration with relevant stakeholders as well as with the media. Some attempts such as provision of information and facilitation of local communities, establishing multi-stakeholder forums/dialogues, creating pressures through their own websites or through local media, and reporting of cases to the authorities (for example, the Commission of Information, and the Commission of Corruption Eradication) influenced local policy making and improved accountability of subnational government at both sites.

Although NGOs in both sites shared some characteristics, NGOs in Surakarta had more advantages since they maintained a good network with executive agencies and legislature, while in South Sulawesi Province, as the legislature watchdog organisation, KOPEL seems to have been challenged in developing networks with executive agencies due to lack of political will on the Executive side.

Another similarity is that the political accountability to DPRD as subnational government counterpart in the *Perda*-making process at both sites was better than to NGOs or civil society, due to the fact that the Executive needs DPRD approval to proceed with the loan proposal to PIP. Although both subnational government shared this similarity, Surakarta showed a higher level of accountability as the Executive consulted on important decisions with the DPRD from an early stage of the *Perda*-making process.

The two sites also displayed some notable differences. The major difference was that the supply side of transparency and participation in South Sulawesi to the NGOs was low compared to

that in Surakarta. During the *Perda*-making process, South Sulawesi Province only involved the business sectors, academics and associations that tended to support the borrowing plan, rather than NGOs such as KOPEL and PERAK Institute that opposed the plan. Information to DPRD, in particular to opposition parties, was lacking and kept secret from the NGOs until the *Perda* was approved by DPRD. Furthermore, there was no dissemination of information by the Executive to local people affected by the project. By way of contrast, the Executive in Surakarta was more willing to share power with the DPRD and NGOs by involving them in the hospital project and other reform programs.

These differences in the implementation of governance between the two were influenced by a number of factors. The thesis discusses these factors in the next section based on the fieldwork findings and links them to existing theories of governance, in particular, to Indonesia's local governance.

9.3.1 Factors influencing Governance Performance in South Sulawesi Province during the Perda-Making Process

Based on interviews and documentary research as already presented in Chapters 5 and 6, four major factors influencing the performance of governance of the *Perda*-making process in South Sulawesi Province are political competition in the run up to elections, the nature of the relationship between policy makers (the Executive and local legislature) and NGOs, geographical size of the administrative unit, and the size of the project in question.

Firstly, as stated by many participants from the Executive, the legislature, and NGOs during interviews, fierce political competition in the run up to elections influenced the process of development of loan proposals. Although there were three gubernatorial candidates, the two strongest were the incumbent, Governor Limpo supported by Golkar, and Ilham Arief Sirajuddin supported by PKS, Democrat, and Hanura Party. Concerns were expressed by the Democrat and PKS parties that the PIP loans could be used to fund Governor Limpo's re-election campaign. Although project fund cannot be directly used by the incumbent for campaigning, due to strict control by PIP, indirectly, the project loan can be used to bring in more votes for the incumbent with the support of local budgets, especially as many of the road improvements were proposed to be conducted in Gowa District – the stronghold of the incumbent. Delivering the road project in Gowa was likely will keep the voters loyal and ensure that they gave their votes to the incumbent. Gowa was important because it had the third largest number of voters in the province.

As discussed in the literature review, the local budget was often used by the incumbent to win votes in subnational elections in Indonesia (Aspinall & As'ad 2015, pp. 177-80; McRae & Zhang

2015, p. 2). Aspinall & As'ad (2015, pp. 177-80) stated that the delivery of development projects and other assistance by the district incumbent to the village, sourced from local budget, would keep the voters loyal to the incumbent. Besides delivering the project, incumbent usually uses bureaucrats as part of their electoral machine (Ngusmanto 2016, pp. 237-42; Prayudi 2013, pp. 32-5; Tans 2012, p. 50). In this sense, the incumbent nurtures the patronage system through loyalty and control over the bureaucrats to support his/her candidacy in return for a sustainable career.

The delivery of transparency to DPRD and NGOs was influenced by the vertical accountability of the Road Transport Department to the Governor, and possibly by the patronage system. As already discussed on Chapter 6, an interview with one of the Commissioners of the Commission of Information revealed that the main reasons why project documents were not delivered to KOPEL were ignorance of the Information Law, and the need for permission from the Governor (vertical accountability) before documents could be released to KOPEL.

Besides vertical accountability, the patronage system might also play an important role in reducing transparency as well as participation. However, this will need further investigation. The plan to deliver the road project was in the first place kept by the Executive from DPRD members and NGOs in order to protect vested interests in selecting the project locations. Aspinall captures the symptoms of patronage in project delivery in Indonesia in his research:

The proyek (project) formally adheres to the expectations of transparency and competition associated with neoliberalism, but is also a major source of patronage. Proyek-hunting drives much of the fragmentation in contemporary Indonesian political and social organization (2013, p. 27).

William also argues that governments are reluctant to release information to the public because they fear that it may impact on a future election race. He adds that the provision of asymmetric information may benefit the patronage to particular groups (William 2015, p. 27). The lack of transparency to KOPEL who requested project documents from the Governor and the Road Transport Department could also have been influenced by this phenomenon. It is possible that the Road Transport Department was trying to protect the project initiated by the Governor from KOPEL's exposure, as that could jeopardise the project, in particular since the Department knew that Syamsuddin Alimsyah, the Director of KOPEL, was joining the Ilham Arief campaign team. Therefore, this could be seen as a response by the Executive to direct political competition.

Criteria for the selection of project locations were also designed by the Executive without further consultation to DPRD and other stakeholders. Although the officer of the Road Transport Department denied that the Governor interfered in the project selection process, there is a possibility that the patronage system influenced the department to serve the incumbent's interests by developing indicators that favoured the incumbent's stronghold area of Gowa in order to get more votes. By

doing so, the bureaucrats had an opportunity to protect their vested interests for the sake of their future careers in the administration. Besides, the absence of consensus between the legislature and the Executive in the selection of project locations created another problem in the consultation process that forced the Executive to propose a new project location that was finally rejected by PIP. As Coston argued, consensus among stakeholders is important to the decision making process since it provides a space to accommodate all voices and interests of the stakeholders that improve accountability via a transparent process (1998, pp. 489-90).

One factor that may have influenced the implementation of transparency and participation during the development of loan proposal is the nature of the relationship between policy makers and NGOs. Governor Limpo experienced a difficult relationship with the NGOs. The allegation of corruption over the development of Centre Point of Indonesia (CPI), advocacy on the road project by KOPEL, and the close relationship between Syamsuddin Alimsyah, the Director of KOPEL, and Ilham Arief may have persuaded the Executive to confront KOPEL rather than develop a strong collaboration in order to improve the effectiveness of reform programs in South Sulawesi Province.

Besides the issue of NGO independence, the research also found that lack of trust on the part of the Road Transport Department was also influenced by previous experience in dealing with fraud by NGOs in the past. In interview, the officer from the Road Transport Department stated that NGOs tried to blackmail him and his colleagues on several occasions. On the other hand, from the NGOs' perspective, they believed that the Executive tended to involve NGOs that did not have capacity to provide constructive inputs and tended to support the government's policies.

Another factor that may influence the low performance of transparency and participation is lack of political will from the Executive to involve NGOs in the discussion of the borrowing plan. Political will of the government is one of the key factors to the success of supply side of transparency (Antlöv, Brinkerhoff & Rapp 2010, p. 436; Calland & Neuman 2007, p. 191; Kosack & Fung 2014, pp. 75-6; Malena 2009, p. 6). In the case of Indonesia where governance systems are still not fully developed, transparency will not be effective and sustainable without political will. Although South Sulawesi Province was shown to support the establishment of Commission of Information, in this case it did not provide warranty that government would provide greater access of information. In Indonesian local governance studies, the role of reformist local leaderships is considered an essential factor for improving governance (Patunru, McCulloch & von Luebke 2012, p. 813; von Luebke 2009b, p. 813).

Confrontation between the Executive and NGOs could help explain the lack of implementation of transparency and participation during the *Perda*-making process in South Sulawesi. A study in Makassar, capital city of South Sulawesi Province by Khurdi Arsyad (cited in

Sujito 2008, p. 42) argues that there is a need for NGOs to shift from opposition to critical partnership with government for effective advocacy. Instead of delivering their criticism in the media, NGOs also need to build informal relationships with key government officials in order to provide inside information on specific policy issues. In doing so, direct confrontation needs to be avoided and negotiation with government prioritised. This is what happened to some extent in Surakarta Municipality where NGOs built informal relationships with officers from the Health Department and Hospital management to push reform agendas.

On the other hand, the Executive should also try to accommodate NGOs and be more open to the media. As stated by Antlöv et al. (2008, p. 4): “The fullest range of space exists where the state is governed by a political system that accommodates NGO advocacy and independent activism that can challenge as well as complement government actions”. Larsen’s (2016, pp. 33-7) multiple case study across 23 countries in five different continents suggests that NGOs cannot work alone in a complex situation with so many stakeholders. NGOs need to build cooperation with elite stakeholders such as state actors in order to create successful outcomes since elite stakeholders have significant power to influence policy. Larsen argues that cooperation with elite increases transparency and participation reform agendas in different countries. NGOs should also be flexible in promoting reform strategies. When government is hard to deal with, NGOs could cooperate with other stakeholders and communities to gain more attention and maintain pressure on government.

Collaborative work between government and NGOs could also improve trust and create fewer objections or protests from the public. Piotrowski & van Ryzin have argued that the greater level of public trust in the local apparatus, the more they can easily accept government policy and demand less transparency (2007, p. 320). Indeed, when government is viewed by the public as honest, reliable, competent and willing to accommodate the public’s need, the level of trust will improve (Park & Blenkinsopp 2011, p. 257).

In addition to a lack of trust, the research found the issue of a lack of information provision, in particular to NGOs, about the mechanism of the loan that influenced the objections. The lack of information have made analysis conducted by KOPEL and PERAK Institute in South Sulawesi Province more difficult, for example the interpretation of regulations and the arrangement of loan fees to be paid by the borrower. The lack of information about borrowing regulation was quite obvious as neither the central government nor PIP shared information on the borrowing system with NGOs. Central government and PIP only shared information with local legislatures and local executive officers.

As discussed in Chapter 1, the larger geographical size of South Sulawesi that consists of cities and districts made it harder for the provincial government to deliver clear information and

public participation than was the case in Surakarta. The DPRD and NGOs therefore had an important role to play in filling this gap. DPRD members who come from different constituencies needed to take into account various interests of stakeholders such as local communities, the agriculture sector, and business. On the other hand, NGOs with their networking at different cities and districts could have been mobilised to provide greater advocacy, and to articulate local communities' voices over the project. However, the poor relationship between the Executive and the NGOs seems to have precluded this possibility.

In summary, several factors may have influenced the implementation of transparency and participation during the *Perda*-making process. Firstly, political competition in the upcoming election may have been exacerbated by the patronage system. There is a possibility that bureaucrats were used to support the incumbent to win the election. Secondly, the poor relationship between NGOs, particularly KOPEL, and the Executive led to a lack of transparency and participation. This suggests the need to shift NGO relationships with the Executive from opposition to critical partnership, and build informal relationships with key government actors.

9.3.2 Factors influencing Transparency and Participation Performance in Surakarta Municipality during the Perda-making Process

In contrast with the performance of transparency and participation in South Sulawesi Province, Surakarta had quite high performance on both the supply side and demand side. Five factors found in the fieldwork could explain such high performance. Firstly, the nature of the relationship between the Executive and NGOs in Surakarta had been maintained since 2001 and improved after Jokowi and Rudy were elected as local leaders. Their leadership and political will to push reform influenced the behaviour of their subordinates at local agencies such as the Health Department, that was willing to accommodate NGO involvement in their health programs and become one of the most advanced agencies in Surakarta for public transparency. This finding is in accordance with the previous research on Surakarta that argued that the leadership of Jokowi played an important role in improving local reform (Fahmi et al. 2015; Morrell, Tuerah & Sumarto 2011; Patunru, McCulloch & von Luebke 2012; Pratikno & Lay 2011).

Besides Jokowi's role, the research in this thesis also highlights the role of Rudy, the deputy mayor, as discussed in Chapter 8. As the head of the PDIP party that is associated with the Satgas PDIP – a task force sometimes associated with thuggery, Rudy is well respected by the local thugs and the grassroots. His strong influence ensured the construction process went quite smoothly without major disruptions from the thugs asking for illegal payments.

Secondly, the people of Surakarta had a high political awareness that stimulated greater demand for participation. The history of riots in Surakarta also raised awareness among local bureaucrats in dealing with their people about the importance of citizen involvement. NGO activists also suggested in interviews that the history of riots influenced the behaviour of subnational government towards the grass roots. Studies on Surakarta suggest that the riots experienced by Surakarta is one of the major factors that drove paradigm shift towards greater popular participation (Pratikno 2002, pp. 11-2; Widianingsih 2005a, p. 7). Riots raised awareness that popular movements represent a serious challenge for power holders and dominant groups (Pratikno 2002, p. 12). Furthermore, riots prompted the power holders as well as NGOs to build a partnership in participatory planning to minimise socio-economic inequalities (Pratikno 2004, p. 178).

The third factor is the strong collaboration between supply and demand side that positively impacted to the governance performance and reduced objections toward the project because its aims were communicated and discussed with relevant stakeholders. Jokowi's leadership opened more space for NGO involvement in local policy making, leading to improvements in the NGOs' level of trust. This is shown in the second phase of hospital development funded from the PIP loan. The failure of DPPKA (Finance Agency) as the project coordinator to involve NGOs did not result in objections from NGOs and the public because NGOs had already been involved by Jokowi in formulating PKMS (health insurance for the poor) – a program led to the Surakarta hospital development in order to serve the rising numbers of PKMS patients. Moreover, NGOs had adequate information about the project from the Health Department as the agency responsible for hospital development in the first phase. This phenomenon is also shows that trust was generated through broader interaction between subnational government and civil society, rather than just specific to one event. This phenomenon is also in accordance with Coston's theory, which suggests that continuous participation in the supply and demand sides of governance will strengthen the credibility and commitment of policy decisions taken by the power holder (1998, p. 484).

Fourthly, PDIP as the dominant party with almost half of the seats in the local parliament was willing to share power with other parties and accommodate others. The willingness of PDIP to share power opened up more space for information sharing or transparency with other parties such as PKS, and Hanura Party. This phenomenon is the opposite of what happened in South Sulawesi Province with the Golkar Party. As the dominant party, Golkar was very confident to support the Governor's plan without consulting with other parties, and kept information from opponents. This phenomenon of PDIP in Surakarta is also in contrast with Grimmelikhuijsen & Welch's theory (2012, p. 565) that one political party that dominates for a long period of time is less likely to be responsive to demands for transparency from minority parties since they have greater confidence in their political power.

The last factor is geographical size and of project size. Although local leaders play important roles in the performance of governance, smaller geographical size and smaller project size provided an advantage to Surakarta's government in forms of coordinating the project, and involving all stakeholders in decision-making. Smaller geographical size allowed bureaucrats to maintain direct participation or consultation by conducting face to face forums to deliver information and accommodate the interests of the public. Moreover, Surakarta is a municipality with no remote areas and information delivery to the public is not as complex as might be in the case in rural and remote areas. The hospital project was located on one site, making coordination less complex, compared to the roads project that stretched across cities and districts and several political constituencies in South Sulawesi.

In summary, the performance of governance in Surakarta, in particular with respect to the supply side of transparency and participation was better than in South Sulawesi for five reasons: firstly, the nature of relationship between NGOs and the Executive that went well due to the leadership of Jokowi and Rudy as well as the approach of the Health Department; secondly, the high awareness or demand for participation by the local people; thirdly, the strong collaboration between supply and demand side of transparency and participation among all stakeholders in the development of local hospital; fourthly, PDIP as the dominant party was willing to share power with other parties; finally, the compact size of Surakarta and the smaller size of the project enabled the Executive to maintain stronger coordination, leading to less complex issues in information delivery and participation.

9.4 Importance of Transparency and Participation in the Development of the PIP Loan Proposal Process

In this section, the thesis will discuss the importance of participation and transparency during the development of loan proposal in particular. Despite the fact that the new roads and the hospital are already built, the implementation of transparency and participation might have provided more benefits to improve project outcomes delivered to the public. The two major advantages of the implementation of transparency and participation are: that they help the Executive to identify the preference of stakeholders about specific projects; and they help improve trust among stakeholders and legitimacy on the decision to borrow.

Firstly, in order to identify the preferences of stakeholders with respect to a specific project, it is important to maintain the sustainability of the project, improve the sense of ownership of the project, and secure local government commitment to repay the loan. OECD argued that support for specific investment projects can be achieved by involving and informing the stakeholders in the stages

or processes of infrastructure development (2014, p. 18). In Surakarta, the long series of discussion and sharing information between the Executive and NGOs such as PATTIRO and KOMPIP helped the Executive to identify the preferences of stakeholders for a better quality of health service. Local community forums organised by both the Executive and NGOs were very effective in channelling people aspirations, providing feedback, and building common understanding about the health services provided by the Surakarta government, and helped the Executive in shaping health reform policy, such as PKMS and the hospital development. The deliberative process of health policies in Surakarta also strengthened the legitimacy of the Executive's decision to build a new hospital.

In contrast, in South Sulawesi Province, the Executive failed to identify the preferences of stakeholders for the proposed road improvements since the selection of the improvement projects was driven mainly by the Executive without adequate consultation or provision of information to the stakeholders. This lack of consultation caused another issue when the PIP refused to extend its loan to finance the proposed road improvement in Sabbang–Tallang, forcing the Executive to fund this project from its local budget.

In this context, without participation and transparency it would be difficult for the Executive to gauge the preferences of various stakeholders. It may also reduce the sense of ownership the public of the proposed project and risk the project investment. Matching the preferences of various constituents in South Sulawesi Province to a project is a challenging task, but it would have been harder for the Executive to accommodate various interests without greater participation and transparency.

Secondly, transparency and participation exercised by the Executive in Surakarta resulted in improved trust from stakeholders and strengthened the legitimacy of the hospital project. This was evident when unwillingness by DPPKAD to share information with NGOs at an early stage in the project did not lead to the objections, since NGOs had already received adequate information from the Health Department. Good supply of participation and transparency in Surakarta improved trust between the Executive and NGOs. It also opened more space for stronger collaboration. In 2017 for instance, Health Department and PATTIRO collaborated to create a text message application gateway to address complaints about public health services in Surakarta.

In contrast, in South Sulawesi, although the road project was delivered, the level of trust from wider stakeholders, particularly from NGOs to the Executive is still low. In 2017, anti-corruption NGOs reported the allegation of corruption regarding the Centre Point of Indonesia (as discussed in Chapter 6) that still related to the road project funded by the PIP loan to the Commission of Corruption Eradication (KPK) and the Ombudsman. Both commissions are still investigating this report and have not yet made any findings. The low level of trust between NGOs and the Executive may lead to a

more complex problems in local policy making. The Executive will be reluctant to cooperate with NGOs. On the other hand, NGOs will find it more difficult to play their role as facilitators of dialogue between the public and the Executive during local policy debates.

These findings show why transparency and participation are important in the development of a loan proposal. Although both projects were successfully concluded, in the case of South Sulawesi greater transparency and participation could have helped the Executive to match project preferences, and improve trust and legitimacy over project.

9.5 Significance of the Research

Empirical research conducted for this thesis found that implementation of good governance during the development of the loan proposal process had a positive impact in Surakarta Municipality. On the other hand, lack of governance implementation in South Sulawesi Province led to objections from DPRD and NGOs. The research also suggests that a balance between supply and demand sides of transparency and participation plays a significant role in improving projects, strengthening their legitimacy, and gaining trust from stakeholders. These findings contribute to three major fields of research: public administration, local governance, and borrowing studies in Indonesia.

In the public administration field, the concept of governance has emerged as one of the important issues in improving public service. In developing countries, good governance has been widely emphasised as necessary to improve decentralisation programs. However, the effectiveness of good governance to improve decentralisation has been debated by public administration scholars. Some studies have argued that the implementation of good governance is one of the key factors to contribute to the success of decentralisation programs (Azfar 2001a, p. 75; Bardhan 2002; Blair 2000, p. 35; Faguet 2014, p. 10; Peterson & Muzzini 2005, pp. 232-3). On the other hand, some studies critique the effectiveness of governance to improve decentralisation (Grindle 2004; Hadiz 2004). The present thesis contributes to this discourse on governance by providing empirical evidence examples to support the argument that decentralisation, in particular with respect to infrastructure development at the subnational government level in Indonesia, may work better where transparency and participation are supported.

Discourse on governance also points to the need to balance the supply and demand sides in order to strengthen commitment between the power holder and civil society that in the end will lead to greater accountability (Brinkerhoff 2001; Coston 1998, p. 484). In local governance studies of Indonesia, the supply and demand side approach has been used to explain the performance of governance reform at the subnational government level. Even though studies focus on different sectors of reform, previous studies indicate that imbalances between supply and demand sides of

governance have resulted in less optimal reform outcomes (Antlöv, Brinkerhoff & Rapp 2008; Antlöv, Brinkerhoff & Rapp 2010; Antlöv, Ibrahim & van Tuijl 2006; Antlov & Wetterberg 2011; Edstrom et al. 2009; von Luebke 2009a; von Luebke 2009b; Von Luebke, McCulloch & Patunru 2009).

Findings from previous studies are confirmed with the findings from this thesis. High demand or pressure from civil society and legislature without matching supply resulted in high levels of objections to the loan proposal in South Sulawesi Province. Despite having a different focus of research to previous studies, the present thesis also concludes that leadership or political will is still one of the key factors that drives supply of transparency and participation at subnational government level. (Antlöv, Brinkerhoff & Rapp 2008; Antlöv, Brinkerhoff & Rapp 2010; von Luebke 2009a; von Luebke 2009b; Von Luebke, McCulloch & Patunru 2009). However, it is also important to note that some other factors that drive the supply side might vary across subnational governments due to differences in characteristics and settings. In South Sulawesi Province for example, political competition in the upcoming election, the alleged political affiliation of the Director of KOPEL with the incumbent's competitor, and the poor relationship between the Executive and NGOs are likely to have influenced the low supply side of governance during the development of the loan proposal.

In Surakarta Municipality, the thesis found that the involvement of a wide range of stakeholders including the legislature, civil society and local communities affected by the project during the formulation of *Perda* on borrowing occurred without any pressures from donor or lending agencies. In many cases, the implementation of good governance practices in the loan process is usually driven by donors through the deployment of consultants to assist local governments (Budstam 2012, p. 39). The involvement of stakeholders helped the Executive to reach a consensus over the decision to borrow for the hospital development and smooth the policy process. This is in contrast with Purwanto's research (2011, pp. 13-4) on six cities and districts in Indonesia which found that public involvement by the Executive during public hearing sessions in the *Perda*-making process was formalistic and driven by donor interventions. Based on Purwanto's research, initiatives to involve community during public consultations in *Perda*-making processes did not come from the Executive, but from donor agencies, which supported community organisations with facilities and funding to participate in the processes. This is not surprising since Purwanto's research data was collected in 2006-07, when good governance was not well developed and many subnational governments received supports from donor agencies to implement good governance practices.

The third contribution of the thesis is to fill a gap in research on subnational government borrowing in Indonesia. Most existing research on this discusses on-lending/SLA from international lending agencies, the use of the market based approaches or how to improve borrowing mechanisms

by ensuring loan creditworthiness and providing more variants of credit financing (Alisjahbana, Soemitro & Ramayandi 2002; Alm 2013; Alm & Indrawati 2004; Hirawan 1997; Kehew & Petersen 2004; Lewis 2003, 2007; Lewis & Woodward 2010; Pakpahan, Mahi & Simanjuntak 2002; Peterson 1996; Shah 2004; Smoke 1999). The implementation of the on-lending mechanism in Indonesia to finance local infrastructure project has decreased significantly to almost zero (Lewis 2003, 2007) and many subnational governments have shifted to domestic lending sources such as the PIP.

The thesis found that central government and PIP also need to shift their focus on the implementation of governance at the subnational government level during the development of loan proposals by ensuring meaningful roles to legislature and NGOs. Firstly, PIP needs to ensure that all stakeholders have been consulted at an early stage. Consultation with chairpersons of DPRD is not adequate to represent all members of DPRD and legitimate the borrowing initiative. Consultations with community and NGOs also needs to be developed at an early stage to identify their preferences with respect to the project.

Since consultation with NGOs is important, PIP also needs to focus on delivering adequate information or educate NGOs about the PIP loan mechanism. Knowledge of borrowing mechanisms is important so that NGOs can improve their capacity to analyse borrowing proposals from the Executive. This will also improve trust of PIP as a lending agency. This initiative by central government is new, and PIP and needs to improve good governance in the development of loan proposals.

Based on these findings, accountability to both the legislature and NGOs can strengthen the legitimacy of decisions to borrow and the selection of proposed loan projects. The thesis also found that the role of NGOs during the development of loan proposals influenced the borrowing process, even without the support of PIP as the lending agency. The role of NGOs was often forgotten and not considered an important part of the development of PIP loan proposal process as the *Perda*-making process was usually dominated by the political process between the Executive and legislature. However, in a democratic setting and complex environment, the political process between the Executive and the local legislature might not be sufficient for optimal policy making. The government must take civil society into consideration.

9.6 Conclusion

This chapter provides theoretical analysis and discussion based research findings for South Sulawesi Province and Surakarta Municipality. Transparency and participation by South Sulawesi Province is lacking, despite the high demand for good governance from NGOs, whereas in Surakarta Municipality there is a high degree of both supply and demand of transparency and participation that

is matched by a high demand for governance by NGOs. Lack of governance implementation in South Sulawesi Province led to objections from DPRD and NGOs. On the other hand, good governance implementation in Surakarta led to a smoother process and fewer objections faced by the Executive from DPRD and NGOs.

The performance of governance in South Sulawesi was influenced by political competition during the election campaign, the alleged political affiliation of the Director of KOPEL to the incumbent's competitor, and the nature of relationship between NGOs and the Executive. On the other hand, in Surakarta, the performance of governance was characterised by strong collaboration between all stakeholders, and strong leadership by the local leaders. The implementation of transparency and participation during the development of loan proposals should help the Executive to identify the preferences of the stakeholders regarding specific projects. Wide support from stakeholders would then improve trust and legitimacy of the decision to borrow.

This thesis provides empirical evidence that good governance improves decentralisation, in particular to local infrastructure development. Moreover, it is also confirmed that the balance between the supply side and demand side of governance is important for the improvement of governance. In the subnational government borrowing field, the thesis recommends that governments shift their attention to governance of the development of loan processes at subnational government level, since it provides more space to political members and NGOs to improve project outcomes, and leads to a smoother borrowing process.

CHAPTER 10: CONCLUSION

This chapter presents the conclusion of the major findings and the implications as well as the limitations of the research and recommendations for future research. The limitations include little focus on the post-development stage of the loan proposal process or on the outcome of the infrastructure projects. In addition, the research was conducted only at the province and municipality levels. It is recommended that future research investigate the outcome of the projects and that research sites be expanded to the district level and to a greater number of subnational governments to capture a broader picture of the development of the loan proposal process.

10.1 Introduction

This chapter concludes the thesis, presenting the study's major findings. The first section summarises the major findings of the study derived from the analysis and discussion in this thesis. The second section discusses the implications of the research for the field of local governance and subnational government borrowing studies in Indonesia. The third section discusses some limitations of the research and recommendations for future research.

10.2 Summary of Major Findings

As discussed in the previous chapters, the study applied the works of Drew and Nyerges (2004); van Zyl (2014); Martin (2009); and Clark (1995) to measure the supply and demand sides of both transparency and participation at the research sites in South Sulawesi Province and Surakarta Municipality during the development of the loan proposal process or the *Perda*-making process. Analysis was also conducted to reveal the differences in terms of the application of transparency and participation principles during the development of loan proposals for the road upgrade project in South Sulawesi Province that finished in 2015 and the hospital project in Surakarta Municipality that was built in 2012.

The hospital and road projects are different. The road project at South Sulawesi Province is more complex due to its scale, the range of potential beneficiaries, and its distribution across districts and municipalities. The hospital project in Surakarta, on the other hand, is located in a single area within the relatively small municipality. However, both Surakarta municipality and South Sulawesi Province are similar in that project proposals in both jurisdictions must be subjected to the same *Perda* process. Moreover, both project proposals involved loans from the same central government agency,

PIP. These similarities allowed me to compare implementation of governance in the two jurisdictions during the Perda process.

The two major findings of the study were derived from in-depth interviews and documentary research. The first major finding showed that the supply side (implementation of transparency and participation) in South Sulawesi Province by the Executive was lacking and did not match the high NGO demand. On the other hand, the exercise of transparency and participation in Surakarta Municipality was adequate and matched the high NGO demand. With respect to the role of the DPRD, Surakarta Municipality's DPRD members had more meaningful roles in the project than their counterparts in South Sulawesi Province, as the former were well-informed and were consulted intensively by the Executive at an early stage.

The exercise of transparency and participation during the development of loan proposals at both sites influenced how the local legislature (DPRD) members and NGOs responded to the proposed infrastructure projects. In South Sulawesi Province, the lack of transparency and participation led to objections by the DPRD members and NGOs on the proposed road upgrade project. In contrast, adequate transparency and participation in Surakarta Municipality led to a smoother process with fewer objections. The implementation of transparency and participation is important during the development of loan proposals as it could help the Executive to match project preferences, and to improve trust and legitimacy over the proposed project.

The second major finding of the study showed that the performance of transparency and participation at each site was different with this caused by several factors. In South Sulawesi Province, the lack of transparency and participation was influenced by political competition in the run-up to the election, and by the bad relationship between policy makers and NGOs. On the other hand, in Surakarta Municipality, the high performance of the supply and demand sides of transparency and participation was influenced by the good relationship between the Executive and the NGOs; high political awareness that raised the awareness of local bureaucrats in dealing with their people; strong collaboration on the supply and demand sides of governance; willingness of the *Partai Demokrasi Indonesia Perjuangan* (PDIP) (Indonesian Democratic Party of Struggle) to share power with other parties and to accommodate others; the smaller geographical size of the area; and the smaller project size.

In the current study, a further interesting finding was how local NGOs emerged as one of the key players that significantly contributed during the development of the loan proposal process at both sites. They had the capacity to collaborate with local media and the legislature, as well as with the Executive to influence the proposed project. These roles remain relatively little explored, in particular, in the subnational government borrowing studies in Indonesia. Despite the significance of

NGO roles, it is also important to note the independency issues of NGOs in local policy making. For example, the study found that one of the directors of a local NGO that directed heavy criticism to the incumbent Governor of South Sulawesi Province had actually joined the other candidate's successful team for the upcoming election.

In general, governance in Indonesia is changing rapidly. The study has identified the need to balance the supply and demand sides of governance in order to create effective and legitimate policy. The Executives still need to improve the supply of governance to match the high demands from NGOs. The roles of NGOs and the local media are becoming more prominent in exerting pressure on policy makers and influencing local policy making. Prior borrowing studies in Indonesia, as well as the current research, have shown that improvement is needed, in particular in the development of the loan proposal process at subnational government level. Improvement should not only focus on establishing regulations to support infrastructure financing for subnational government or on establishing more borrowing options for local infrastructure development. It is also necessary to focus on how the development of the loan proposal takes place and on the interaction between key players at the subnational government level.

10.3 Implications of the Research

The current research has four implications: firstly, the procedural or formalistic approach taken by the Executive; secondly, the roles of NGOs and the local media; thirdly, the importance of local leadership; and, fourthly, the structure of power at the subnational government level.

When investigating the implementation of transparency and participation at both research sites, the study found that in South Sulawesi Province, the development of the loan proposal process tended to be procedural and formalistic and that it continued to apply traditional accountability with its focus on a hierarchical relationship with PIP and formal political accountability to the legislature bodies. What was ignored was horizontal or social accountability that focuses on a wider range of stakeholders such as civil society, NGOs and the media. This view was supported by the fact that the public consultation process during the *Perda*-making process involved only the business and professional associations that supported the road upgrade project and ignored the NGOs that criticised the borrowing plan. The NGOs also did not have access to project documents.

Although research by Purwanto (2011) on six districts in Indonesia found a similar pattern, the current study's findings are quite striking, considering that South Sulawesi Province is one of the most developed provinces in Indonesia and has adequate capacity to practise good governance and a very good system of financial accountability. The fierce political competition between the incumbent Governor Limpo and his rivals was one important factor that influenced these circumstances.

This finding implied that political competition still had significant influence on the implementation of good governance at the subnational government level in Indonesia. In this case, it led to the low political will of bureaucrats to provide transparent information and public involvement during the development of the loan proposal process. The implication is the need to strengthen the governance system to make it better and more robust to control the behaviour of power holders and to ensure that local institutions and bureaucrats are accountable to the wider stakeholders.

Some attempts have been made by the central government, for instance, by establishing the Commission of Information. However, some improvement is still required to improve the Commission's effectiveness in ensuring the timely release of information as suggested by Grimmelikhuijsen (2012, p. 53); Heald (2006b, pp. 35-6). For instance, in the case of the project in South Sulawesi Province, although the NGO finally obtained project documents for the road upgrade project, the NGO's staff had to wait for quite a while to get the requested document due to regulations within the Commission of Information. As a result, when the NGO finally obtained the document, there was little the staff could do as the project had already been approved by the DPRD. In this context, some mechanism regulated by the Commission needs to be adjusted to ensure timely release of information.

The second implication is the significant role of NGOs in Indonesia that, supported by the local media, exert pressure on policy makers and influence local policy making. With local media support, NGOs have emerged as important key players capable of balancing the power of the Executive and the legislature in the local policy-making arena. In the context of the current study, collaboration between NGOs and the local media has been effective in improving accountability during the development of the loan proposal process at both sites. In South Sulawesi Province, NGOs undertook a strong advocacy role with the DPRD and formed collaborations to exert pressure on policy makers in relation to the proposed project. These pressures led the Executive to re-allocate the road section that was originally located from Gowa District–Luwu District. Similarly, in Surakarta Municipality, the local media and the NGO effectively collaborated in pressuring the Executive to respond to the water shortage problem that affected the local community due to the development of the new deep well system for the hospital.

In the context of borrowing, in particular, borrowing a PIP loan, the study found that the central government or PIP and subnational governments were not yet aware that NGOs have important roles in the development of loan proposals. Moreover, the borrowing approval process still focuses on political accountability or on the relationship between the Executive and the DPRD. In this sense, it is important to build a sense of awareness of the important roles of NGOs and the local media among the central government, lending agencies and subnational governments, in particular,

among the borrowing field via various channels, such as information dissemination or consultations between PIP and subnational governments.

In the broader context, the important role of NGOs and the media in balancing the power of the executive and the legislature in the local policy making arena as shown in this research could be replicated in other jurisdictions. The ability of NGOs to represent wider interests, and to be inclusive and transparent, may constrain the behaviour and accountability of power holders. In the political power vacuum that has occurred in states that are experiencing conflict such as Iraq or Afghanistan, the role of NGOs and the media in providing advocacy and assistance to the public and to state institutions in the context of sudden regime change may support the implementation of good governance. However, to examine the influence of NGOs in the context of political power vacuums or sudden regime change, there is a need to understand how NGOs connect with the grassroots, and to investigate further how NGOs can fill the good governance gap in the future.

The third implication of the current research is the notion that leadership still plays significant roles in governance implementation in local policy making. This point has also been stipulated by von Luebke (2009a, pp. 280-7). In Surakarta Municipality, Mayor Jokowi has played significant roles in conducting governance reform while involving NGOs and the community. His initiatives have been followed by the bureaucrats and are reflected in the way in which the Health Department has collaborated with NGOs and the local community in planning the hospital project. On the other hand, Governor Limpo in South Sulawesi Province, who also had strong leadership, used a different approach. In the context of the road upgrade project, Governor Limpo seemed very confident with political support from *Golkar* to pass the *Perda* and ignored the involvement of NGOs and opposition parties, with this leading to objections to the proposed project.

With the project in South Sulawesi Province being carried out over a large geographical area and involving a project size that encompassed various cities and districts, Governor Limpo's style of leadership would face difficulties. Consensus needs to be obtained in the early stage of a project to provide legitimacy for the proposed project. The involvement of NGOs that represent the community, as well as DPRD members with their different constituencies, may help the Executive to better understand local preferences.

The fourth implication of this research is related to the structure of power at the subnational government level. In the South Sulawesi Province, the Executive, supported by the *Golkar* Party that dominated the DPRD, still faced difficulty in obtaining approval for the proposed loan project due to its lack of consultation and lack of transparency of information at an early stage with the DPRD. Even at the negotiation stage, some *Golkar* Party members and members of other different parties from the Luwu constituency established a caucus to pressure the Executive to re-allocate the proposed road

section to Luwu District. This phenomenon implies that adequate consultation and transparency at an early stage with other stakeholders is important and needs to be conducted to strengthen the legitimacy of the proposed project loan.

10.4 Limitations of Research and Recommendations for Future Research

This research has some limitations. Firstly, the research has focused on the development of the loan proposal process and has not covered much of the post-*Perda*-making process or outcomes of the infrastructure projects at either site, such as the procurement process, construction process or quality of the projects. Further research is needed to evaluate the outcomes of the projects in order to answer questions such as: what are the consequences on project outcomes of the imbalance between the supply and demand sides of transparency and participation? Does the balance of the supply and demand sides of governance have any impact on the quality of the projects? These impacts have previously been shown in the research of Chong et al. (2016, pp. 64-73) on wastewater projects in Payakumbuh Municipality, South Lampung District and Sawahlunto Municipality in Indonesia, or in the research of Winters, Karim and Martawardaya (2014, pp. 31-42) on sanitation projects in Cimahi, Makassar and Surabaya municipalities? Does the balance of the supply and demand sides of transparency and participation have a significant influence on avoiding corruption, as was found in research conducted by Olken (2007, pp. 232-3) on village road projects in Indonesia?

Further investigation on the procurement process may also help researchers to reveal more phenomena in the field, such as the connections between winning contractors and local elites. The OECD has argued that, in the Indonesian context, strong connections between business actors and public officials may lead to a high level of corruption practices (2010, p. 204). Nurmandi and Kim also stated that the lack of accountability in the procurement process at the subnational government level in Indonesia has emerged as one of the causes of corruption (Nurmandi & Kim 2015).

The second limitation is that research was conducted at sites that have a strong dominant political party: *Golkar* in South Sulawesi Province and *PDIP* in Surakarta Municipality. Different results may have been received if researching subnational governments with different structures of political power. Future research is needed to investigate how the different contexts of the political power structure may influence governance implementation during the development of loan proposals by other subnational governments.

The third limitation of the research is that both sites have very strong NGOs that have operated in anti-corruption and reform programs and are able to exert pressure on policy makers. The question this has raised is how the development of the loan proposal process is packaged at the subnational government level if there are no strong NGOs. The absence of NGOs at the subnational government

level may have impacts on the local policy-making process as only two other key stakeholders are present, that is, the Executive and the DPRD. It is recommended that further research be conducted at a particular site that does not have strong NGOs.

The fourth limitation is that the current research was conducted only at the province and municipality levels. Further research at the district level is recommended to capture the broader picture of the development of the loan proposal process. In addition, this research may not be able to be generalised to other cases in which different subnational governments are taking out PIP loans. In order to get a more complete picture of the significance of transparency and participation during the borrowing process, more samples are needed for future research.

In conclusion, Indonesia is moving toward decentralisation. Governance is important and needs to be strengthened to support the decentralisation program. In the context of subnational government borrowing, the exercise of transparency and participation during the development of loan proposals influences how the local parliament (DPRD) members and NGOs respond to the proposed infrastructure projects. The supply and demand sides of transparency and participation need to be balanced during the development of the loan proposal process, in particular, by providing NGOs with greater access to information and involvement. Subnational governments and PIP should respond to the significant roles of NGOs to create strong collaborations through sharing information and involvement, and strengthening NGOs' capacity building in the borrowing mechanism. Overall, applying the market-based approach alone is not adequate to improve borrowing by subnational governments. The central government also needs to focus on the development of loan proposals at the subnational government level and to set up policies to support this process.

APPENDICES

Appendix 1: Final Approval

6595 Final approval granted (13 August 2014)

Human Research Ethics

Wed 8/13/2014 3:02 PM

To: Raden Mas Suryo Guritno <guri0002@flinders.edu.au>; Craig Matheson <craig.matheson@flinders.edu.au>; Gerry Redmond <gerry.redmond@flinders.edu.au>;

Importance: High

Dear Raden Mas Suryo,

The Chair of the [Social and Behavioural Research Ethics Committee \(SBREC\)](#) at Flinders University considered your response to conditional approval out of session and your project has now been granted final ethics approval. This means that you now have approval to commence your research. Your ethics final approval notice can be found below.

FINAL APPROVAL NOTICE

Project No.:

Project Title:

Principal Researcher:

Email:

Approval Date: Ethics Approval Expiry Date:

The above proposed project has been **approved** on the basis of the information contained in the application, its attachments and the information subsequently provided with the addition of the following comment:

Additional information required following commencement of research:

1. Please ensure that copies of the correspondence granting permission to conduct the research from the Heads of all organisations listed in item 10 of the conditional approval notice are submitted to the Committee *on receipt*. Please ensure that the SBREC project number is included in the subject line of any permission emails forwarded to the Committee. Please note that data collection should not commence until the researcher has received the relevant permissions (item D8 and Conditional approval response – number 10).

RESPONSIBILITIES OF RESEARCHERS AND SUPERVISORS

1. Participant Documentation

Please note that it is the responsibility of researchers and supervisors, in the case of student projects, to ensure that:

- all participant documents are checked for spelling, grammatical, numbering and formatting errors. The Committee does not accept any responsibility for the above mentioned errors.
- the Flinders University logo is included on all participant documentation (e.g., letters of Introduction, information Sheets, consent forms, debriefing information and questionnaires – with the exception of purchased research tools) and the current Flinders University letterhead is included in the header of all letters of introduction. The Flinders University international logo/letterhead should be used and documentation should contain international dialling codes for all telephone and fax numbers listed for all research to be conducted overseas.
- the SBREC contact details, listed below, are included in the footer of all letters of introduction and information sheets.

This research project has been approved by the Flinders University Social and Behavioural Research Ethics Committee (Project Number 'INSERT PROJECT No. here following approval'). For more information regarding ethical approval of the project the Executive Officer of the Committee can be contacted by telephone on 8201 3116, by fax on 8201 2035 or by email human_researchethics@flinders.edu.au.

2. Annual Progress / Final Reports

In order to comply with the monitoring requirements of the [National Statement on Ethical Conduct in Human Research \(March 2007\)](#) an annual progress report must be submitted each year on the **12 August** (approval anniversary date) for the duration of the ethics approval using the annual / final report pro forma available from [Annual / Final Reports](#) SBREC web page. *Please retain this notice for reference when completing annual progress or final reports.*

If the project is completed *before* ethics approval has expired please ensure a final report is submitted immediately. If ethics approval for your project expires please submit either (1) a final report; or (2) an extension of time request and an annual report.

Student Projects

The SBREC recommends that current ethics approval is maintained until a student's thesis has been submitted, reviewed and approved. This is to protect the student in the event that reviewers recommend some changes that may include the collection of additional participant data.

Your first report is due on **12 August 2015** or on completion of the project, whichever is the earliest.

3. Modifications to Project

Modifications to the project must not proceed until approval has been obtained from the Ethics Committee. Such matters include:

- proposed changes to the research protocol;
- proposed changes to participant recruitment methods;
- amendments to participant documentation and/or research tools;
- change of project title;
- extension of ethics approval expiry date; and
- changes to the research team (addition, removals, supervisor changes).

To notify the Committee of any proposed modifications to the project please submit a [Modification Request Form](#) to the [Executive Officer](#). Download the form from the website every time a new modification request is submitted to ensure that the most recent form is used. Please note that extension of time requests should be submitted prior to the Ethics Approval Expiry Date listed on this notice.

Change of Contact Details

Please ensure that you notify the Committee if either your mailing or email address changes to ensure that correspondence relating to this project can be sent to you. A modification request is not required to

change your contact details.

4. Adverse Events and/or Complaints

Researchers should advise the Executive Officer of the Ethics Committee on 08 8201-3116 or human.researchethics@flinders.edu.au immediately if:

- any complaints regarding the research are received;
- a serious or unexpected adverse event occurs that affects participants;
- an unforeseen event occurs that may affect the ethical acceptability of the project.

Kind regards,
Andrea

Mrs Andrea Fiegert and Ms Mikaila Crotty

Ethics Officers and Joint Executive Officers, Social and Behavioural Research Ethics Committee

Telephone: +61 8 8201-3116 | Andrea Fiegert (Monday, Tuesday and Wednesday – all day)

Telephone: +61 8 8201-7938 | Mikaila Crotty (Wednesday, Thursday and Friday - mornings only)

Email: human.researchethics@flinders.edu.au

Web: [Social and Behavioural Research Ethics Committee \(SBREC\)](#)

Manager, Research Ethics and Integrity – Dr Peter Wigley

Telephone: +61 8 8201-5466 | email: peter.wigley@flinders.edu.au

[Research Services Office](#) | Union Building Basement

Flinders University

Sturt Road, Bedford Park | South Australia | 5042

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This email and attachments may be confidential. If you are not the intended recipient, please inform the sender by reply email and delete all copies of this message.

Appendix 2: Letter of Introduction



LETTER OF INTRODUCTION

Dear Sir/Madam

This letter is to introduce Raden Mas Suryo Guritno who is a Doctor of Philosophy (Phd) student in the School of Social and Policy Studies at Flinders University. He will produce his student card, which carries a photograph, as proof of identity. He also has professional affiliation to Directorate General of Fiscal Balance – Ministry of Finance of the Republic of Indonesia.

He is undertaking research leading to the production of a thesis or other publications on the subject of Governance in Subnational Government Borrowing Initiative in Indonesia to examine the role of governance in the development of proposal and procurement of loans for infrastructure developed at the subnational government level. Research will focus on loans sourced from the Central Investment Agency (PIP) in order to investigate the operationalization of four elements of governance: accountability; transparency; participation; and rule of law.

He would like to invite you to assist with this project by agreeing to be involved in an interview and focus group discussion which covers certain aspects of this topic. No more than 1 and a half hour on 1 occasion(s) would be required for the interview. However, should there be any extended time during interview it will be no more than 30 minutes.

Be assured that any information provided will be treated in the strictest confidence and none of the participants will be individually identifiable in the resulting thesis, report or other publications. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions. With respect to the focus group discussion, participants should be kept anonymous and

responses made by all participants during focus group discussion should be kept confidential.

Since he intends to make a tape recording of the interview, he will seek your consent, on the attached form, to record the interview, to use the recording or a transcription in preparing the thesis, report or other publications, on condition that your name or identity is not revealed, and to make the recording available to other researchers on the same conditions.

The investigator anticipates few risks from your involvement in this study. If you have any concerns regarding anticipated or actual risks or discomforts, please raise them with the researcher. Any enquiries you may have concerning this project should be directed to me at the address given above or by telephone on (08) 82012811, fax on (08) 82013350 or e-mail (craig.matheson@flinders.edu.au)

Thank you for your attention and assistance.

Yours sincerely



Dr. Craig Matheson

Director of Studies for the Graduate Program in Public Administration

School of Social and Policy Studies

This research project has been approved by the Flinders University Social and Behavioural Research Ethics Committee (Project number: 6595). For more information regarding ethical approval of the project the Executive Officer of the Committee can be contacted by telephone on 8201 3116, by fax on 8201 2035 or by email human.researchethics@flinders.edu.au

Appendix 3: Information Sheet



Mr Raden Mas Suryo Guritno
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Faculty of Social and Behavioural
Science

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INFORMATION SHEET

Title: Governance in Sub national Government Borrowing Initiative in Indonesia'

Investigators:

Mr. Raden Mas Suryo Guritno
School of Social and Policy Studies – Faculty of Social and Behavioural
Science
Flinders University
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Description of the study:

This study is part of the project entitled '*Good Governance in Subnational Government Borrowing Initiative in Indonesia*'. This project will investigate to what extent subnational government level applying the principle of good governance in the policy process of infrastructure borrowing project initiative funded by *Pusat Investasi Pemerintah/PIP* (Central Investment Agency). This project is supported by Flinders University, School of Social and Policy Studies – Faculty of Social and Behavioural Science.

Purpose of the study:

This project aims to examine the role of governance in the development of proposal and procurement of loans for infrastructure developed at the subnational government level. More specifically, the research will focus on loans sourced from the Central Investment Agency (PIP) in order to investigate the operationalization of four elements of governance: accountability; transparency; participation; and rule of law.

What will I be asked to do?

You are invited to attend focus group discussion and one-on-one interview with Mr. Raden Mas Suryo Guritno who will ask you 30 or more questions about your views about the decision making process of infrastructure borrowing project and the implementation of principles of governance (accountability, transparency, participation, and rule of law). The focus group discussion and the interview will be conducted for no more than 1 and a half hour on 1 occasion(s). However, should there be any extended time during interview and focus group discussion it will be no more than 30 minutes.

The focus group discussion and the interview will be recorded using a digital voice recorder to help with looking at the results. Once recorded, the interview will be transcribed (typed-up) and stored as a computer file and then destroyed once the results have been finalised. This is voluntary.

What benefit will I gain from being involved in this study?

The sharing of your experiences will improve planning and delivery of future policy making by the central government in the area of subnational government borrowing for infrastructure projects.

Will I be identifiable by being involved in this study?

We do not need your name and you will be anonymous. Once the interview has been typed-up and saved as a file, the voice file will then be destroyed. Any identifying information will be removed and the typed-up file stored on a password protected computer that only the coordinator (Mr Raden Mas Suryo Guritno) will have access to. Your comments will not be linked directly to you. With respect to the focus group discussion, participants should be kept anonymous and responses made by all participants during focus group discussion should be kept confidential.

Are there any risks or discomforts if I am involved?

Other group members may be able to identify your contributions even though they will not be directly attributed to you.

The investigator anticipates few risks from your involvement in this study. If you have any concerns regarding anticipated or actual risks or discomforts, please raise them with the investigator.

How do I agree to participate?

Participation is voluntary. You may answer 'no comment' or refuse to answer any questions and you are free to withdraw from the focus group and interview at any time without effect or consequences. A consent form accompanies this information sheet. If you agree to participate please read and sign the form and send it back to me at guri0002@flinders.edu.au

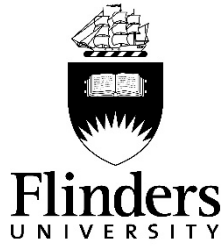
How will I receive feedback?

Outcomes from the project will be summarised and given to you by the investigator if you would like to see them.

Thank you for taking the time to read this information sheet and we hope that you will accept our invitation to be involved.

This research project has been approved by the Flinders University Social and Behavioural Research Ethics Committee (Project number: 6595). For more information regarding ethical approval of the project the Executive Officer of the Committee can be contacted by telephone on 8201 3116, by fax on 8201 2035 or by email human.researchethics@flinders.edu.au

Appendix 4: Consent Form



CONSENT FORM FOR PARTICIPATION IN RESEARCH

(by Interview)

'Governance in Subnational Government Borrowing Initiative in Indonesia'

I

.....
.....

being over the age of 18 years hereby consent to participate as requested in the Letter of Introduction and/or Information Sheet for the research project on Governance in Subnational Government Borrowing Initiative in Indonesia

I have read the information provided.

Details of procedures and any risks have been explained to my satisfaction.

I agree to audio recording of my information and participation.

I am aware that I should retain a copy of the Information Sheet and Consent Form for future reference.

I understand that:

I may not directly benefit from taking part in this research.

I am free to withdraw from the project at any time and am free to decline to answer particular questions.

While the information gained in this study will be published as explained, I will not be identified, and individual information will remain confidential.

I may ask that the recording be stopped at any time, and that I may withdraw at any time from the session or the research without disadvantage.

**Participant's
signature.....Date.....**

I certify that I have explained the study to the volunteer and consider that she/he understands what is involved and freely consents to participation.

Researcher's name: Raden Mas Suryo Guritno

**Researcher's
signature.....Date.....**

Appendix 5: Semi-structured Interview Questions

SEMI STRUCTURED INTERVIEW QUESTIONS

CENTRAL INVESTMENT AGENCY/PUSAT INVESTASI
PEMERINTAH

What is the role of PIP in improving local infrastructure development?

How is the procedure of proposing loan for local infrastructure project by subnational government?

To what extent PIP involved in the process of loan proposal at subnational government level?

Did PIP provide technical assistances to subnational government for the proposed project?

Were there any major challenges that arise during the loan proposal process at subnational government level? What is the main cause?

Why PIP required subnational government to adopt the principle of governance (transparency, accountability, participation). What was the background?

How subnational government practice principles of governance in general?

How transparent was subnational governments to the media, NGOs, and legislature in accordance to the proposed project?

How subnational government implement participation to the media, NGOs, and legislature in accordance to the proposed project?

How subnational government comply with the procedures set up by PIP and other regulations for their proposed project?

How accountable was subnational government during the loan proposal process?

Who were the key players during the loan proposal process at both sites?

How was the role of local leaders during loan proposal process?

How influential was head of subnational government in selecting particular loan infrastructure project?

Were projects proposed by subnational government at both sites match with the local medium term development planning document?

How was the performance of subnational government borrowing repayment at both sites?

LOCAL FINANCE BUREAU (BIRO PENGELOLAAN KEUANGAN DAERAH - BPKD/DINAS PENGELOLAAN KEUANGAN DAN ASET DAERAH – DPKAD/)

LOCAL PLANNING AGENCY (BADAN PERENCANAAN PEMBANGUNAN DAERAH - BAPPEDA)

What was the role of your agency during the loan proposal process?

How was the process from the planning stage to the legislation process of Perda?

Who were the key players involved during the process?

How was their role at each stage?

How was the role of PIP during the process?

How was the role of the head of subnational government during the process?

How subnational government planned and selected particular loan project?

How would you match the proposed project with community preference?

Was the proposed borrowing project match with medium-term planning document?

How was the role of legislature during the process?

How early was DPRD involved?

There were issues of objection from DPRD and NGOs during the process. How do you see that? Why it was occurred?

How subnational government responded to the objection?

What was the main cause of the objections in your views?

Were there any changes of proposed project design after it was discuss with DPRD?

What sort of changes?

How principle of governance was practised during the process?

Is there any local regulations that regulate the practice of governance?

How subnational government was implementing accountability to legislature, community, media, and NGOs during the process?

Was the proposed borrowing project in accordance with pre-election promise of the elected leader?

To what extend community and NGOs involved by the executive during the process?

How public consultation process is conducted?

Who were involved during the consultation process?

How did your department practice transparency during the loan process for example for the legislature, media, community, and the non-governmental organisations

Was there any official information released by subnational government regarding the project?

Was there any forum to disseminate the proposed project to DPRD, NGOs, or local community?

Have any of the stakeholders (DPRD, NGOs, media, community) requested some information such as detail engineering design, financing plan, feasibility study of the proposed project?

What was your response to their requests?

To what extent did your agency comply with the laws and regulations during the process? Was there any issues?

ROAD & TRANSPORT DEPARTMENT (*DINAS BINA MARGA*) –
SOUTH SULAWESI PROVINCE

What was your role during the loan proposal process?

How your department was come up with the particular project? Why road project?

How the methods was used in selecting the proposed project?

How was the role of the head of subnational government during the process?

How did your department select the project locations? What was the background?

Was there a list of priority of particular road conditions?

How did your department conducting feasibility study?

Was there any issues, concerns or objections coming from DPRD, NGOs, or other stakeholders on the proposed project? What was the cause, if any? How did it happen?

How was your agency responded to that matters?

How was DPRD responded to the proposed project?

How did your department implementing accountability during the loan process?

How did your department be accountable to DPRD, media, NGOs, and community during the loan proposal process?

How did your department involve community or NGOs during the loan process?

Was there any forum or consultation with local community affected by the project?

How public consultation process is conducted during the Perda?

Who was involved during the public consultation? Why?

How did your department practising transparency during the loan process to the stakeholders?

Was there any official information released by your department regarding the project?

Have any of the stakeholders (DPRD, NGOs, media, community) requested some information such as detail engineering design, financing plan, feasibility study of the proposed project?

What was your department response upon their requests?

To what extent did your agency comply to the laws and regulations during the process? Was there any issues?

How was the role of NGOs during the loan process? How was your department relationship with NGOs?

LOCAL HEALTH DEPARTMENT (*DINAS KESEHATAN*) –
SURAKARTA MUNICIPALITY

What was your role during the loan proposal process?

How your department was come up with the particular project? Why hospital project is chosen?

How the methods was used in selecting the proposed project?

How was the role of the head of subnational government during the process?

How did your department select the project location? What was the background?

How did your department conducting feasibility study?

Was there any issues, concerns or objections coming from DPRD, NGOs, or other stakeholders on the proposed project? What was the cause, if any? How did it happen?

How was DPRD responded to the proposed project?

How did your department implementing accountability during the loan process?

How did your department be accountable to DPRD, media, NGOs, and community during the loan proposal process?

How did your department involve community or NGOs during the loan process?

Was there any forum or consultation with local community affected by the project?

How public consultation process is conducted during the Perda?

Who was involved during the public consultation? Why?

How did your department practising transparency during the loan process to the stakeholders?

Was there any official information released by your department regarding the project?

Have any of the stakeholders (DPRD, NGOs, media, community) requested some information such as detail engineering design, financing plan, feasibility study of the proposed project?

What was your department response upon their requests?

How was the role of NGOs during the loan process? How was your department relationship with NGOs?

MEMBERS OF LEGISLATURE (*DEWAN PERWAKILAN RAKYAT
DAERAH – DPRD*)

What was your role during the loan proposal process?

How was the relationship between the executive and DPRD during the loan process?

Were there any challenges, concerns or objections during the process?

What is the cause of objections, if any?

How did the executive responded to your concerns or objections?

How was your constituent responded to the proposed project? Did it match their preference?

How subnational government practised the principle of good governance such as accountability, transparency, participation, and rule of law during the loan process?

To what extent subnational government involved legislature in the loan proposal process?

How was public consultation process conducted? Did the executive and DPRD involved local community and NGOs?

Was there any other forum established outside the Perda process to discuss the loan with other stakeholders?

How subnational government implemented accountability during the loan process?

How transparent was subnational government during the loan process?

Did DPRD have clear and easy access of information about the project from the executive?

How subnational government complied with the rule of law during the loan process? Was there any issues with laws or regulations?

NON-GOVERNMENTAL ORGANISATIONS

Would you explain about your organisation?

What kind of activities has been conducted by your organisation?

How did you know about the project?

What was your role during the loan process?

What is your perception about the proposed project?

Was there any issues, concerns or objections about the proposed project? What do you think is the cause?

What advice did NGO provided to resolve the issues, if any?

How well the executive practiced good governance during the loan process?

How accountable was the executive during the loan process?

With respect to participation, how did your organisation involved at the first place in the loan process?

Did the executive involve your NGO during the process? To what extent did the executive involved NGO?

How was the process of public consultation forum during the Perda? To what extent NGO's voice is accommodated by the policy makers?

How transparent was the executive about the proposed project?

Did you received a clear and adequate access of project information from the executive?

Did NGO ever request information about the project to the executive?

To what extent executive was complying with laws and regulation during the loan process?

How was the relationship between the executive and NGOs in general?

How was the relationship between the executive and NGOs during the loan process?

CENTRAL PROJECT MANAGEMENT UNIT/CPMU – URBAN
SECTOR DEVELOPMENT REFORM PROJECT AT MINISTRY OF PUBLIC
WORKS

Would you please explain a little bit of background about USDRP project loan?

Would you please explain about the tasks of CPMU?

Would you explain about the implementation of local governance reform of the
project?

What kind of assistance did you provide for subnational governments in terms of
governance reform?

What were the challenges at the field in accordance to the governance reform?

What do you think is the main cause of such issues?

What were the challenges at the field in accordance to the development of loan
proposal process?

How subnational governments practiced governance in USDRP?

How accountable subnational government was to the media, community, NGOs and
legislature in USDRP?

How subnational government involved NGOs, community, and the legislature in
USDRP?

How transparent subnational government was to the media, community, NGOs and
legislature in USDRP?

How subnational government was comply with the rule of law and procedures set
up by the World Bank and others related regulations in accordance to their
proposed project?

Does World Bank have any mechanism to ensure that proposed project is
accountable?

Who are the key players influenced much in the process of loan proposal at
subnational government level?

How was the role of local leader (head of subnational government) in USDRP?

How significant was their role?

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