





# The Puzzle

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What explains (local) government change?

What explains variant policy outcomes across time & space?

Propositions in the Literature:

- 1) different economic pressures
- 2) different institutions?
- 3) differences in which interests are voiced
- 4) different leadership?



# 1) Economic Pressures

1) Subnational Competition (Tiebout 1956)

Mobile/informed taxpayers vote with their feet

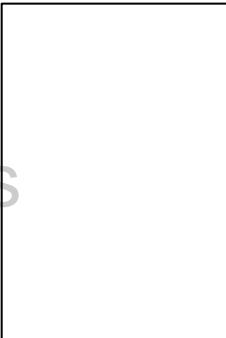
2) Global Competition for FDI (WB, Kaufman)

Investors seeking stable governance

3) Economic Shocks (Coudrevitch)

Asian Crisis driving governance change

Different Policies = Different Economic Pressures



## 2) Institutions

1) Political Institutions (Classical Mod Scholars)

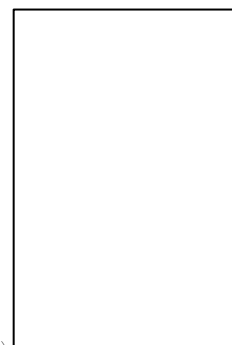
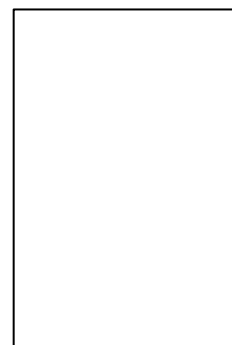
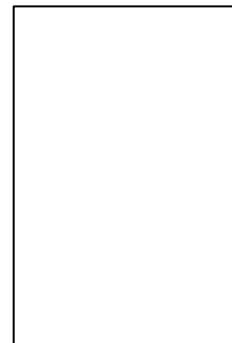
Free elections, checks & balances

2) Economic Institutions (Weingast, Williamson)

Property Rights, openness to trade

3) Embedded New Institutions (North, Putnam)

Different Policies = Different Sets of Rules



### 3) Voiced Interests

1) Citizens' voice hold governments to account

(Hirschman, Kaufman, Shah, Putnam)

2) Organizing of interests (special & common)

(Geddes, Olsor, Lowi)

Different Policies = Differently Voiced Interests

## 4) Leadership

- 1) Classical (Aristotle, Machiavelli, Mill)
- 2) Management (HBR, Hersey & Blanchard)
- 3) Policy Reform (Grindle, Rodrik, Olken)
- 4) Coalition Building (Dahl, Stoner & Weiss)



Different Policies = Different Executive Leadership

# Applied to the Indonesian Case

- 1) Econ: Restricted Mobility & Information (Tebout)
- 2) Inst: Invariant across jurisdictions (Laws & Rules)
- 3) Voice: Variant organized interests across jurisdictions
- 4) Lead: Variant local leaders across jurisdictions

Focus /Explanatory Variables:

(A) Voiced Interests and (B) Executive Leadership



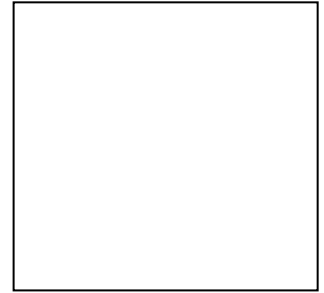
# The Question

# Research Question/ Hypotheses

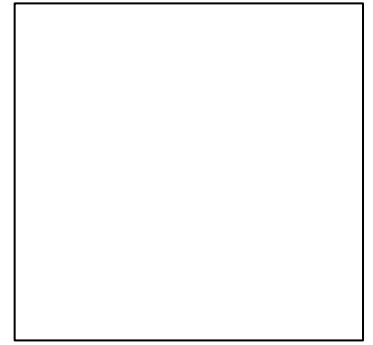
RQ: How do we explain that Local Governance in *some Indonesian districts* creates better Business Conditions (BC) than in others ?

HY: This relates to variant degrees to which

- 1) Interests are organized / voiced / represented !
- 2) Chief Executives lead / build policy coalitions !



# Decentralised Indonesia – Ethnic & Socio-Cultural Diversity



# Methodology– Data Collection



Data from 8 Districts & Jakarta (4/2005 – 6/2006):

- 1000+ Local Business Questionnaires (125/District)
- 130 In-depth Interviews (15/District + Jakarta)
- Secondary Data (Government Reports, KPPOD, News)
- Direct Observations (One-Stop Services / Local Markets)

# Methodology- Case Selection

Distinct Cases & Repetition- “Nat. Experiments” (Yin 2003)

Case Selection: (1) Distinct independent Variables  
(2) “c.p.” Controlling for other influences

8 District Cases = 4 District Sets

2 Sets for Leadership ( Sum / Java)– 2 for Voice (Bali/NTB)

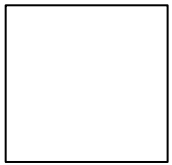
Central Java	Gov. Lead.	Civic Voice	Control Variables	Business Climate ?
Kebumen	High	<i>Similar</i>	<i>Similar</i>	⇒ Assessment???
Klaten	Low			⇒ Assessment???

See: King/Keohane/Verba (1994), Yin (2003a,b), Geddes(1990)



# Empirical Data “Field Experiment”

# Local Business Conditions Vary



Variation of tax policies & licensing practices!

→ New Distortionary Taxes in Bima /Lombok / Pesisir

→ Variant Capture Practices during Licensing

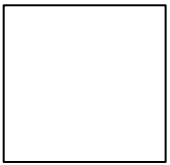
→ Variant One-Stop Licensing Services

→ Variant Tender Practices & Road Qualities

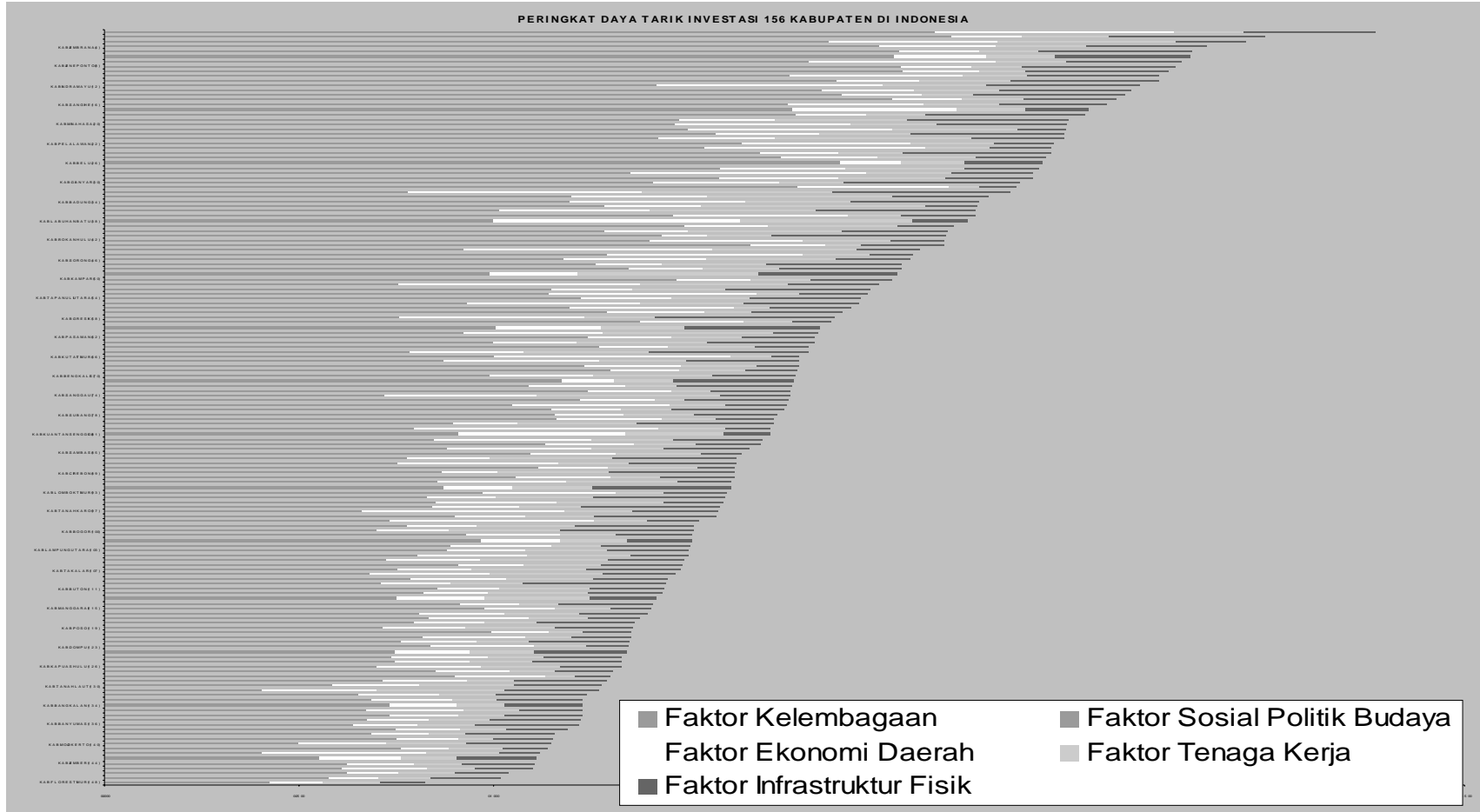
→ Variant Bribe Payments for Entry into Public Service



# Variation Across 400+ Districts

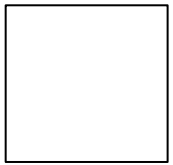


Business Climates vary strongly across Indonesia's Districts



Source: KPPOD 2005

# Variation of License Provision

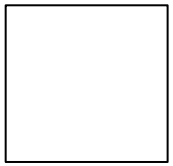


“One Stop Services”

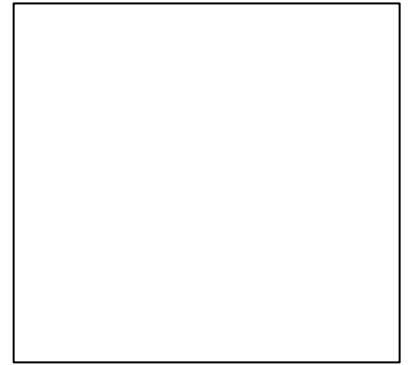
Solok

Klaten

# Another Angle: Debt Trap



Reported Bribing Conventions of New Public Servants (PNS)



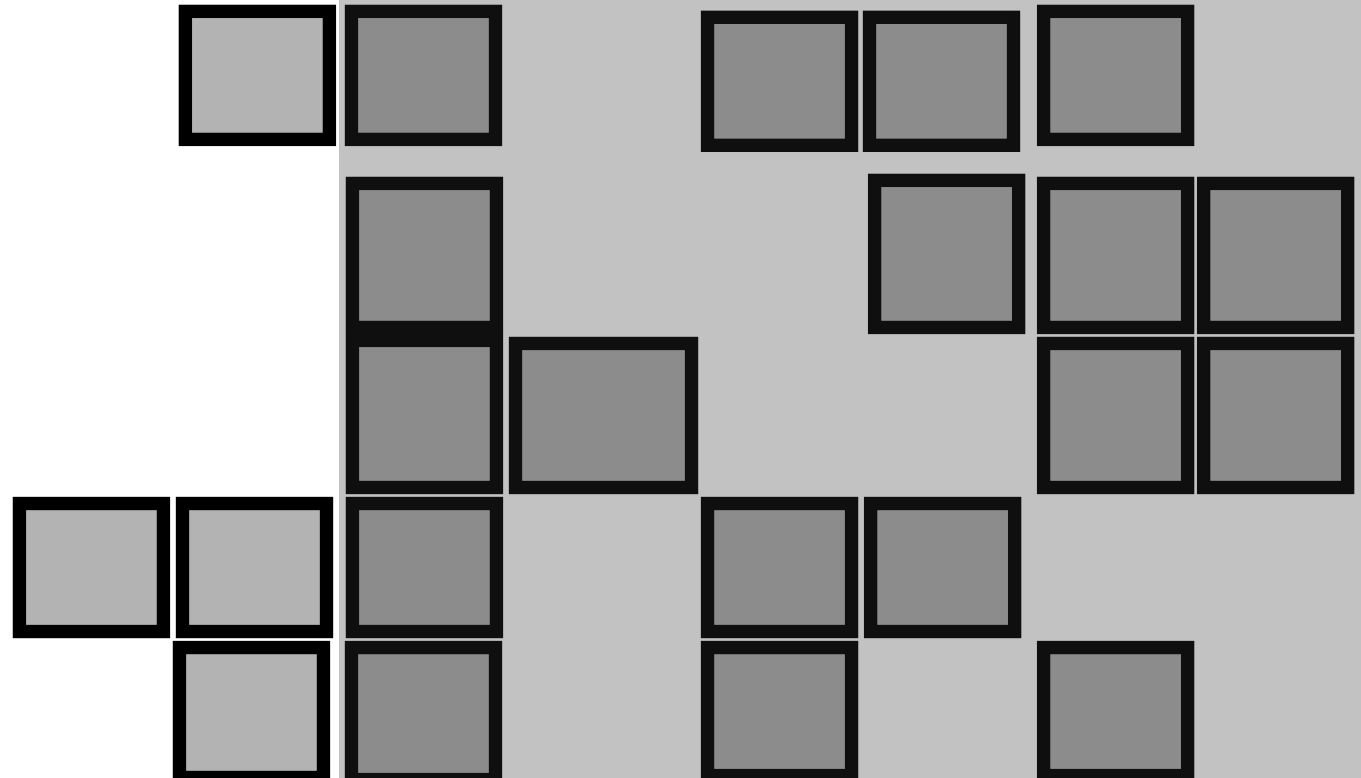
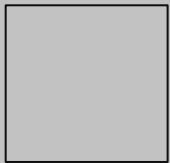
# 1) Leadership Sumatera & Java Set

# Leadership Sets



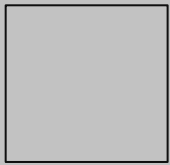
Kebumen & Solok – distinctively higher Leadership

# BC Remain Critical but Vary



(e) Road Quality	5.5	6.0	7.5	6.6	7.8	8.0	6.9	5.5
(f) Fair Tendering	2.3	4.0	5.8	5.7	5.4	6.1	3.9	4.8
(g) Entry Bribe	64	6	0	23	18	17	36	36

# BC Remain Critical but Vary



(e) Road Quality

5.5

6.0

7.5

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7.8

8.0

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(f) Fair Tendering

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(g) Entry Bribe

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0

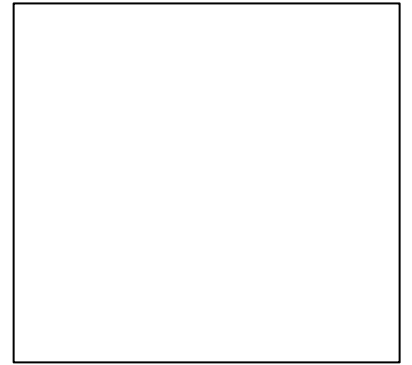
23

18

17

36

36



## 2) Voiced Interests Bali & NTB Sets



# Voice Sets



Gianyar & Bima – distinctively higher ‘Voice Proxies’

(e) Road Quality

5.5

6.0

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7.8

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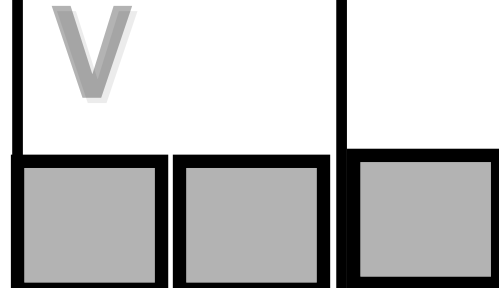
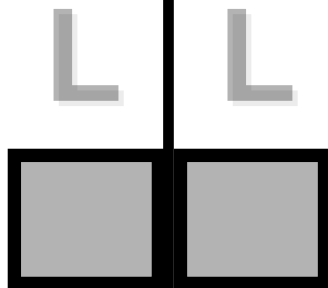
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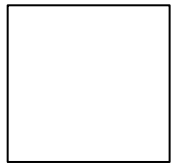


# Explaining Empirical Results



(e) Road Quality	5.5	6.0	7.5	6.6	7.8	8.0	6.9	5.5
(f) Fair Tendering	2.3	4.0	5.8	5.7	5.4	6.1	3.9	4.8
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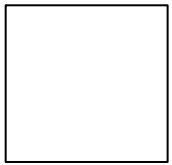
# Voiced Private Sector Interests



Overall: Prevailing Collective Action / Power Problems

- 1) 'Local Iron Triangles' & Uncontested Markets
- 2) Low performance of local parliaments (DPRD)
- 3) Weak Local Chambers (KADIN)
- 4) Voice depends on Social/Economic Status
- 5) History of 'Authority & Control' - Initially Rough Soil for Young Democracy (Mobilizing by Elites)

# Perception of Local Parliaments



Many Complaints / Corruption Cases in Local Parliaments

Local Representatives 2000-2004 – Party List not – Vote

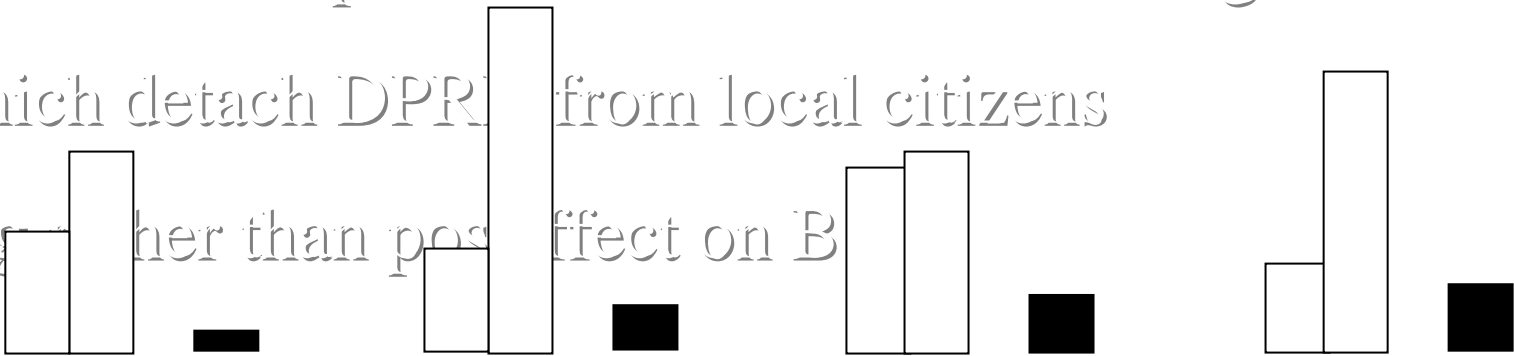
DPRD Budget Raise was linked to DPRD Raise (PE 10/02)



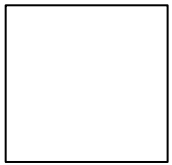
Overall: Counterproductive Institutional Settings

... which detach DPRD from local citizens

... negative rather than positive effect on B



# Impact of Executive Leadership



Overall: Possible Counterbalance

In times of civic and legal weakness

- 1) Can curb PNS Bribing Conventions (Debt Trap)
- 2) Can curb Iron triangles (more market contestability)
- 3) Can compensate (in the short term) for weak law enforcement and national oversight problems
- 4) Solok: Strong push for better (One-Stop) Services
- 5) Kebumen: Strong push for media-based transparency

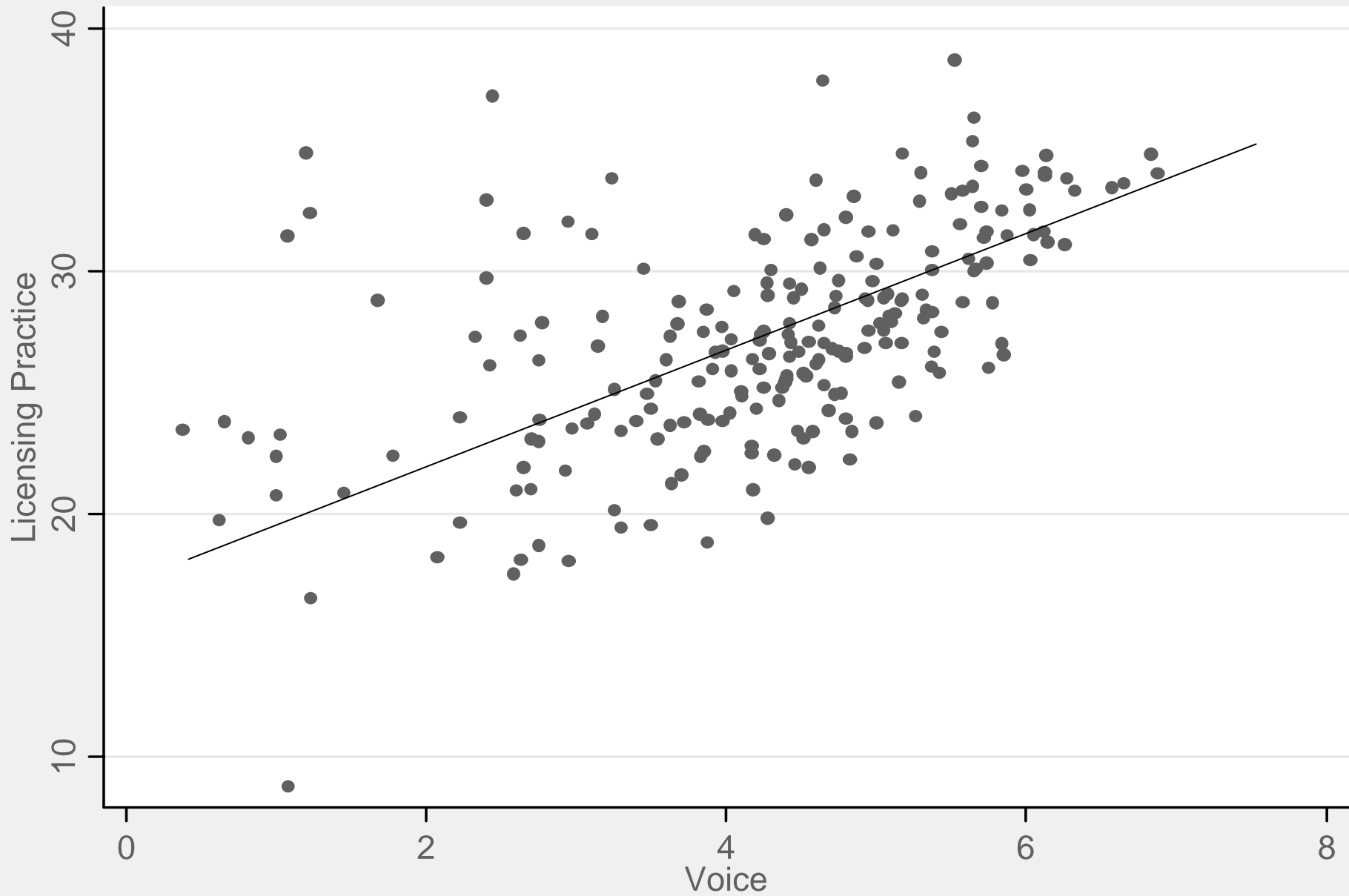


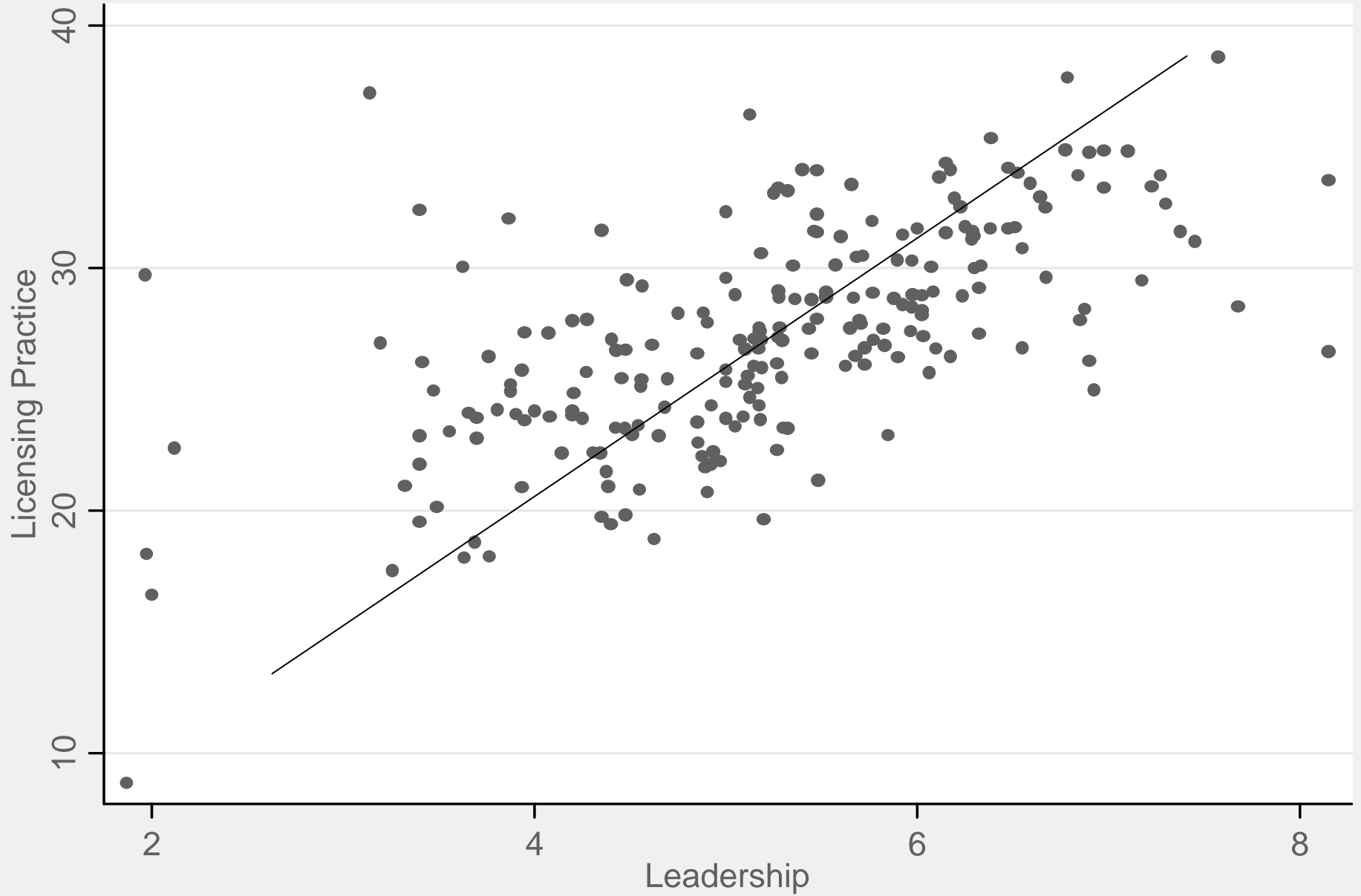


# Quantitative Analysis

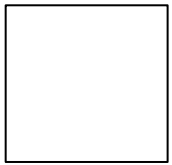
# Regression Results

N= 205 Districts ; Data-Sources: KPPOD, Asia Foundation, World Bank





# In Summary...



1. Business Conditions vary strongly (sample/population)
2. Unsatisfactory Business Conditions partly caused by:  
Dept Trap / Parliament Detachment / Vague Tax Law
3. Executive Leadership appears to explain variance better than Private-Sector Voice – at least during first 5 Years
4. Decentralization : Voice of Private-Sector still uncertain;  
yet Leadership has become contestable across districts...
5. In the immediate term – Leadership may compensate for low voice /law enforcement /national monitoring

***Thank You Very Much For Your Kind Attention !***