

**THE POLITICS OF PATRONAGE IN INTERGOVERNMENTAL
FINANCIAL TRANSFER: THE ROLE OF LOCAL ELITES IN
EAST KALIMANTAN PROVINCE, INDONESIA**

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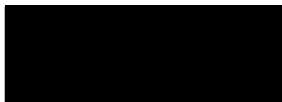
ABSTRACT

Intergovernmental financial transfers from central to local governments provide a vital source of income to support local development of public services and infrastructure. However, most local governments in developing countries, such as Indonesia, fail to meet the transfer objectives due to misuse of the funds by local elites. Although financial transfers increased significantly with increased local autonomy since 2001, local development has not been commensurate with the larger budgets, with unfair wealth distribution denying equitable outcomes. Previous studies have addressed the involvement of political rulers in the misuse of intergovernmental financial transfers, but there has been limited investigation into the role of other elites. Working with theories of the politics of patronage derived from Eisendat (1980) and Bearfield (2009), this study examines the role of a much wider range of formal and informal elites—from bureaucrats and politicians to businessmen and religious and ethnic leaders—in intergovernmental financial transfer within the Indonesian province of East Kalimantan. The aims of the study are twofold: to provide insight into how local elites exercise their power and influence to structure and allocate financial resources, and to help local governments curb the misuse of financial resources.

The study utilises data derived from three main sources: in-depth interviews with 36 elite stakeholders, direct observation, and information contained in local government documents, collected during two field visits and follow-up telephone interviews and email contacts. The study identifies four variations of political patronage practised by local elites—organisational patronage, reform patronage, democratic patronage, and tactical patronage—with ethnicity playing a key function in enabling elites to structure and control intergovernmental financial transfer. It provides new insights into the operation of the politics of patronage through such means as appointment of cronies and friends in local government bureaucracies and awarding of project funds to affiliates and followers. As the study concludes, the result is that the intergovernmental financial transfer mechanism has not delivered what was intended to be a key outcome of the decentralisation agenda—local development in priority areas serving the needs of all.

DECLARATION

I, Ahyar Muhammad Diah, declare that the PhD thesis entitled ‘The Politics of Patronage in Intergovernmental Financial Transfer: The Role of Local Elites in East Kalimantan Province, Indonesia’ is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.



Ahyar Muhammad Diah
March 2017

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Alhamdullillaahi rabbil 'alamiin

(Praise be to Allah, Lord of the Worlds)

Quran 1:1

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GLOSSARY AND ABBREVIATIONS

ABBREVIATIONS	INDONESIAN ACRONYMS	ENGLISH
APBD	Anggaran Pendapatan dan Belanja Daerah	Local Budget
APBN	Anggran Pendapatan dan Belanja Nasional	National Budget
BANSOS	Bantuan Sosial	Social Assistance
BAPPEDA	Badan Perencanaan dan Pembangunan Daerah	Regional Development Planning Board
BKD	Badan Kepegawaian Daerah	Regional Personnel Board
BKKBN	Badan Koordinasi Keluarga Berencana Nasional	Coordination Board of National Family Planning
BLT	Bantuan Langsung Tunai	Cash Money Grant
BPD	Badan Permusyawaratan Desa	Village Council
BPK	Badan Pemeriksa Keuangan	Audit Board of Indonesia
BPKD	Badan Pengelolaan Keuangan Daerah	Regional Financial Management Board
BPS	Badan Pusat Statistik	Central Board of Statistics
DAK	Dana Alokasi Khusus	Special Allocation Funds
DAU	Dana Alokasi Umum	General Allocation Funds
DPD	Dewan Perwakilan Daerah	Regional Representative Council
DPR	Dewan Perwakilan Rakyat	House of Representatives
DPRD	Dewan Perwakilan Rakyat Daerah	Regional Parliament
GEPAK	Gerakan Pemuda Asli Kalimantan	Movement of Indigenous Youth of Kalimantan
GDP	Produk Domestik Bruto	Gross Domestic Product
GOLKAR	Golongan Karya	Functional Group Party
HDI	Indeks Pembangunan Manusia	Human Development Index
ICW		Indonesian Corruption Watch
IKAPAKARTI	Ikatan Paguyuban Keluarga Tanah Jawi	Javanese Ethnic Alliance
IMF		International Monetary Fund
INPRES	Instruksi Presiden	Presidential Instruction
IPDP	Ikatan Putra Daerah Peduli Kalimantan Timur	Institute of Native Son for East Kalimantan Care
KADIN	Kamar Dagang Indonesia	Indonesian Chamber of Commerce and Industry
KALTIM	Kalimantan Timur	East Kalimantan
KKN	Kolusi, Korupsi and Nepotisme	Corruption, Collusion and Nepotism
KNPI	Komite Nasional Pemuda Indonesia	Indonesian National Youth Council
KPK	Komisi Pemberantasan Korupsi	Corruption Eradication Commission
KPPOD	Komite Pemantauan Pelaksanaan Otonomi Daerah	Regional Autonomy Implementation Monitoring Committee
KUA	Kebijakan Umum APBD	General Policy of Local Budget
KUKAR	Kutai Kertanegara	
LKPD	Laporan Keuangan Pemerintah Daerah	The Financial Report of Regional Governments

ABBREVIATIONS	INDONESIAN ACRONYMS	ENGLISH
MMSTB		Million Metric Stock Tank Barrel
MPR	Majelis Permusyawaratan Rakyat	People's Consultative Assembly
MUSRENBANG	Musyawaharah Perencanaan Pembangunan	The Community Consultation on Development Meeting
NGO	Non-Government Organisations	Non-Government Organisations
OECD		Organisations for Economic Cooperation and Development
OTDA	Otonomi Daerah	Regional Autonomy
OTSUS	Otonomi Khusus	Special Autonomy
PAD	Pendapatan Asli Daerah	Local Revenue
PAN	Partai Amanat Nasional	National Mandate Party
PANGGAR	Panitia Anggaran	Budgeting Committee
PDIP	Partai Demokrasi Indonesia Perjuangan	Indonesian Democratic Party of Struggle
PDK	Partai Demokrasi Kebangsaan	Democratic Nationhood Party
PDKT	Persekutuan Dayak Kalimantan Timur	Dayak Alliance of East Kalimantan
PDRB	Produk Domestik Regional Bruto	Regional Gross Domestic Product
PEMILU	Pemilihan Umum	General Election
PERDA	Peraturan Daerah	Local Government Regulation
PERMESTA	Perjuangan Rakyat Semesta	Universal Struggle Charter
PILKADA	Pemilihan Kepala Daerah	Regional Head Elections
PKS	Partai Keadilan Sejahtera	Justice Prosperity Party
PNS	Pegawai Negeri Sipil	Government Employee
POKJA 30	Kelompok Kerja 30	Working Group 30
PON	Pekan Olahraga Nasional	National Sport Games
PPAS	Prioritas dan Plafon Anggaran Sementara	Priority and Temporary Budget Allocation
PPP	Partai Persatuan Pembangunan	United Development Party
PROPEDA	Program Pembangunan Daerah	Regional Development Programs
PRRI	Pemerintahan Revolusioner Republik Indonesia	Revolutionary Government of the Republic of Indonesia
RAPBD	Rancangan Anggaran Pendapatan dan Belanja Daerah	Draft of Local Budget
RENSTRADA	Rencana Strategi Daerah	Regional Strategic Plan
RKPD	Rencana Kerja Pemerintah Daerah	Regional Government Work Plan
RPJM	Rencana Pembangunan Jangka Menengah	Medium Term Development Plan
RPJMD	Rencana Pembangunan Jangka Menengah Daerah	Medium-Term Regional Development Plan
RPJP	Rencana Pembangunan Jangka Panjang	Long Term Development Plan

ABBREVIATIONS	INDONESIAN ACRONYMS	ENGLISH
RPJPD	Rencana Pembangunan Jangka Panjang Daerah	Long Term Regional Development Plan
RT/RW	Rukun Tetangga/Rukun Warga	Neighborhood Organisations
SKPD	Satuan Kerja Perangkat Daerah	Regional Government Work Units
SP3	Surat Pemberhentian Penyidikan Perkara	Termination Letter Case Investigation
TSCF		Trillion Standard Cubic Feet
UGM	Universitas Gajah Madah	Gajah Madah University
UNMUL	Universitas Mulawarman	Mulawarman University
UUD 1945	Undang-Undang Dasar 1945	Constitution of 1945

CHAPTER 1 INTRODUCTION

1.1 Background

This thesis investigates the role of local elites¹ in intergovernmental financial transfers in East Kalimantan province. Utilising the politics of patronage theory of Eisenstadt and Bearfield, the thesis argues that the role the elites play both reflects and gives expression to the politics of patronage in Indonesia and East Kalimantan province in particular. It describes in detail how four models of political patronage—organisational, reform, democratic, and tactical patronage—have facilitated elites to practise their power in structuring and controlling the intergovernmental financial transfer. As I elaborate towards the end of this chapter, this is an aspect of life with which I am personally familiar both as a researcher and as citizen in East Kalimantan, where as an academic who teaches financial management at a public university my role is to inform young minds and East Kalimantan citizens about how local elites work in East Kalimantan, in particular in relation to supporting local development.

One of the fundamental political changes in Indonesia over the past decade and a half has been the implementation of decentralisation. Implemented from early 2001, decentralisation facilitated the transfer of government power to the local level of government, namely province and district or municipality. This transfer of authority was followed with the transfer of resources to both local levels of government. The aim of resources transfer was to facilitate local empowerment, including local economic development, improvement of public services and infrastructure, and community development. Some local governments have been able to use their new authority and resources to achieve these aims. But most have failed to do so and have even become more entrapped in corruption and misuse of authority and budget. Taking the case of East Kalimantan Province, this thesis will go below the rhetoric and examine what the implementation of decentralisation has meant in reality,

¹In this thesis ‘elite’ is used as both a noun and an adjective, and applies to both groups and individuals. The plural form ‘elites’ is used to cover different elite categories, e.g. ‘political elites’ or ‘political and bureaucratic elites’.

focusing on the politics of patronage and the role of the elites in the allocation and distribution of intergovernmental financial funds in the region.

Decentralisation has attracted considerable attention in debates over public-sector reform in developing countries. Around the developing world, central governments have pursued a process of decentralising their power related to fiscal, political and administrative responsibilities to lower-level governments. As used in this thesis, decentralisation is understood as the formal transfer of powers from central government to actors and institutions at lower political-administrative and territorial levels (Agrawal & Ribot, 1999; Crook & Manor, 1998; Yuliani, 2004). Such decentralisation within developing countries has become a subject of detailed investigation by many scholars researching in the public administrative area (e.g. Litvack, Ahmad, & Bird, 1998; Rondinelli, Nellis, & Cheema, 1983; Zaharia, 2012).

Decentralisation within the area of public administration can take three main forms: fiscal, political and administrative (Litvack et al., 1998). The objectives of decentralisation within these three spheres include the redistribution of income or wealth (Feld & Schnellenbach, 2014; Flamand, 2015), increase in local participation in politics and democratic processes (Smith & Revell, 2016; Urban & Schortman, 2004), and the reform of public administration within local government (Leitch, 2015; Prabhakar, 2012). The results of such decentralisation initiatives around the world have been mixed, with varying degrees of success and failure (Lambright, 2011).

Cases of decentralisation policy resulting in success include the financial transfer for education and health in Ghana (Egbenya, 2010) and Uganda (Otara, 2014), where the decentralised system is regarded as a comprehensive and well developed initiative in terms of the system attempting to augment the consolidation of elite powers by directly involving local communities in planning, resource allocation, management and accountability and improved poverty-focused investments. Another example of the positive impact on fiscal decentralisation in contributing to economic growth can be found in the United States of America where the use of a cross-section data set from 50 states with empirical analysis (Akai & Sakata, 2002) has resulted in the development of non-state enterprises (Jin, Qian, & Weingast, 2005).

However, in many other cases decentralisation has failed or proven ineffective. In South Africa, for example, the ineffectiveness of decentralisation has been linked to institutional complexity and unanticipated consequences (Koelble & Siddle, 2014). Similarly, decentralisation in Cameroon has failed because the major prerequisites for the advent of a decentralisation policy were not present when the policy was formulated, with an uncondusive administrative/political environment and reluctance of political elites to tolerate or even conceive of any other centres of decision-making (Gemandze, 1994). As noted by Rondinelli et al., decentralisation policy failure reflects ingrained centrist attitudes and behaviour on the part of local political and administrative elites (Rondinelli et al., 1983), with the focus on the constellation of power rather than some imagined objective of achieving a common good through the decentralisation agenda (Hadiz, 2004). To overcome these problems, Weist (2001, p.2) and Rondinelli et al. (1983) suggest that an effective decentralisation strategy should include: a clear division of responsibilities (who does what in spending and taxing), adequate financing, a clear system of accountability (who is accountable to whom), and careful planning and implementation.

Despite the obvious failures, decentralisation has been championed by many elites within local governments across developing countries. For example, following the fall of the Suharto regime Indonesia experienced the euphoria of regional autonomy and fiscal decentralisation (Brodjonegoro, 2001), leading to the enactment of a number of regulations to support and strengthen decentralisation of administrative, fiscal and political functions from central government to lower-level governments. The intention of the regulations was to strengthen and extend the decentralisation agenda. However, in Indonesia as in other developing countries the intention has not been realised, due to a combination of factors, including the resistance of entrenched local elites (Farfán-Vallespin, 2016).

The role of local elites or special interest groups in the failure of decentralisation has been addressed in previous studies. As a number of authors have shown, elites can constitute a risk to successful decentralisation through capturing resources and power and using them for their own benefit or interest (Miller, 2002; Smoke, 2003). Such

elites can be formed and maintained not only on the basis of wealth and direct control over resources, but also in terms of social standing, power differential, ethnicity and other characteristics that culturally or structurally enable some people in a group to gain a disproportionate share of benefits relative to others (Persha & Andersson, 2014). Whatever the basis for their privileged position, elites tend to corrupt and capture the decision-making processes, particularly in relation to the distribution of resources to the poor (Jütting et al., 2004).

Typically, elites are able to play their controlling roles through the politics of patronage, with decentralisation regarded by many as having enhanced patronage politics (Sadanandan, 2012). According to Sadanandan, elites distribute patronage benefits or advantages to enhance their political support. For example, elites may compete for political power in the regions by mobilising ethno-religious sentiments and utilising money-politics, with voters behaving as clients as they seek to gain material benefits from their preferred candidates in exchange for political loyalty (Simandjuntak, 2012).

Given the significant role that elites with their networks of political patronage can play in the success or failure of decentralisation, a number of scholars (Akpan & Ekanem, 2013; Alexander & McGregor, 2013; Yilmaz, Beris, & Serrano-Berthet, 2008a) have pointed to the need to better understand how elites in fact interact and behave in the context of decentralisation policy. While effective decentralisation policy implementation might preclude politically motivated patronage (Yilmaz et al., 2008), as Akpan and Ekanem have noted ruling elites within local government often use local government bureaucracy to distribute all manner of patronage to their supporters (Akpan & Ekanem, 2013), including in the context of intergovernmental fund transfer.

1.2 Intergovernmental Transfers

In addition to political and public administration reform, intergovernmental transfer is a key mechanism of decentralisation policy. In this study, intergovernmental transfer is understood as a grant of funds from the government that raised the funds—the state or central government—to another level of government (Bahl & Wallace, 2007). Local government in developing countries, such as at the provincial and district level, depends heavily on their central government transfer as the major source of their income (Bergvall, Charbit, Kraan, & Merk, 2006; Kraemer, 1997; Wildasin, 2009). Though the purpose for the financial transfer is to facilitate decentralisation, as Calabrese, Epple and Romano (2012) have found, richer elites tend to consume more resources and avoid taxes.

At the same time, local politicians are pressured from entrenched local interest elites and groups not to increase tax (Bahl, Wallace, & Cyan, 2008), leading local government to demand more fund transfers from central government. However, unless the transferred funds are used efficiently for implementing decentralisation policy, the decentralisation agenda is undermined. In the absence of an effective and enforced regulatory framework, local elites tend to misuse the budget for their own benefits. Elites often see transferred budget as ‘easy’ money with little political cost to them (Bahl et al., 2008). This results in lack of commitment of local elites to use the money as expected by decentralisation policy. So, even if substantial resources are transferred to the local level, they might not translate into actual services that would further the decentralisation agenda (Khemani, 2006).

One result proceeding from the above situation is that local elites, such as politicians, are able to use intergovernmental transfer to build independent patronage networks in which the money is spent for their own benefit (Gordin, 2006). For example, the policy of transferring revenue to sub-national governments in Argentina not only entrenches patronage-ridden regional enclaves, but also exploits institutional and political opportunities to sabotage fiscal decentralisation projects (Gordin, 2006). As a result, intergovernmental transfer policy can actually function as an incentive

and opportunity for patronage and corruption at the sub-national level (Varkkey, 2012).

Regarding the phenomenon outlined above, the literature is currently divided on whether there is a positive or negative relationship between intergovernmental transfer policy and economic growth and local development. Given that elites have been found to interact at both the centre and the periphery when it comes to financial decentralisation reforms (Kleibrink, 2015), to understand their role in the success or failure of intergovernmental transfer policy requires an in-depth understanding of their behaviour and interaction. Historical and/or cultural determinants may also be found to play a role in elite behaviour, and the experience of East Kalimantan allows these dimensions to be explored in order to refine the field's treatment of these issues.

1.3 Decentralisation and Intergovernmental Financial Transfer in Indonesia

To begin to address this issue, this thesis focuses on the role of elites in the success or failure of intergovernmental transfer policy in facilitating decentralisation in Indonesia, where, since the collapse of the Suharto regime in 1998, the power exercised by central government has been reduced and much of it transferred to local government. In fact, efforts to transfer more power to the local level were evident when the central government issued Law No. 5/1974, but the policy of decentralisation was not then implemented due to the concentration of power under Suharto. During the Suharto era, the central government intervened to reverse regional autonomy policies, not only in terms of local financial devolution but in all policy areas of local government (Simarmata, 2002). Following Suharto's resignation, the demand for decentralisation increased to the extent that some provinces even threatened to seek independence if they were not granted greater autonomy. The new system of local autonomy was then introduced by Indonesia's third President B.J. Habibie through Law No. 22/1999 and Law No. 25/1999 regarding local government and fiscal balance between central and local governments. These two laws were legislated in 1999 and implemented on 1 January 2001. They have since undergone revision and have now become Law No. 32/2004 and Law No. 33/2004 respectively. President Habibie introduced local autonomy as the central government's response to

the revival of independence movements in East Timor, Aceh and Papua provinces. Local autonomy was designed, by devolving authority and revenue to the third tier of government, to devolve authority without increasing the risk of further disintegration, following East Timor's formal separation from the Indonesian Unitary State/*Negara Kesatuan Republik Indonesia (NKRI)* on 4 September 1999.

The primary objective of the regional autonomy policy was to empower the community, to stimulate community potential and creativity, and to improve public participation in regional development (Law No. 22/1999). The underlying aim of regional autonomy was to bring government closer to the public, and by reversing decades of central government domination and control thus enable the public service provided by regional governments to be more effective and efficient (SMERU Research Institute, 2002). In line with this, Law No. 32/2004 concerning regional government replaced Law No. 22/1999, applying the principle of autonomy in the framework of decentralisation within the Indonesian Unitary State (NKRI).

One important effect was a surge in finances transferred from central government to all local governments², with the transfer of central budget funds increasing more than twofold, from IDR 129.7 trillion in 2004 to IDR 292.4 trillion in 2008, reaching IDR 322.4 trillion in 2010. In this way, intergovernmental transfers became a major income source for local governments. However, some natural resource-rich local governments received significantly lower intergovernmental transfer funds than the central government received from exploiting local natural resources.

That problem has since been not only one of the percentages of intergovernmental transfer funds but also how those funds are misused by local elites. As Ali (2013) found, allocated funds intended to assist poor people were misused by corrupt officials, both executive and legislative. As Higley has observed, elites are most adept at using the two models of political rule—force and persuasion—in addition to usually enjoying important advantages such as inherited wealth and family connections (Higley, 2010). As this thesis will demonstrate, elite membership is not

²The transfer of state budget funds from central to all provinces, districts and municipalities in Indonesia.

limited to political operatives and wealthy individuals but extends to NGO leaders (Leonard, Brass, & Nelson, 2010), high-level civil servants (Evaquarta, 2008), mass organisation leaders (Higley, 2010) and religious leaders (K. Yilmaz, 2009).

Previous studies (e.g. Bird & Wallich, 1993; Heredia-Ortiz & Rider, 2005) have outlined the misuse of intergovernmental transfers by local elites. They have found that local elites use the mechanism of intergovernmental transfer for their own interests, such as maintaining their grip on power. As Pandeva (2015) found, elites tend to create the mechanisms that enable them to misuse budgets for their own advantage. The misuse of local budgets also points to the lack of internal local government control systems to deal with conflicts of interest (Dandago, Che-Ahmad, Ahmi, Saidin, & Muskanan, 2014), with local political rulers tending to put their allies with whom they are connected via patronage networks in strategic positions to secure power and resources.

This leads to the endemic misuse of local budgets, with bureaucratic self-interest combining with the lack of accountability in budget spending resulting in bureaucrats and local politicians profiting from larger offices both in terms of the number of people employed and larger budgets to accommodate the wishes of key allies and constituencies (Schulze & Sjahrir, 2014). Occasionally it comes unstuck, as when previous East Kalimantan governor Suwarna Abdul Fatah was arrested for corruption and misuse of the local budget for allies (Brown, 2004). More commonly such practices remain undetected, with elite interaction in intergovernmental transfers accepted as a form of patronage bestowed to secure financial, political, economic and social advantage. Whether perceived as ‘corruption’ or ‘the natural order of things’, as the scholars cited above have concluded the result is inefficiency in the local government budgeting system and reduced opportunity for increasing local citizens’ welfare.

Systems of patronage operate when elites bound together by kinship and common interest working within different departments and at different levels in varying capacities collectively pursue their agenda (Javid, 2012). As Litschig and Morrison (2013) found, this includes improving the re-election chances of local incumbent

leaders. For example, since decentralisation two East Kalimantan governors have been twice elected (one of them did not finish his second term due to corruption) through such a system of patronage. According to the Home Ministry spokesman Reydonnyzar Moenek (Saragih, 2010), many incumbents in other provinces and districts in Indonesia have similarly won re-election through the abuse of local budgets, with budgets spent on irrelevant or fictional social aid programs. While social aid is legal, local government elites often use it to position political parties, particularly in the lead-up to local elections, rather than spending it on local development (Saragih, 2010; Trounstone, 2009).

As a number of studies have found, it is common for elites to use intergovernmental transfer for patronage purposes in developing countries (Kopecký, 2011), where it denotes a general mode of social and economic exchange (Blunt, Turner, & Lindroth, 2012). These studies have described how elites tend to interact through coordination and cooperation to dominate society and resources for their own benefit (Vergara, 2013). However, there have been only limited studies focusing on how local elites interact and behave in using intergovernmental transfer funds, and this thesis aims to contribute to this field of knowledge with a detailed study of local elite interaction and behaviour in the Indonesian province of East Kalimantan.

As will be described in the chapters that follow, the local government of East Kalimantan has considerable economic potential measured in terms of its endowments of natural resources, including oil, natural gas, gold and coal. Other resources including forestry, marine and fishery, agriculture and plantations have also become important sectors. The region is known as Indonesia's storehouse of timber and mining, and much of East Kalimantan's income is derived from the extraction of mineral and natural resources, of which oil, natural gas and logging are the most important (Oosterman, 1999). However, much of this wealth does not stay in the province, which in 2010 received through transferred funds only IDR 22.3 trillion, or 6.9% of overall intergovernmental transfer funds dispersed to all the provinces of IDR 322 trillion (cited in *Kaltim BKDinfo*, 6 February 2010), despite East Kalimantan province contributing IDR 300-500 trillion via Gross Regional Domestic Product (GRDP) to central government finances every year (BPS/East Kalimantan Statistics,

2009-2014). As a result, the province is still facing crucial issues in regional development, such as poor human resources, poverty³, unemployment, low income, low quality of human resources caused by poor health and inadequate education services, lack of infrastructure services (road transportation, marine transportation, air transportation, bridge and residential infrastructure), as well as major environmental damage (Balitbangda, 2007; Harun, 2007; Kuncoro, 2008).

1.4 Research Framework and Methodology

To investigate the impact of East Kalimantan's elites on intergovernmental transfer, the thesis will apply theoretical insights derived from the literature on the way patron-client relations structure social exchange. As Eisenstadt and Roniger formulated nearly four decades ago, patronage focuses on the structuring of the flow of resources, exchange and power relations and their legitimation in society (Eisenstadt & Roniger, 1980). As this thesis will describe, the benefits gained collectively involve elites such as legislators, bureaucrats and business leaders (Golden, 2000). The focus on East Kalimantan will provide academics and government with a more finely-grained understanding of the emergence and effect of local elite interaction in the intergovernmental transfer program. To date, there has been limited investigation into how those processes and interactions operate at the local level, and this thesis will analyse how East Kalimantan elites interact and behave—a case study of how local elites use intergovernmental fund transfers to sustain systems of patronage in Indonesia, and a contribution to understanding of the problem internationally.

The thesis will argue that intergovernmental transfer in East Kalimantan is controlled by local elites linked by kinship and common interest, operating within an inefficient local government budgeting system which enables them to manipulate provincial politics through their misuse of intergovernmental financial transfers. Out of this, a contribution to the field of knowledge will be formulated, as a result of

³ According to BPS/Indonesia statistics, in 2007 around 20% of East Kalimantan's population of just over 3 million were categorised as poor. This was higher than the national poverty level, which was 16%.

which it is hoped that new strategies may be found and implemented to support the better use of the intergovernmental transfer mechanism for achieving local development and welfare provision for all citizens, not just a privileged few.

1.5 Research Aims and Objectives

The general aim of the research is to investigate how elites at local government level interact and behave in relation to intergovernmental transfer policy and practice. The study will provide a detailed case study of the formation and operation of local elites in the resource-rich province of East Kalimantan, and the role they play through their interaction, coordination and cooperation in the use of intergovernmental fund transfer. The case study is intended to provide an informational repository to guide national and provincial governments in how intergovernmental transfer can be leveraged and used collectively for the well-being of the population at the local level.

Specific aims are to:

- i. Explore the emergence and maintenance of local elites in East Kalimantan province
- ii. Identify local elites' role in intergovernmental fund transfer and spending
- iii. Describe the role of elites in exploiting resources and power in East Kalimantan
- iv. Explore the impact of their role on regional development in East Kalimantan
- v. Identify patterns of misuse of intergovernmental transfer fund spending in East Kalimantan.

1.6 Research Questions

The aims will be achieved through answering the following specific research questions:

- i. Who are the local elites and how do they operate in East Kalimantan province?

- ii. What role do the local elites play in intergovernmental fund transfer in East Kalimantan, and what are the implications for how those funds are spent?
- iii. In what ways do local elites use the politics of patronage to control resources and power in East Kalimantan?
- iv. How does the role of local elites in East Kalimantan affect the pattern and implementation of intergovernmental financial transfer in support of provincial development?
- v. To what extent and in what ways do East Kalimantan local elites misuse intergovernmental transfer funds?

1.7 Contribution to Knowledge and to Practice

This study will contribute to theoretical understanding of the politics of patronage, specifically how Indonesian elites use systems of patronage to benefit from the operation of intergovernmental fund transfers. This understanding will provide local government organisations with practical knowledge on how to reduce misuse of the local budget, and better inform national and provincial governments in Indonesia on how the mechanism of intergovernmental transfer might be leveraged and used to achieve the decentralisation agenda.

1.8 Thesis Structure

This thesis comprises nine chapters. The current chapter (Chapter 1) provides the context for the study, the research aims and research questions, and my reasons for conducting research in the area of the politics of patronage in relation to intergovernmental financial transfer.

Chapter 2 outlines the relevant literature dealing with the theory of the politics of patronage and how power, order and justice feature in the operation of politics. This chapter also covers the concept of organisational patronage, democratic patronage, tactical patronage and reform patronage in relation to the role of elites in

intergovernmental financial transfers and the decentralisation agenda in East Kalimantan province.

Chapter 3 describes the research methodology in terms of paradigm, data collection method, rationale for using a qualitative method and analysis procedures. This chapter also introduces the participants who were interviewed in the course of the research, and outlines in general terms my experience of the fieldwork. The final section discusses the methods used in analysing both primary and secondary data, which included a wide range of stakeholder interviews and key government publications and documents.

Chapter 4 provides the case study description of Indonesia and East Kalimantan. This includes an overview of key geographic and demographic statistics of East Kalimantan province and a brief description of the economic structure of the region.

Chapter 5 focuses on financial and local budget aspects, particularly the financial allocation process for local development. The discussion also focuses on the involvement of local bureaucrats and politicians in the local budget process. This chapter describes East Kalimantan's budget structures, budget changes after decentralisation, types of intergovernmental financial transfer, elite behaviour after decentralisation, lack of coordination and cooperation, the corruption phenomenon and budget trends after decentralisation.

Chapter 6 discusses the emergence of elites and their roles in East Kalimantan. Given that the politics of patronage in the province is closely tied to ethnicity, the chapter covers ethnic diversity, the migration of different ethnic groups to East Kalimantan, and the ethnic composition of contemporary bureaucratic, political, business, local customary, religious and social formations in East Kalimantan.

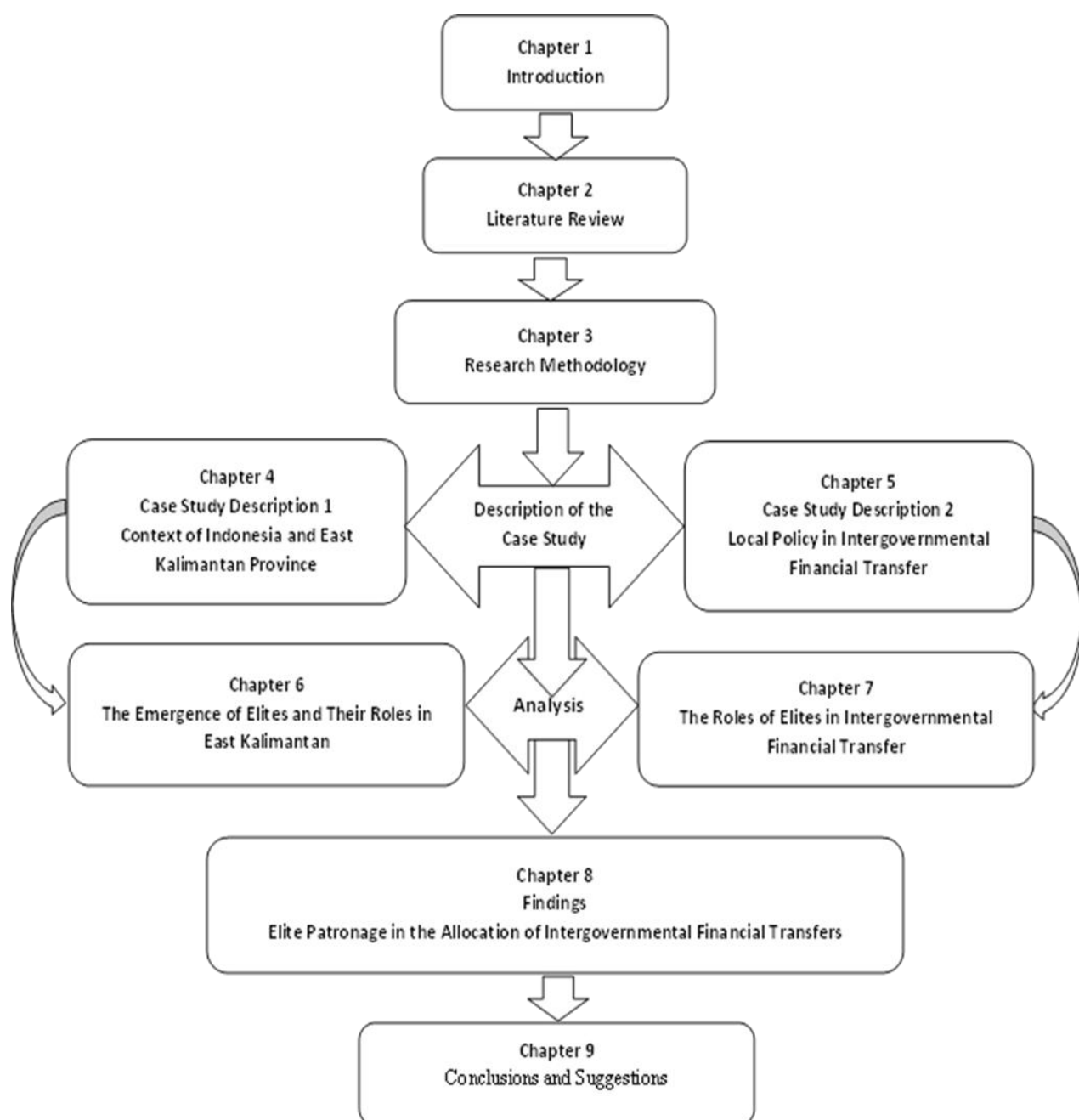
Chapter 7 discusses the role of local elites in the attempts to pressure the central government to amend Law No. 33/2004. The chapter provides the context for the push in terms of the debate to promote an increase of financial transfer, local

development and financial allocation planning, and the actual expenditure involved in intergovernmental financial transfers.

Chapter 8 describes the findings of the research relating to patronage and the allocation and distribution of intergovernmental financial transfer funds. This chapter focuses on how the elites used the politics of patronage to control financial resources and maintain and enhance their political power and influence.

The thesis concludes with Chapter 9, which reviews the central argument of the thesis and how the thesis addressed the research questions posed in Chapter 1 on the role of local elites and their use of the politics of patronage in relation to intergovernmental financial transfer. The chapter summarises the research findings, the contribution of the thesis to theory and practice, limitations of the research and suggestions for future research.

Figure 1.1 Thesis Structure



CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

As outlined in the previous chapter, this thesis investigates the role of local elites in intergovernmental financial transfers in East Kalimantan province. It is argued that the role played by the elites both reflects and gives rise to the politics of patronage in Indonesia—an aspect of life with which I am personally familiar both as a researcher and Indonesian citizen. To relate my personal understanding to the broader academic discourse, this chapter reviews what is known about the politics of patronage as represented in the literature. Following a brief review of the literature on how power, order and justice feature in the operation of politics, the chapter will deal with the concept and organisation of patronage, and how elite formation and function can be understood in terms of organisational patronage, democratic patronage, tactical patronage and reform patronage. This will establish the theoretical framework for understanding the role of East Kalimantan elites in relation to intergovernmental financial transfers and the decentralisation agenda that the transfers are meant to advance. Basic to that understanding is how politics is defined.

2.2 Understanding Politics

Countries across the globe have different political systems according to their government's characteristics or their own citizens' consensus. In very broad terms, political systems can be categorised into three types: authoritarian (Bedeski, 2003; Hadenius & Teorell, 2006), monarchical (Bogdanor, 1995; King, 2011), and democratic (Samarasinghe, 1994; Schmitter & Karl, 1991). Political systems can sit within or beside monarchies, religious systems and the military; the rulers may be presidents, prime ministers or kings/queens.

Countries with authoritarian political systems exercise strong centralised power. The government within an authoritarian and absolute monarchy is customarily linked with dictatorship in which political power is controlled by the country's rulers

(Bedeski, 2003). Rulers in authoritarian governments tend to seize or inherit rather than be elected to their position. Rulers maintain their power through strong military support. Their leadership tenure is often determined by their ability to control military and political party forces. Examples of authoritarian countries in Asia are North Korea and Laos, where power is strongly controlled by the leader.

Countries with monarchy-based political systems are led by a ruler who is a person of royal descent who has inherited the position of head of state in accordance with accepted practice or the constitution (one cannot proclaim oneself a monarch) (Hadenius & Teorell, 2006, p. 5). A monarchical system can work in conjunction with a democratic system, as a constitutional monarchy. Constitutional monarchies such as Japan and Thailand are led by a King, but the country's political affairs are controlled by a political ruler such as a prime minister. An absolute monarchy is a state ruled by a single ruler. A constitutional monarchy, however, is a state headed by a sovereign who rules according to the constitution. Such a constitution may be 'written' and codified, as indeed it is in the vast majority of constitutional monarchies in the modern world (Bogdanor, 1995). Meanwhile, absolute monarchies are ruled by a king, such as in Saudi Arabia and Kuwait, where the king also functions as a political ruler. In other words, in a constitutional monarchy, political power is controlled by a political ruler other than the monarch, while in an absolute monarchy the monarch controls political power.

In a democratic country, individuals have an opportunity to exercise their power to make political decisions (Samarasinghe, 1994). Within a democracy, rulers are held accountable for their actions in the public realm by citizens, acting indirectly through the competition and cooperation of their elected representatives (Schmitter & Karl, 1991). Countries with this political system in Asia include Indonesia, India and Pakistan. The citizens of those countries govern their nation; the elected government is expected to promote citizens' rights, interests and welfare according to regulations enacted consensually. Democracy requires that each citizen be free to participate in the political community's self-government (Bahmueller, Johnston, & Quigley, 2007, p. 12).

Most countries in Asia practise political democracy. These countries in general have many effective checks and balances on the actions of political leaders because the power in those countries is equally and fairly distributed to all citizens. For example, even though the presidents of Indonesia and the Philippines have powerful chief executives, they are strongly controlled by elected parliamentary members and citizens. The presidents are directly elected by citizens and they have power to control the presidents through their representatives in a central parliament house (Gonzalez & Mendoza, 2007). As the political power is equally distributed to all citizens and political orders such as political parties, local parliaments and other regulative institutions, justice and citizens' rights are maintained (Hofmeister & Grabow, 2011).

In order to strengthen equality, democratic countries tend to decentralise their political power to the local level. Political decentralisation in many developing countries is mostly caused by internal and external pressures to devolve administrative, fiscal and political power to lower tiers of government (Kis-Katos & Sjahrir, 2014). The Indonesian government, for example, has decentralised political power to the local level since 1998 to ensure local citizen participation in government decision-making. Citizens' political power is exercised through political parties which operate at the local government level.

In devolving power to the local level, the Indonesian central government has reduced its own power and surrendered some of its authority to the regions (Rasyid, 2003). In this way, the political process, such as local ruler elections, can be handled by local political institutions. The aim is for local citizens to have an opportunity to participate in the political process to determine political justice in their regions. In this context, the country is attempting to maintain order through distributing political power across the regions equally (Mielke, Schetter, & Wilde, 2011). Without equal political order across regions, conflict and injustice in politics would prevail. This political equality is enacted through the power of democracy (Bhakti, 2002)

Politics can be understood in terms of a country's efforts to realise a common good, or the activity through which government and its citizens attempt to improve their lives and create good society. As such, scholars have defined 'politics'

variously—such as politics as ‘the art of the possible’, the study of ‘who gets what, when, and how’, and the ‘authoritative allocation of values’, among many other definitions (Magstadt, 2013, p. 3). For some, politics is about governing (Peters, 2004); for others it is about exercising force (Nicholson, 2004) or a form of rule (Crick, 2004). Taking a more general approach, Heywood (2015, p. 168) defines politics as the activity through which people make, preserve and amend the general rules under which they live. These rules can function as a mechanism for how people should engage and interact in their social life. From this perspective, politics serves to prevent society from falling into disorder and even war because people are able to reach political settlement to avoid conflict (Sleat, 2016).

According to Magstadt (2013), politics basically deals with three issues: power, order and justice. Power is reflected in the relationship between people, which may be expressed in simple symbolic terms, as formulated by Dahl: that A has power over B to the extent that he can get B to do something that B would not otherwise do (Dahl, 1957, p. 203). When someone gets someone else to do something they would not otherwise do this is an exercise of power (Mitchell, Agle, & Wood, 1997). Within organisations, people are ranked or ordered based on the power they exercise in getting other members of the organisation to do things. The ‘order’ exists on several levels and simultaneously reflects and determines the structures, rules, rituals, procedures and practices that constitute political systems (Magstadt, 2013). Closely connected with power and order is ‘justice’, which is a fundamental issue in politics because, unless it is exercised fairly, power can be destabilised and order undermined.

Drawing from the various representations of politics outlined above, in this thesis politics is defined in terms of how local governments exercise power and justice through various level of hierarchies (political and bureaucratic) to distribute resources across different groups in society. The concepts of power, justice and order are discussed in the following sub-section to make sense of this study context.

2.2.1 Power

Power is difficult to conceive and understand. Mostly, power is exercised by particular individuals, groups or organisations in a society. Power cannot be seen but it is omnipresent in social life, for example when we see a person or organisation demand another person or organisation to do something that they do not have the ability to refuse. In other words, it is an abstract and complex concept lying at the heart of politics, authority and wealth. As a concept, 'power' is used differently across disciplines (Levin, 2012). As previously mentioned, Dahl (1957, p. 203), for example, uses the concept in terms of the symbolic formulation: 'A has power over B to the extent that he can get B to do something that B would not otherwise do'. From Dahl's perspective, power reflects the superiority of its holders, in terms of which the owners of the power are able to exercise their power over 'ordinary' people. Dowding (2016) associates this superiority of power with the ability of people to coerce or manipulate other people for their own benefit.

According to Isaac (2004), power can be classified according to four models: voluntarist, hermeneutic, structuralist and postmodernist. From a voluntarist perspective, power could be described as a shifting asset, in which the power among differing social units can be reflected in many forms. According to this perspective, power functions as a dynamic tool when tensions evolve between entities, and the way it is manifested depends on the situation and political context in which it takes place (Levin, 2012). The hermeneutic model conceives 'power as constituted in a shared meaning of given communities' (Isaac, 2004, p. 58), where the meanings constitute the knowledge possessed by each of the entities, which can potentially create either political consensus or political conflict (Levin, 2012). According to the structuralist classification, power is not created through dialogue or mutual behaviours, but is rather a precedent factor owned and taught by whoever controls the social structure. In other words, as Pustovitovskij and Kremer (2011) note, power is considered as the possession of resources by the owners—or power-as-resources. Possession of resources influences the social structure, with social order maintained by the different levels within a society. Finally, the postmodernist model argues that power plays an important role in the interaction between social groups, with

fundamental inequalities between the groups maintained through such means as language usage, knowledge creation and symbolism (Levin, 2012).

Meanwhile, Whitt (1979) proposed three models of power: pluralist, elitist and class-dialectic models. The elitist model of politics posits that power is held by elites who occupy positions within a large institutional hierarchy. In this model, elites tend to unite due to their purposes and similarity in background to achieve their objectives. Pluralists also argue that interest groups exist within political life and their power is built based on effective voluntary political organisation. However, elites have to compete to get the power, which can be based on organisational, governmental, economic, social and personal factors. Class-dialectic models of power hold that the power is held by a dominant class, but potentially available to subordinate classes (Whitt, 1979). The dominant groups emerge based on their common social background and convergent interests (Clegg, 1989).

The concept of power can be best understood when actors, such as local government elites, exercise it in their daily roles. I believe the power of local government elites is manifested in their ability to influence government policy implementation. The power enables them to control and direct local resources, such as government financial resources, to the path that benefits them. As argued by Vergara (2013), elites are constantly controlling power resources over the broad population. When elites have power to control resources, citizens' access to the resources may be limited. This is considered as the power to control resources (Pustovitovskij & Kremer, 2011), which accords with the findings of this study.

2.2.2 Order

Human beings are both individual and social. They live in groups, which consist of hierarchies, norms and values. Every society has 'order' that maintains a well-structured hierarchy. 'Order' becomes an instrument to exercise power to achieve common goals or maintain harmony (Dijk, 1996). In this sense, the order connects community in a social life hierarchy. The connection is reflected in a pattern that regulates the social and the political in a society (Lieberman, 2002). Such order is

often defined as ‘a state of affairs in which a multiplicity of elements of various kinds are so related to each other that we may learn from our acquaintance with some spatial or temporal part of the whole to form correct expectations concerning the rest’ (Hayek, 1982, p. 36). When the ‘order’ regulates people’s interaction, it also shapes and limits political behaviour through creating incentives and opportunities to legitimate peoples’ action. In this context, order becomes a basic political value within the society (Lenz & Holman, 2003).

Order is also associated with liberty because the sense of liberty can only be maintained when people have order. The ‘order’ organises and builds the pattern of institutional relationships that tie society together as the basis of social structure formation. The order also maintains people’s liberty in the institutionalised relationship. In this sense, people may have order without liberty, but they cannot have liberty without order (Huntington, 1968). People maintain order in their daily life through associations and groups to settle various issues in their life. A political organisation is an example which can be used as an instrument to maintain order in which people can resolve disputes, select authoritative leaders, as well as promote community (Huntington, 1968). The authoritative leader is usually determined by laws created in a society, with authoritative leaders functioning to prevent ubiquitous conflict in human life (Sleat, 2016). Order can also be represented in the form of structures, rules, rituals, procedures and practices that make up the political system in society (Magstadt, 2013). Social order is based on consensus and shared values, which hold the interrelated parts of society together.

Order is established through consensual agreement and based on moral values within a society. This consensus and shared moral values determine the formation of order which holds the interrelated parts of society together. Social and political order cannot be legitimated unless it is built on the consent of all people who live under it, and the consent or agreement of these people becomes an instrument to enforce the order against themselves (Waldron, 1987). In this context, the order can be described as that which ‘glues societies together and prevents them from disintegrating in chaos and war’ (Elster, 1989, p. 1). Under this order, people work together through cooperation and communication to prevent conflict and achieve their common goals.

These communication and cooperation mechanisms can be used as instruments to maintain order (Calvert, 1998). However, a rule created by society can also be used to maintain the order (Magstadt, 2013). The society is bound by obligations to respect and obey the rule so that the order is practised over time in society.

Taking into account the above perspectives, I argue that members of society do not live at the same hierarchical level; instead they are differentiated by ‘order’ in terms of which at least one individual or group must be subordinate to at least one other individual or group (Magee & Galinsky, 2008). I believe the order keeps societies moving forward instead of falling apart in uncertain social situations. Within the local government context, I argue that maintaining good order becomes one of the important responsibilities of local government—to create and maintain a form of order that serves the citizens’ interest. Local government should establish public safety such as protecting citizens from crime, inequality, corruption and misuse of local resources.

2.2.3 Justice

Every government has a responsibility to protect and advance citizens’ fundamental rights and standard of life. It is difficult to determine what is considered as ‘just’ and ‘unjust’ within the life of society. However, the universal belief in the importance of upholding justice is about promoting a just society by means of challenging injustice and valuing diversity (Robinson, 2016). Thomas Aquinas described ‘justice’ as ‘a habit whereby a man renders to each one his due by a constant and perpetual will’ (Capeheart & Milovanovic, 2007, p. 11). Meanwhile, Jost and Kay (2010, p. 1) define justice as follows:

a state of affairs (either actual or ideal) in which (a) benefits and burdens in society are dispersed in accordance with some allocation principle (or set of principles); (b) procedures, norms, and rules that govern political and other forms of decision-making preserve the basic rights, liberties, and entitlements of individuals and groups; and (c) human beings (and perhaps other species) are

treated with dignity and respect not only by authorities but also by other relevant social actors, including fellow citizens.

Justice is understood in two forms: (1) justice which is equated with legal justice and (2) justice based on the laws of state (Capeheart & Milovanovic, 2007, p. 11). The two forms of justice are practised in a country through the state constitution, such as freedom to live, and through regulations enacted to distribute the state resources to all societies fairly and equally. Legal justice is practised by a society as it is demanded or imposed by regulations enacted within the society, while justice based on the law of the state is the justice guaranteed by the state constitution. Mostly justice is carried out in a society through actions that are in accordance with the requirements of particular laws. Social justice guarantees that everyone in society receives equal and fair access to political, economic and government services. As such, justice is often associated with fairness (Rawls, 1985) and equality (Begum & Awan, 2013).

The practice of justice in a society becomes a precondition for peace and harmony in the society because, without justice, a society may descend into conflict and war. Regulations are often enacted to ensure justice is distributed equally and fairly to the whole community. The common perception is there is or should be equal distribution of rights and resources to all members of the community. In this study, justice is understood as the fair and equal access to economic, social and cultural rights by all members of the community (Arbour, 2006).

Justice is considered as 'just' when a country is able to provide citizens' basic rights such as freedom to live and equal right to access to the country's resources. However, sometimes citizens do not have their basic needs provided for equally and face unfair economic conditions because government is structured so that elites use resources only for their own or clients' benefits. This arrangement is known as a patronage system, which is discussed broadly in the next section.

2.3 The Concept of Patronage

Political patronage is not a new phenomenon in public life, and can be traced back to at least the thirteenth century. The early patronage was exercised in the context of religious institutions, where bishops exercised authority in relation to clerical appointments. A bishop exercised his authority to appoint a clerk to assure the quality of local clergy by checking on the character, education and eligibility of the man presented to him (Gemmill, 2013). The bishop played an important role as patron in relation to clients, some of whom were highly influential people. The bishop's right in appointment of the clerics was considered very important in maintaining the church's relationship with clients.

At a later stage, the politics of patronage became commonly used in the secular political world. A number of patronage studies have been carried out in anthropology. Firstly, the debate concerning the forms of patronage in anthropology can be seen in Banfield's study, *The Moral Basis of a Backward Society* (Banfield, 1958), where he carried out field research in the small community of Montegrano in Basilicata Italy. Banfield observed a lack of *civic culture* in this town toward the poor people of society. Citizens were only pursuing the interests of their own family group rather than the common good for all citizens' benefits. Another patronage study in anthropology by Lyon (2002) carried out in Pakistan Punjabi, showed that Islamic patronage and hierarchy related to the relationship individuals and groups have with *sufi* saints and *pir* (*sufi master*). He highlighted that the relationship between a person and his or her *pir* is arguably far more symbolically and materially powerful than that between people and their *maulvi*⁴.

In sociology, the theory of patronage has been used in understanding corruption phenomena (e.g. Chiweshe, 2015; Waiguru, 2002). Chiweshe (2015) studied corruption within the Zimbabwe government bureaucracy through the lens of patronage political theory, and found that patronage was exercised when government bureaucrats give jobs to relatives and to constituencies who pay money for jobs they

⁴One of four types of *Mawlawi*, an honorific Islamic religious title given to Muslim religious scholars or Ulema preceding their names

would not otherwise obtain. Meanwhile, Waiguru (2002) employed politics of patronage theory to understand a self-help indigenous project (*Harambee*) in Kenya. The organisation was led by the Kenyan president and also involved bureaucrats and ethnic elites. Through the lens of patronage theory, Waiguru was able to understand how the project was used as an avenue for people who steal public funds to legitimise themselves to the public. Waiguru also found that politicians are the principal donors in public *harambees* and moreover patronage has become more concentrated.

The use of the politics of patronage theory in the political world is even more common (e.g. Arriola, 2009; Kopecký, 2011; Kopecký & Mair, 2006; Piliavsky, 2014), with political scholars using patronage theory to examine political stability and democracy in African countries, such as Ghana and South Africa. For example, Kopecký (2011) used the theory to analyse political party patronage in two newly democratic countries (Ghana and South Africa), where he found that political parties have become one of the key problems in the countries' democracy. He argues that political parties in both countries exploit the state through appointment of officials across a wide range of state institutions. Kopecký (2011) contests the widespread claim that robust party competition constrains politicians and hence limits patronage politics.

Patronage political theory has also been employed within the context of decentralisation, (e.g. Kenny, 2013; Kleibrink, 2015; Sadanandan, 2012). Kenny (2013), for example, studied patronage politics in British colonialised countries at the sub-national level and found that there are strong pressures when modern states are consolidated, with sub-national brokers and leaders leveraging their local power to obtain concessions from central government for control over the implementation of government policies. Kenny argues that local brokers and leaders are more resistant to reform because they have a strong power or veto right to slow or limit the process. His findings proved that patronage theory offers a more credible account of understanding variation in the persistence of patronage within states over time and also provides an explanation for variation in patronage among both democratic and non-democratic politics (Kenny, 2013).

In another study, Kleibrink (2015) found that decentralisation has enabled local elites to use patronage as a means to politicise the public sector and thus gain influence over it. Through decentralisation reforms, elites get new opportunities for appointing their people in local government institutions. They are also able to coordinate and cooperate within the networks they build to control bureaucratic power and local resources. The local rulers fill higher bureaucratic and political positions such as heads of department and local secretaries with their affiliated parties' members (Kleibrink, 2015).

Similarly, in his study, Hadiz (2004), argues that decentralisation in Indonesia has had little bearing in terms of pushing forward a governance agenda based on transparency and accountability, due to rampant predatory networks of patronage. For example, Indonesian government policies in the de-concentration of forest industries resulted in a few large conglomerates, and logging concessions became a form of patronage bestowed to secure the financial and political interests of state elites (Resosudarmo, 2004). Critically for this thesis, decentralisation in Indonesia has shifted some of the incentives and opportunities for patronage and corruption from the central to the sub-national level (Varkkey, 2012).

Even though Hadiz (2004), Resosudarmo (2004) and Varkkey (2012) have used politics of patronage theory in understanding decentralisation within the Indonesia context, their studies fail to address local elite patronage in local financial decentralisation (financial transfer). In fact, financial decentralisation is a critical aspect of decentralisation (Bahl, 2008), with financial decentralisation a major source for local government to cover their basic expenditure. However, intergovernmental financial transfer often faces distortion and inefficiency (Lü, 2015) because of weak local accountability, providing opportunities for local elites to capture and corrupt the transfer (Bardhan & Mookherjee, 2006).

Blunt, Turner and Lindroth (2012) also argue that Indonesia is a country with rampant patronage and that decentralisation has fostered the patronage system. Local elites have gained more autonomy and independence in political, administrative and financial allocation. I argue that this new opportunity enhances their ability to play

patronage politics in all three aspects of decentralisation: political, administrative and financial. Therefore, I also argue that the politics of patronage is a suitable theory to be employed in understanding how local elites exercise their power and influence in local government financial transfer in East Kalimantan.

As with the study of politics, the study of patronage and the patron-client relationship has attracted scholarly attention in a number of disciplines (Eisenstadt & Roniger, 1980). Patronage is defined by Eisenstadt and Roniger as ‘a distinct mode of regulating crucial aspects of institutional order: the structuring of the flow of resources, exchange and power relations and their legitimation in society’ (Eisenstadt & Roniger, 1980). Within a political context, patronage refers to the individualisation of benefits that are usually allocated collectively (Golden, 2000), and involve political actors such as legislators, bureaucrats and business leaders, who interact to derive individual benefit from resources which otherwise might be allocated for collective benefit. Such elites use patronage as an instrument to gain influence over the public sector (Kleibrink, 2015).

Blunt, Turner, and Lindroth (2012) argue that patronage can become a feature of governance when decentralisation combines with the symbiotic relationships that can exist between patronage and development assistance. In such cases, patronage emerges when elites bound together by kinship and common interest work within different departments and at different levels in varying capacities to collectively pursue their agenda (Javid, 2012). While Sorauf (1956) argues that patronage serves only a limited function as an instrument to practise political motives, studies conducted in developing countries show that such patronage is common (Kopecký, 2011) and the patronage denotes a general mode of social and economic exchange (Blunt et al., 2012).

Some scholars see patronage as a negative phenomenon, but other scholars believe patronage can be useful within society. For example, Sorauf (1960, pp. 28-29) argues that patronage is important to the political process because it is an incentive system that can maintain an active party organisation, promoting intra-party cohesion, attracting voters and supporters, financing the party and its candidates, procuring

favourable government action, and creating party discipline in policy-making. Scholars who view patronage as evil and negative, such as Kleibrink (2015), argue that elites use patronage as a means to politicise the public sector and thus gain influence over it. When elites practise patronage, they tend to consume public resources for their own and clients' benefits rather than distribute it equally to the whole society. The elites also tend to assist and protect their clients, and those whom they so help and protect (Weingrod, 1968, p. 377).

Kochanek (2000) gives an example where a group of elites from a similar social class in Bangladesh gathered to control a big party which impeded the Bangladesh government in implementing policies to improve citizens' welfare. In Bangladesh, patron-client relationships, and the absence of political consensus among government and political elites, have resulted in a partial democracy dominated by pervasive corruption and nepotism. This has resulted in a variety of unanticipated consequences in Bangladesh, such as development being targeted to areas of political advantage to the government rather than poor citizens' areas. In this context, patronage has generated adverse effects in terms of government policies impeding equal distribution within the community. As such, patronage has undermined efforts to reform organisations and government in improving the lives of the poor and disadvantaged (Hodder, 2015).

Some scholars argue that the politics of patronage is over in modern government. For example, Price (1944) notes a decrease in the number of political appointees is an indication of the decline in patronage practices. Sorauf (1960) also describes the diminished usefulness of patronage when the need of patronage-type workers to campaigns has declined and patronage-type jobs become less attractive. Sorauf (1960) argues that the rise in media-based campaigns and increased need for skilled campaign workers decreases the importance of old-style party campaign work for the candidates. In fact, patronage still exists not only in the developing world but also in developed countries. For example, Horton and Lewis (2010) noted that the president of the United States, Barack Obama, appointed client employees in his government whose skills were incompatible with the needs of the position. The appointment of

those employees was even supported by Congress in order to be responsive to presidential direction.

According to Bearfield (2009, p. 68), patronage can generally be categorised into four styles: *organisational patronage*, which is used to strengthen or create political organisations, *democratic patronage*, which seeks to achieve democratic or egalitarian goals using patronage networks, *tactical patronage*, which uses the distribution of public offices to connect various political divisions or as an instrument to achieve political or policy objectives, and *reform patronage*, which emerges when individuals who commit to reform current patronage systems are at the same time also involved in using patronage as an instrument to replace an earlier corrupt political regime. The four types of patronage are discussed in the following sub-sections.

2.3.1 Organisational Patronage

Organisations can be a pool of patronage practices. Organisational patronage is the practice of patronage in organisations built by political elites who portray serving their patronage position as acts of prestige and loyalty within the organisation (Bearfield, 2009). In some countries, the patronage is built based on families' connections, which results in successions of family members in various political organisations and government bureaucracy. For example, in New York, Gitterman (1982, p. 93) found brothers succeeding brothers and sons following fathers in the same local office, or simply redistributing the offices among themselves from term to term. The appointee committee which aids the president in the Philippines during the selection of higher political actors is another example of organisational patronage (Kang, 2002).

Within organisational patronage, elites can benefit from pooling resources at different levels of organisations and utilising those resources to enrich themselves or their cronies. For example, actors in patronage-based organisations may create inappropriate or higher schemes of salaries and bonuses compared to other organisations in a similar context (Gray, 2015). This patronage can result in corruption and inefficiency in government organisations because it involves the use of

public offices for patron-client payments and benefits. Both governments and bureaucrats benefit from patronage when bureaucrats are able to exploit their offices for their own benefit (Hollyer, 2009). When organisational patronage is widely practised, highly-skilled employees are unlikely to be recruited and employed within the organisations.

2.3.2 Democratic Patronage

Patronage is understood as democratic patronage when it fulfils two conditions: (1) the public sector dwarfs the private sector as a source of jobs and a provider of services, or a large private sector exists but is under state regulation; and (2) elected officials enjoy significant discretion in the implementation of laws allocating these jobs and services (Chandra, 2009, p. 22). The important element of democratic patronage is the power of government-elected officials to distribute state resources to voters based on their discretionary policy rather than based on the implementation of state policy. An example of democratic patronage is given by Berenschot (2014), who describes how in India's 'patronage democracy' brokers help politicians convert state resources into electoral support, with state resources allocated to areas where voters give more votes to the politicians. However, when the voting behaviour is changed by the political fixers, such as in Gujarat's main city Ahmedabad, the way those politicians provide access to the state resources is also changed (Berenschot, 2011).

Democratic patronage, in some contexts, is considered important to ensure that resources can be distributed across the country. For example, in a fragile country such as Timor Leste patronage-based government is necessary if political instability and violence are to be prevented (Hodder, 2015). A similar situation applies in parts of Africa where informality, patronage and clientelism are commonly practised in determining access to resources and influence (Chabal, 1999). In this context, patronage can help patrons organise and practise collective action for certain benefits such as to distribute resources equally or to resist external power.

2.3.3 Tactical Patronage

Tactical patronage uses strategies as an instrument to gain benefits. It is used as a means for bridging political cleavages or gathering support for a particular policy idea or program. These cleavages include geographic (such as urban/rural), economic (agricultural and industrial), social (rich and poor) (Bearfield, 2009). The practice of tactical patronage can be found in policy implementation within society. For example, the distribution of state resources is sometimes strategically focused on swinging communities rather than partisan communities (Caldeira, 2012). This tactical distribution is considered a patronage practice because it is intentionally designed to target particular groups who are considered to provide benefits for the distributors.

Central government elites sometimes also strategically make financial transfers to local government, which is considered to have more political power. The local government's political power may be determined by the dominance of local ethnic members in the central parliament representing power bases at the local government level. For example, the Senegal government considers ethnic dominance in intergovernmental transfer as a tactical instrument to pacify fractionalised areas (Caldeira, 2012). This strategy can reduce demands for independence in the area.

2.3.4 Reform Patronage

Government often reforms their organisations to improve administrative and bureaucratic performance, but the policy sometimes is used as a hidden agenda to practise patronage. Government and political elites echo government bureaucratic reform as a new agenda to attract voters' sympathy and vote for them. Banfield and Wilson (1963) give an example of politicians using reform in government organisations as their campaign rhetoric. Reformer politicians may say that they will reform political behaviour in office, but once elected they continue in fact to benefit from reproducing the old patterns.

In some cases, governments propose certain reform agendas through establishing rules and regulations that benefit particular actors (Flinders & Geddes, 2014). Flinders

and Geddes (2014) give as an example when British government reform led to a reduction of around 3,700 ministerial appointments, but most of these employees were unpaid employees who played minor roles in small government agencies. Meanwhile, most of the other employees remained untouched and the minister continued to appoint them as his advisors.

In Uganda, such reform patronage was practised through the sponsor of donors. Donors introduced government structure adjustment programs through reducing government size and scope as well as cutting government spending in order to limit patronage within the government. However, the interaction between donors and government reproduced new form of patronage when the donors together with the government announced that Uganda was a major case of economic success in Africa, when in fact it was a struggling economy (Mwenda & Tangri, 2005). This cooperation around a reform agenda helps political rulers to remain in their positions of power.

2.4 Identification and Understanding of Elites

Studies about elites' roles within government organisations have been carried out around the world. According to Gulyaeva (2012), for example, in every country in Europe and Asia political elites exercise power and participate in all regional institutions. They exercise their power at the top of the institutions in their country. As noted by Lee, according to Barr (2005) the elites then become a core group of people who occupy key positions of power and influence and set the direction for the whole society and country (Barr, 2005). Even though most of the elites emerged through democratic political processes, elites are often portrayed as 'lacking political will' (DFID, 2011), that is, lacking attention or the willingness to fight for a common good, instead focusing on their own interests.

Research on elites has become an important tool for understanding the changes in the political and economic dimensions of power structures in the context of democratic experience and the nature of economic development in countries (Beri & Schneickert, 2016). As noted by Kotter (2010), the main issue with research on elites relates to identifying them and how their power and influence operate in a country. A number of studies (e.g. Higley & Pakulski, 2012; Vergara, 2013) have found that

elites have emerged and flourished as a result of social and material conditions. Social conditions include changes in the political system in a country such as from an authoritarian political system to a democratic system, or from a centralised system to a decentralised system. Changes in the economy can also encourage the emergence of elites, based on material circumstances, such as the emergence of rich business people.

In some contexts, political elites are considered to perpetuate the fragility of states and to destroy state capacity (Putzel, 2005). This is due to the pursuit of collective objectives rather than public objectives. For example, when a government-funded project to change or reform government institutions has been successfully implemented, a few years later the policies might still be unenforced and the institutions become dysfunctional or co-opted by powerful elites (Parks & Cole, 2010). This points to how elites often resist reform and maintain the status quo—even as they give voice to a reform agenda. A good example is given by Luebke (2010), who describes Indonesian Finance Minister Sri Mulyani Indrawati and Vice President Boediono proposing financial reform during Sosilo Bambang Yodoyono's presidency. While such reform was successfully achieved, old-regime elites and opportunistic politicians were mounting new forms of resistance.

The uniqueness of elites in Asian countries, such as Indonesia, has been described by Seifert (2010), who argues that most ruling elites across Asian countries tend to control all political and economic transformation processes from the start. More importantly, those elites that monopolise control involve their families, friends and political allies. This becomes typical behaviour of elites in the transformation process within Asian countries. These elites also attempt to legitimately claim to represent or lead their community (Hsu, 2007), a claim which can be considered valid when the elites act on behalf of community groups such as ethnic or religious groups, as in Indonesia.

In Indonesia, elites groups do not have to occupy government offices in order to monopolise or continuously access state resources or shape public policy. Social and economic elites, for example, are considered powerful elites who have access to the

state and shape public policy. Crone has described them as ‘dominant groups’ or ‘socioeconomic elites’ who have powerful social and economic power (Crone, 1988). These elites usually influence government policies through cooperation with elites within formal government institutions or use their social power (e.g. through religious and ethnic leaders) to pressure government.

The emergence of elites in Indonesia both triggered and was triggered by a change of the country’s system from a centralised to a decentralised system. Non-Government Organisation (NGO) elites, for example, emerged and flourished when the Indonesian government reformed its political system. NGO elites exist not only at central but also at local level. They are able to mobilise local resources for internal use for the benefit of the local citizens (Gunawan, 2004). Similarly, ethnic heterogeneity and religious homogeneity have also enhanced the emergence of elites able to reduce conflict and incentivise multiethnic political parties (Macdonald, 2013). They are involved in various political parties and contribute to local government policy-making.

However, current elites within Indonesian local governments have become local power brokers who finance local political campaigns (Macdonald, 2013). Their political and financial contribution in local elections causes political and bureaucratic elites to owe them a financial and political debt. The consequence of this situation is that the elected–voter relationship becomes a patron–client relationship (Kwong, 2009). As a result, all local elites play the politics of patronage, aiming to control local resources (e.g. financial and natural resources) and to exercise local power to support their patron–client relationship. As previously argued (see pages 30 to 33), the politics of patronage in Indonesia is played out according to four types of patronage (organisational, democratic, tactical and reform patronage), which forms the lens for my research.

The elites who feature in all the forms of patronage outlined above interact within different levels of society’s structures to collectively secure resources and power. The elites emerged from different social groups and play different roles, such as politicians, businessmen and bureaucrats, but their emergence and roles are not well

understood. In this section, I discuss the meaning of elites and identify their roles based on theoretical perspectives gained from the literature.

Elite figures exist in every community group, where they enjoy a higher position vis-à-vis other members of the community. They are a phenomenon of social life and usually comprise a small group of people who play significant roles in the society. Their roles are recognised and accepted within society because sometimes they are required for leading and dominating social and political life. Their formation has been a subject of scientific studies in the areas of sociology, anthropology and politics, with a number of scholars (e.g. Higley, 2010; López, 2013) formulating theories accounting for their existence. According to Higley, elites emerged in the absence of any robust collective or common interest (Higley, 2010). Innovators can enter existing elite groups individually and over time manifest themselves as alternatives to existing elites (S. Yilmaz, 2003). Elites continue to exist to the extent that they exercise power and influence within their community.

A seminal work by Higley (2010, p. 163) defines elites as ‘persons who, by virtue of their strategic locations in large or otherwise pivotal organisations and movements, are able to affect political outcomes regularly and substantially’. They control resources, occupy key positions and they are connected through power networks (López, 2013). They are also not a homogeneous group, nor do they share the same amount of power. As they control the resources and dominate society, they usually exist at the top of the social and political order.

Elites have been identified as both institutional formations and as influential individuals (Reis & Moore, 2005), both of which exist at central and local government levels (Kennedy, 1981). Institutional elites can be defined as those who occupy positions within institutions or groups that enable them to exert significant influence in a country. This includes political institutions such as parliament, president and political party, public bureaucracy, large companies and business organisations, voluntary associations and religious institutions. For the purpose of this study, elites are defined as ‘the very small number of people who control the key material, symbolic and political resources within a country’ (Reis & Moore, 2005, p.

2). According to this definition, elites are able to control political affairs and the direction of policy within government (Parry, 2005). Elites can not only maintain the status quo, but also act as political entrepreneurs who are able to change a country's policy direction (M. Schneider & Teske, 1992, p. 737).

Within a political context, following Putnam (1976, p. 14) elites might be viewed as people at the top of the pyramid or pyramids of political, economic and social power. They might be selected individuals, small groups of citizens, or organisations that exercise a large degree of power (Daloz, 2007). As Vergara (2013, p. 33) points out, a political elite is a subset of those who exercise power—a group of people, corporations, political parties and/or any other kind of civil society organisation able to manage and organise government and all manifestations of political power. Such elite individuals and bodies might interact through coordination and cooperation to dominate society and control resources.

The replacement of elites in politics is limited because many persons and groups suddenly convert to a new regime and its principle when a new government is formed (Dogan & Higley, 2012). The elites, such as political elites, may be replaced when new political leaders emerge and build patronage in government organisations or political parties. Government bureaucrats or political elites may appoint their colleagues to hold a higher government or party position. These new figures may replace former government or political elites. 'Political elites' refers to the holders of positions in powerful organisations and movements, including dissident ones, who are able to affect government political outcomes regularly and significantly (Dogan & Higley, 2012). They play significant political roles in a country and determine policies.

Higley (2010) has identified three type of elites: top politicians, important businessmen and high-level civil servants, while Magstadt (2013) has extended to include wealthy individuals able to exploit the workers who produce society's wealth, and able to influence political rulers. According to the definitions outlined above, we can identify a number of elites relevant to this study.

Table 2.1 Elite Types

No	Elites	Description	Author (s)
1.	NGOs	Play an important role in creating political space to practise a new type of patronage	(Leonard et al., 2010)
2.	Politicians	Politicians include political leaders and legislators	(Genieys, 2005; Golden, 2000; Higley, 2010; Vergara, 2013)
3.	Business people	Individuals or groups running a business who are able to influence government policy	(Evaquarta, 2008; Higley, 2010)
4.	High-level civil servants	Higher level government employees whose positions can determine political rulers' decision-making	(Evaquarta, 2008; Higley, 2010)
5.	Senior military officers	High ranking military members with power to influence government policy	(Higley, 2010; Sbicca, 2012)
6.	Mass organisation leaders	Mass organisation leaders such as youth leaders and customary leaders	(Higley, 2010)
7.	Religious leaders	Religious scholars or leaders whose legitimization is directly or indirectly required by political rulers	(Hunter, 1987; K. Yilmaz, 2009)

Local authorities or leaders tend to rely heavily on the support and advice of local elites in their leadership (Kennedy, 1981) because elites have power to control resources within their community groups. Religious elites have power to control and manage their followers for political benefits. For example, the leaders of Indonesia's biggest Islamic organisation (*Nahdhatul Ulama*), which has about 85 million members, have considerable power to influence government and policies in Indonesia (Bush, 2009). Such elites occupy an important space in the local political landscape, as pointed out by Mitra (2001).

The elites' roles and identities usually emerge during their interaction in the implementation of various government policies. Particular economic and political events in local policies and development account for the presence of local elites. They may emerge as key local actors wanting to participate in local development, or they may have their own narrow interests in pursuing political power (Chrislip, 2002; Wood & Gray, 1991).

Under this scenario, according to Higley (2010, p. 164) two categories of elites can be identified: disunited and united elites. Disunited elites emerge when power straddles dictatorial and democratic poles, which creates uncertainty in society. Disunited elites usually result in uncertain political alliances that easily turn to conflict between them. For example, Nigeria's ethnic cleavage caused the emergence of disunited elites in which each elite struggled for its own interests (Odubajo & Alabi, 2014). However, Odubajo and Alabi (2014) also argue these elites somehow manage to become united elites when they intend to build a new democratic order or when they face crisis caused by an external situation.

A similar condition applies within local government when the local political situation is in uncertainty, such as during elections for local members of parliament and political rulers (such as governor, regent, and mayor). However, when they have a similar agenda or when there is pressure from central government, they tend to unite and struggle for a common goal. United elites, on the other hand, emerge in countries with strong patterns of institutionalised authority and procedures that have been respected and perpetuated over long periods (Highley, 2010). These two groups of elites often exist in local government, such as in my study context. Accordingly, the following sub-sections discuss the differences between disunited and united elites.

2.4.1 Disunited Elites

Government organisations often face political uncertainty in particular when elites compete to win power and political position. They become scattered and disunited in pursuing a common good. These disunited elites arise in situations of political uncertainty and they are usually unstable. Democracies built by disunited elites are considered unstable democracies because the source of stability (elite union) is absent (López, 2013). Disunited elites are often a product of the formation of independent nation-states, for example, those in the European nation-states that emerged between 1500-1800 (Higley & Burton, 2006, p. 12).

Mostly, a smaller group of many disunited elites act upon ethnic and religious communities who are unlikely to oppose them—mobilising and leading them (Higley

& Burton, 2006). In the same way, sometimes the disunited elites request support from ethno-religious population segments to serve their interest. Snyder (2000) has noted that disunited elites caused ethnic conflict in 35 countries that resulted in 1000 deaths between 1945 and 1999. These countries included Bangladesh, Bosnia, Myanmar and Indonesia. The disunited elites went to war camps and appealed for support. However, leadership factions in disunited elites may bargain out arrangements for a future solution which results in the emergence of united elites (Field & Higley, 1980).

Disunited elites can either develop into consensually united elites or be replaced by ideologically united elites. Higley (2010, p. 167) gives two processes by which disunited elites can be replaced with ideological elites: through revolutionary upheavals won by a doctrinaire elite group, and through impositions by a foreign power already possessing such an elite. Later, disunited elites can become consensually united elites through basic and sudden elite settlements in societies at relatively low levels of socio-economic development and through colonial home rule and independence struggles where local elites have already received or obtained in the course of their struggles experience in political bargaining and restrained competitions.

I argue that, in the local government context, disunited elites also often become united elites when they reach agreement on certain political situations or when they struggle to achieve common interest. For example, as described in Chapter 7, local party, business and ethnic elites stood together to confront central government power over the allocation of funds derived from local natural resources.

2.4.2 United Elites

Communities are united when they live under a common sense of ideology, norms and values. Similarly, elites are united when they share a similar ideology to the government or at least voluntarily unite if the ideology is different. As such, mostly united elites live in countries which are stable in politics and have strong political institutions. Higley (2010, p. 164) argues that united elites can be understood as

either ideological or consensual united elites. These two types of elite exist in various government organisations across the globe, with variations reflecting different formation experiences and/or ideology.

Consensual united elites emerge when some external power imposes power on a conquered or otherwise subordinated country; meanwhile, ideological united elites emerge when they share common values and beliefs toward their country's ideology (Higley, 2010). For example, the majority of citizens around the world are convinced that 'democracy' is the best form of political system, while in Iran—where the state is based on Islamic *sharia* law—a majority of citizens see their theocratic ideology as the most advanced type of social organisation (Malesevic, 2002, p. 66). In relation to East Kalimantan, I argue that a similar process occurred when elites in government organisations shared the belief that resources needed to be allocated on the basis of a region's contribution to the nation's income.

This is an example of elites being united around a particular issue or shared interest. Higley has noted that where there is a conflict between two elites with opposing ideologies, they can coordinate and negotiate to reach an agreement, which results in the formation of consensual elites. Higley (2010) provides examples of the emergence of united consensual elites from conservative and liberal groups in Swedish and British life, who had long-standing conflicts during the most of the nineteenth and the first half of the twentieth century. In more recent times, these consensual elites have emerged when there are two parties facing each other during a country's general election campaign, with elites at central and local level voluntarily gathering and uniting to obtain or maintain power.

Consensual united elites are regarded as contributing to stability in liberal oligarchies and democracies (Hellyer, 2014). 'Consensual' indicates broad agreement among such elites and their followers, commonly reached in democratic and liberal countries due to people's freedom of speech in the public arena. For example, a consensus is reached when rival elite factions gradually recognise that their electoral interests are better served by cooperation and coalition-building than by

uncompromising opposition (Baylis, 2012, p. 91). Communication, negotiation or coordination among these elites leads to this cooperation and coalition.

United consensual elites emerge when they are able to act autonomously. As Field and Higley (1980, p. 38) argue, consensual elites tended to emerge among the leadership of largely self-governing colonies or dependencies at the time they gained full independence. Within a government context, this happens when governments at sub-national level obtain more power, such as through decentralisation policy, which enables local citizens and elites to unite together to ensure that local government acts according their local principles. Elites will become strongly united when they feel threatened by a superior country exercising power against them—for example, when a central government tries to impose new rules or regulations that may disadvantage local elites. In such conditions, as this research demonstrates, local elites may strongly unite to oppose regulations or struggle for a greater share of the return on local natural resources.

As my research focuses on local elites and patronage in intergovernmental financial transfer within the local government context, the following section discusses the nature of local government. This will inform the context of elite practice in terms of the four types of patronage as outlined by Bearfield (2009).

2.5 Local Government

Most governments have several subordinate units to effectively extend their services to all level of their citizens. The meaning of the terms subordinate unit or local government differs from country to country depending on the country's constitution. Scholars also define the term local government according to the context in which they operate. Wilson and Game, for example, define local government as 'the governing institutions which are elected through democracy along with their bureaucratic organisations, which portray a sub-national level of governance' (Wilson & Game, 1998). Pratchett (1999) defines local government as the formal institutions of a government that function at the local level, with local government being the extension of central government authority to the local level to provide services to its

local citizens. For Hambleton and Howard (2012, p. 48), governance at the local level is ‘the processes and structures of a variety of public, private, and community and voluntary sector bodies at the local level’. Working with the above definitions, this thesis takes ‘local government’ to refer to government bodies drawing their authority from the central government, serving local interests by effectively implementing policies with greater autonomy in the political, administrative and financial sectors. In this sense, local government might be considered an effective communication medium between local citizens and the central government—effectively representing the central government at the local level (Rondinelli et al., 1983).

Functioning of local government differs around the world depending on the structure and the system of a country. In some countries, local government may mean cities, villages, townships, counties, special cities, etc. (Gabris & Golembiewski, 1996). In other countries, local government extends to provinces, regencies and districts. The level of local government autonomy in each of these spheres depends on the power distribution within the country and its level of centralisation and decentralisation. In a centralised system, local government has less administrative power than it has in a decentralised system and in effect exists to implement central government policy, whereas in decentralised systems local government has greater power to determine its own policies. For example, in a centralised system, local government spending decisions are made by central government and financed from general revenue, while in a decentralised system local governments can make decisions to spend their budget based on their own policies and financed by local income, such as local taxation (Besley & Coate, 2003).

There is a range of models for promoting decentralisation in order to distribute authority and improve well-being at the local level. More administrative power can be assigned to local levels, with administrative functions de-centralised by the central government transferring their particular functions and workload to local governments. Devolution may be deeper, with central governments delegating extensive decision-making authority and responsibility to local governments (Hutchcroft, 2001). Different countries exercise one of two types of decentralisation depending on what their constitution allows. Some countries give more administrative freedom to local

government, while others retain greater authority at the central level. In either case, the central government has the authority to intervene in local government policy, for example when essential services delivered by local government fall below an acceptable standard (Lowndes & Wilson, 2003).

Centralised forms of governments function by planning a policy at a central level without participation from local government and transferring this policy to local government for implementation. In a decentralised system, a policy may be proposed by the local government and approved by a central government agency, enabling the local government to make the policy better fit with their population's need. In a system where budget allocation closely matches local demand, when the local government uses financial resources for the public good and services (Stein, 1998), decentralisation not only benefits the financial allocation policy but also 'the stabilization function, the redistribution function, and the allocation function' (Stein, 1998, p. 3) of government at the local level.

In a centralised system, a central government holds the authority to impose its policies on local government to implement regardless of local government demands. This is determined by the constitutional context of a country, which can allow the central government to exert power to mandate that local government implement a policy, such as financial allocation, because central government, as stated by Rand (1964, p. 102), 'is an institution that holds the exclusive powers to enforce certain rules of social conduct in a given geographical area'.

Regardless of a country's choice of centralisation or decentralisation, government institutions within the country usually require certain mechanisms to function smoothly. These mechanisms allow them to achieve the country's common goal of development and of satisfaction of its citizens. Central government institutions coordinate and cooperate with local government so they can together achieve common goals of the country, as required by their constitutions. This study accepts that in a country covering a wide area and with a large population, such as Indonesia, an argument could be made that decentralisation may be not a good choice because political, administrative and financial resources might be structured through patronage

exercised by local elites exercising independence and autonomous power. However, at the same time, local government has a greater opportunity to employ extensive and real power for local self-management, and for leading sustainable development for the local citizens (Miller, 2002). To an extent, this is aspirational—but as stated in Chapter 1 an underlying objective of undertaking the research is to provide local government organisations with practical knowledge on how to reduce budgetary misuse and leverage the mechanism of intergovernmental transfer to achieve the decentralisation agenda.

2.6 Decentralisation

In recent decades central governments across the world have been decentralising their political, administrative and financial functions to the local level. Decentralisation has emerged as a new reform agenda for increasing citizens' welfare at local levels. Rondinelli and Nellis (1986) define decentralisation as the transfer of responsibility for planning, management, raising and allocation of resources from central government to (1) field units of central government, (2) subordinate units or lower levels of governments, (3) semi-autonomous public authorities or corporations, (4) area-wide regional or functional authorities, or (5) non-government private or voluntary organisations. Decentralisation is also understood as the formal transfer of powers from central government to actors and institutions at lower levels within a political-administrative and territorial hierarchy (Agrawal & Ribot, 1999; Crook & Manor, 1998; Yuliani, 2004).

Rather than being part of a central government reform agenda, most decentralisation initiatives have been the result of pressure from local government citizens and elites. Local citizens and elites have sought to capture greater power from central governments in order to develop their local geographic area. Through decentralisation, national leaders granted access to central power and resources as a means of obtaining support from local allies or meeting popular demands for democratization (A. Schneider, 2003). Within developing countries, decentralisation reforms have become a common phenomenon. For example, since the fall of the Suharto regime, Indonesia had undergone the euphoria of regional autonomy and

fiscal decentralisation (Brodjonegoro, 2001). Decentralisation of central government fiscal, administrative and political departments to local government is now supported and institutionalised by a range of regulations.

The most common reason advanced for decentralisation reform is the need for greater local revenue generation. Most local governments have low revenue and are unable to support themselves, both of which lead them to demand central government subsidies. The example of Thailand—where 43% of revenue for local government is from shared taxes, 44% from subsidies, and only 13% from locally collected revenue (Weist, 2001)—has resulted in decentralisation being viewed in many developing countries as an important institutional design feature for enhancing local economic development. Decentralisation reform encourages local governments to generate their own revenue, such as through local tax reform and improving existing charges and fees collection (Weist, 2001). In such cases, the success of decentralisation reform depends on adequate strategies and sufficient mechanisms to support the decentralisation agenda. According to Weist (2001, p. 2), an effective decentralisation strategy needs to include: a clear division of responsibilities (such as who does what in spending and taxing?), adequate financing, and a clear system of accountability (such as who is accountable to whom?). Conversely, the inappropriate design of decentralisation programs, or the lack of commitment among political elites, risks failure, which in some cases is reflected in the further concentration of power rather than the realisation of the common good (Hadiz, 2004). Igreja (2013) has pointed to such a failure in Mozambique, where regulation which was created to support decentralisation did not provide a clear definition of the extent of local authorities' power and how local citizens should participate in the local political process.

There are three forms of decentralisation: political, administrative and financial (Kauzya, 2007; Min & Narisong, 2016; White, 2011). These three forms of decentralisation policies are discussed in the following sub-sections.

2.6.1 Political Decentralisation

Political decentralisation is described as the effort of central government to transfer responsibility for e.g. the appointment of local officials and the direct election of local political leaders to the local government level (Treisman, 2002). Political decentralisation covers a range in degrees and types of political autonomy and accountability at the sub-national level (Antwi-Boasiako, 2010). An example of political decentralisation is documented in Antwi-Boasiako's (2010) study of Ghana, where the local citizens at the district level are able to elect their own legislative and executive personnel.

In pursuing a policy of political decentralisation, central government decentralises political power, which typically includes:

- (i) transferring the power for selecting political leadership and representatives from central governments to local governments, and
- (ii) transferring the power and authority for making socio-politico-economic decisions from central governments to local governments and communities (Kauzya, 2007, p. 4).

In this way, central government empowers local citizens to exercise their political rights through local elections, voting for their own local rulers and local members of parliament. In relation to East Kalimantan, I would argue that through political decentralisation local citizens are able to elect the most suitable elites to represent them in local government institutions—though 'suitability' tends to be viewed through the lens of the politics of patronage. But this qualification notwithstanding, these local political elites represent local citizens in determining local policy implementation and limit central government intervention in local policy-making.

2.6.2 Administrative Decentralisation

Within a centralised government system, bureaucracy is usually experienced as a drawn-out, seemingly endless administrative process. Local citizens may have to visit a number of institutions at different levels at different times to obtain government

services. Central government policy to decentralise administrative offices to the local level was an effort to cut through the bureaucratic impasse, with decentralisation enabling local government to make their own decisions in the local administration office. The concept of administrative decentralisation reflects the perceived need for greater responsiveness and the belief that the decentralisation of decision-making power to the local office will improve local services (M. P. Brown, 1986). From a financial point of view, administrative decentralisation was seen as a way of reducing the cost of government office administration in delivering services to local citizens.

The tangible benefits of administrative decentralisation included improved governance, increased transparency and accountability, and more effective and efficient production and delivery of public goods and services (Cohen & Peterson, 1997, p. 1). Administrative decentralisation also allows the distribution of human resources to the local level to support better decision-making at the local level (Treisman, 2002). The local government administrative office can make decisions regarding service provision to local citizens without relying on central government administrative oversight and control. In this way, ideally government services can be brought closer and faster to the local citizens because bureaucracy has been reduced.

2.6.3 Financial Decentralisation

Equal and fair distribution of financial resources across local government is difficult to achieve without a policy of decentralisation. Local citizens' needs are better understood by their own local government. With financial resources transferred to local government to cover local spending on local citizens' basic needs in such areas as education and health, financial decentralisation can be understood as 'the empowerment of people by the empowerment of their local governments' (Bahl, 2008, p. 3). Bahl (2008) argues that an important element in financial decentralisation is that 'local government'—such as states or provinces and cities or districts—is empowered when budgetary authority is transferred to elected local government officials with the power to make taxing and spending decisions.

Previous studies (e.g. Agüero, Carter, & Woolard, 2007; Martinez-Vazquez, Lago-Peñas, & Sacchi, 2015) have highlighted the positive impacts of financial decentralisation. The positive impacts include reducing chronic local deficits and local poverty, and encouraging local economic growth. Local governments often have their own revenue sources which serve to finance their responsibilities, but their income usually does not cover all the expenditure. Intergovernmental financial transfer helps them to cover the local deficit and can also serve as an incentive for countering local low economic growth. Wildasin (2009) gives the example of the United States economic recession, when central government transfer was able to sustain long-term economic growth and reduce the unemployment rate.

When financial policy is transferred to the local level, the local authorities are given greater autonomy to implement funds endowment and spending strategies in their own territory, rather than wait for a solution or for the provision of public goods from central government (Rodríguez-Pose & Ezcurra, 2011). Local government can discover new ways for generating revenues and use it for local citizens' welfare, for example by issuing a local regulation to collect taxes from local households and businesses.

The focus of this thesis is on intergovernmental financial transfer in the context of the role of elites and systems of patronage. In my study, intergovernmental financial transfer is understood as the transfer of central government funds to local government, in the form of conditional and unconditional grants, which are discussed in the following section. As discussed above, there are three aspects of decentralisation: political, administrative and financial, and intergovernmental transfer—the focus of this research—is part of financial decentralisation.

2.7 Intergovernmental Financial Transfer

It is not uncommon for local governments to rely on the central governments for a large proportion of their revenue. A fair allocation of intergovernmental grants becomes essential for financing the essential and basic local services such as education and healthcare (Allers & Ishemoui, 2011). Central governments work with

the local governments in order to solve the problems affecting local citizens, and to find the best solutions for addressing inadequate services and infrastructure. In theory, this is a rational arrangement, with the central government raising the revenue and the local government using it towards the proper implementation of agreed policies (Volden, 2007). Other than providing solutions, the intergovernmental grant system is designed to help reduce fiscal disparity and inequity between local government areas (Le Grand, 1975).

Thus, intergovernmental transfers ideally function as an important source for the provision of local public goods and services. However, in reality, their effectiveness remains unclear due to pronounced political influence in most intergovernmental transfer programs along with economic distortion and inefficiency of the transfers (Lü, 2015). This occurs due to weak local accountability, providing the local elites opportunity to capture and corrupt the transfers (Bardhan & Mookherjee, 2006). Schneider has noted that local bureaucrats have a tendency towards excessively demanding more resources in order to expand the volume of activities and services under their control for the sake of their own prestige and power (M. Schneider, 1986)

Previous studies have focused on the advantages of intergovernmental transfers, which encompass a significant proportion of the revenue of the local governments, and ideally achieve three main outcomes:

1. to equalise vertically (improve revenue adequacy)
2. to equalise horizontally (inter-jurisdictional redistribution)
3. to minimise interjurisdictional spill overs (externalities).

But previous studies in this field have failed to pay adequate attention to the percentage of revenue the central government shares with the local government(s). This proportion of intergovernmental transfer varies throughout the globe, with different countries having different proportions of revenue for such transfer. For example, Kraemer (1997) found that the transfers between the central state and provinces in Mexico, Argentina and Brazil adhere to the demands of regulations rather than a percentage negotiated between the central and local governments. Equity and efficiency are practised in these countries as the basic scales for the determination

of such intergovernmental transfers to support local governments in providing differentiated public goods (Khemani, 2006).

Focusing on Latin America, Kraemer (1997) has identified three principles that need to be considered in the issue of intergovernmental transfers:

- i. the Equity Principle
- ii. the Incentive Principle
- iii. the Political Non-discrimination Principle.

The Equity Principle holds that poor local governments should not receive fewer funds than richer ones. Rather, poor local governments should receive higher funding so that they may achieve the same level of public welfare as do the richer ones. In other words, 'equal' proportions of funds sharing is not acceptable to the poorest local governments. To resolve this problem, an asymmetric approach must be practised for the determination of the amount of funds to be transferred to different local governments (Agustina, Ahmad, Nugroho, & Siagian, 2012). This approach, which is the stand of my research, does not allow equal distribution of funds to all local government; rather the share is determined by evaluating the conditions and needs of the local governments so that the poor local governments get a higher proportion of sharing. The local governments that contribute a higher proportion of natural resources income to the central government should also get a higher proportion of the return financial transfer.

The Incentive Principle, in contrast, discourages inter-governmental transfers, holding the view that such transfers or grants may result in procrastination on the part of local governments, preventing them from attaining self-sufficiency in revenue through such measures as tax revenue collection and hard work. This principle holds that the central government should create incentives for higher tax collection efforts while the per capita transfers should *decrease* with a lower tax collection ratio.

The Political Non-discrimination Principle holds that the political orientation of individuals or groups should not be used as the basis for the determination of fund

distribution within local government. It says that the governments should follow legal norms rather than political orientation for the distribution of intergovernmental funds.

In relation to the above principles, intergovernmental transfer in Indonesia may be defined as a transfer of funds from central government to local government(s)—such as provinces, districts and municipalities—based on a policy of decentralisation, the purpose of which is to support local government and the development of citizens.

According to the literature, intergovernmental transfers can take the form of:

- i. Unconditional grants (Agüero et al., 2007; Caldeira & Rota-Graziosi, 2013)
- ii. Conditional grants (Chen, Mulaki, & Williamson, 2014; Faber & Koning, 2012).

In terms of this thesis, discussion of the differences between those two types of grants will provide an insight into how those grants are implemented and used by local elites operating within patronage systems, in particular the misuse of both types of grants for the benefit of local elites and their clients and supporters.

2.7.1 Conditional Grants

Conditional grant transfer programs are being implemented internationally as a new approach to assistance in solving social problems. These programs are intended to reduce current poverty levels and to support the development of society by stimulating investment in various sectors of basic needs, such as health, education and nutrition (Behrman, Gallardo-Garcia, Parker, Todd, & Velez-Grajales, 2012). Conditional grants can be referred to as specific, earmarked, categorical, restrictive, or selective grants (Boadway & Shah, 2007; Smart & Bird, 2009).

Conditional grants are intergovernmental grants from the national government to its lower level governments with certain reporting and purchasing requirements (Chen et al., 2014, p. 2). The local government that receives conditional grants is bound to spend the funds for predefined services or functions as required by specific regulations and standards. The local government must obey the regulations and report to central government after using the grants. These grants are mainly intended to

encourage local governments in the rigorous implementation of specific programs or activities. The conditional grants can be regular, mandatory, discretionary or ad hoc (Boadway & Shah, 2009; Shah, 2006).

Mandatory grants (entitlements) are legal, regulation-based obligations for the government that issues the grants (Bergvall et al., 2006, p. 6). If not issued, the local government has the right to appeal to a court or administrative judicial authority in order to obtain the grants/funds. Most intergovernmental grants transferred to a local government on a regular basis are mandatory (Bergvall et al., 2006). The regulations bind the central government to transfer funds regularly, regardless of its own financial situation. Meanwhile, the law also binds the local government to spend the funds in the manner prescribed by the regulations.

2.7.2 Unconditional Grants

In contrast to conditional grants, unconditional grants are issued by the central government as general budget to support the local government(s) without any regulatory requirements attached. These grants are intended to preserve local autonomy and enhance inter-jurisdictional equity (Boadway & Shah, 2009). This implies that an unconditional grant does not demand any particular behaviour on the part of the recipients (Osterkamp, 2014). These grants can be used by local government for any purpose, including funding unanticipated programs, such as programs for the benefit of the elderly or households affected by natural disaster. Most local governments prefer to receive unconditional grants due to the flexibility they provide, in order to achieve their own objectives.

However, unconditional grants often provide poor incentives for local governments with respect to raising their own-source revenue, which affects their accountability to their citizens (Caldeira & Rota-Graziosi, 2013). In this sense, the local government may rely heavily on the grants and reduce the commitments of the local political rulers towards implementing strategic policies towards producing their own revenue. If any emergency contingency situation arises locally, such as earthquake or flood, the local government may not worry at all because the

unconditional grants can be transferred whenever required. Such grants can also be decided on an ad hoc or discretionary basis by the central government.

Intensive and regular monitoring of such unconditional grants to the grantee becomes essential due to the flexibility they provide the receiver because of the absence of central regulations in terms of usage (GAO, 2001). Without systematic, perpetual and strong supervision, the grants are prone to be misused by the local government elites. Yilmaz et al. (2008b) recommend the implementation of strong control systems as a safeguard against any abuse, misuse or fraud in these unconditional funds. Previous studies (e.g. Bird & Wallich, 1993; Heredia-Ortiz & Rider, 2005) highlight the misuse of such intergovernmental transfers by local elites, who can use these transfers for their own vested interest, such as sustaining their power within local government.

2.8 Conclusion

Chapter 2 has drawn from theoretical concepts in the literature dealing with politics and the three elements of power, order and justice to clarify the concept and various categories of elites. The focus was on how the politics of patronage can be used by elites to influence and control local government, decentralisation processes and, in particular, intergovernmental financial transfer from central to provincial levels of government. The theoretical frameworks covered in the chapter inform the data analysis in later chapters (5, 6, 7 and 8), and provides a basis for understanding how local elites emerged within East Kalimantan and how they continue to maintain their power and influence in the province. The literature dealing with the politics of patronage, in particular, sheds light on how local elites in East Kalimantan were able to establish and maintain certain patterns of interpersonal relations with others that can be characterised as patron–client relations, and why citizens who were not part of these arrangements were denied equal access to the benefits derived from intergovernmental financial transfer. Based on the theoretical insights derived from the literature, the following chapter discusses the methodology for the research in terms of the research paradigm, data gathering and data analysis.

CHAPTER 3 METHODOLOGY

3.1 Introduction

Chapter 2 reviewed the literature, particularly the theoretical literature, relevant to this research exploring the role of elites and the politics of patronage in relation to intergovernmental financial transfer in Indonesia. As outlined in this chapter, to understand the role of elites in the context of a system of patronage, the study adopted a qualitative case study approach, focusing on the interaction of local government officials, local members of parliament, NGO leaders, academics, and business, religious and ethnic elites. As outlined below, the study design broadly followed the steps proposed by Corbin and Strauss (1998) and Harding (1987), who argued that a qualitative case study is an appropriate way to undertake this kind of research.

Central to the case study methodology was the use of individual interviews to answer the research questions posed in Chapter 1. The interviews were tape-recorded and transcribed, and the responses entered into Nvivo version 10.6 and analysed according to the themes that emerged. This was followed up with various other forms of communication, such as email and telephone conversation, and website searches. The study also included analysis of East Kalimantan budget documents, Medium Term Regional Development Plans/*Rencana Pembangunan Jangka Menengah (RPJMD)* and other relevant documents. These techniques were systematically employed in order to obtain accurate research results (Cresswell, 2009; Fossey, Harvey, McDermott, & Davidson, 2002) likely to be accepted as valid and reliable by the wider East Kalimantan community. Community acceptance has been an important consideration, as a primary motivation for the research has been not only to arrive at valid conclusions but also to persuade East Kalimantan stakeholders as to the desirability of certain systemic changes in intergovernmental transfers and decentralisation.

3.2 Research Design

The study's research plan is outlined in Figure 3.1, which reflects the research stages connecting the literature review, the empirical data gathering process and the analysis of that data. The main empirical component of this research is an interpretive case study, with the case of East Kalimantan enabling an understanding of the roles of local elites in using the politics of patronage to control intergovernmental financial transfer more generally in Indonesia.

Figure 3.1 Research Design

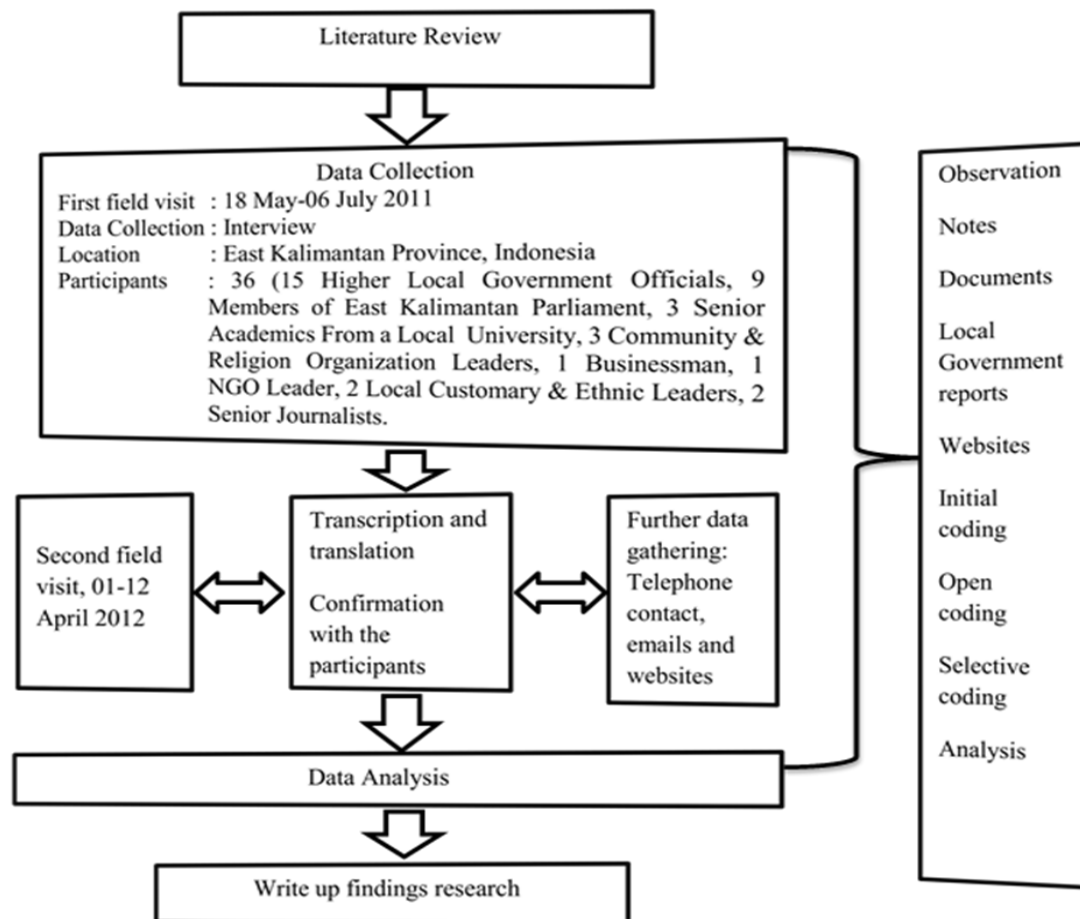


Figure 3.1 shows how this study connects the various processes that came together to answer the research questions posed in Chapter 1. Semi-structured interviews with 36 interviewees during two field visits with follow-up telephone and email contact generated the data required to answer the research questions. The data was coded in

three stages—initial, open and selective—and then analysed using NVivo to arrive at the findings.

3.3 The Epistemological Assumptions

The methodology briefly outlined above reflects the epistemological assumptions and worldview of the researcher that shaped the approach taken to the research (Cresswell, 2009). In broad terms, knowledge can be conceived of in terms of objectivist and constructivist/subjectivist understandings of reality (Crotty, 1998). As Crotty (1998) argues, reality is assumed to exist either outside the mind (objectivism) or constructed by the way humans relate to each other, and to their externalised world (constructivism/subjectivism). My epistemological perspective closely aligns with constructivism/subjectivism, with the knowledge produced in the course of the research regarded as ultimately co-constructed between the researcher and the study participants.

From the outset of the project, I approached the research questions posed in this study as requiring an interpretive qualitative methodology, in which *what* is being researched—the actions of elites and operation of systems of patronage in relation to intergovernmental financial transfers in East Kalimantan—is better understood in terms of the meaning that actions held for the actors themselves, rather than more ‘objective’ measurements based on positivist assumptions about the nature of reality. While scholars such as Silverman (1989) have argued for objective measurement, the assumption informing the present study is that ‘social reality’ cannot be separated from the experience of it. Following an interpretive research paradigm, this study assumes that human and social interaction constructs and reconstructs the reality to which individuals attach their particular subjective meanings (Odell, 2001; Schwartz-Shea & Yanow, 2012).

My interpretive case study approach also assumes that social construction and its constructed artefacts, such as language, consciousness, documents, tools and other cultural artefacts, produce knowledge of reality, and give rise to the different meanings that reality holds for different people, including researchers (Goodsell, 2013). In terms of the methodological choices made in this study, the assumption is

that understanding the nature or form of the social construction requires an interpretive rather than positivist approach to the meanings attached to the practices of the local East Kalimantan elites involved in intergovernmental transfers.

From a sociology of knowledge perspective, my interpretive case study approach conforms to Berger and Luckmann's understanding of the nature of social reality, where life choices are made by real individuals acting in concrete social contexts. As Berger and Luckmann (1991) have expressed it, reality is socially defined:

But the definitions are always *embodied*, that is, concrete individuals and groups of individuals serve as definers of reality. To understand the state of the socially constructed universe at any given time, or its change over time, one must understand the social organisation that permits the definers to do their defining. Put a little crudely, it is essential to keep pushing questions about the historically available conceptualizations of reality from the abstract 'What?' to the sociologically concrete 'Says who?'

This study of elites and systems of patronage in East Kalimantan is concerned with both the 'what?' and the 'says who?' questions in relation to decisions made about intergovernmental financial transfers from central to local government. In its focus on the 'what', the study may be said to be following Silverman's plea for what he terms 'cautious positivism' in case study research, but fundamentally the research is concerned with a complex socially-constructed world in which reality is defined in particular ways by concrete individuals and groups of individuals (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mantymaki, 2011). In this case, the concrete individuals are East Kalimantan elites and their clients and supporters, connected by systems of patronage, in terms of which they not only make sense of the world but also socially construct that world.

By employing an interpretive case study approach, the study's aim is to understand human interaction in a social and organisational context and reveal the deeper social, economic and political structures (Darke, Shanks, & Broadbent, 1998) that constitute East Kalimantan provincial government organisations from the point of

view of the participants being studied (Cavaye, 1996; Johnson & Onwuegbuzie, 2004). The emphasis was on interpreting the meaning systems shared by local elites and their connecting systems of patronage involved in intergovernmental financial transfer in East Kalimantan. By making sense of the complexity of local elites' institutional 'sense making' (Welch et al., 2011), it is hoped that the current poor understanding and limited theoretical development in addressing local government and central government relationships in resource sharing can be resolved.

3.3.1 Qualitative Research

Qualitative research is commonly understood as research carried out in a natural setting that enables a researcher to develop a level of research detail from close involvement in the real world experiences of people being researched (Creswell, 1994). A common characteristic of qualitative research is the investigation of social phenomena from the participants' viewpoint (Williams, 2007). As noted by scholars like Miles and Huberman (1994), and Strauss and Corbin (1998), non-quantitative research typically is carried out through methods such as interviews, observations and documents analysis as the means of understanding the phenomenon being investigated.

The phenomenon in qualitative research can be 'persons' lives, lived experiences, behaviours, emotions, and feelings as well as organisational functioning, social movements, cultural phenomena, and interactions between nations' (Strauss & Corbin, 1998, p. 11), with the form of inquiry, according to Cresswell (1998),

based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyses words, reports detailed views of participants, and conducts the study in a natural setting (p. 15).

Using a qualitative approach provided the opportunity to focus on the complexity of social phenomena in their own contexts and provided a critical and reflexive view of the social world as process (Eriksson & Kovalainen, 2008). To achieve this level of understanding, researchers often employ a case study approach, whether single or

multiple case studies, in conjunction with qualitative research. Qualitative case study provides advantages to researchers. For example, a researcher is able to identify new constructs and examine potential causal mechanisms within particular cases or contexts (Bennett, 2004). A qualitative approach also helps researchers to explain an event through applying an identified theory to new contexts (Odell, 2001), and provides a deep insight into 'the complex world of lived experience from the point of view of those who live it' (Schwandt, 1994, p. 118). A case study offers the ability to combine several qualitative data collection methods (Yin, 2003), explore phenomenon through empirical analysis (Stake, 1995), and facilitate the exploration of unexpected and unusual constructs (Hodkinson & Hodkinson, 2001).

In addition, qualitative case study research is able to provide a description of complex phenomena, such as people's personal experiences, and generate data based on participants' own categories of meaning (Johnson & Onwuegbuzie, 2004). This is particularly relevant in studying government and non-government organisations, where interaction among people and institutions is complex and spans not only the upper levels of government hierarchies but also the grass-roots social systems that operate within local communities. Accordingly, in order to understand how patronage works in East Kalimantan and the role played by elites in intergovernmental financial transfer, the study has adopted both a 'top-down' and a 'bottom-up' approach.

3.3.2 Case Study Research

The concept of case study derives from clinical studies which focused on the deep study of individuals (Eckstein, 2000). Case study research was adopted over time in various fields covering the social, political and economic. While scholars have variously defined case study according to their field of interest, in general the meaning of case study research continues to reflect the clinical studies from which it originated, with a close investigation of a case or cases in a real world context to acquire deep understanding.

A seminal formulation of the case study approach was proposed by Yin (Yin, 1981, p. 59; Yin, 2003, p. 13), who defined it as 'an empirical inquiry that investigates a contemporary phenomenon within a real-life context, especially when

the boundaries between phenomenon and context are not clearly evident'. Other scholars (e.g. Dooley, 2002, p. 337) have defined a case study as 'an account of an activity, event, or problem', with Liamputtong (2013, p. 200) emphasising the discrete nature of the case being studied, picking up on Cresswell's (1998, p. 61) representation of a case as 'an exploration of a "bounded system"', i.e. bounded by time and place, such as a program, an event, an activity, or group of individuals.

From the above, we can understand that a case study can function as a method of enquiry or as a unit of analysis—such as individuals, groups and organisations—of the enquiry. Cavaye (1996, p. 229) has nominated a number of characteristics of such case study research, including: (1) A case study does not explicitly control or manipulate variables; (2) A case study considers a phenomenon in its natural context; (3) A case study focuses on the phenomenon at one site; and (4). A case study uses qualitative tools and techniques for data collection and analysis.

Table 3.1 Strengths of Case Study Methodology

Strengths	Description
Conceptual validity	Employing a case study, a researcher is able achieve high levels of conceptual validity, or identify and measure variables that best represent the theoretical concepts the researcher intends to measure. The variable can be difficult to measure, such as democracy, power, political culture, state strength, etc.
Deriving new hypotheses	A case study provides opportunities to identify new variables and hypotheses through close analysis of data, such as archival research and interviews with participants, area experts, and historians.
Exploring causal mechanisms	A case study allows a researcher to understand the operation of causal mechanisms in individual cases in detail. Within a single case, a researcher can look at a large number of intervening variables and inductively observe any unexpected aspects of the operation of a particular causal mechanism or help identify what conditions present in a case activate the causal mechanism.
Modelling and assessing complex causal relations	A case study has the ability to accommodate complex causal relations, such as complex interactions between humans and their environment.

Adapted from George & Bennett (2004) and Yin (1981, 2003, 2011)

3.4 Research Procedures

Data can be generated from many sources, such as observation, documents, interviews and material artefacts. The data can be quantitative, qualitative or a combination. Variety of data collection methods in a qualitative case study can bring a deeper knowledge to the case being investigated, particularly context-based knowledge, with the case study providing an empirical answer (Flyvbjerg, 2006).

3.4.1 Case Selection Procedure

This section addresses the procedures used for gathering data, covering selecting the case study, data gathering procedures, coding, presentation and analysis, including determining the unit of analysis. There is no standard guideline for selecting the case to be studied. This makes case selection problematic for a researcher. A case selection in a qualitative study is not primarily used to understand other cases (Stake, 1995), but the case is designed to make possible analytic generalisation through the understanding of how the selected case is applicable to wider theory (Curtis, Geslerb, Smitha, & Washburn, 2000). Case study research focuses on gaining an in-depth understanding of certain phenomena, such as a discrete collection of people, activities, policies, strengths, problems or relationships (Stake, 1995, 2006). As a result, case study selection should support in-depth understanding, by providing ‘rich’ information, as suggested by Miles and Huberman (1994).

Stake (2006) suggests researchers consider answering several questions before they select a case. These questions include: ‘Is the case relevant to the question? Do the cases provide diversity across context? And do the cases provide good opportunities to learn about complexity and context?’ (p. 23). Also, is the question understood as ‘an object or phenomenon or condition to be studied?’ (Stake, 2006, p. 6). This means a case should provide opportunities for a researcher to gain key knowledge and experience based on new or existing theory. Stake (2006) adds that a case can also be identified in advance in terms of the research questions being posed. In this study, the East Kalimantan context has been identified as an interesting case to be studied due to the complexity of the politics of patronage in relation to

intergovernmental transfer over many years involving an array of local and national elites.

East Kalimantan was selected as a case in order to understand how local elites and institutions have dealt with intergovernmental transfers through the politics of patronage. This province was selected in part because it contains a large share of the nation's natural resources underpinning Indonesian development, while its annual budget allocation from the central government is much lower than the revenue produced by the province—resulting in feelings of resentment and local calls for greater autonomy.

The case study is expected to provide new insights into how intergovernmental transfer to local government is complicated, with the economy, politics, and social and cultural formations reflecting the understandings and interactions of local elites and institutions. The case study is an interesting case because it represents unique practices, as argued by Dooley (2002), with the potential to provide insights that may benefit other local government organisations operating within a similar context. The selection of East Kalimantan for the case study of this research was also based on convenience factors regarding time, cost and effort without jeopardising research credibility (Miles & Huberman, 1994).

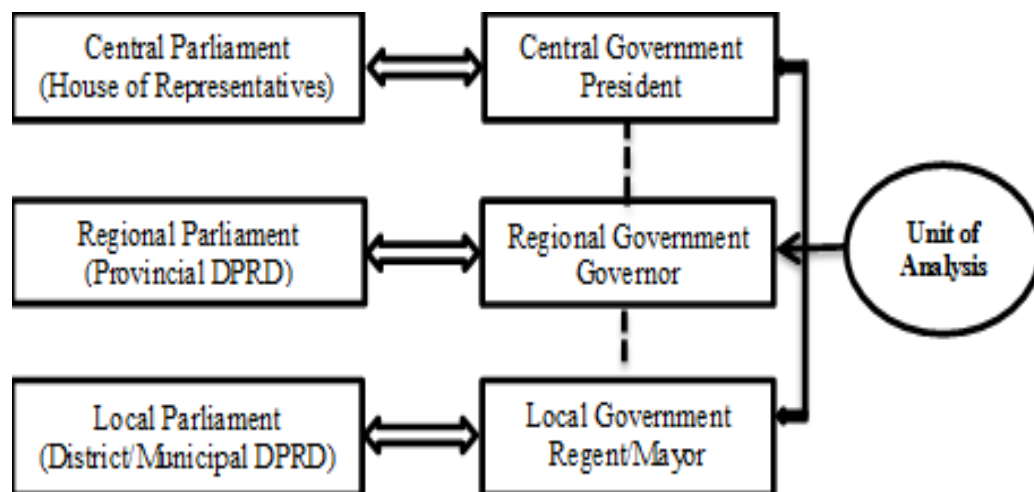
3.4.2 Determining the Unit of Analysis

After selecting East Kalimantan as the site for the case study, I decided on the unit of analysis for the study—which can be an individual, a group, an organisation, a city, and so forth, as suggested by Berg (2001). The unit of analysis selected for this case study was the second level of local government (provincial) organisation. Local government can be characterised as democratically elected multi-purpose institutions and their bureaucratic organisations, which exist through statute at a sub-national level (Wilson & Game, 1998). At the provincial level, East Kalimantan is the first level of local government, which functions as coordinator of all the districts within the province, including coordination of intergovernmental transfer and other policies

in developing the province to improve local government services and citizens' welfare.

Within the province itself, there are a number of departments and lower level government hierarchies (districts and municipalities). Each department is based on a specific area of development in the province and is led by a head of department. A district and municipality is led by a regent and city mayor directly elected by citizens. However, they are not responsible to the governor but to Indonesia's Ministry of Internal Affairs. The regents and mayors are required to coordinate and cooperate with provincial government. Figure 3.2 shows the unit of analysis of this study.

Figure 3.2 Unit of Analysis



The research activities were mainly carried out through engagement with provincial leaders, departmental leaders, politicians, ethnic leaders and social and religious leaders, as well as other key participants. These participants constitute the local elites who play significant roles in the process of local budget allocation and spending. My engagement with these provincial participants was through observation, formal and informal interviews, and document collection.

3.4.3 Data Collection Procedures

In studying intergovernmental transfer within the East Kalimantan context, I set out to collect data from a wide range of sources in order to understand the role played by the local elites and institutions, and how the relationship between them is established and maintained by patronage networks responsible for local budget and spending. Considering all sources of evidence (e.g. interviews, documents and field notes) supported the credibility and richness of the research findings by providing opportunities for triangulation (Cresswell & Miller, 2000; Miles & Huberman, 1994).

The first field visit was to Samarinda, the capital city of East Kalimantan province, to investigate to what extent the regional governments and especially the bureaucratic elites employ patronage politics to deal with intergovernmental financial transfer and local development issues. The fieldwork was carried out for two months from 8 May 2011 to 7 July 2011. The main purpose was to gather data relevant to examining how the provincial governments and elites were addressing regional financial and development issues in East Kalimantan province. The data obtained from the fieldwork was used to understand how regional governments and elites use their authority, greatly expanded under the regional autonomy laws and decentralisation policy, to formulate and implement financial expenditure and regional development policies.

In my study on the provincial level of government, I observed and interviewed relevant members of institutions and elites who play major roles in the province. All provincial government department offices are located in the capital Samarinda, where they are responsible for East Kalimantan's population of more than 3 million people and for managing up to IDR 7.2 trillion local budget/*Anggaran Pendapatan Daerah (APBD)* in 2011 (*Bappeda*, 2011). Although its local budget has increased from year to year, East Kalimantan was still facing crucial issues in regional development, such as lack of infrastructure services, poverty, unemployment, low income and low quality of human resources caused by poor health and education services.

During the first field visit, I collected data through observation of provincial departments, and I attended provincial parliamentary meetings to understand how elites coordinate and cooperate in financial allocation. I also reviewed the province's annual financial allocation and expenditure planning. I made a second field visit for two weeks from 1-12 April 2012, to collect further data relating to the province's financial allocation and their struggle to obtain a greater share of revenue from the central government.

The aim of the on-site observations was to gain a better understanding of provincial government organisations, intergovernmental transfer issues, and social and political issues in the province. The observations also aimed to facilitate interviews with relevant members of the elite, with whom I established a mutual understanding. I kept field notes and collected documents, such as annual reports and planning documents, during this observation period.

During the first field trip, I initially interviewed a number of legislative members. I felt confident about interviewing them because some were my colleagues and the interviewing ran smoothly. My status as a lecturer and an overseas PhD student had a positive impact on how I was received. It is not very different from interviewing in local government offices, although all the government officials were very busy dealing with a major national event in *Kutai Kartanegara* regency, namely the nationwide farmers and fishermen festival occurring at the time. Nonetheless, I was still given the time needed to conduct the interviews, and I even had the opportunity to attend the plenary session of parliament dealing with the draft of the general policy of local budget (*APBD*) and Budget Priority and allocation for 2011.

These experiences enabled me to better understand the complexity of provincial operations. For example, observations and interviews gave me an understanding of local government organisations through a first-hand sharing of experience, rather than through 'objective' measurement of phenomena (Denison, 1984). I was able to experience and understand the real life context of the cases being studied, the different data sets of texts, images and symbols observed and collected during the interaction process (Dennis, Fuller, & Valacich, 2008; Weick, 1985), providing

insights into how through their interaction local elites understand and manage their situation.

The data collection techniques employed in the first and second field visits including in-depth interviews, observations and reading of documents are described in the following sub-sections.

3.4.3.1 Interviews

Interviews were the main source for the data collected during the research. The interviews served as an important means for examining participant interpretation in the cases being studied (Bake & Edwards, 2012; Curato, 2012; Kvale, 1994; McCoyd & Kerson, 2006). They took the form of semi-structured interviews, which suited the exploratory nature of the research (Saunders, Lewis, & Thornhill, 2009). As argued by Neuman (2006), semi-structured interviews can facilitate the emergence of constructs from participants' experience with less intervention by the researcher. They are also more flexible, with the researcher having more opportunities for follow-up questions compared with other methods (Silverman, 2010). In addition, as noted by Yin (2003), semi-structured interviews are able to provide sufficient structure and direction to the interview process without reducing the advantages of open and flowing discussion.

The interviews involved a broad range of local elites exercising a major influence on intergovernmental financial allocation and expenditures. The decision was made to focus on this particular group of interviewees—who are regarded as influential, prominent and well-informed—in order to obtain rich and valid data sources. With their expertise and knowledge in areas relevant to the research, and because of the positions they hold in social, political, financial or administrative realms, the interviewees provided rich and valuable information.

An interview protocol (refer to Appendix 2) was prepared prior to the interviews, as suggested by Cresswell (1998) and Yin (2003). The protocol aimed to provide guidelines for both researcher and participants regarding questions asked related to

the issues being studied. The interviews were recorded with a tape recorder after obtaining consent from all participants. The interviews, which as indicated above provided the primary data collected for the research, lasted for between 45 minutes and one hour.

The interviews were conducted in Indonesian and recorded using digital voice recorder. This equipment proved very effective in capturing all parts of the interview and was very helpful in the interview storage process. The reason for conducting the interviews in Indonesian was due to participants' limited understanding of English and using the Indonesian language encouraged participants to express their opinions freely.

The in-depth interviews involved 36 participants—six more than the planned 30 participants. This decision was taken when it became clear that more information was needed. The participants were selected using purposive sampling, based on their position and expertise. They were drawn from senior officials, public figures, leaders of organisations and politicians.

The interviews were conducted in different locations depending on the participants' preferences. Most of the formal interviews took place at government offices, while informal interviews took place in the participants' houses or restaurants as determined by the respondents. Informal interviews were intended to gain more contextual information that was not revealed in formal interviews. Informal interviews brought me and the participants into closer personal contact, which encouraged the development of greater trust and confidence—critical preconditions for eliciting the kind of information needed for the research. This helped me obtain greater insight into how patronage politics was 'played out' by the local elites. The list of participants and interview dates are presented in Table 3.2 below:

Table 3.2 The List of Participants

No.	Name	Initial	Positions	Date of Interview
1.	Jufri Yasin	JYN	Head of Family Planning Agency	May 2011
2.	Mukmin Faisyal	MFL	Chairman of regional parliament (<i>DPRD</i>)	May 2011
3.	Zain Taufiq	ZTQ	Chairman of the faction of <i>PAN</i> party	May 2011
4.	Hadi Mulyadi	HMI	Vice-Chairman of regional parliament	May 2011
5.	Ali Fitri Noor	AFN	Head of Bappeda Samarinda	May 2011
6.	Carolus Tuah	CTH	Director of ' <i>POKJA 30</i> '	May 2011
7.	Rusman Yakub	RYB	Chairman of Commission II	May 2011
8.	Dahri Yasin	DYN	Chairman of Commission I	May 2011
9.	Zainal Haq	ZHQ	Chairman of the faction of <i>PKS</i> party	May 2011
10.	Darlis Pattalongi	DPL	Chairman of Commission III	May 2011
11.	Yunus Nusi	YNI	Chairman of <i>KNPI</i>	May 2011
12.	Alimuddin	ALI	Head of local customary (<i>KKSS</i>)	May 2011
13.	Rusmadi	RUS	Head of Bappeda of East Kalimantan	May 2011
14.	Salman	SAL	Head Division of Infrastructure of <i>Bappeda</i>	May 2011
15.	Sukisno	KIS	Vice Rector IV of Mulawarman University	May 2011
16.	Aji Sofyan	AJI	Academic of Mulawarman University	May 2011
17.	Aswin	ASW	Governor Assistant IV	June 2011
18.	Faturrahman	FRM	Governor Assistant I	June 2011
19.	M. Sabani	SYA	Governor Assistant II	June 2011
20.	Zamruddin Hazid	JHD	Rector of Mulawarman University	June 2011
21.	Irwan Rosyadi	MIR	Journalist of SCTV Samarinda	June 2011
22.	Irianto Lambrie	ILE	Provincial Secretary (Chairman of Executive Budget Committee)	June 2011
23.	Toto	TTO	Head of <i>Bappeda</i> Kutai Kartanegara	June 2011
24.	Musyahrin	MUS	Head of Education Department	June 2011
25.	Ismail	ISM	Chairman of faction <i>PDK</i> party	June 2011
26.	Nusyirwan Ismail	NUS	Vice-Mayor of Samarinda	June 2011
27.	Soeratman	SUR	Chairman of Muhammadiyah	June 2011
28.	Rosyid	ROS	Chairman of Nahdlatul Ulama (NU)	June 2011
29.	Awang Faroeq Ishak	AFI	Governor of East Kalimantan	June 2011
30.	Marten Apuy	MAY	Vice-Chairman of regional parliament	June 2011
31.	Wibowo	BWO	Commissioner of PT. Sagabofa Catur Manunggal and member of East Kalimantan Parliament	June 2011
32.	Tri Murti Rahayu	TRI	Head of Division of Apparatus and governance, Bappeda	June 2011
33.	Pinsen	PIN	Vice head of mining department	June 2011
34.	Hamdani	HMD	Secretary of <i>Gepak Kaltim</i>	June 2011
35.	Hazairin Adha	HAZ	Head of local revenue	June 2011
36.	Maturidi	MTR	Head of Branch of <i>Tribun Kaltim</i> News	June 2011

Within the body of the thesis, the individuals listed above are not named as the source of information. Interviewee statements are often quoted verbatim, but the person providing the information is not identified. Instead, anonymous codes are used according to the sphere of activity of the interviewee: government, political, social, ethnic, religious or business.

Each interview was reviewed before commencing the next interview to develop an early understanding and early coding of the phenomena. During this stage, a number of notes were made on the transcripts and documents, as well as personal researcher journal notes. The results of interviews were then transcribed in written form and shown to the participants to verify the accuracy of the transcript of interview. Finally, the primary tapes were erased as stated in the case protocol, but with the interviews transferred to my computer. The informal interviews conducted to gain further valuable insights (Galliers & Huang, 2012) followed Turner's suggestion of a 'spontaneous generation of questions in a natural interaction' (Turner, 2010). These were carried out at convenient times, for example, during lunch times, coffee breaks, follow-up telephone interviews, and email communication.

3.4.3.2 Observation

From my initial observations, I discovered a diversity of opinion within the elite and institutions regarding government practices, particularly in dealing with financial allocation and development. It was apparent that the role of regional government and political elites in accelerating development was critical in terms of the authority and financial resources assigned to them. Nevertheless, most interviewees argued that the government had not played its role properly and effectively in financial allocation for local development. They identified inconsistency and the failure of government and political elites in executing state-funded development program priorities as a source of the problems. Some of the factors identified as contributing to these failures include: the incapacity of the regional government apparatus, excessive political intervention at provincial parliament level, inefficiency in spending the local budget (*APBD*), and the spread of corrupt practices among government officials working within a weak civil society. According to the data on criminal corruption in

Samarinda, in 2011 there were 152 corruption cases of government officials and legislative members registered in the state court.

During the research process, I made detailed notes of the research field environment, such as the social setting, events like parliamentary meetings, and the conditions and activities of elites and institutions within the province. The observations became an important source for my qualitative research, and might be characterised as what Markkula and Sormunen (1998, p. 4) term a ‘hanging around’ activity, where the researcher keeps his eyes on what is happening within the case being studied. Through careful observation, I was able to gain a fuller understanding of the circumstances of the case being studied (Stake, 1995, p. 62). My initial understanding was established through the observation of local government websites to familiarise myself with the case contexts. The website observation not only reduced time and cost in collecting the data, but also provided information regarding the province’s demography and development. Financial and state funded development project information was also helpful in building an early understanding of the context for intergovernmental financial transfer.

During my fieldtrips, I was invited to a number of high level government and politicians’ meetings—which mostly focused on local budget allocation and spending within the province. What I observed at these meetings significantly enhanced my understanding of the local social, political and economic context and provided a significant opportunity to triangulate with other data gathered through interviews and document analysis. The results of these observations were recorded in the form of field notes and analysed together with other data.

3.4.3.3 Data from Documents

Another key dimension of the fieldwork was collecting pertinent documents, such as statistical reports, regional government regulations, regional government plans, accountability reports, local budgets document, local legislative (*DPRD*) documents and mass media reports. These documents were useful for identifying regional government priorities and policy output. The information from the documents was

used to validate or strengthen data from other sources, such as interviews and observation.

The document collection process was challenging, but I managed to obtain a good selection of relevant documents. All institutions showed respect and support for the project, but poor repository and retrieval systems within government institutions was a major problem in terms of locating and accessing several documents. My practice was to submit a list of required documents in advance, but after several days some documents had still not been located. Generally, however, the process for collecting important documents was sufficiently effective and I was able to access most of the required data—due in part to my position as a lecturer in a provincial tertiary institution and the good relationships and networks I had established with employees within East Kalimantan government offices—who generously assisted me in obtaining key documents. My colleagues at the provincial parliament were also very cooperative in assisting me to collect the data.

The greatest problem related to documents that had not been properly filed. The government staff worked hard to find the documents I requested relating to the last ten years of intergovernmental financial transfer (e.g. documents of the directorate general regarding balancing funds in Jakarta, and the East Kalimantan Annual Development Financial (*APBD*) allocation) and I was successful in gathering substantial data required from the Indonesia statistics.

Other printed documents were gathered from various provincial government offices, including important documents such as East Kalimantan financial and development planning reports, and documents relating to the general policy of local budget (*APBD*) allocation, budget priority limits, the Medium-Term Development Plan/*Reencana Pembangunan Jangka Menengah (RPJM)* and balancing funds, and other planning documents for provincial development from the governor's office and the East Kalimantan planning office (*Bappeda*). All of these original documents were used for identifying regional development programs and analysing the pattern of budget distribution prior to and following the implementation of regional decentralisation. The documents contextualised and explained programs and activities

in each department within East Kalimantan, and as such were helpful for identifying the priority and budget allocation for development within the province. From the documents, I was also able to identify who was involved in the various processes connected with the provincial financial allocation.

These documents, including the province's official website content, annual reports, regulations, agendas, announcements, and administrative documents, texts and pictures or photographs, provided additional data to support the primary data obtained from interviews and observation. As other researchers have commented (Curry, Nembhard, & Bradley, 2009; Hancock, Ockleford, & Windridge, 2009), documents can provide a valuable source of qualitative data that cannot be gathered through interviews. As Yin (2003, p. 81) has argued, documents are an important source 'to corroborate and augment evidence from other sources such as to verify the certain information that has been mentioned in interview'.

The documents were treated equally with other data (interviews and observation), as complementary sources of information. The documentary data was important for strengthening the findings, in particular for triangulation purposes (Stake, 2006). Table 3.3 outlines the documents that were gathered during field visits. All documents were gathered with the consent of authorised persons and institutions within the local government. The documents were sorted according to their relevance to this study.

Table 3.3 Document Sources

No.	Name of Documents	Description
1.	Websites	Provincial official website contents. The websites provided information related to local resources, financial, government activities, local regulation, and general local government budgets.
2.	Annual reports	Annual reports mostly related to local government development policies and local budget allocation.
3.	Regulations	Mostly local regulations that support local development in economic, social, political, cultural and religious areas.
5.	Local government development planning strategies	Documents related to local government annual planning from various departments. The researcher focused on the use of intergovernmental transfer for local development.
6.	Central and local government relationship documents	Documents related to the provincial-central government relationship, particularly focused on resource and financial sharing between the central and local government.
7.	Other documents	Documents obtained mostly related to the provincial administrative activities within each department such as charts, figures, and pictures.

3.4.4 Follow-up Data Gathering

I carried out follow-up data gathering through phone calls and emails. Two participants from the senior teaching staff of Mulawarman University were interviewed through phone calls on 10 July 2012 and 13 July 2012. The phone call interviews lasted between 20 and 30 minutes. Like the face-to-face interviews, the phone call interviews were recorded for accurate transcription. Additional data related to the East Kalimantan budget, such as statistical data and *RPJMD* documents, was collected through email correspondence. Emails were sent to a local parliamentary expert and to a staff member in the local statistics office on 2 April 2012 to obtain local census, citizens' welfare, ethnic and religious data. Again, the information obtained was a useful source of data, complementing the interview data and enabling triangulation with the findings emerging during the analysis of the data generated during the first field visit from early May to the end of July 2011, and a more complete analysis and understanding of the nature of patronage politics played by the local elites.

The second field visit in April 2012 was intended to strengthen the data gathering from the earlier field visit, including second-round interviews with key participants for confirmation of preliminary findings and for gaining further insights. New documents were also collected during the second fieldtrip.

Other data collection techniques were also employed in the follow-up data collection stages, such as telephone and email interviews. Some of the information obtained during earlier interviews required further clarification from participants because of limitations in the transcription and confusion or ambiguity around some of the terms used by the participants during interview sessions. Email interviews helped reduce cost and time for transcribing (Meho, 2006) because participants' responses were already in document form. Telephone interviews also helped clarify the information obtained from emails and interviews.

Telephone interviews were carried out with a local law expert, a head of a provincial department and a local regulation expert. A non-government organisation leader involved in intergovernmental transfer negotiation was also re-interviewed over the telephone for clarification and explanation. All the telephone interviews lasted between 20 and 30 minutes, with some recorded, while only notes were taken for shorter interviews.

3.4.5 Participant Recruitment Strategy

As my research focuses on the role played by local elites in patronage politics, participant recruitment also focused on identifying local elite members who played important roles within East Kalimantan financial allocation and expenditure. I identified the elites based on the theoretical constructs elaborated in Chapter 2, aided by information from participants who had knowledge about local elites. This enabled me to begin to 'map' members of the elite based on their role and position within the province—as outlined in Table 3.1.

In terms of data gathering quality, participants were selected on the basis of their knowledge and the roles they played within the province—what Marshall (1996) has

referred to as purposeful selection. This approach was effective in obtaining valuable information because the participants selected had good local knowledge and understanding of how patronage operated in their respective fields. In selecting the participants, I focused on the richness of information provided by the participants (Kuzel, 1992), rather than a certain sample size as in quantitative research. The result was that selected participants tended to represent those with information relevant to the research topic (Morse, Barrett, Mayan, Olson, & Spiers, 2002).

Prior to recruitment, I approached a parliamentary expert, Sopialena⁵, to help me identify appropriate participants to be interviewed. Arcury and Quandt (1999) describe such an individual as the ‘site gatekeeper’ who can contact potential participants whom the researcher and gatekeeper consider would be appropriate for the study. This person helped me to build connections with the participants, in particular the top local leaders and politicians.

Even though there are no exact guidelines regarding the number of participants that should be recruited in qualitative studies, sufficient participants are needed to at least adequately answer the research questions and inform the study (Fossey et al., 2002; Meho, 2006). The participants who could inform this study were recruited from key local elites at different levels of provincial organisations, such as higher government officials, non-government organisation leaders, local experts (academics), politicians, business people, and religious and ethnic leaders. The recruitment of the participants from different levels in the hierarchy of provincial organisations and with different functions, contributed to arriving at more informed conclusions and increasing the trustworthiness of the study. Table 3.4 shows the characteristics of the study participants listed in Table 3.2 (see above, page 69) and the roles they played within the province.

⁵Sopialena is an expert staff for the Chairman of East Kalimantan Parliament

Table 3.4 Participant Characteristics and Roles

Participant Characteristics	Description	Number of Participants
Higher government officials	Governor, district and municipal rulers, heads of department, heads of division, and senior government staff	15
Local politicians	Leaders of local political parties and chairmen of the commissions of the regional parliament	9
Ethnic group leaders	Local ethnic leaders such as Bugines and Banjares	2
Religious group leaders	Leaders of local religious and social groups	3
Business elites	Local company owners	1
Social elites	Local NGO and mass community organisation leaders; experts from the local university and journalists	4
Total Participants		36

3.5 Data Collection Period

After obtaining ethics approval in March 2011, field research was conducted between May and July 2011. However, the data collected was considered incomplete, so participants were re-interviewed in April 2012 for approximately 2 weeks, with additional research and collecting of secondary data. The focus was the debate between the provincial and central governments related to the distribution of revenue derived from the province's natural resources. The fieldwork coincided with the period in which the East Kalimantan's elites united to sue the central government through the Constitutional Court. Collecting data and conducting interviews during the fieldwork was again facilitated by Sopialena, one of the chief experts serving the regional parliament of East Kalimantan, who had relative proximity to important members of the East Kalimantan elite, such as governor, mayor, chairman of parliament and heads of department. My position as a lecturer at a public university and as a social science researcher in the capital Samarinda, as well as my position in several other private universities in East Kalimantan, contributed to participants assisting the research process.

Besides primary data collection, I also collected secondary data related to this study, a process that had commenced in 2009-10 when undertaking business and law studies as preparation for my PhD. My initial plans for a quantitative study changed as I became more interested in focusing on qualitative research. But it was a good foundation and I continued with secondary data collection while interviewing East Kalimantan stakeholders in 2011.

The second field visit to Samarinda took place during two weeks from 1-12 April 2012, during which I gathered additional supporting data for examining the role of provincial governments in addressing regional development issues and intergovernmental fund transfers. I interviewed three Heads of Provincial Department, two experts from a local university and one local Member of Parliament. I also obtained documents to complement the interview data and undertook telephone interviews and email correspondence between May 2011 and April 2012. During the second field visit, I kept field notes, sourced and analysed documents and conducted informal interviews. Generally, the field visits ran effectively without any significant hindrances. Some minor problems during the data collection did not interfere with the overall process, and all required data was gathered and interviews conducted successfully. The data collection sequence is summarised in Table 3.5.

Table 3.5 Data Gathering Period

No.	Period of Data Collection	Procedure	Activities
1.	18 May 2011 to 06 July 2011	Field visits to provincial governor office and relevant departments	<ul style="list-style-type: none"> - Observation - Document gathering - Interviewed 36 participants comprising higher level government officials, local politicians, business people, ethnic, social and religious group leaders, experts, and an NGO leader
2.	1-12 April 2012	Second field visit to governor offices and relevant departments	<ul style="list-style-type: none"> - Re-interviewed 3 heads of department, 2 experts from local universities, and one parliament member - Additional document gathering
3.	July 2011 to February 2013	Follow-up interviews	<ul style="list-style-type: none"> - Confirmation interviews through phones and emails

3.6 Data Transcription and Language

Interviews were transcribed in Microsoft Word texts and retained in both hard and soft copy format. All transcripts were maintained in the original language (Indonesian) to preserve sense and meaning. Full transcripts of the texts were made available to the participants, as suggested by Mays and Pope (1995), to confirm accuracy and ensure the validity of the data, as recommended by Cutcliffe and McKenna (1999).

However, when quotations from interviews were used in the thesis, they were translated into English. The translation process followed parallel translation format, with the data presented in a side-by-side column within a table (Nikander, 2002, 2008), with Indonesia quotations in one column and the English version in the other. This strategy allows researchers to compare and re-compare original quotations with the translations to reduce inconsistency in meaning and sense. An example of data translation is presented in Table 3.6.

Table 3.6 Data Translation

Indonesia	English	Sources
Ya itu kita tadi setelah otonomi daerah itu kan gak seperti dulu ya kan istilahnya mungkin terburu ditulis ya istilahnya sekarang itu banyak raja-raja kecil sehingga bupati/walikota itu karena pembangunan itu dalam otonomi daerah itu dengan gubernurnya, wakil gubernur dengan gubernur itu kadang-kadang kalo dipanggil itu tidak mau ya gitu ya itu kan ya itu lah otonomi itu otonomi daerah itu yang kebablasan itu.	When decentralisation was implemented, 'local kings' emerged across districts. They behaved like 'a king' and sometimes they implemented policies according to their own interests. When we [a head department of province] invited them to talk about the policy they did not come [to parliament house]. This is the misuse of decentralisation.	JY - BKKBN
Jadi elit itu masih sendiri-sendiri berpikir tentang Kaltim ini. Bahkan yang lebih menonjol yang saya lihat itu masing-masing mengatakan diri dialah yang paling berpikir tentang Kaltim. Itu belum menjadi sinergitas yang utuh. Sehingga itu menjadi kendala tersendiri.	Elites behave and think on their own. They argue they are very important men (like a king) for East Kalimantan and only they care about East Kalimantan. This becomes a problem.	RY-DPRD
Saya katakan tadi visi pembangunan kita adalah	I told people that our	AFI-Gov

Indonesia	English	Sources
pembangunan yang konprehensive, terus terang saja pembangunan yang sekarang ini harus pembangunan inklusif yang langsung menyentuh kehidupan masyarakat.	[political rulers'] vision is to implement inclusive provincial development. It is a comprehensive development and all development policies must correspond with citizens' needs.	
Gubernur seringkali memberi angin syurga padahal sesungguhnya hanya berbohong aja. Kalau anda ingin lebih kongkrit lagi itu kebohongan telanjang ini adalah pada isu Kaltim hijau. Kaltim green. Dia bilang One Man Five Trees. Kaltim green ini prioritas itu jawaban terhadap kerusakan lingkungan. Ada gak instrument kebijakan yang dia buat untuk mendukung Kaltim green itu. Gak ada. Gubernur hanya kaya ide tetapi sangat lemah dalam implementasi dan system. Itu Cuma janji manis buat kita untuk kepentingan politik.	The Governor often promises good things, but they are all empty. He really is a liar when he promises to implement the East Kalimantan Green program in response to environmental destruction. He proposed the One Man Five Trees program. But this program was never implemented. He just promised 'sweet things' to us for his own political benefit.	CT-NGO

The coded translations were also verified against the full transcription texts, to ensure that meaning was not lost in the translation and that participants' meaning and sense was preserved and transferred into the thesis.

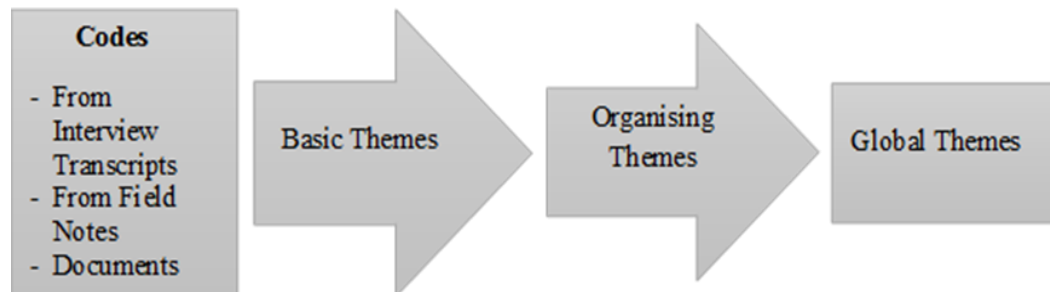
3.7 Data Presentation

The data from the various sources and formats was organised and presented in a matrix table, as suggested by Miles and Huberman (1994, p. 240), who argue that 'there is no fixed canon for constructing a matrix', with the form of the matrix based on the researcher's creativity. For this research, I followed Miles and Huberman's suggestion and have organised the data in tabular form to arrive at answers to the research questions.

When organising the data into a matrix table, I followed Strauss and Corbin's concept of three level iterative coding (Strauss & Corbin, 1998) combined with the thematic network model proposed by Attride-Stirling (2001, p. 397), where the data displayed in the matrix table is organised according to three theme levels (basic

themes, organised themes and global themes). This strategy enabled me to show the relationship of data presented in the matrix.

Figure 3.3 Data Presentation Technique



An example of the data presentation technique is displayed in Table 3.7, which shows the data from raw coding.

Table 3.7 Example of Data Presentation

Codes	Basic Themes	Organising Themes	Global Themes
When decentralisation was implemented, 'local kings' emerged across districts. They behaved like 'a king' and sometimes they implemented policies according to their own interests. When we [a head department of province] invited them to talk about the policy they did not come [to parliament house]. This is the misuse of decentralisation. (JY-BKKBN)	Decentralisation encourages the emergence of local elites	The emergence of elites	Bureaucrat Elites are emerged
Elites behave and think on their own. They argue they are very important men (like a king) for East Kalimantan and only they care about East Kalimantan. This becomes a problem. (RY-DPRD)	Decentralisation encourages the emergence of local elites		
I told people that our [political rulers'] vision is to implement inclusive provincial development. It is a comprehensive development and all development policies must correspond with citizens' needs.	Reformation is echoed to attract client	Elites echo reformation	Patronage reformation
The Governor often promises			

Codes	Basic Themes	Organising Themes	Global Themes
good things, but they are all empty. He really is a liar when he promises to implement the East Kalimantan Green program in response to environmental destruction. He proposed the One Man Five Trees program. But this program was never implemented. He just promised 'sweet things' to us for his own political benefit.	Reformation is echoed to attract client		

Basic themes are themes that represent similar categories found in the data. The basic themes are organised together to obtain broader themes that deal with similar issues. Finally, the organising themes are put together in a global themes format to build theoretical concepts for discussion of the findings. Identifiers (e.g. *RY-DPRD*) were also given in the matrix to locate where the codes came from, as suggested by Miles and Huberman (1994). The data displayed in the table came from many sources, including interviews, documents, field notes and memos.

3.8 Data Analysis

Given the large amount of data, data analysis was the most challenging process in this study. The data comprised interview transcripts from 36 participants, documents from different local government departments and field notes. All the data was sorted based on sources and format to facilitate analysis. As previously mentioned, all data was treated equally as empirical evidence suitable for being analysed (Attride-Stirling, 2001).

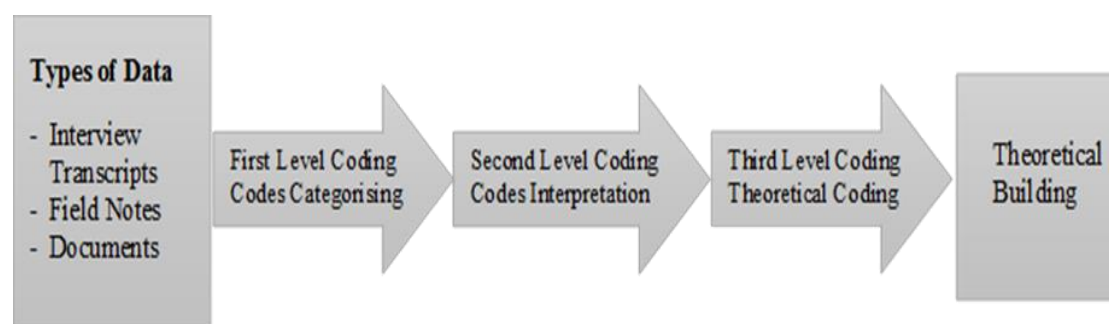
I began analysing the data soon after the first data was collected, as suggested by Corbin and Strauss (1990). The early analysis enabled me to gain an awareness of emerging themes at an early stage and thereby generate and revise the research conceptual framework (Miles & Huberman, 1994). This informed my understanding and perception prior to embarking on further data gathering, such as through interviews. Early data analysis provided an opportunity to consider the breadth of the

data collected and to start identifying themes, which were uncovered through an inductive and iterative approach.

In the analysis process, I closely examined all data to find relationships and constructs related to the research questions (Dooley, 2002). Following Strauss and Corbin (1998), I not only focused on the research questions, but was also open to the possible emergence of new constructs and themes during the analysis of the qualitative data from various sources and formats—which I approached as ‘sources of well-grounded, rich descriptions and explanations of process in identifiable local context’ (Miles & Huberman, 1994, p. 1). My aim was to treat the data ‘as the ground on which the findings are based’ (Polkinghorne, 2005, p. 138), which then required close examination and deep understanding.

From the above, it can be seen that data analysis broadly followed a grounded theory approach (Strauss & Corbin, 1998), where stages of coding follow iterations of reflection, conceptualisation and review. The coding process moved from open coding, to axial coding and selective coding, a coding strategy that helped me develop themes and categories from all data sources and formats as I went through the process of examination and comparison of all the data. The process is outlined in Figure 3.4.

Figure 3.4 Data Analysis Process



Adapted from Strauss & Corbin (1998)

Early open coding was used to enable data to be coded into a broad range of themes and concepts based on the research questions being studied. This initial coding provided a general idea of the meaning of participants’ statements and actions which I could then critically appraise (Charmaz, 2006). This enabled different ideas in each of

the interview transcripts to be identified and named before continuing to the next transcript. Conceptual saturation was reached when no new categories were generated from the open codes and the gaps in emerging concepts were filled (Kendall, 1999).

In the following stage, all concepts and themes were interpreted in a selective coding process to refine conceptual constructs. During this process, I was able to build relationships between concepts and themes related to the topic being studied. In the final theoretical coding stage, all the concepts and themes were conceptualised to formulate and determine meaning. The qualitative software Nvivo version 10.6 was used to facilitate the process of data analysis, creating coding of interview, source and node classifications and analysing the results of the interviews with members of East Kalimantan's elite.

3.8.1 Preliminary Knowledge from Fieldwork Visits

I discovered key points during the fieldwork first visits. However, these still needed to be verified in terms of the various sources of data subsequently accessed through interviews, documents and observation. Some of the preliminary knowledge derived from the field visit can be summarised as follows:

- a. I found different perspectives regarding the local intergovernmental financial transfer when I was interviewing government and local parliament representatives, academics and other elites. The participants gave their views regarding the misuse of the local budget and the ignorance of development priorities in the local budget allocation. Regarding local development and financial allocation, I found that the process was started through community consultation on development planning meetings/*Musyawarah Perencanaan Pembangunan (Musrenbang)* at the village, sub-district, district/municipality through to the provincial level. However, final decisions were always determined by bureaucrats and political elites, with the local East Kalimantan parliament often using its power to decide the budget project activities favouring particular constituents and other clients.

- b.** I found that many of the participants believed that the problems of regional development in East Kalimantan are unlikely to be solved in the short term due to patronage politics played by local elites. They provided examples of the debate between local government and local parliament about the construction of highways, the new airport in Samarinda, and Maloy's chemical industry in East Kutai. They argued that all those projects were not for basic citizens' benefits, but rather for the financial benefit of bureaucrats and political and business elites. Meanwhile, important East Kalimantan projects covering main road, education and health developments received only small financial allocations. The governor even proposed to have a 'Kaltim Air' (air transportation among regencies/municipalities in East Kalimantan province), which was not needed given that national air transportation already operated. Some participants, particularly officials from regional government, claimed that strong political pressure (intervention) from higher bureaucrats and local parliamentarians had weakened the implementation of development plans, with operational level employees unable to guide developments based on the planning documents.
- c.** Another important issue was the formation of a team by local government for judicial review of Law No. 33/2004 regarding balancing funds issued by central government, the intended agenda being to get more intergovernmental financial transfer from central government to enable elites to obtain more benefits rather than financing local public development for the benefit of all.
- d.** There was inconsistency in the implementation of the development planning and financial allocation as well as failure in executing development priority. Plans made in formal local government meetings were later changed by bureaucrats and political elites through informal negotiations, reflecting the operation of patronage politics.

Another major problem I uncovered was the inconsistency of the regional governments in executing the financial and project planning documents. This reflected the bargaining between elites within East Kalimantan, with state-funded projects planned in the Annual Regional Budget (*APBD*) for development often

different from the earlier planning process that had involved all citizens and grass root elites. Some participants argued that much of the budget was spent on trivial programs which did not have a direct impact on increasing regional prosperity and development.

I found that the development priorities of the strategic plan of East Kalimantan Province of human resources development, infrastructure development and agriculture development operated only as a concept, with participants claiming that regional government had failed to execute any of the three priorities or to determine urgent activities. This points to how the prioritising process of regional governments in the case of budget allocation for programs that directly increase the prosperity of local people is unclear and open to manipulation. This happens in all districts. According to participants, the regional development programs and financial allocations are designed not to meet the people's needs but to satisfy the desire of the elites.

3.9 Research Credibility

Research credibility is an important dimension of any research, with a number of scholars (Cutcliffe & McKenna, 1999; Krefting, 1991; Patton, 1999) addressing the importance of establishing research credibility. In this study, research credibility was built through a number of strategies, as explained below.

Firstly, research credibility was established through employing rigorous data gathering techniques and methods as suggested by Patton (1999). The data of this study was gathered with different techniques and from different sources: direct field observations, formal and informal interview sessions, and documents from many sources. The interviews involved participants from different groups (such as higher government officials, religious and social groups, non-government organisations, local experts and politicians) to obtain a spread of information. Different data gathering techniques and data sources also enabled triangulation, thereby increasing the validity of findings.

Secondly, credibility was established through following the data verification approach advocated by Cutcliffe and McKenna (1999). In this process, I returned to the participants numerous times through direct visits, telephone and email interviews to verify the findings and ensure that I understood their meaning. According to Cutcliffe and McKenna (1999), the verification strategy can ensure that meanings are clear, as well as enabling participants to recognise that their experience is reflected in the research findings (Krefting, 1991).

Thirdly, research credibility was also established through trustworthiness, which relates to truth value and neutrality (Guba, 1981). Truth value is obtained from the discovery of participants' experiences as they lived and perceived them (Krefting, 1991), while neutrality is the absence of bias in research procedures and results (Sandelowski, 1986). Throughout the research I followed appropriate research procedures and analysis techniques (Guba & Lincoln, 1994).

Finally, the variety of data sources and formats as well as the length of engagement with the participants, combined with the attention given to understanding the study context, increased research credibility (Cresswell & Miller, 2000). My engagement with the study context (East Kalimantan) was long enough to support the findings, with two field visits between May 2011 and February 2013, along with follow-up telephone and email interviews. Multiple site visits allowed me to investigate and understand the same phenomena on different occasions (Hammersley, 1992) as did my active involvement in the research process (Long & Johnson, 2000).

3.10 Ethical Issues

This research was carried out with full ethics compliance. The research ethics application was approved by the Victoria University Human Research Ethics Committee (VUHREC) prior to commencing the field research in May 2011. Research sites were accessed only after permission was granted by the provincial government, with an administrative staff member from the office of the Governor arranging some field visit contacts.

Except where they agreed to be identified, or where their comments were on the public record, participants' involvement in this research was confidential and anonymous. To keep participants' comments anonymous, each was given a unique code for the research. Confidentiality of this data was maintained by being kept in my personal computer, which was locked with a password.

Prior to conducting interviews, an invitation to participate was given to each potential participant. A Consent Information Statement/Letter and Signed Consent Form were also given to each participant. The invitation, written in English and Indonesian, described the research and gave answers to Frequently Asked Questions.

3.11 Conclusion

As well as addressing ethical issues, this chapter has addressed the study's methodology, covering the research paradigm, application of theoretical perspectives, methods and procedures for collecting data, and data analysis. As outlined above, this study's epistemological perspective closely aligns with a version of constructivism and subjectivism which considers that people and social reality are not separated. Taking an interpretive theoretical perspective, the study approached the relationship between individuals and social reality as one where life choices are made by real people acting in concrete social contexts. This informed the qualitative case study approach, which was geared to gaining in-depth knowledge of the role played by elites in the province of East Kalimantan, through in-depth interviews, observations and document analysis.

CHAPTER 4 CASE STUDY DESCRIPTION 1 CONTEXT OF INDONESIA AND EAST KALIMANTAN PROVINCE

4.1 Introduction

This chapter broadly provides the context of the study, and in this way informs the following chapters. The discussion covers Indonesian government structure, the history of decentralisation in Indonesia, East Kalimantan's provincial structure, the geographic and demographic situation in East Kalimantan, natural resources, economic structure and the situation regarding decentralisation in East Kalimantan.

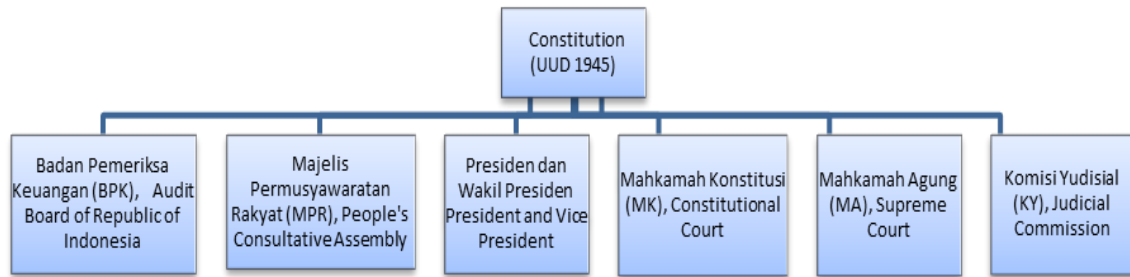
4.2 Indonesia's Government Structure

Indonesia is a republic governed according to the Indonesian constitution: *Undang-Undang Dasar (UUD) 1945*⁶. The constitution separates executive, legislative and judiciary powers. The President holds the highest executive power, while legislative power is held by the Senate (*MPR* and *DPR*)⁷, and the judiciary is under the jurisdiction of the Supreme Court/*Mahkamah Agung (MA)*. As well as the central government, there is a House of Representatives, and two levels of local parliamentary government: provincial and regencies/cities. In addition, there are also two levels of executive government, namely provincial and districts or municipalities. Under districts or municipalities are sub-districts. The structure of the Indonesian government is broadly presented in Figure 4.1.

⁶All regulations and rules created in Indonesia must correspond with the *Undang-Undang Dasar 1945*.

⁷*MPR* stands for *Majelis Permusyawaratan Rakyat*. It comprises the members of the consultative assembly. *MPR* has power to amend the constitution, and inaugurate and impeach the president. *DPR* stands for *Dewan Perwakilan Rakyat*. It comprises the people's representative council, and has the power to control executive power (President) and enact regulations and laws.

Figure 4.1 Indonesian Government Structure



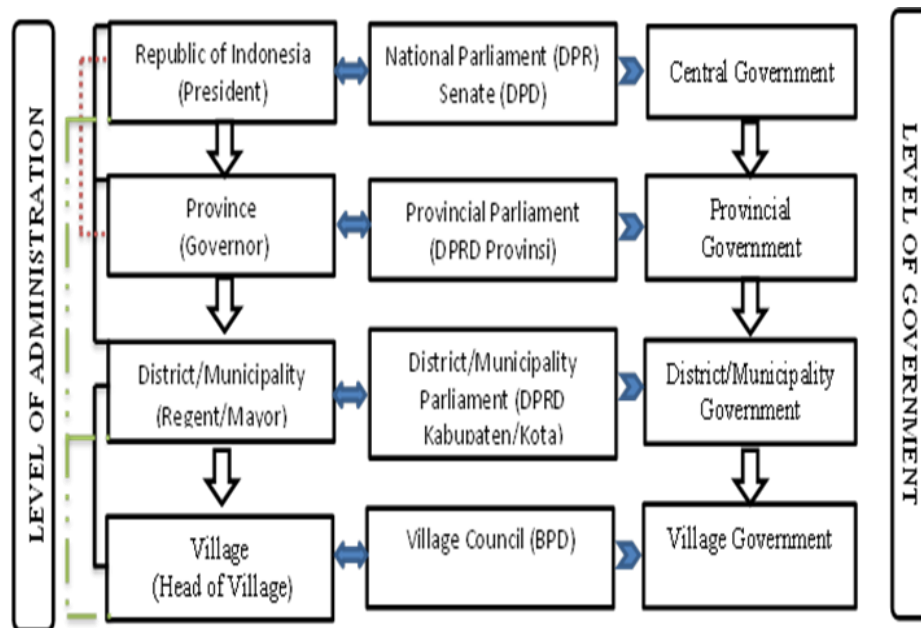
Divided into provinces, Indonesia is a unitary state operating under a broad principle of local autonomy. Under the Constitution (*UUD*) of 1945, government in Indonesia has been institutionalised in a presidential system. The President is the highest administrative authority in Indonesia and responsible for all government institutions, including at the local government level. The President and Vice President are elected directly by the people, while cabinet ministers are appointed by and responsible to the President. Parliament is bicameral, consisting of the House of Representatives/*Dewan Perwakilan Rakyat (DPR)* and the Regional Representative Council/*Dewan Perwakilan Daerah (DPD)*⁸. Members of the People's Representative Council are also members of the People's Consultative Assembly, which has considerable legislative power and authority to oversee the government.

Others government institutions with high level powers (see Figure 4.1 above) are the executive institutions, which hold power relating to governance and providing checks and balances, such as the Audit Board of the Republic of Indonesia/*Badan Pemeriksa Keuangan (BPK)*. They also include judicial institutions holding law enforcement power: the Supreme Court/*Mahkamah Agung (MA)*, the Constitutional Court/*Mahkamah Konstitusi (MK)* and the Judicial Commission/*Komisi Yudisial (KY)*. Furthermore, these are the judicial institutions that hold power relating to the constitution and laws enacted by parliamentary members in the House of Representatives (*DPR*), Regional Representative Council (*DPD*) and People's Consultative Assembly (*MPR*).

⁸*DPR* and *DPD* have slightly different roles. *DPD* is mostly concerned with regional issues and its role in national issues is limited to providing advice and consultation to the *DPR* and central government. Unlike *DPR*, *DPD* does not have the right to enact laws.

In compliance with Indonesia's Constitution (*UUD 1945*), the structure and organisation of the Indonesian government is set out under Law No. 32/2004⁹, which specifies that government in Indonesia consists of four levels: central, provincial, district/municipality and village.

Figure 4.2 Indonesian Government and Administration Levels



Adapted from the Law No. 32/2004

At the national level (central government), the President and Vice President are the highest authority of government, administering the nation in accordance with the mandate given by the constitution and laws of Indonesia. The House of Representatives (*DPR*) and the Regional Representative Council/*Dewan Perwakilan Daerah* (*DPD*), together with the President and Vice President, enact national laws (*Undang-Undang*) and control the national budget (*APBN*)¹⁰. At the provincial

⁹Law No. 32/2004 Regarding Local Government.

¹⁰The National Budget (*APBN*) is the annual budget of the central government, covering revenue and expenditure of the central government for one year, from 1 January to 31 December. *APBN* is approved by the People's Representative Assembly (*DPR*) through law (*Undang-Undang*).

level, the governor and vice governor are the chief executives supported by Provincial Government Work Units/*Satuan Kerja Perangkat Daerah (SKPD)*. The governor together with the regional parliament/*Dewan Perwakilan Rakyat Daerah (DPRD)* legislate regional regulations/*Peraturan Daerah (Perda)* and make decisions on the regional budget (*APBD*). Under Law No. 32/2004, aside from autonomous administration, the governor also acts as the representative of the central government in the region. With this position, the provincial government facilitates and supervises the implementation of a range of tasks and functions that have been devolved by central government to the regions.

The district/municipality level is led by a district/municipality head (regent/mayor). Districts/municipalities have greater autonomy compared with the provincial level. According to Law No. 32/2004, decentralisation is focused on districts/municipalities. Most central government policies are directly related to these levels, not to the provincial level. The heads of districts/municipalities are assisted by a number of district government work units (*SKPD*). These work units differ between the districts/municipalities depending on their demographic needs and characteristics.

Below the district or municipality are two further levels of government: sub-district (*kecamatan*) and village (*kelurahan/desa*). In general, village hierarchies have the authority to organise and manage the interests of village communities. Then, within each village, there are a further two levels of hierarchy: Pillars of Citizens Organisations/*Rukun Warga (RW)* and Neighbourhood Organisations/*Rukun Tetangga (RT)*. Although *RW* and *RT* possess only auxiliary administrative duties in the village, both hierarchies play a very important role in the implementation of local government policy. For example, communities are required to take an introductory letter from Neighbourhood Organisations (*RT*) before proceeding to deal with the village. Neighbourhood Organisations (*RT*) acts as an initial document-checking facility for the community. All of the above levels of government are recognised by Law No. 32/2004.

New arrangements of the Decentralisation Law were intended to accelerate the realisation of public welfare through service improvement, empowerment and community participation, as well as improving the competitiveness of the regions with regard to the principles of democracy, equality and justice for specific areas within Indonesia¹¹.

Under Law No. 22/1999 regarding local government, central government powers have been gradually decentralised across local governments in Indonesia to ensure the efficient implementation of all government policies. Since its enactment, local government has had greater autonomy to implement policies that suit the needs of their respective regions. Although central government powers have been devolved, as mandated by the Local Autonomy Law No. 22/1999 (and its revision Law No. 32/2004), local governments are still controlled by the central government through several ministries. For example, the Ministry of the Interior is still responsible for approving and swearing in of the provincial and district level heads, whereas governments of regions/municipalities have actually been elected directly by local residents. Other ministries such as the Ministry of Public Works also still exercise control over local development projects, especially in terms of the use of the Ministry's budget. This also applies to national development planning agencies, whose policies still serve as a guide for the region in terms of regional development planning. In other respects, according to Law No. 32/2004, local governments are given full authority to be creative in promoting their regions, and they therefore regulate and manage their own areas according to the principles of autonomy and co-administration.

4.3 Decentralisation in Indonesia

The centralisation of political and economic resources in the hands of a small group of elite politicians and functionaries in the central government was an inherent consequence of the authoritarian political system of the old New Order (under President Suharto, 1966-1998) which dominated Indonesian political life in the second half of the twentieth century. Under the Suharto regime, national mechanisms

¹¹Point 'a' in Law No. 32/2004.

of political control were continually tightened by centralising the management of national economic resources based in Jakarta, or more broadly Java (Bunnell & Ann Miller, 2011). Under the New Order, local government was closely regulated so as to be uniform nationwide (Devas, 1989).

After the demise of the New Order, signalled by the resignation of President Suharto on the 21st of May 1998, many fundamental changes occurred and there can be no doubt that a spirit of reform heralded a new era, signalling a new political climate where fundamental transformation was suddenly possible. The new climate of reform brought with it the possibility that significant structural change was immanent in the governing system in Indonesia.

Motivation for decentralisation was strongly tied to greater regional autonomy and this created a strong demand for changes in the power relationship operating between the central and regional governments. Indicative of the era of change are several important events in the history of our nation that have occurred since, with Indonesia declaring a new political openness that is no more evident than in the granting of independence to East Timor after the pro-independence faction there won the 1999 referendum. The effect of such changes has been especially apparent in the many regions in Indonesia where natural resources are abundant, such as in Aceh, Riau, Papua and East Kalimantan. Activists in these regions have even gone so far as to voice the goal of independence and demand separation from the unitary state of the Indonesian Republic.

However, in historical terms, the relationship between central and regional government since Indonesian independence has never been harmonious, particularly after Suharto rose to power and placed the regions under the power of New Order cronies. The system was characterised by political manipulation aimed entirely at maintaining centralised power (Amal, 1992; Haris, 2001). In the era of the New Order, the same political culture spread to all regions of Indonesia as the 'viruses' of the centralised political system replicated, the centralising tendency suppressing all local dissent as it flared up in the regions in response. As history has shown, before the New Order era, in the fifties and sixties, one of the outcomes of the

disappointment created in the regions was widespread and concurrent regional uprisings, many of which delivered significant shocks to the government at the time. Among the most serious were the *PRRI*¹² and *Permesta*¹³ rebellion under Kahar Muzakkar, the Daud Beureueh uprising in Aceh, and the Kartosuwiryo movement in West Java. The motivation behind these movements was in the main the disillusionment resulting from unfair and unbalanced treatment by the central government. That this was the case can be concluded by noting that none of these regional rebellions demanded separation from the Indonesian Republic.

These historical experiences need to be kept in mind even when considering the rather different situation following the downfall of the New Order, where the problems in the relations between the central and regional governments have been highlighted in ways they were not in the past. Sensing the gravity of this issue, the government has given the question of autonomy and financial decentralisation for the regions of Indonesia a great deal of attention. Beginning with the period of transitional government in 1998-1999, President B. J. Habibie moved to respond to widespread public opinion, supervising through the central government and the House of Representatives/*Dewan Perwakilan Rakyat (DPR)* Law No. 22/99 regarding local government and Law No. 25/99 regarding fiscal balance between the central and local administrations, later updated and amended as Law No. 32/2004 and Law No. 33/2004. These sets of decentralising laws were crucial in halting the growing momentum of separatism in many provinces in Indonesia. The crisis gave strong impetus for the central government to grant regional autonomy to the nation's disparate districts/municipalities. This decision was based on two fundamental aims, as formulated in the laws cited above. The first was to minimise the conditions for separatist movement formation in the autonomous regions. The second related to efficiency, where the district/municipality government was considered to be closer to the public and better able to meet its needs. Another feature of the legislation

¹²The Revolutionary Government of the Republic of Indonesia/*Pemerintah Revolusioner Republik Indonesia (PRRI)* was an alternative government set up in Sumatra to oppose the Indonesian central government in 1958 (Audrey R. Kahin and George McT. Kahin, *Subversion as Foreign Policy: The secret Eisenhower and Dulles debacle in Indonesia*. New York: New Press, 1995, p. 143).

¹³*Permesta* was a rebel movement in Indonesia, its name based on *Piagam Perjuangan Semesta* (Universal Struggle Charter). It was declared by civil and military leaders in East Indonesia on 2 March 1957 (Ricklefs, M.C. (2008). *A History of Modern Indonesia Since C.1200*. Palo Alto/Basingstoke: Stanford University Press/Palgrave Macmillan).

particularly worth mentioning is that regional autonomy was still framed within the concept of a 'unitary state' and therefore avoided as much as possible any aura of federalism, since the core idea of a unitary state is that each region should be treated equally.

4.4 Brief History of East Kalimantan Province

Despite now being considered an outlying province within Indonesia, East Kalimantan was home to the earliest Indianised kingdom in Indonesia, Martadipura, established in the Kutai region adjacent to the modern capital, Samarinda, in the fourth century (AD). Founded by Mulawarman Nala Dewa, the royal line continued until the twenty-fifth king, Maharaja Derma Setia, active in the twelfth century¹⁴.

Collapse of the Kutai Ing Martapura Empire in the thirteenth century resulted in opportunities for hinterland powers previously under the rule of Kutai Ing Martadipura to break free and establish their own kingdoms, such as the Kutai Kartanegara, Berau, Gunung Tabur, Sambaliung and Bulungan Empires. The spread of Islam to the island in the seventeenth century eventually led to the rise of Muslim royal households and a change in the royal title of the ruler from *Kutai Kartanegara* to Sultan.

With the defeat of the Berau Sultanate in 1834, the Dutch began their domination of East Kalimantan. This was followed by Dutch sovereignty over the Kutai Sultanate from 1848. After the discovery of oil, gas and coal in Kutai in 1882, the Dutch initiated an agreement between the Dutch East Indies government and the Kutai Sultanate for land concessions for 75 years for coal mining, with one percent tax payable for each acre and other taxes collected from the value of oil produced. The first coal mining was officially announced in 1888 and oil exploration continued in Sanga-Sanga. Today the biggest oil mining venture in Kutai Kartanegara Regency is situated in Samboja, adjacent to Balikpapan city. Oil production in Kutai became the third biggest oil venture under Dutch rule, with two-thirds of Indonesia's crude output coming from the Shell installation in this region (Daroestan, 1979, p. 50). Christened

¹⁴*Sejarah Provinsi Kalimantan Timur*, http://id.wikipedia.org/wiki/Sejarah_Kalimantan_Timur

a 'River of Kerosene' by J. A. Hooze, a geologist for the Dutch East Indies, the discovery of oil and coal reserves led the Dutch to apply far more restrictive control of Kalimantan in order to ensure their economic dominance (Magenda, 1991).

Subsequent to the recognition of Indonesian independence by the Dutch in 1950, a number of regions received *swapraja* (autonomous) status within the Republic of Indonesia, which was soon followed by the dismantling of the sultanates and their conversion into what were called regencies.

In accordance with the people's aspiration, from 1956 Kalimantan was divided into three provinces: East Kalimantan, South Kalimantan and West Kalimantan. Until then, East Kalimantan had been included as part of Kalimantan Province. The foundation of East Kalimantan province was enacted by Law No. 25/1956, issued on December 7, 1956, at the same time as the two provinces of West Kalimantan and South Kalimantan were created.

Following the founding of the East Kalimantan province in 1956, a period of consultation led to the formation of a system of districts and municipalities, namely the districts of Kutai, Berau, Bulungan and Pasir, and the municipalities of Samarinda and Balikpapan, which were formally created on 1 January 1957. Today, the date is celebrated as the anniversary of the province of East Kalimantan. However, with the implementation of local autonomy in Indonesia in January 2001 there emerged an interest in regional expansion (*Pemekaran Daerah*). Six new districts were established: West Kutai and East Kutai divided from Kutai district (now Kutai Kartanegara district) as allowed under Law No. 47/1999. Similarly, Malinau and Nunukan divided from the Bulungan district under the same Law. The district of North Penajam Paser separated from Pasir district under Law No. 7/2002, and Tanah Tidung was established through Law No. 34/2007 (cited in *Antara News*, 23 Maret 2013).

East Kalimantan province consists of 10 districts and 4 municipalities. Viewed from an economic development perspective, cities such as Samarinda, Balikpapan, Bontang and Tarakan are the growth centres for mining petroleum, natural gas and

coal in this area. It is therefore not surprising that these cities are economically far more advanced and developed than other districts. In these urban areas, families and workers from outside East Kalimantan, especially from Bugis-Makassar (South Sulawesi), Java (East Java and Central Java in particular), and Banjarese (South Kalimantan), have been migrating to the province in large numbers.

Table 4.1 Number and Population of Districts/Municipalities, Sub-districts and Villages in East Kalimantan 2012

Regencies/Municipalities	Number of Districts	Number of Villages	Population
Paser	10	130	256,878
Kutai Barat	21	228	172,235
Kutai Kartanegara	18	227	733,693
Kutai Timur	18	135	444,671
Berau	13	107	216,480
Malinau	15	108	77,221
Bulungan	10	81	131,828
Nunukan	15	227	192,562
Penajam Paser Utara	4	54	174,120
Tanah Tidung	4	23	20,105
Balikpapan	6	27	548,859
Samarinda	10	53	826,394
Tarakan	4	20	185,114
Bontang	3	15	174,794
East Kalimantan	151	1,492	4,154,954

Source: BPS/East Kalimantan Statistics, 2013

Table 4.1 suggests that, in general, most of the districts/municipalities in East Kalimantan tend to have a large number of sub-districts and villages. This was meant to strengthen village governments in their efforts to improve the provision of public services to the community, with the incentive of an increase in the district/municipality budget. This pattern can be seen in a number of districts in East Kalimantan which have a relatively small population, such as Kutai Barat, Malinau and Nunukan, which have a large number of villages seeking recognition. These are also the districts with the largest indigenous populations, with 57.87%, 71.27% and 37.43% of Dayaks respectively.

The formation of new districts in East Kalimantan reflects a very strong political motive as East Kalimantan elites seek greater political and economic power through the provision of regional autonomy, with new political divisions attracting budget increases much larger than if the district is not divided. Beyond the fiscal motivation, many also see it as a means for expanding their own political networks.

4.5 Geography and Demography of East Kalimantan

In 1998, before local autonomy, the population in East Kalimantan was about 2.2 million people. With an area of approximately 210 thousand km², the population density in the province was 11.3 inhabitants/km². Within 15 years, as shown in Table 4.1, the population had increased to 4.15 million people, an increase of 47%, with an average growth rate of 3.82%/year (BPS/East Kalimantan Statistics, 2012).

Table 4.2 Size, Population, Population Growth and Density by Districts/Municipalities 2012

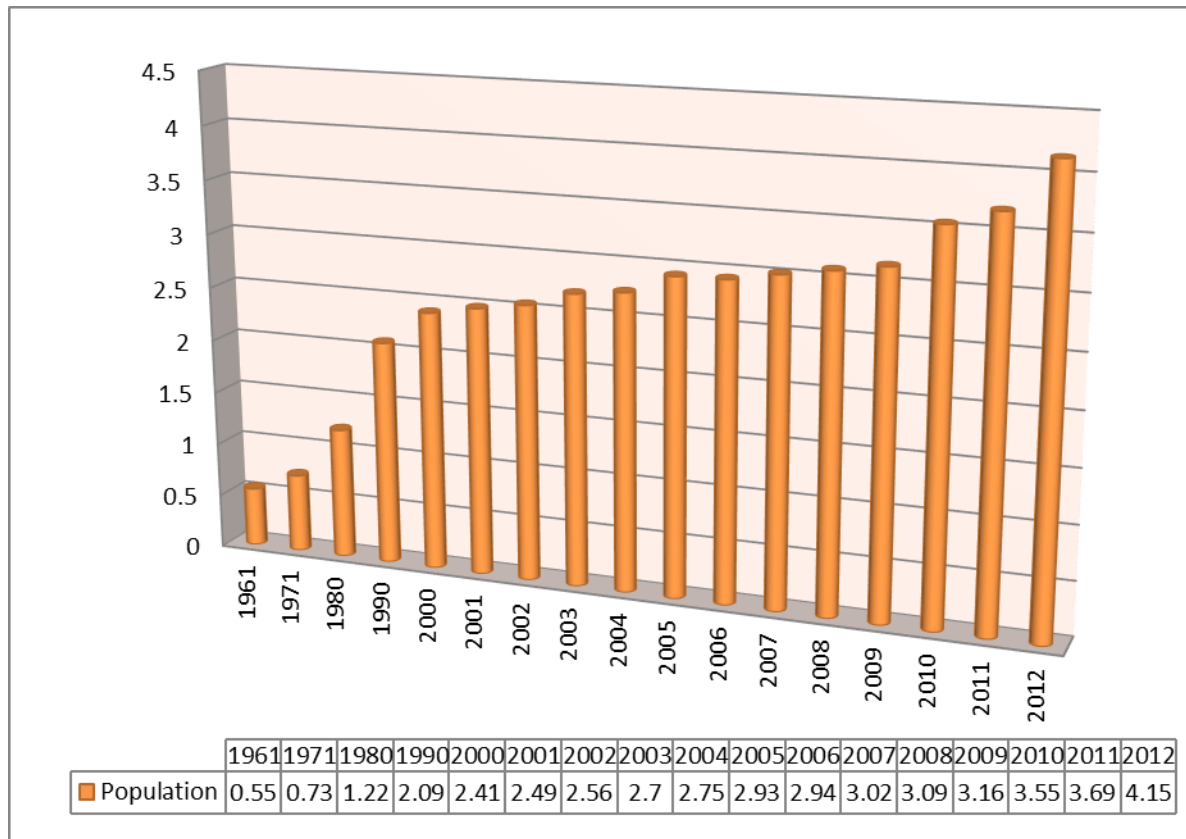
Districts/ Municipalities	Areas (Km2)	Population	Population Growth (%)	Density (People/Km2)
Paser	7,730.88	256,878	3.77	33.23
Kutai Barat	35,696.59	172,235	1.96	4.82
Kutai Kertanegara	23,601.91	733,693	3.89	31.09
Kutai Timur	35,747.50	444,671	5.72	12.44
Berau	21,240.00	216,480	4.28	10.19
Malinau	42,620.70	77,221	5.50	1.81
Bulungan	13,925.72	131,828	3.95	9.47
Nunukan	13,841.00	192,562	5.87	13.91
Penajam Paser Utara	3,333.06	174,120	2.68	52.24
Tanah Tidung	4,828.58	20,105	8.71	4.16
Balikpapan	527.00	548,859	3.15	1041.48
Samarinda	783.00	826,394	3.38	1055.42
Tarakan	250.80	185,114	5.15	738.09
Bontang	406.70	174,794	3.73	429.79
East Kalimantan	204,534.34	4,154,954	3.82	20.31

Source: BPS/East Kalimantan Statistics, 2013, *Ditjen Kependudukan dan Catatan Sipil Kemendagri, 2012*

It cannot be denied that East Kalimantan is a province with a rapidly increasing population far exceeding the national population growth of around 2% per year in the

1990s. Average population growth in East Kalimantan since the 1970s has been above 3.5% per year, making it the highest population growth of any province in Indonesia.

Figure 4.3 East Kalimantan Population Growth in Millions, 1961-2012



Source: BPS/East Kalimantan Statistics, 2013, *Ditjen Kependudukan dan Catatan Sipil Kemendagri*, 2012

The population of East Kalimantan had grown to 4,154,954 people by 2012, approximately 1.61% of the total population of Indonesia (BPS/East Kalimantan Statistics, 2012)¹⁵. Compared to the total area of the region, the population density is relatively low, at about 20 people per square kilometre, far lower than the national average of 124 people per square kilometre. The population is distributed unevenly and tends to be concentrated in urban areas, where 55.58% of people are concentrated in an area occupying only 1,694.13 km² of the total area of 210,000 km². Meanwhile, only 44.42 % of the total population live in the ten regencies, which

¹⁵Based on the Population Census 2010, the Indonesian population reached 237,556,363 (see Indonesia Statistics, 2012).

constitute 99.31% of the area of the whole province (BPS/East Kalimantan statistics, 2010).

The increase in population growth each year reflects the high rate of migration into East Kalimantan. From the data of the Population Census in 1961, 1971, 1980, 1990, 2000, 2010 and 2012, there is a consistent flow of migrants into East Kalimantan province, originating mainly from the provinces of East Java, South Sulawesi, South Kalimantan, Central Java, Southeast Sulawesi and West Java. The highest rate of migration was in 1970-1990, when the oil and timber sectors dominated the regional economy and development of East Kalimantan (Walton, 1991). The period was known as the province's golden age of oil and timber, with oil exports increasing dramatically from \$42 million in 1970 to \$3,936 million in 1980. Another booming sector during that period was the timber industry, with exports growing from \$7.2 million in 1969/1970 to \$724.5 million in 1979/1980 (Walton, 1991, pp. 109-111).

East Kalimantan continues to be considered a province with great potential for employment and a relatively high level of income. This reflects the fact that most migrants have obtained employment in urban-based activities such as construction, mining and spin-offs associated with the oil and gas industries. With abundant job opportunities and relatively high wages, immigrants find life in East Kalimantan satisfactory and do not feel the need to return to their areas of origin. The presence of industries that provide job opportunities has attracted many people from other regions to migrate to East Kalimantan to seek a better life (Hamongpranoto, 2013), the 2010 population census by the Population and Civil Registration Agency of East Kalimantan indicating that 46.7% of migrants coming into the province were seeking employment (Kuncono, 2012).

The changing of demography in East Kalimantan is mostly as a result of the new economic policy, especially after the enactment of local autonomy, which gave the local government authority to open new lands to mining and oil palm plantations in particular.

4.6 Natural Resources in East Kalimantan

East Kalimantan is rich in natural resources such as oil, natural gas and coal. During the 19th century, under the new Sultanate, open cut coal mining extracting low quality coal commenced in East Kalimantan (Lindblad, 1989). The first modern coal mine, '*Oranje Nassau*' in Pengaron South Kalimantan, was opened in 1849 by the Dutch, who were more focused on expressing their right to the mineral riches of the island, rather than the commercial potential of the mine (Lindblad, 1989).

In 1888, the Dutch-owned coal company Oost-Borneo Maatchappij established a giant coal mine in Batu Panggal on the banks of Mahakam River. In addition, the indigenous people ran small businesses along Mahakam Hulu and Berau Rivers. In 1903, with Dutch investment, the biggest coal mine in Laut Island commenced production, and by 1910 it had was supplying 25% of all Indonesian outputs (Lindblad, 1989). The coal produced by the big mines owned by the Dutch was exported, while the coal of smaller producers was allotted for local marketing. The low quality of the coal plus the availability of cheaper coal in Europe, particularly from the UK, saw a decline in large scale Dutch mining in East Kalimantan. However, the discovery of new coal reserves triggered a new focus on mining in East Kalimantan.

In terms of the area of timber resources, East Kalimantan has 21 million hectares of forests, most of which (about 19.8 million hectares) includes production forests, protected forests, forest preserves, and forests for the benefit of research, education and training. Two and a half million hectares have been reserved for the cultivation of potential agricultural products, such as large-scale palm oil planting—the governor of East Kalimantan making palm oil development a priority with a program of one million hectares of oil palm plantations in East Kalimantan province.

However, forest viability and sustainability have not been managed properly as a result of the practice of manipulation, distortion, corruption and the controversial issue of how permission to use forest resources was handled during the New Order period. All this resulted in tremendous damage to forests in East Kalimantan, with

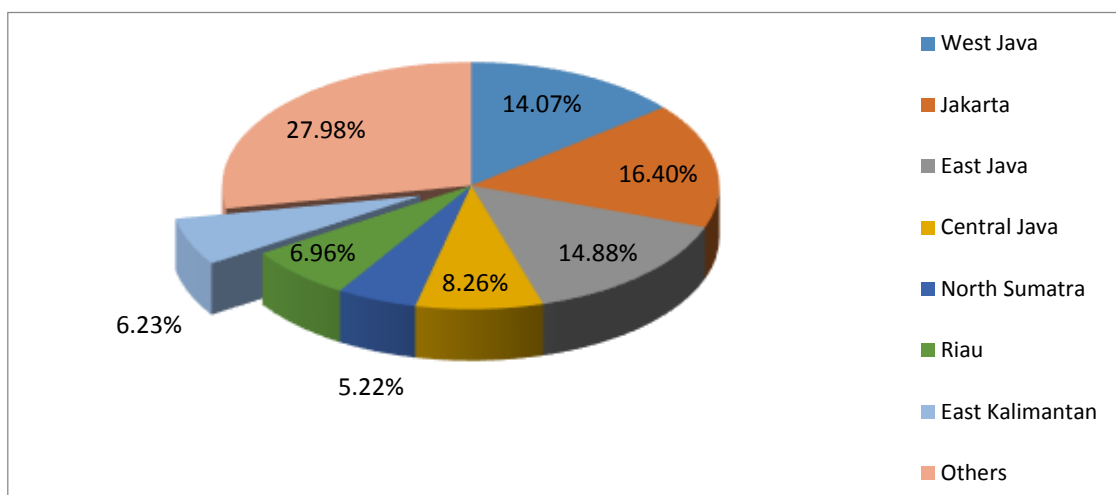
exploitation of forest products not followed by adequate conservation and reforestation. As a result of serious damage, a legislator remarked pessimistically in 2011 that, without radically improving management, it was estimated that the productivity of East Kalimantan forests would soon come to an end (P7, interview, 25 May 2011)¹⁶.

Other major natural resources in East Kalimantan are oil and natural gas. Based on research conducted by six mining companies in East Kalimantan, oil reserves are estimated at 454,118.8 million metric stock tank barrels (MMSTB) on the mainland, and about 741,500 MMSTB offshore in East Kalimantan; natural gas reserves are estimated at 11,245.4 million standard cubic feet (MMSCF) on the mainland, and about 11,245.4 MMSCF in offshore areas (*Analisis data pokok Kaltim*, 2010).

As an example of the great natural resources wealth of East Kalimantan, in 2004, in the aftermath of regional autonomy, oil production was 1,178 billion barrels or equivalent to 13% of the total national reserves. In addition, the natural gas potential reached 49.14 TSCF (trillion standard cubic feet) or 28% of the total national reserves. Coal production totalled 66 million tonnes, and in 2009 production reached more than 123 million tonnes, the largest coal production in the nation (Bappeda Kaltim, 2012). As a result of its abundant natural resources, East Kalimantan province makes the second largest contribution to the national Gross Domestic Product (GDP). Figure 4.3, showing the contribution of all provinces to national GDP, shows that in 2012 the Gross Regional Domestic Product (GRDP) of East Kalimantan accounted for 6.23% of Indonesia's GDP, the second largest contributor after Java.

¹⁶Throughout the thesis, unless it is already on the public record, I have not used the actual names of identified individuals.

Figure 4.4 Percentage of Gross Regional Domestic Product of Indonesia GDP



Source: BPS/Indonesia Statistics, 2012

However, during the era of regional autonomy from January 1, 2001 through to 2012, East Kalimantan's budget from year to year continued to increase quite significantly. Before the period of regional autonomy East Kalimantan received IDR 263.03 billion from the 1997/1998 centralised budget. By 2003 the amount had risen to IDR 1,746.75 billion, an increase of IDR 1,483.72 billion or 564% (BPS/Indonesia Statistics, 2004). Meanwhile the East Kalimantan local budget had been increasing significantly as well, from IDR 605.02 billion in 2000 to IDR 10.51 trillion in 2012, an increase of 1,737% (*BPS—East Kalimantan Statistics*, 2012).

The potential oil and gas to contribute to the welfare of the local community is the most important capital resource of East Kalimantan. As stated in the previous section, during the New Order era, the people of East Kalimantan did not enjoy the full potential of their natural resources because of the unfair and unbalanced distribution of grants, so the demands by the local parliament for enactment of the federal system, as decided on 8 November 1999 through Act No. 28/1999, are not surprising. The new format of regional autonomy as regulated by Laws No. 32 and No. 33/2004, reflects how all elements of the community and local government expect a fundamental change in the distribution of income for their area. However, the presence of the new regulations, especially Law No. 33/2004 concerning the balance of funds between the central government and the East Kalimantan province, did come down in support of the province, and actually increased tensions between the central

government and East Kalimantan, resulting in a lawsuit on behalf of the public to the Constitutional Court against the revenue-sharing, which was considered disproportionate by most of East Kalimantan's elites.

As stated previously, the mainstay of East Kalimantan's economy is the rich natural resource base, particularly oil and natural gas, timber and coal. Exploitation of these natural resources has provided the region with an abundant export base of petroleum products and gas, timber and coal. However, during the New Order, most of the funds obtained from exports benefited only the central government, with East Kalimantan as the producer not receiving a fair proportion of the benefits (P7, interview, 25 May 2011).

The importance of East Kalimantan's natural resource exports is obvious from its contribution to the Gross Regional Domestic Product before decentralisation, which in 1999, for example, accounted for 96.2% of the total value of the province's Gross Regional Domestic Product, or IDR 52.8 trillion. Goods and services exports at the time were dominated by oil and gas products: of East Kalimantan's income of IDR 52.8 trillion, the total value of exports—which were mainly oil and gas products—was about 65%¹⁷. The value of these natural resource exports would appear to have been an important factor in the local resentment to the central government's distribution of income derived from this area, which manifested itself in the calls for the implementation of a federal state system, as previously discussed.

4.7 Economic Structure: The Burden of Plenty

East Kalimantan's economy remains heavily dependent on the exploration and extraction of natural resources, especially oil, natural gas and coal, and the Gross Regional Domestic Product of the province is underpinned by gigantic investment projects in these areas. The economic structure and performance of East Kalimantan are very different compared with most other provinces in Indonesia, with GRDP per

¹⁷*Produk Domestik Regional Bruto Kalimantan Timur Menurut Penggunaan, Samarinda: Kerjasama Bappeda Kaltim dengan BPS/East Kalimantan Statistics, 2000, hal. 22 dan hal. 26.*

capita since the 2000s the highest in Indonesia and the non-oil GRDP per capita one of the highest.

The economic wealth of East Kalimantan is apparent from the value of its Gross Regional Domestic Product, which grew from IDR 54.95 trillion in 1998 to IDR 419 trillion in 2012, an increase of approximately 750% of GRDP over 15 years (*Bappeda Kalimantan Timur, 2012*). Not surprisingly, East Kalimantan province is the sixth highest contributor after Jakarta, East Java, West Java, Central Java and Riau to the national GDP, with the province contributing up to 6.07% to the national GDP. In terms of the GRDP per capita, the province of East Kalimantan was the second highest ranking in Indonesia after Jakarta, contributing up to IDR 109.66 million per capita. This figure is much higher than the national GDP average, which was only IDR 27.01 million per capita (BPS/Indonesia Statistics, 2013).

Table 4.3 GRDP Per Capita at Current Prices of Selected Provinces in Indonesia, 2012 (in million rupiah)

Province	GRDP	GRDP Per Capita
Nangroe Aceh Darussalam	95,074.22	20.48
Sumatera Utara	351,090.36	26.56
Sumatera Barat	110,179.65	22.20
Riau	469,073.02	79.11
Sumatera Selatan	206,297.63	26.79
Kepulauan Riau	90,568.21	49.64
Lampung	144,639.48	18.61
Jakarta	1,103,692.66	112.14
Jawa Barat	949,761.26	21.25
Jawa Tengah	556,483.73	17.14
Yogyakarta	57,031.75	16.22
Jawa Timur	1,101,200.74	26.44
Banten	213,197.79	19.00
Bali	83,943.33	20.74
Kalimantan Barat	74,969.66	16.83
Kalimantan Tengah	55,885.58	24.46
Kalimantan Selatan	75,893.97	20.19
Kalimantan Timur	419,507.23	109.66
Sulawesi Selatan	159,859.93	19.43
Papua	77,396.09	24.73
Papua Barat	43,204.82	52.38
Indonesia	6,438,951.11	27.01

Source: BPS/Indonesia Statistics, 2013

East Kalimantan's Gross Regional Domestic Product (GRDP) mainly comes from the mining, quarrying and manufacturing sectors. The report of BPS/East Kalimantan statistics, 2012 reveals that these sectors contribute up to 72.62% of the province's total GRDP, which reached IDR 419 trillion in 2012. That same year, East Kalimantan's per capita GRDP reached IDR 109.66 million, while income per capita was only about IDR 35.07 million (BPS/East Kalimantan statistics, 2013). This gap is a reflection of the structure of the East Kalimantan economy, which very much depends on capital intensive rather than labour intensive industries.

Most industries in East Kalimantan are capital intensive, requiring high skills and technology, rather than labour-intensive industries employing simple technologies. This has created problems for encouraging the participation of local people in these industries as many of them, particularly those living in rural areas, have a lower level of education and therefore lower skill levels compared with non-rural people—which consequently reduces their capacity to participate in a workforce that requires high skills. As a result, local people tend to have less opportunity to compete in the job market.

Investment as an indicator of the health of the economy in East Kalimantan has also shown an increase, in keeping with the deregulation and de-bureaucratisation program carried out by the government, which has had a marked impact on increased investment in East Kalimantan. In 2009, investment through the Licensing and Regional Investment Agency/*Badan Perijinan dan Penanaman Modal Daerah (BPPMD)* facility for domestic investment/*Penanaman Modal Dalam Negeri (PMDN)* reached IDR 1.5 trillion, which was a significant increase over 2008, when domestic investment reached only IDR 0.2 trillion. The same applies to foreign investment/*Penanaman Modal Asing (PMA)*, which increased from USD 20 million in 2008 to USD 253 million in 2009 (BPS/Indonesia Statistics, 2010).

Exports are the other important economic indicator for East Kalimantan. In 2008, exports reached USD 24.7 billion and decreased to USD 18.9 billion in 2009. The reduction of oil and gas exports was a result of the instability of international trade conditions due to the financial and energy crisis in several developed countries in

Europe and the United States. Non-oil exports (especially coal) were less affected, increasing from USD 7.7 billion in 2008 to USD 9.6 billion in 2009.

Economic growth in 2009 was supported more by the mining and quarrying sector, which grew to 5.73% of total exports. Apart from the manufacturing sector, other economic sectors in general experienced positive growth. The negative growth that occurred in the industrial sector was largely the result of the decline in production oil at '*Balikpapan's Pertamina*' and the production of gas liquefied natural gas (LNG) from Bontang municipality. Other manufacturing industries not dependent on oil and gas commodities experienced positive growth—apart from industries dealing with wood and other forest products, industrial fertilisers, chemicals and rubber goods.

Five years after decentralisation was implemented in Indonesia, East Kalimantan had the highest per capita income of any province in Indonesia at IDR 10 million (Juoro in Harun, 2007). Mining remained the most significant sector, and oil exports from East Kalimantan increased eight-fold between 1973 and 1981, reaching a peak in 1978 of more than 20 million tonnes. Coal production steadily increased between 2009 and 2012, from 146,464,983.86 tonnes to 231,027,101.60 tonnes, an increase of 36.60% (BPS/East Kalimantan Statistics, 2013).

Considering that this sector faces many problems in maintaining production in the longer term, the government of East Kalimantan has directed its spending to the agricultural sector in the wider sense, as agriculture is considered to be a renewable resource and the sector able to create larger employment opportunities. As an illustration, the potential agricultural area in East Kalimantan in the plantation sector is 2,002,751 hectares and the dry field area 177,300 hectares. The amount of paddy produced in 2009 was 555,651 tonnes, which increased to 580,654 tonnes in 2010, which equals 336,108 tonnes of rice. However, the effort to utilise agricultural areas has often been hampered by development problems, such as lack of human resources and inadequate infrastructure, with the long supply chain from producer to consumers reducing agriculture's economic benefit.

Regarding the plantation sector in East Kalimantan, there are several important cash crops, including rubber, coffee, oil palm, cocoa, pepper, vanilla, sugar cane, cloves, coconut and other plants. This sector is intensive in natural resources and does not depend on imported components, and is therefore more resilient to global economic shocks. At present, the land utilised for oil palm plantations is 663,563 hectares, consisting of 126,768 hectares of seedlings/nursery (plasma), 17,237 hectares of state-owned core plantations, and 519,540 hectares of private plantations. In terms of the contribution of this sector to the province of East Kalimantan, it is only appropriate that the expectation of the people should be fulfilled. However, regional development in this sphere remains sluggish, which undermines the image of East Kalimantan as a province rich in natural resources.

4.8 Decentralisation in East Kalimantan

During the Habibie presidency, East Kalimantan sought to place pressure on the central government by raising the prospect of a federal model for the state—as set out in the decree of East Kalimantan parliament (*DPRD*) No. 28 in November 1999—unless there was a material improvement in the central-region relationship (Ratnawati, 2000, p. 119). Since then the idea of federalism has slowly faded (Harris in Salamm & Dewi, 2001), reflecting a number of factors, including political pressure from the central authority, low levels of cohesion among local communities, and the heterogeneous political orientation of local elites, which tend to be opportunistic (Salamm & Dewi, 2001).

Indonesia's democratisation process continued under the presidencies of Abdurrahman Wahid (1999-2001) and Megawati Sukarno Putri (2001-2004). Although Indonesia appears to be genuinely democratic in the search for a better, more stable political landscape, the hoped-for signs of improved social wellbeing are yet to be seen. The debate on the relation between central and regional governments never seems to dissipate and appears likely to continue indefinitely, with the discussion and debate appearing to become even more heated with the introduction of regional autonomy.

In the province of East Kalimantan, Law No. 33/2004 concerning the fund transfer balance between the central and regional governments is hotly debated across many sectors of society, ranging from the officials of regional government, members of provincial parliament, the political elite and local intellectuals, through to non-governmental organisations—all taking turns in criticising the central government, which all agree is unfair in its approach to East Kalimantan as they watch an annual regional GDP of around IDR 320 trillion handed over to the central government.

Although the debate about decentralisation continues, it is clear that Law No. 22/1999 (with its revision Law No. 32/2004) and Law No. 25/1999 (with its revision Law No. 33/2004) have significantly changed the system of government in Indonesia and the fiscal relationship between the central government and local government, as they were designed to do¹⁸. The laws clearly state that all authority and responsibility which used to be the domain of the central government has been handed over to local government, except for the key areas of religious affairs, justice, fiscal issues, security and defence, and foreign policy. Law No. 33/2004 expressly established a profit sharing formula between central and local governments resulting from the exploitation of natural resources, particularly oil, natural gas, timber and other minerals. Besides obtaining broad political authority, the regions also gained heightened political participation opportunities, as seen in the opportunity to choose Regional Heads directly, as well as the formation of the village assembly (*BPD*) as a new democratic institution at the village level (Sofiana, 2013).

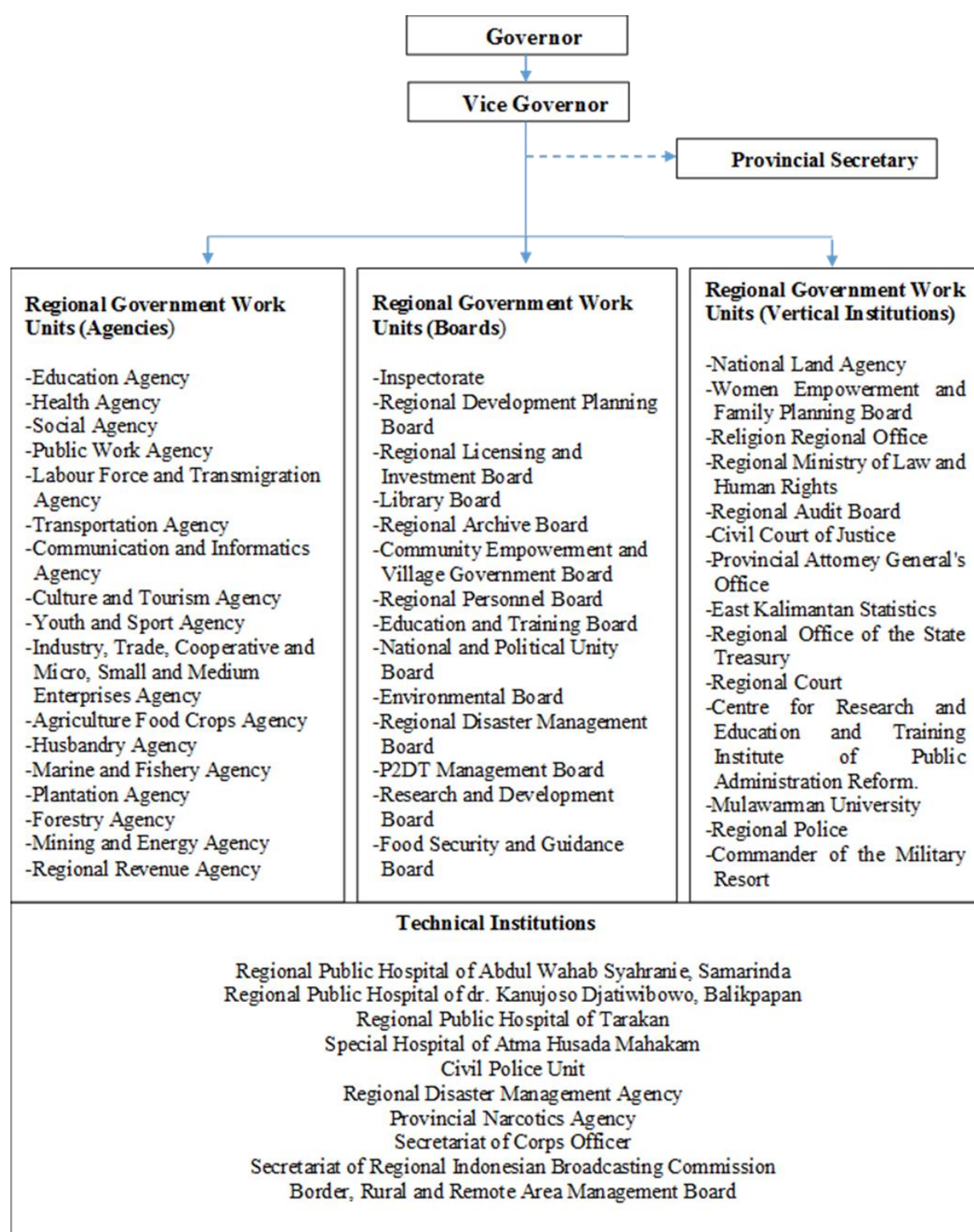
In the era of President Susilo Bambang Yudoyono (2004-2014), improvements of the democratic electoral system were increasingly reinforced through a number of achievements, prime among them being the first directly-elected presidential elections. That innovation was, in turn, followed by regional head elections for all provinces, districts and municipalities in Indonesia. In addition, Yudoyono consistently pursued improvements in economic performance, as well as peaceful

¹⁸These laws, enacted during Habibie's presidency, were implemented after Abdurrahman Wahid (Gusdur) became Indonesian president (1999-2001), and continued under President Megawati (2001-2004).

conflict resolution in provinces such as Aceh, Papua and Poso. He also allocated more funds in an effort to further decrease poverty, with IDR 11 trillion set aside in 2004 for poverty alleviation, increasing to IDR 51 trillion in 2007. However, in October 2005, Yudhoyono made the unpopular decision to cut fuel subsidies, leading to increases in fuel prices. The poor were partly compensated by the Direct Cash Assistance/*Bantuan Langsung Tunai (BLT)* initiative, but the subsidy cut damaged the President's popularity. In May 2008, rising oil prices contributed to Yudhoyono's decision to again cut fuel subsidies, leading to the protests in May and June 2008. Budget subsidies were diverted to the education and health sectors, as well as areas that support the improvement of people's welfare. Nevertheless, problems continued with Direct Cash Assistance (*BLT*) largely failing to reach eligible recipients, and distribution problems causing social stress in all regions in Indonesia.

The decentralisation of political power in Indonesian under Law No. 32/2004 has gone much further than is found internationally, where authority tends to be devolved only to the provincial or second level of government. In the Indonesian case, decentralisation of authority and revenue has extended to the district/municipality level, or the third level of government. With this structure, districts/municipalities are encouraged to play an important role as agents of change in accelerating regional development and improving the welfare of local communities.

Table 4.4 Government Organisation of East Kalimantan Province



4.9 Conclusion

This chapter has described the geographical and demographical features of East Kalimantan, and the economic structure and the potential of natural resources in the province. It has shown that, despite its abundant natural resources, the province still faces crucial problems, such as lack of infrastructure and health facilities, poor human resources and high rates of unemployment. The chapter's argument that the implementation of decentralisation since the move to greater autonomy after 2001 has not resulted in significant regional development changes in East Kalimantan will be picked up in the following chapter, which discusses these issues specifically in relation to local policy regarding intergovernmental financial transfer between the central and provincial governments.

CHAPTER 5 CASE STUDY DESCRIPTION 2

LOCAL POLICY IN INTERGOVERNMENTAL FINANCIAL TRANSFER

5.1 Introduction

This chapter continues the case description of Chapter 4, which described the province's demographic features, natural resources, local government structures and decentralisation, with a description of financial and local budget aspects. In particular, the chapter focuses on the financial allocation process for local development, and the involvement of local bureaucrats and politicians in the local budget processes. The first section outlines what is known about the East Kalimantan budget structure, followed by consideration of budget structure changes which happened after decentralisation. As argued in the chapter, the increasing budget transfer from central government to local governments since decentralisation has influenced elites' behaviour, with weaknesses of local governments after decentralisation reflecting the lack of coordination and cooperation between institutions in East Kalimantan, including the relationship between governor and members of parliament, as well as the high level of corruption—a common phenomenon in all Indonesian provinces including East Kalimantan since decentralisation in 2001.

The aim of the chapter is to provide an insight into East Kalimantan intergovernmental financial transfer, and why it has been characterized as the transfer of power from the 'kings' of central government to the 'kings' of the local elite. The discussion in both the previous and this chapter helps us to understand the role that elites play in the province in relation to intergovernmental financial transfer, as a basis for the discussion in following chapters of the politics of patronage practised by local elites.

5.2 Overview of East Kalimantan Budget Structures

According to Brojonegoro and Martinez (2005), prior to the implementation of Law No. 22/1999 and Law No. 25/1999 regarding local government and the

proportion of funding between central and local government, intergovernmental transfer in Indonesia could be classified into a pre-*SDO* (*subsidi daerah otonom*/subsidy autonomous regions)¹⁹ period and an *SDO* period, before the current intergovernmental financial transfer arrangements of the decentralisation period. During the pre-*SDO* period from 1945 to 1972, specific ad hoc grant categories were often introduced to reduce tensions between central and local governments. Until 1956, local government budgets were funded from local revenues, and in the case of loss the central government was obliged to cover deficits by providing subsidies. However, management of the system often became difficult for the central government, which tended to seek to avoid its original commitment. The arrangements for central–local intergovernmental transfers set out in the basic Law No. 22/1948 disappointed local governments, especially in regions outside Java. Discontent focused on the growing realisation that, while most of the country’s wealth came from regions outside Java, it was in the main retained by regions within Java (Brojonegoro, 2004). Growing frustration and a sense of injustice in regional areas outside Java fanned a spirit of separatism that if not addressed could have threatened to disunite the unitary state of Indonesia (Republic of Indonesia) controlled from Jakarta (Haris, 1999).

Responding to growing disquiet, the central government finally passed Law No. 32/1956, which was intended to improve the system of regional governance in relation to the financial arrangements between central and local government, with local government receiving defined percentages of central government tax revenue. However, the provisions of the Law No. 32/1956 were never fully realised, due, according to Nick Devas, to the lack of funds and the difficulty of determining the formula to serve as the basis for implementation of the budget division (Devas, 1989, p. 11).

In 1972/1973 the *SDO* (*subsidi daerah otonom*/subsidy autonomous regions) system was implemented, committing the central government to fully supporting the cost of local government. Two-thirds of *SDO* funds were allocated to the provincial

¹⁹An *SDO* (Subsidy Autonomous Region) is a central transfer category, in terms of which local authorities do not have the authority to assign the use of the transferred funds, which are mostly used to pay the salary of government employees in the local sphere.

government and the remaining third to the district/municipality (Alm, Martinez-Vasquez, & Indrawati, 2005). Most of the funds were exhausted in financing the salaries of local government employees, leading the government to launch a program to support development spending, through implementing Autonomous Region Subsidies for routine expenditures (Smoke & Lewis, 1996).

As part of the institution of regional autonomy since 1 January 2001, the centralised system of government and finance was replaced with a decentralised system, and regional autonomy was widened in an effort to build the capacity of the regions.

Demands for various changes in the detailed implementation of decentralisation have been most intense in the area of central and local finances. Through Law No. 25/1999 concerning the fiscal balance between the central and local governments, there was an improvement in the implementation of regional autonomy. But five years later Law No. 25/1999 was still considered to have so many weaknesses that it was revised by Law No. 33/2004 (financial balance between central and local government). The new law was considered to provide a fairer system of financial distribution—proportional, democratic, transparent and efficient in the funding of decentralisation and regional autonomy. Moreover, the law took into account regional potential, conditions and needs, as well as the amount of funding required for the implementation of decentralisation and assistance tasks (Bahl & Martinez-Vazquez, 2006).

5.3 Budgeting Structure Changes After Decentralisation in East Kalimantan

Indonesia's decentralisation program was designed and implemented along three main policy axes, namely political decentralisation, administration decentralisation and fiscal decentralisation. Under Laws No. 32/2004 and No. 33/2004 concerning regional autonomy and financial balance (*dana perimbangan*), the governments of autonomous regions are endowed with the right to manage the interests of their own population according to their own aspirations in accordance with the laws.

Political decentralisation has focused on the handover of political authority from central government to local governments, with the establishment or re-establishment of local government elected through general elections. Political decentralisation has therefore included implementation of regional electoral reform and reform of political parties, as well as granting the right to participate in elections. In Indonesia, the implementation of political decentralisation is characterised by the recognition of areas as separate entities that are entitled to regulate, organise and take care of their areas and government functions. To that end, regional governments are chosen through direct election of both an executive and a legislature—a democratic process that, theoretically, enables the population's participation in local development.

Administrative decentralisation involves the devolution of part or entire responsibility for the functions of government to the regional and local levels. In a decentralised administration, planning and implementation at regional and local levels is intended to better extend services to the grassroots level, in such areas as public health services, education and road construction.

Fiscal decentralisation implies a transfer of fiscal power from the central to regional governments (regional and local) in specific functional areas, such as adjusting settings for the transfer of resources between regions and giving powers to local government to generate their own sources of income. The transfer of power is also accompanied with an authority to collect taxes and decide on budgeting and expenditure, as well as matters related to the allocation of funds between governments. Fiscal decentralisation in Indonesia, based on Law No. 33/2004, adheres to the principle 'money follows functions', in that the fiscal authority delegated to the regions is designed to move delivery of government activity from the centre to the regions. Progressing fiscal decentralisation has become a very important item on the political agenda, which both central and local government must address to create a transparent and efficient agenda for the benefit of society (Brodjonegoro, 2001).

Following more than a decade of operating a decentralised system, the new transfer system has been only partially successful in achieving decentralisation

benchmarks. Despite making a commitment to increased local budgets given the importance of East Kalimantan's natural resources to the national economy, intergovernmental transfers from central government to the province are still not well developed. For several years there has been no transparency in budget calculations and there is no local budget consultation with the public at all. This pattern reflects a similar process encountered in China, as confirmed by research conducted by Yongzheng Liu, Jorge Martinez-Vazquez and Baoyun Qiao (2016).

As noted, the policy of fiscal balance between central and regional governments accords with the principle that division of authority or money follows function. In practice this should mean that, in terms of the financial relationship between the central and regional governments, expenditure decisions will be the responsibility of the local area, financed from currently existing revenue sources (Sidik, 2002). Governance activity based on the principle of decentralisation is financed by local budgets, governance implementing the principle of de-concentration is financed by the national budget, and the governance in the context of co-administration is financed jointly by the budgets of the government levels involved (Sidik, 2002).

The authority to levy taxes (tax assignment) includes the provision of revenue sharing and financial assistance (or grants), also known as equalisation funds. In general, the source of regional funds consists of local revenue, fund balance (revenue-sharing fund, general allocation fund, and specific allocation fund) and loan categories, de-concentration and co-administration. The first three sources are directly managed by the local government through the local budget, while de-concentration and co-administration are managed by the central government in collaboration with local government (Sidik, 2002). In accordance with the provisions of Law No. 33/2004, the financial balance is an area of funding from the state budget consisting of revenue-sharing fund, the general allocation fund and the specific allocation fund. The balancing fund is, in addition, intended to boost local authority and reduce the inequality of funding between central and local government while reducing disparities between regions.²⁰

²⁰*Penjelasan UU No. 33/2004, tentang Perimbangan Keuangan Pusat dan Pemerintah Daerah.*

Despite being the site of large revenue-producing mineral resources, the province of East Kalimantan has been forced to accept low levels of progress compared with elsewhere in the region. However, in 2001 the milestone of regional autonomy was achieved with the implementation of decentralisation in all provinces in Indonesia, including East Kalimantan, and the regions began to be given the new financial resources. Tax assignment (the authority to levy taxes), intergovernmental financial transfers (transfer of funds), and sub-national borrowing have been important elements in fiscal decentralisation on the side of the revenue (Martinez-Vazquez & Boex, 1999).

In accordance with Article 5 of Law No. 33/2004 on financial balance between the central government and local government, financial relations between central and local have been executed through a fund balance mechanism with a revenue-sharing fund (*Dana Bagi Hasil/DBH*), general allocation fund (*DAU*) and specific allocation fund (*DAK*) set every year in the national budget (*APBN*). *DBH* is taken from taxes and natural resources and tax revenue consists of: Land and Building Tax (*Pajak Bumi dan Bangunan/PBB*), Tax on Acquisition of Land and Building (*Bea Perolehan Hak atas Tanah dan Bangunan/BPHTB*), Articles 21 and 25 of Income Tax, and Article 29 of Taxpayers Domestic Personal. *DBH* obtained from natural resources cover: forestry, general mining, fisheries, mining of petroleum, natural gas mining and geothermal.

Given the new system of intergovernmental transfer, many Indonesian people expected that Indonesia's economic growth and associated development would improve. The intergovernmental transfer model is implemented through financial balance, which consists of three types of sub-funds: Revenue Sharing Fund, General Allocation Fund and Specific Allocation Fund.

a. The Revenue Sharing Fund (*DBH*)

This mechanism for revenue sharing between central government and local government includes: revenue-sharing natural resources (forestry, mining, fishing, oil and gas), property tax (*PBB and BPHTB*) and personal income tax. The revenue sharing scheme established by the government was in response to

the aspirations of the region to improve access to and control over local revenues and as a means to address vertical fiscal imbalance. Nonetheless, the East Kalimantan provincial government did not believe that the balance and fairness issues had been addressed by the central government, as evidenced by the collaboration of the provincial elite suing the central government through the Constitutional Court in relation to revenue-sharing from natural resources, and the accusation of the East Kalimantan government that the central government did not behave transparently in the calculation of the province's natural resources production results.

The Revenue Sharing Fund, decreed by Law No. 25/1999 and revised Law No. 33/2004, states that the division of income between the central and provincial and local governments will be as follows:

Table 5.1 Revenue Sharing Fund Distribution

Revenue Sharing Instrument	Central Share	Provincial Share	District/Municipality Share
Property Tax	10%. Distributed to district/municipality: 6.5% in equal amounts across all localities and 3.5% to places based on previous years' achievements	16.2%. By derivation	64.8%. By derivation (except oil and gas sectors) ^a
Property Title Transfer Tax	20%. Distributed to all districts & municipalities in equal amounts	16%. By derivation.	64%. By derivation
Forestry Right to Operate Levy	20%	16%. By derivation.	64%. By derivation
Forestry Resources Commission	20%	16%. By derivation.	32% by derivation; 32% by commission in equal amounts across all localities within province
Mining Sector Land Rent	20%	16%. By derivation.	64%. By derivation
Mining Sector Royalties	20%	16%. By derivation.	32% by derivation; 32% in equal amounts (for all places within province)
Tax Revenue on Fisheries Operations	20%	0%	80%. Equal amounts for all districts & municipalities in the country
Tax Revenue on Fisheries Output	20%	0%	80%. Equal amounts for all districts &

Revenue Sharing Instrument	Central Share	Provincial Share	District/Municipality Share
			municipalities in country
Oil Revenues	84.5%	3%. By derivation.	6% by derivation; 6 % in equal amounts within province
Natural Gas Revenues	69.5%	6%. By derivation.	12% by derivation; 12 % in equal amounts within province
Personal Income Tax	80%	8%. By taxpayer location ^b	12%. Distribution by provincial choice

Notes:

- a. Remaining 9% of property tax revenues reserved for support of tax collections carried out by central and local governments.
- b. Taxpayer location, according to the legislation, may be employee residence, place of business activity, or employer home/office location. In practice, it appears to most often be the latter.
- c. 0.5% of revenue generated from oil and gas respectively are specifically allocated for basic education. These funds are shared between the province, the producing district and other districts within the province.

Source: Central government Law No. 33/2004 on Fiscal Balance between central government and regional government

All levels have their own taxing powers, although the national government enjoys an average 20% of revenue sharing from income derived from activities such as Property Tax, Property Title Transfer Tax, Forestry Right to Operate Levy, Forestry Resources Commission, Mining Sector Land Rent, Mining Sector Royalties, Tax Revenue on Fisheries Operations and Tax Revenue on Fisheries Output. However, in the case of oil and gas, the central government received 84.5% and 69.5% respectively, while regional and local governments received just 15.5% and 30.5%, despite being the sources of the country's oil and gas production.

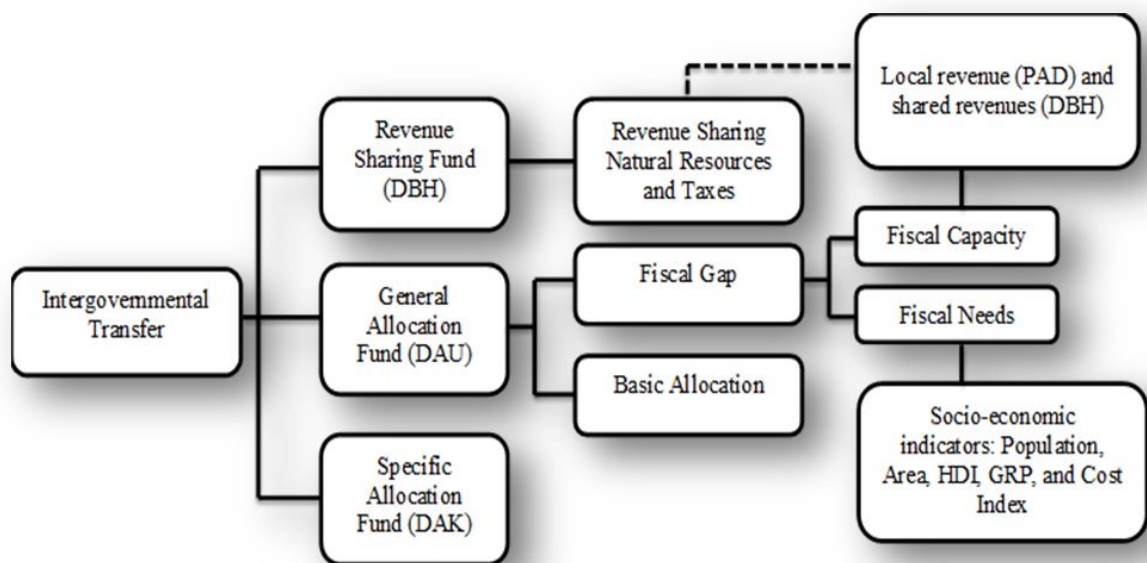
b. The General Allocation Fund (DAU)

The general allocation fund states that at least 26% of revenue raised by each region will be reallocated back to the province. According to Government Regulation No. 110/2007, a further Allocation may be made for fiscal needs determined by population size, land mass, construction cost index, the human development index and the future fiscal capacity of the province (dependent on future potential income such as industry potential, natural resources potential, human resources potential, and Gross Domestic Product).

c. The Specific Allocation Fund (*DAK*)

In principle, the Specific Allocation Fund (*DAK*) is primarily intended to help fund critical needs that cannot be predicted in advance, in particular to assist local expenditures related to national priority events, such as disasters. The Specific Allocation Fund is also used to finance investments in physical capital, although the financing for a limited period of operational and maintenance requirements is permitted under special circumstances. For Specific Allocation Funds, allocation is based only on income from reforestation programs; currently 40% of revenue is returned to the county of origin, to be used for local reforestation efforts. It is a priority of the central government to further accelerate the design and implementation of various activities covered by the *DAK* (Alm et al., 2005).

Figure 5.1 Intergovernmental Fiscal Transfers in Indonesia



Source: Law No. 33/2004

The system of intergovernmental financial transfer has two main channels: grants and a Revenue Sharing Fund (*DBH*). Grants encompass two types of transfers: General Allocation Fund (*DAU*) and Specific Allocation Fund (*DAK*). General Allocation Fund cover salary expenses for public employees, the so-called basic allocation, but the bulk of *DAU* is allocated on the basis of a jurisdiction's fiscal

capacity and fiscal need—i.e. a fiscal gap approach. The formula-based fiscal need of a jurisdiction is defined by a number of socio-economic indicators, including population, area, Human Development Index, Gross Regional Product (GRP) as a proxy for economic potential, and a cost index. Fiscal capacity is defined by ‘own source revenues’ (*PAD*) and shared revenues. The Revenue Sharing Fund (*DBH*) comprises transfers from taxes and natural resources. General Allocation Funds (*DAU*) constituted the most important source of finance in the structure of local government revenue prior to decentralisation and continue to do so now (Lewis, 2005). Specific Allocation Fund (*DAK*) is allocated on the basis of specified criteria and finance targeted activities linked to central government priorities, ranging from education and health to rural facilities and the environment

The East Kalimantan government claims that there has been an imbalance between central government and the provinces—the source of the abundant natural resources—in revenue sharing, especially oil and gas. Although decentralisation is underway and the expectation is that resource-rich regions will benefit, the central government does not seem to have the intention to hand over its control of all revenues and management of natural resources to the regions. The wealth of natural resources may be owned by the local community, but it is not enjoyed by them. The claim by the elite in East Kalimantan that most of the province’s natural resources wealth, especially oil and gas, is not shared equitably has won popular support from all sections of the East Kalimantan community, who (as described in Chapter 7) united with the regional government and regional parliament to sue the central government through the Constitutional Court for the injustices of Law No. 33/2004 article 14 paragraphs e and f.

5.4 Elites’ Behaviour after Decentralisation in East Kalimantan

There was heightened expectation after Indonesia entered the new era of local autonomy that people would experience a better life (Rasyid, 2004). After all, the new law meant that local governments were much more independent in managing their own financial resources for improving regional development. However, the influence of New Order during 32 years in power had affected institutional formation

and elite behaviour at both levels of government, central and local, which ran counter to that expectation being realised. (See below Chapter 8, pages 218 to 219.)

Many thought that East Kalimantan as a province with abundant natural resources would soon achieve better welfare for all of its people. However, social welfare continues to remain a significant problem for East Kalimantan and other Indonesian provinces. Many questions have been asked and answers given, such as whether this failure to achieve welfare is caused by the egoism of the central and local elite. Or whether it is related to the dominant power of the political parties in the *DPRD* (regional parliament), where the debates between members of the local elite seem never-ending, especially concerning regional development, and the interests of the elite within political parties, especially in relation to their constituents, seem to dominate. Or whether it reflects rife corruption, collusion and nepotism among local officials, which is often cited as a distinct characteristic for Indonesia in general and for East Kalimantan in particular.

In reality, central government changed the system of intergovernmental financial transfer between central and local government through Law No. 25/1999 and revised Law No. 33/2004, with all financing fully handed over to regions, although later there were criticisms from various parties that the change had created a gap between rich and poor regions (Liu, Martinez-Vazquez, & Qiao, 2014). In theory, one might conclude that as a resource-rich province East Kalimantan would have benefited. However, the government of East Kalimantan has argued that the central-regional balance is far from what would be needed to accelerate development in the province, and the East Kalimantan elite has been trenchant in its criticism of the central government as not fair, especially in the distribution of funds from natural resource revenue—sparking a fierce debate between the central and provincial governments.

The quest for a bigger financial allocation from the central government resulted in a ‘united front’ among local elites to gain the attention of the central government. Local elites are united and willing to spend their energy and time to negotiate with the central government to gain a greater budget for the development of the regions. Several regions in Indonesia with greater access to the centre due to the strength of

their elites—both centrally and in the region itself—managed to achieve higher rates of financial allocation. South Sulawesi and West Sulawesi, for example, while relatively lacking in natural resources, ensured positive development outcomes for these regions due to their elites' commitment and unity (S3, interview, 31 May 2011).

According to many of East Kalimantan's elites, the abundant natural resource base of East Kalimantan has yet to contribute to the province's development. Indeed, they claim that the province has a very high incidence of poverty and unemployment. The factors behind the slow pace of development in East Kalimantan include the weak bargaining power of East Kalimantan elites vis-à-vis the central government, since the number of East Kalimantan elites in the executive branch of central government is very small. Another factor is the small number of politicians representing East Kalimantan centrally, with the result that the province is unable to exert pressure on the central government. Another factor is that the East Kalimantan members of the Regional Representatives (*DPD*) parliament cannot be relied upon due to their weak bargaining power and lack of experience. Finally, the willingness to swallow one's pride to win negotiations with the central government is still considered as taboo by the elites from East Kalimantan, who refuse to budge in their belief that it is the central government who should give more consideration to East Kalimantan considering that the province makes such a great contribution to the national economy, with its regional GRDP reaching IDR 419 trillion in 2012. This is different from elites from other regions, who have shown a greater willingness to make sacrifices in many ways in order to get a sizable slice of the development pie from the national budget (*APBN*) each year.

Simply arguing that the central government should bend to the will of the regions because of the contribution to the central government in terms of regional GDP has not delivered good outcomes for the regions, with the central government of the view that the regions need be proactive in negotiations in order to gain significant benefit from the distribution of the development pie.

Most of East Kalimantan's elite interpret decentralisation as an important component of a strategy designed to increase their political power, as expressed

through regional government and regional parliament (McLure & Martinez-Vazquez, 2000). Within different departments and at different levels of government in varying capacities, what we see at work in East Kalimantan is a system of patronage, which has enabled elites who were bound together by kinship and common interest to collectively pursue their agenda (Javid, 2012) through intensive coordination and cooperation to legally achieve greater access to resources and thereby consolidate their own elite position—as outlined in the following sub-section.

5.4.1 Lack of Coordination between Institutions in East Kalimantan

Lack of coordination of institutions between the province, districts and municipalities in East Kalimantan is a problem which impedes the effective use of intergovernmental financial transfer for local development, with friction in the management of authority between provincial and districts/municipalities or even within East Kalimantan's Regional government work unit (*SKPD*) authority. Sometimes in performing their duties the provincial government authorities feel no connection with the district/municipality, and vice versa (G6, interview, 01 June 2011). This disconnect accounts for the determination to allocate one million hectares of land for palm oil plantations without any prior discussion with the relevant district/municipality (G6, interview, 01 June 2011)—with the result that some districts are not willing to use their land for oil palm plantations on the grounds that it needs to be reserved for other purposes in accordance with the vision and mission of the district heads.

The desired synchronisation between provincial and district/municipality levels of government is impaired because it is still bound to the interests of each district or municipality, without understanding the Regional Autonomy Law No. 32/2004 clearly. Relations between provincial and district/municipality levels of government are marked by recriminations, with districts/municipalities on occasion opposed to provincial government decisions, especially in matters of the licensing powers of regents or mayors, who have to go through the governor.

At the same time, the provincial government has always provided assistance to districts and municipalities in terms of additional development funds, especially when the district/municipality has not been able to access funds independently. According to Aswin, who is an assistant (financial sector) of the East Kalimantan governor, each year the provincial government provides additional development aid not only to the district/municipality that has not been able to independently access funds, but also to districts/municipalities already established, such as the district of *Kutai Kartanegara* that received development funds around IDR 158 billion in 2011. Moreover, Samarinda, as the capital of East Kalimantan province, has received and distributed a very sizable budget of around IDR 292 billion (G5, interview, 01 June 2011), as shown in Table 5.2 below.

A member of the regional parliament from the National Mandate Party (*PAN*) faction indicated that financial assistance from the provincial government of East Kalimantan to districts/municipalities was intended to support the provincial government policy of reducing the fiscal gap. To be transparent about perceived benefits, it was necessary to specify the formulation of financial assistance to districts/municipalities according to measurable and rational variables, such as equalisation, demographics and geography, the financial capacity of each region and the development priority (P2, interview, 18 May 2011).

Table 5.2 Supporting Funding from Provincial Government by Districts/Municipalities in Million Rupiah, 2011

No	Districts/Municipalities	Supporting Funding Received from the East Kalimantan Province
1	Samarinda	292,782
2	Kutai Kertanegara	158,453
3	North Penajam Paser	157,439
4	Berau	121,953
5	Balikpapan	119,519
6	Tarakan	101,974
7	Bontang	89,650
8	Bulungan	86,838
9	West Kutai	86,120
10	Paser	74,346
11	East Kutai	65,950
12	Nunukan	66,937
13	Malinau	60,607
14	Tana Tidung	53,762

Source: East Kalimantan Governmental Office, 2011

The allocation of regional grants to districts and municipalities has demonstrated reverse logic, where rich local areas such as Kutai Kartanegara, which received the highest financial balance from the central government on the basis of its natural resources, also received substantial funding assistance from the East Kalimantan provincial government. This meant that the provincial government overlooked the priorities of newer areas like the districts of Tanah Tidung, Malinau and Nunukan, which were in greater need of assistance. According to Mukmin Faisyal, Golkar party chairman of the East Kalimantan parliament, provincial government grants should be used to bring substantial benefits to the people based on the principle of orderly administration and the rule of law, in accordance with provincial priority programs. However, due to personal political and bureaucrat interests, many districts/cities often changed the designation of the financial aid budget without the approval of the provincial government and the parliament of East Kalimantan (*Humas DPRD Kalimantan Timur*, 5 December 2012). Mostly, the change was initiated by the local elites who control financial planning and allocation through systems of political patronage.

United Development Party (*PPP*) member in the East Kalimantan parliament, Gamalis²¹ cited provincial grants for building landslide retaining walls (Bronjong) in Derawan Islands, Berau district, worth IDR 11 billion being constrained by the auction system, in terms of which projects' tender documents had to be prepared before the auction. However, in the end the money could not be used, and it remained as unspent budget (*SilPA*) of East Kalimantan province (cited in *DPRD Kaltim News*, 29 February 2016). Irwan Faisyal²² recalled plenty of practices in the districts/municipalities included in budget proposals to the province without planning (cited in *DPRD Kaltim News*, 29 February 2016), reflecting poor coordination between elites who were more focused on their patronage-based benefits.

5.4.2 Lack of Cooperation between Institutions in East Kalimantan

According to one assistant to the governor, most departments in East Kalimantan are insufficiently focused on the improvement of public services (G5, interview, 01 June 2011), with lack of appropriate structures one of the causes of the inefficient use of local budget (*APBD*)²³ in the province. The provincial budget is mostly used to cover personnel expenses and costs of the regional parliament, with the result that the public service tends to be small and neglected. According to a leader of the provincial parliament:

The main problem is that bureaucrats, in particular the governor, work on their own agenda and most of local budget is used to cover bureaucrats' and politicians' financial expenditures. They work together outside formal meeting to determine financial allocation. Then, look, much of the budget is allocated for personal interests such as travelling, meetings, and so on, while public service projects are not fully covered. (P1, interview, 18 May 2011)

²¹Gamalis is a member of East Kalimantan parliament, from *PPP* party, Antara News, 28 February 2016 <http://kaltim.antaranews.com/berita/30941/komisi-iii-evaluasi-hasil-bantuan-keuangan-kaltim>

²²Irwan Faisyal is a member of commission III of East Kalimantan parliament, Antara News 28 February 2016.

²³*APBD* is an abbreviation of *Anggaran Pendapatan dan Belanja Daerah*. It is the annual budget of regional governments, which is also approved by regional regional parliament through regional regulation (*Perda*) from 1 January to 31 December every year.

As a result of such systemic problems, fiscal decentralisation in Indonesia since 2001 has undergone several legislative changes. This recognises the instability in the design of the fiscal system between the three levels of government, the overlap between the three tiers resulting in lack of clarity in the respective duties and responsibilities. For example, the Department of Forestry claims land which belongs to the Department of Plantation, without it being clear which one is entitled to make decisions. Instability and ambiguity has resulted in duplication and wasteful practices in the decentralised system of local budgets, because each department is budgeted in the plan (G6, interview, 01 June 2011). The instability and unclear lines of responsibility creates the space and opportunity for local elites to play the politics of patronage in all aspects of development projects, marked by the way they cooperate and coordinate to pool resources to benefit the patrons and clients within their patronage network (Gray, 2015).

5.4.3 The Governor-Regional Parliament Relationship

Another systemic problem concerns the relationship between the governor and the parliament, who do not work in harmony because in practice both the regional government and regional parliament take it in turns to show their dominance, potentially leading to instability of the regional administration in regional development planning. The clash of elite interests, between the regional parliament politicians and the regional government bureaucrats, is an unavoidable phenomenon in East Kalimantan. In the struggle to protect their own interests, the inevitable consequence is disunity, rather than a united focus on common development goals (Baylis, 2012).

The relationship is characterised by rivalry and prejudice on both sides and this has become a matter of public consumption within the East Kalimantan community. For example, when the governor expressed his desire to build twin bridges in Samarinda, the parliament immediately reacted with customary negative prejudice against the governor, who was considered to be just looking for popularity ahead of his election as governor for a second term in September 2013. Similarly, when the regional parliament pointed out that there were several local companies that were

performing poorly and whose operations were not feasible, the governor reacted by chastising members of the regional parliament for their negative thinking towards a local company that had been very helpful in development in the region (S2, interview, 25 May 2011).

According to a senior official from Mulawarman University, development is held back by the inharmonious relationship between the various political players and the lack of clarity in their respective roles (S3, interview, 31 May 2011). Chairman of the East Kalimantan parliament from Golkar Party, Mukmin Faisyal has been critical of the Governor acting unilaterally in regional development policy. For example, according to the governor the process for the toll road development plan had been finalised to implementation, ranging from the coordination meeting through to the request for approval by the regional parliament. However, the governor's statement was immediately denied by members of the regional parliament, who accused the governor of pushing the case for the construction—which was not considered a priority by the regional parliament—to give an advantage to business elites in return for their support at the elections.

Another problem with the regional budget process in East Kalimantan is that proposals are often drafted by the executive rather than the legislators, many of whom do not have enough knowledge about the regional budget system, income streams and the process for allocating regional expenditure. Not infrequently, the legislators propose project plans and activities which, according to them, are very important but in fact benefit them rather than the public. Even when this may not be the case, proposals are generally suspected of being partisan and self-serving, sparking lengthy debates between the regional government and parliament and leading to compromise or conflict regardless of the merits of the proposal. Compromise generally takes the form of both parties agreeing to divide the budget to meet their respective interests without consideration of the results of the *Musrenbang* ('community consultations on development planning meeting') process or the planning program priorities which have already been set out.

The communication gap between the legislative and executive arms of government in the province is due to various public policies being implemented at the executive level without reference to the bureaucratic elites (S6, interview, 06 May 2011). For instance, the governor had made decisions on cooperation between the East Kalimantan government and third parties, such as the Kaltim Airlines procurement or the cement packing plan by *PT. Semen Gresik*, resulting in a long debate in the local media and a boycott by members of parliament on the approval of local budgets that are directly implicated in East Kalimantan development (S6, interview, 06 May 2011). This is despite the availability of a formal mechanism for avoiding such stand-offs by including in the decision-making process a plenary of all members of the eight parliamentary factions. The leadership elements in the East Kalimantan parliament also signed off a number of times the new local government policy before presenting it to the whole membership of the regional parliament (G3, interview, 30 May 2011). Moreover, prior to Law No. 22/99 revised by Law No. 32/2004, the power of the regional parliament in overseeing local government was always used as a powerful weapon to threaten the governor through the Regional Head Accountability Reports/*Laporan Keterangan Pertanggung Jawaban (LKPJ)*²⁴, a strategy used by regional legislator elites to force local governments to obtain a larger share of regional budgets.

A local government representative, who is also secretary of the East Kalimantan province, has a different view. According to him, the legislators of East Kalimantan never want to come to the governor's office to discuss development issues in the province. As a result, it can interfere with local government planning programs: although local government bureaucrats may have used scientific methods in preparation of development plans, these can still be dismissed by members of the regional parliament members on the basis of political interests (G8, interview, 07 June 2011).

Overall, the weaknesses of communication mechanisms between local government bureaucrats and parliamentary members have resulted in poor local

²⁴*LKPJ (Laporan Keterangan Pertanggung Jawaban)* is the Public Accountability Report on Budget Implementation presented by local government heads to local members of parliament.

budget allocation planning. Communication breakdowns reflect the absence of local government efforts to open up the entire budget process of development projects—such as who gets the project tenders, and how the project budget process was determined—to the public. While it is the case that, in theory, local communities have the opportunity to participate in community consultation on development planning meetings (*Musrenbang*), it is a mere formality, and simply serves as a foil for predatory elite behaviour. Transparency in the budget allocation process would expose that many projects are planned to benefit local bureaucrats rather than the public.

5.4.4 The Corruption Phenomenon

The increasing budget transfer from central government to local governments since decentralisation has changed the behaviour of local elites, especially the bureaucrats and political elites—who have tended to treat the transfer of budget as giving them the right to organise and spend it without adhering to the law. This attitude amounts to what would generally be considered corrupt behaviour among the local elites after decentralisation. A leading politician has described the ‘corruption phenomenon’ in the following way:

I feel very sad hearing the releases from the Corruption Eradication Committee/*Komisi Pemberantasan Korupsi (KPK)*. *KPK* ranked East Kalimantan as the fifth most corrupt province in Indonesia. The corruption phenomenon has become the main barrier for this province’s development. Look at the case of the social budget (*Bansos*) in Kukar regency, where many bureaucrats and political elites have been jailed. Others have not learnt from this experience, and continue to be corrupt in their treatment of the local budget. (P1, 18 May 2011)

During the implementation of decentralisation in Indonesia, corruption cases in East Kalimantan came into the public spotlight, particularly cases of corruption involving members of parliament as well as regional heads and deputy regional heads. The head of central information law, the Attorney General, Kemas Yahya Rahman,

published data on corruption in August 2004, indicating that as many as 323 legislators in a number of regions in Indonesia had engaged in a variety of corrupt practices, such as travel expenses, money politics, misuse of farming credit funds, publishing illegal timber documents, drawing double salaries, misuse of council operating funds, and misuse of local budgets (cited in *Koran Harian Republika*, 30 August 2004). In addition, President Susilo Bambang Yudhoyono approved the investigation of seven governors, and 63 regents/deputy regents and mayors/deputy mayors involved in corruption cases²⁵. East Kalimantan occupies the top position on the reported cases of alleged corruption in Indonesia—885 of the 23,900 cases reported to the Commission of Corruption Eradication.

The widespread incidence of corruption in East Kalimantan has been linked to the province's high budget allocation. According to the 2004 report Monitoring Unit and the Public Service, NGO 'Pokja 30', there are approximately 18 cases of alleged corruption and embezzlement of funds in the province, some of which cost the state over IDR 100 billion. Most of the cases involved the higher echelons in the bureaucracy and parliament, and the main cause of financial misappropriation seems to have related to financing campaigns, as highlighted by Myint (2000), with the elites under pressure to financially repay the political debt owed to their voters, in line with the way patronage operates.

Most corruption in East Kalimantan has been carried out by local officials who embezzle funds allocated to public projects. Allied to this form of corruption is the practice of business people involved in government projects providing bribes to officials in the region. In practice, corruption, collusion and nepotism (KKN) occurs at all project stages: tendering, recruitment, promotion, budgeting and lawmaking (Farook & Utomo, 2011).

Due to the plethora of contradictory regulations in the province, on 19 August 2009 the central government froze the majority of the local regulations that had been issued as the initiative of local government through decisions of regent or mayor. Based on the data of *Dirjen Keuangan Daerah* (Director General of Regional

²⁵ *Presiden Susilo Bambang Yudhoyono, pada Sidang Paripurna DPD-RI tanggal 23 Agustus 2006*

Financial), from 2001 to 2012 there were 4,500 frozen local regulations and 3,455 active regulations, many of which were still illegal (cited in *JPNN News*, 24 June 2013)²⁶. The cancelled regulations were generally related to tax and levies, though not to Law No. 28/2009 on Regional Tax and Levies in provinces and regencies/municipalities. One of the cancelled regional regulations with significant revenue implications for the province was Regional Regulation (*Perda*) No. 12/2013 on Mineral and Coal at Samarinda, which along with another 81 local regulations were cancelled by the central government, on the grounds that they had the potential for corruption and hampering the regional economy (cited in *Majalah Auriga*, 21 December 2014).

A number of studies have shown that decentralisation has in fact diminished service quality, in some cases even widening regional disparities, with the number of corruption cases increasing, especially among the elite bureaucrats and regional parliament members (Azfar, Kahkonen, Lanyi, Meagher, & Rutherford, 1999). The data from the interior ministry since the commencement of the era of decentralisation through to 2012 indicates that there were 173 heads of region involved in corruption cases, 20 of whom were governors and the rest regents and mayors (cited in *Berita Kemendagri*, 20 April 2012). In general, they were involved in several cases of abuse of power in relation to natural resources, and disregard of the local financial regulatory system. Among the cases attracting public attention were those involving two of East Kalimantan's governors, Suwarna AF and his successor Awang Faroek Ishak. Awang Faroek Ishak officially received the Termination Letter Case Investigation (SP3) against the alleged corrupt divestment of P. T. Kaltim Prima Coal (KPC) amounting to IDR 576 billion, with the termination letter then disputed by many community groups in East Kalimantan disappointed that Awang Faroek Ishak had his position terminated rather than facing criminal proceedings (cited in *Okezone News*, 03 June 2013). The common perception is that Indonesia's democratic system is now controlled by thieves, and that only people who have a lot of money can achieve power and, once in office, like thieves they reap a profit from the investments already incurred. According to Jeffrey Winters, Indonesia expert at the US North-western University, what happens is a vicious circle. There is democracy but no law:

²⁶Restuardy Daud, *Kepala Pusat Penerangan Kemendagri*, *JPNN*, 24 June 2013.

democracy is growing, but the law is subject to the control of people with power or money. As Winters noted, one of the main failures of the 1998 reform movement in Indonesia was not to prepare a strong legal system, which accounts for the anomaly of Indonesia being a democracy not subject to the rule of law (Winters, 2011).

5.5 East Kalimantan Budget Trend

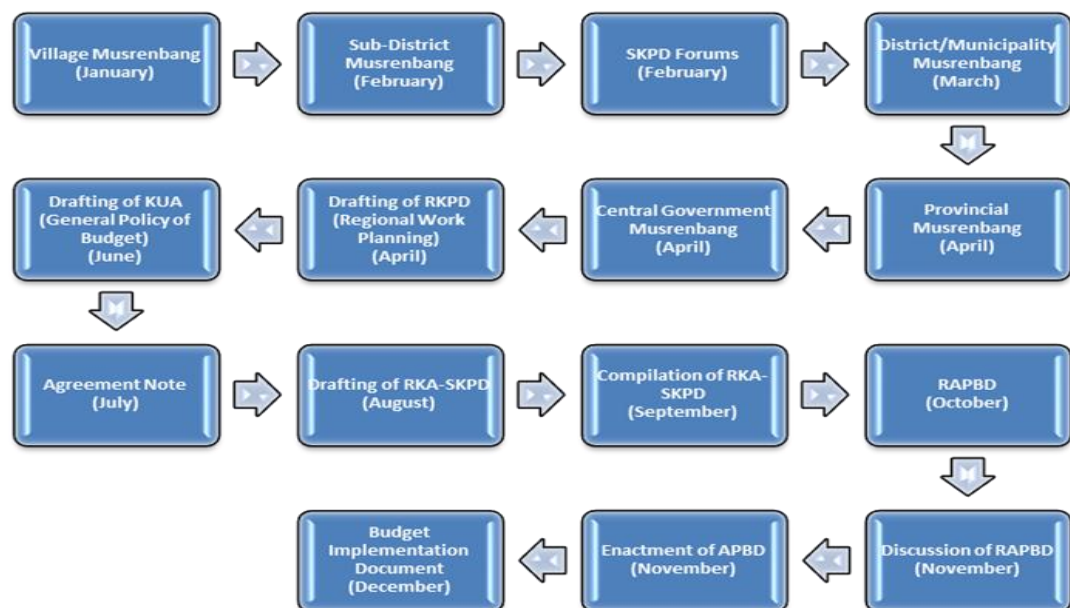
Changes in the legislation on autonomy and decentralisation implied changes to the guidelines of the regional budget (*APBD*). Local elites obtained more power and freedom in determining local budget allocation, and with the implementation of decentralisation the number of local elites directly involved in the budget process sharply increased in local governments. In East Kalimantan, elites became preoccupied with adjusting to the new regulations and processes that had been determined by the central government. As a result, the discourse of officials involved in regional development decision-making focused even more on the personal benefit of new regulations rather than the execution of the development program priorities that benefit citizens. The situation was exacerbated by elites delaying expenditure of approved budget beyond the initial scheduling in order to benefit from the accrued interest. The result was the stagnation of regional development. Given that the province could not be relied on to provide sufficient local revenue for the development budget, the budget of East Kalimantan still had a high level of dependency on the central government allocation.

Under Law No. 33/2004, local governments have access to the following revenue sources: local own-source revenue (*PAD*)²⁷, transfer of funds as financial balance, special autonomy funds and fund adjustments, as well as local borrowing, as mentioned previously. Allocation of financial balance consisting of revenue sharing fund (*DBH*) (from taxes and natural resources), general allocation fund (*DAU*) and specific allocation fund (*DAK*) are all packaged into the local budget (*APBD*).

²⁷*PAD (Pendapatan Asli Daerah)* is local own-source revenue: a line item of income in local budgets.

The change of the budget paradigm after decentralisation demanded that provincial governments like East Kalimantan promote transparency and accountability in the total finance system, as well as strengthen supervision of the process of budget preparation and execution. The requirement of community participation (such as *Musrenbang*) in the entire budget cycle was designed to strengthen supervision in the process of budget preparation and execution. Law No. 32/2004 on regional administration and Law No. 33/2004 on the financial balance between central and local government required such public participation and transparency in the overall budget cycle. Regarding the process of budget preparation and planning, Law No. 25/2004 on National Development Planning System was designed to reinforce budget participation mechanisms that govern community engagement, and this was specifically clarified in a joint circular issued by *Bappenas* chief and interior minister, No. 1354/M.VAT/ 03/2004050/744/SJ, on guidelines mandating *Musrenbang* and participatory planning involvement in the regional budgeting process. Such bottom-up planning was intended to prevent the elites in regional government and parliament by-passing the safeguard of regional development planning meetings (*Musrenbang*) and put a halt to financing development programs which were not a community priority.

Figure 5.2 The Process of Participatory Development Planning



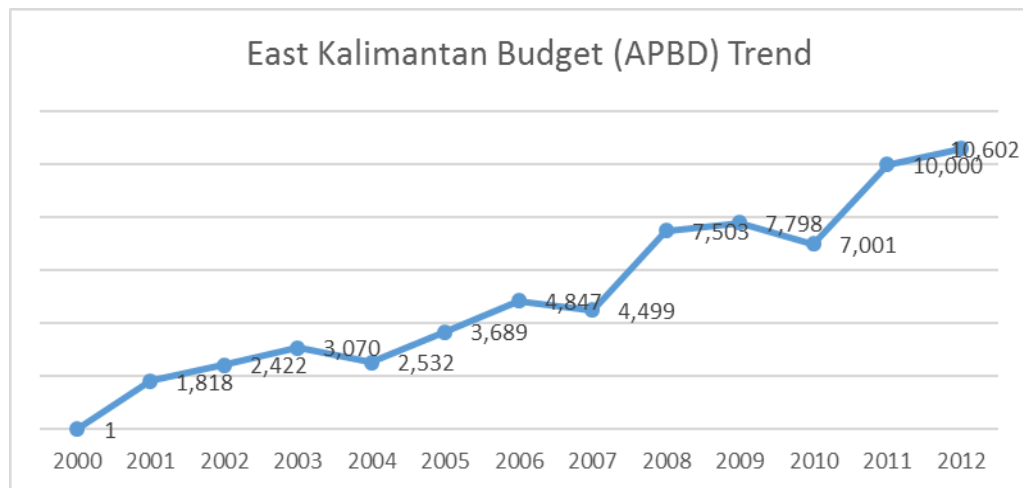
Source: *Permendagri* No. 22/2011, adapted with interview results.

Budgeting is a vital tool in improving regional development in any country. As a financial management technique, budgeting has attracted considerable attention from various parties around the world, Mkasiwa suggesting that, in order to achieve regional development, regional governments need ‘a Performing Budget’ (Mkasiwa, 2011). Local government encourages and employs systems to reduce budget deficits and improve efficiency, accountability and service delivery (Mkasiwa, 2011). To this end, every year the province of East Kalimantan holds a ‘Festival Budget’, to embody budgetary governance of the regional budget (*APBD*) that is transparent, accountable and pro-people. However, given that budget oversight in East Kalimantan is still under the control of the regional head, the regulatory body responsible for the supervisory function is still part of a network of regional heads.

Based on its abundant natural resources, the province of East Kalimantan receives a significant allocation of funds for carrying out administrative tasks within the overarching framework of the implementation of decentralisation. Over the twelve years since regional autonomy, the provincial budget allocation has experienced several changes.

As Figure 5.3 indicates, since decentralisation the trend in East Kalimantan has been a consistent increase in the local budget (*APBD*), from IDR 605.02 billion in 2000 to IDR 10.51 trillion in 2012, an increase of 1,737% (*BPS--East Kalimantan Statistics*, 2012).

Figure 5.3 East Kalimantan Budget (APBD) From 2000-2012



Source: *Bappeda Kalimantan Timur*, 2012

5.5.1 Regional Development Plan and Priority

The medium term (5-years) regional development plan (*RPJMD*) identifies East Kalimantan's priorities as infrastructure development, agriculture and human resource development, with the most important sectors being education and health. Although budget allocation for education has increased every year, especially the scholarship program, which in 2012 reached 30,000 people from various levels of higher education, the proportion of government budget allocated to these sectors is still estimated to be less than 20% (P2, interview 18 May 2011). This shows that the allocation of budget remained inconsistent with the planning identification of human resources development as a priority program. With the proportion of provincial government funds allocated for infrastructure development, agriculture and human resources development less than 10%, it is clear that the budget did not comply with planning priorities.

There has been a long debate among local political and bureaucratic elites over the issue of local budget allocation. Some believe that the budget allocation priority should be for education and health rather than highway construction and development of the local airport (P7, interview, 31 May 2011). Meaningful communication between the governor and parliament has often stalled over the issue of the target for fund allocation (G7, interview, 01 June 2011).

Discussions suddenly become heated when each party justifies its position in terms of the aspirations of the East Kalimantan community, with the regional parliamentarians only promoting the aspirations of the constituents they represent (G5, interview 01 June 2011). Whereas both governor and regional parliament should be following the *RPJMD* guidelines for implementation of development programs, it is clear that both were less interested in discussing how best to finance the programs for the benefit of the population, than in how best to save their own personal and group interests.

Recently, East Kalimantan has produced planning documents *RPJMD* 2009-2013 and 2013-2018, which have included the Long-Term Regional Development Plan/*Rencana Pembangunan Jangka Panjang Daerah (RPJPD)*²⁸ 2005-2025. An *RPJMD* is a five-year planning document, while the *RPJPD* is a Long Term Regional Development Plan document covering up to 20 years. Both are official government documents that also must be approved by the local parliament (*DPRD*) with reference to the regional regulation 15/2008. The design of the East Kalimantan Provincial Regulation on Medium Term Development Plan (*RPJMD*) for the years 2013-2018 was approved unanimously by the 17th plenary session, led by the Chairman of the East Kalimantan parliament, Syahrin, and the other vice chairman of the parliament, Dodi, Henry and Assegaf, witnessed by Deputy Governor Mukmin Faisyal on 9th June 2014. The Medium-term Development Plan (*RPJMD*) translated the vision of the governor and vice governor, newly elected in the regional head election of 10 September 2013.

Under Law No. 25/2004 on the National Development Planning System²⁹/*Sistem Perencanaan Pembangunan Nasional*, and Law No. 32/2004 regarding local government, the government of East Kalimantan Province was required to develop *RPJMD* with reference to Regional Regulation No. 15/2008 on regional long-term development plan and the medium-term national development plan. The purpose of the *RPJMD* was to solve the problems of regional development. Preparation of the

²⁸The Long-Term Regional Development Plan relates to both central and local government levels, as a budget planning document.

²⁹The National Development Planning System is an integral part of development planning procedures to produce development plans in the long term, medium term and yearly, conducted by representation of the state and of society (*Musrenbang*) at central and regional levels. This system is a replacement of the Outlines of State Policy/*Garis-Garis Besar Haluan Negara (GBHN)* and has been implemented since 2005.

RPJMD started in 2009 after the first direct election of regional heads since local autonomy, with the local people choosing the East Kalimantan governor and vice-governor for the period 2008 to 2013.

Before issuing the *RPJMD* in 2009, the East Kalimantan regional development program had been outlined in the Regional Development Program/*Program Pembangunan Daerah (Propeda)*³⁰, which was valid until 2005. The *Propeda* included the work program of Suwarna Abdul Fattah, who had led East Kalimantan province as a governor since the reform of 1999, and whose second term of office (2003-2008) had been terminated by a special plenary session of the East Kalimantan Parliament on 21 November 2005 due to his involvement in corruption concerning illegal logging, purchasing an air van, renovation of the governor's official residence and the construction of Sempaja Medium Stadium (cited in *Liputan 6*, 21 November 2005). The case involving Suwarna Abdul Fattah was not isolated. Since decentralisation, corruption in Indonesia had become part of a comprehensive power structure involving civil servants and their various patron–client relationships. In relation to East Kalimantan, corruption reflected the poor management of local budgets, but also the lack of understanding of the laws and errors of interpretation of the rules. In this situation, it is understandable that many would-be developers rejected involvement in projects based on the local budget as too high risk. In the event, Suwarna Abdul Fattah was replaced by Deputy Governor Yurnalis Ngayoh, who pushed ahead with development programs in East Kalimantan. During the transition period 2006-2008, the East Kalimantan provincial government initiated a three-year Regional Strategy Plan (*Renstrada*)³¹, which became the point of reference for regional development program until the *RPJMD* 2009-2013 was published and approved in 2009.

The result has been that in the years since implementation of regional autonomy beginning in 2001 various provincial development planning programs in East

³⁰*Propeda* is an abbreviation of *Program Pembangunan Daerah/Regional Development Program*. It is a planning document for a period of five years. It is similar to the Medium-Term Regional Development Plan (*RPJMD*).

³¹*Renstrada* is a Regional Planning Strategy. It is currently called *RKPD (Rencana Kerja Pemerintah Daerah)*, an annual development plan that explains the medium term Regional Development Plan (*RPJMD*). This document contains the framework of regional economy, regional development priorities, regional government work plans and funding allocation.

Kalimantan have shown no significant progress beyond the aspirational statements contained in successive regional development planning documents. The planning document has been amended several times—starting from *Propeda* 2001-2005, then the regional planning strategy (*Renstrada*) from 2006-2008, then the medium-term regional development plans *RPJMD* 2009-2013 and *RPJMD* 2013-2018—though in terms of substance (structure and content) there have not been significant differences between the different iterations. Even though the 2013-2018 *RPJMD* was developed with reference to the vision and mission of the regional government heads, the methods and models in setting program priorities still resembles the old pattern of program development.

Table 5.3 Vision, Mission and Priority Programs of East Kalimantan Province

Vision	Mission	Priority Programs
Realising East Kalimantan as the centre for agro-industry and leading energy to achieve equitable and prosperous communities	<ul style="list-style-type: none"> ⑩ To realise good, clean and dignified governance in order to achieve an island of integrity ⑩ To realise security and public order and the conducive democratic system ⑩ To realise the border area as the front porch of the State and the acceleration of development in rural and remote areas ⑩ To realise a competitive and community oriented economic structure with the concept of sustainable development ⑩ To realise the provision of basic infrastructure in order to improve the quality of life of the community ⑩ To realise a healthy, intelligent, skilled and high morality Community ⑩ To improve the system of subsidy, social protection and the system of poverty alleviation 	<ul style="list-style-type: none"> 1. Infrastructure development 2. Agriculture in terms of wider development 3. Human resources development

Adapted from the document plans of Medium-term (5-years) regional development plan (RPJMD) of East Kalimantan Province, 2009-2013

In terms of due process, planning in East Kalimantan is still characterised by the local government hiding draft budget plans—denying transparency in local government financing. Furthermore, local governments are deliberately slow in giving financial memoranda to the legislature, meaning that parliament does not have enough time to discuss point by point the plans proposed by local governments (S1, interview, 21 May 2011). However, the most critical factor in terms of shortcomings in financial planning is the attitude of the legislators in not discussing the budget in terms of meeting the target goal of regional development, but, rather, using it as a space for collusion between members of the regional parliament and regional government officials. It is this practice of political bargaining between legislators and officials of local budgets that leads to corrupt behaviour (S1, interview, 21 May 2011). Given the practice, it should come as no surprise that several members of the regional parliament are involved in local development projects, through connections with companies that are working on local government projects sourced from the local budget (G11, interview 29 June 2011; G5, interview 01 June 2011).

When local autonomy was introduced in 2001, regions were expected to take responsibility for funding the majority of regional development activity. This represented a fundamental paradigm shift in a relatively short timeframe—perhaps too short for regional governments, regional parliaments and local communities to internalise the nature and rules of decentralisation. This can be said to apply especially to the province of East Kalimantan. There have been a range of activities intended to improve the efficiency and quality of service, innovation and creativity, such as government agencies beginning to encourage their employees to improve and develop their skills and expertise through increased education, both formal and non-formal, and through rearrangement of bureaucratic procedures considered complicated for the purpose of efficiency.

Some of these efforts have met with enthusiasm and increased expectations, e.g. the efforts to raise the local own-source revenue/*Pendapatan Asli Daerah (PAD)* for local development. The decentralisation laws aimed at rearranging some of the bureaucratic and revenue-raising processes connected with the exploitation of natural resources such as oil, gas and forests, as well as income and corporate taxes, to increase local revenue, and we have seen regions competing to generate development funds obtained through local own-source revenue (*PAD*), principally tax collection and retribution intensively. Local governments

have issued a number of regional regulations (*Perda*) and levies on various local activities in order to make money to promote regional development. However, many of the local regulations that have been imposed have generated a host of problems and abuses.

The new laws were designed to regulate the transfer of some fiscal authority and responsibility from central government to local governments in a rational way. According to Tiebout, decentralisation should lead to the provision of a wide range of public goods, including a system of licensing and administration more suited to the needs of local residents (Tiebout, 1956). However, the immediate impact of the new legislation was that local governments tended simply to compete to increase and impose new taxes and levies on local businesses—even when these were considered contrary to the rules of the central government (A. Kuncoro, 2002). Rather than encourage cooperative arrangements, what we have witnessed are disputes between regions in marking out annexation boundary lines that have high economic potential, and the seizure of local revenue sources—both between the central government and local governments and among the local governments themselves. Rather than heralding a more harmonious future, approaches to decentralisation in East Kalimantan have tended to be narrowly regional, partial and ethnocentric.

In terms of personnel, the paradigm shifts from a highly centralised to a decentralised system caused confusion at the local government level, where officials had been accustomed to receiving programs that had been designed by the central government. Now they found themselves responsible for the planning, implementation and monitoring of development programs in their region, and oversight of the governance of efficient and quality-oriented public services that encouraged community participation.

Another problem has been the uncertainty associated with a mismatch between revenue and expenditure responsibilities (Alm, Aten, & Bahl, 2001). On the expenditure side, under the decentralised arrangements local government has been required to accept responsibility for the salaries of the thousands of employees transferred from the central government to the regions. Although officially the expenses for salaries of government employees who transferred was budgeted for through the general allocation fund (*DAU*), a problem for East Kalimantan has been that the transfer of equalisation funds are often delayed.

5.6 Conclusion

Regional autonomy in East Kalimantan has been characterised as the transfer of power from the ‘kings’ in central government to the ‘kings’ of the local elite. As this chapter has argued, with decentralisation these local elites gained more power and freedom to determine budget allocation. The power and freedom provided them with spaces and opportunities which have continued to allow them to practise the politics of patronage vis-à-vis the province’s budget—that is, to continue with the practice of local budget allocation on projects that benefit them and their supporters. Funds allocated for public purposes were instead used to increase their popularity and gain political benefits, helping them maintain their positions of power in the local bureaucracy and political institutions. As we shall see in the following chapter, the ability of local elites to hold onto their power can be traced back to their emergence as a reflection of the ethnic composition of East Kalimantan, with their continuing power and authority explained in terms of the elite theory discussed previously in Chapter 2.

CHAPTER 6 THE EMERGENCE OF ELITES AND THEIR ROLES IN EAST KALIMANTAN

6.1 Introduction

Indonesia is well known for its ethnic diversity. None of the Indonesian provinces is settled by a single ethnic group, but are composed of various ethnicities. This applies particularly to East Kalimantan, where the emergence of elites is closely tied up with ethnicity. As this chapter describes, the ethnic diversity of the province reflects both the influx over hundreds of years of migrants from other parts of Indonesia looking for better life chances and also, more recently, formal government transmigration or population resettlement programs. The chapter begins with a discussion of the migration of different ethnic groups to East Kalimantan as a basis for understanding the origin of elites in the province and how ethnicity continues to play a role in regional development decision-making processes. As part of the discussion, the chapter will consider the ethnic composition of contemporary bureaucratic, political, business, local customary, religious and social elites in East Kalimantan, and the role they play in the processes of decentralisation and democracy in the province.

6.2 Migration and the Ethnic Composition in East Kalimantan

As discussed in earlier chapters, East Kalimantan is renowned for its abundance of natural resources, including forests, fisheries, oil, coal and gold. This wealth of natural resources has led to East Kalimantan becoming the province with the highest annual revenue in Eastern Indonesia, contributing significantly to Indonesia's national budget and annual revenue. As a result, East Kalimantan remains an attractive destination for settlement by other ethnic groups in Indonesia.

Ethnically, the population consists of indigenous people, the Dayaks and Kutai, supplemented by immigrants from the Banjarese people of South Kalimantan, the Buginese from South Sulawesi, the Javanese from Java and others from all over Indonesia (Bandiyono, 2011). To understand the role of today's elites in East Kalimantan as key decision-makers in

regional development, it is important to trace the process of transformation that began with the arrival of migrants who came in waves to East Kalimantan to make a better life for themselves—which included using their own ethnicity vis-à-vis other ethnic groups (Marcus, 1978).

The process of migration to the East Kalimantan region commenced on a large scale during the era of Sultanate in the 17th century and it continues to the present time. Burhan Magenda (1991) has classified the arrival of migrants in East Kalimantan according to three main phases: migration in the Sultanate era of the 17th century, migration following the discovery of oil and the timber boom in the 1970s, and the massive transmigration³² program initiated by the central government during the New Order period. With the era of decentralisation in Indonesia from 2001, the arrival of migrants looking to improve their life chances has increased even further.

The first migration of Banjarese from South Kalimantan to East Kalimantan commenced in 1565. These migrants were Amuntai, led by Aria Manau of the Kingdom of Kuripan—a version of the Kingdom of Bagalong in Kelua, Tabalong—which was the forerunner to the establishment of the Kingdom of Sadurangas in the Paser area. The Banjar tribe later spread to other areas in East Kalimantan.

After the dissolution of the Banjarese Sultanate in 1886, the continuing stream of migrants from South Kalimantan into East Kalimantan, in particular to the Kutai Sultanate, reached its peak (Magenda, 1991). Settling along the Mahakam River, these migrants continued their traditional way of life, living as they had along the Barito River in South Kalimantan. The strength of Banjarese migrants was mostly in the areas of trade, though they were also noted for their skills in administration and organisation. Some migrants were trusted with management and administration of the Kutai Sultanate at the time. Other political benefits enjoyed by the Banjarese traders included opportunities to marry women from Kutai's aristocracy, which furthered their networking and trading activities. Other cities that were destinations for Banjarese migrants included Samarinda and Balikpapan, where they

³²The term 'transmigration' is used in Indonesia as a movement of people from one region to settle in other regions within the territory of the Republic of Indonesia, both in the interests of development of the country, or because there are other reasons as deemed necessary by the government (Law No. 3/1972 on Transmigration).

were also involved in trading or worked in leading industries including timber, oil and natural gas. Both cities offered good employment opportunities because they were major port cities and as such were major travel hubs for residents of East Kalimantan province (Magenda, 1991)

Through their work in local industries and various trading activities, Banjarese migrants created employment opportunities, with many of them being so successful they were able to access a variety of opportunities such as pursuing higher education in Java, South Kalimantan and South Sulawesi. In turn, this enabled them to become involved in the education sector in East Kalimantan and join the civil service, where they became part of the bureaucratic elite. Magenda (1991) argues that the entry of Banjarese migrants in East Kalimantan at the end of the 19th century gave what he refers to as political nuance to East Kalimantan, with Banjarese migrants considered an intermediary between the sultanate and the indigenous Dayak people, facilitating relationships and maintaining regular contact with the interior. In addition, the Banjarese who settled along the Mahakam River brought their own range of skills in trade and organisation.

The Banjarese migration into East Kalimantan was followed by the Buginese from South Sulawesi. As noted by Magenda (1991), from the 17th to the 19th centuries Buginese migrants came to East Kalimantan to trade and establish relationships with local sultanates to secure access to certain forest products. The main advantage gained from this relationship, especially for the Kutai sultanate, was in the form of taxes on forest products transported along the Mahakam River. Early after their arrival, the Buginese people in Kutai gained important recognition from the Sultan of Kutai for their role in defeating the Dayak people who constituted a major threat to the Sultanate. Peluso (1987, p. 11) suggests the Sultan's troubles with the Dayaks may have motivated him to grant the Buginese settlement rights in the territory now called Samarinda, the site of his capital at the time, as well as giving them a trade monopoly on products from the interior. In exchange for settlement rights, Buginese trader-warriors protected the sultan from 'hostile outsiders', including groups living outside the sultanate and Tausug or rival Buginese groups from other kingdoms. To this end, the Buginese supplied the sultan with warriors for his army as well as the firearms to equip those armies.

Pelras (1996, p. 321) notes that having obtained settlement rights in Samarinda from the previous Sultan of Kutai, the Buginese established a strategic settlement near the mouth of the Mahakam river, somewhat downriver from the Kutai capital. Later they also obtained from Sultan Idris monopoly rights over exports from the hinterland, including gold-dust, benzoic, camphor, dammar, gaharu wood, rattan, bird's nests, beeswax, bezoar stones and rhinoceros horn (in which only Kutai Malays were permitted to trade upriver), as well as sea products such as tortoise shell, turtle eggs, agar-agar and tripang. The Samarinda Buginese also had a monopoly on imports of rice, salt, spices, coffee, tobacco, opium, chinaware, textiles, iron, fire arms, saltpetre and slaves. Their right to self-government was recognised and they organised themselves under the authority of a chief, or *Puang Ado*, and a council made up of a number of *nakhoda* or rich sea traders. Some Buginese leaders were granted titles by the Sultan, who nominated them for intermarriage with the Malay nobility and qualified them for intermarriage with the ruling dynasty. Eventually, the Samarinda Buginese also obtained the right to control the upriver trade and a Buginese was appointed *shahbandar*, the officer whose main function was to levy port taxes.

As Magenda (1991) has noted, in the 20th century the descendants of the Buginese and new Buginese migrants from South Sulawesi took up positions as lecturers in newly-established universities and colleges located in East Kalimantan, such as Mulawarman University and the State Polytechnic of Samarinda. This ethnic group often came with undergraduate qualifications obtained in South Sulawesi, and it is not surprising that many were employed as civil servants in positions as lecturers in both state universities. Most of the migrants employed at Mulawarman University had educational backgrounds in economics and politics, and generally joined the university's two largest faculties—economics, and social and political science. Those employed by the State Polytechnic of Samarinda tended to have engineering backgrounds and lectured in various engineering departments such as Machinery Engineering, Civil Engineering, Electrical Engineering and Chemical Engineering. Buginese migrants with no university qualifications tended to be employed by various timber, oil and coal mining companies.

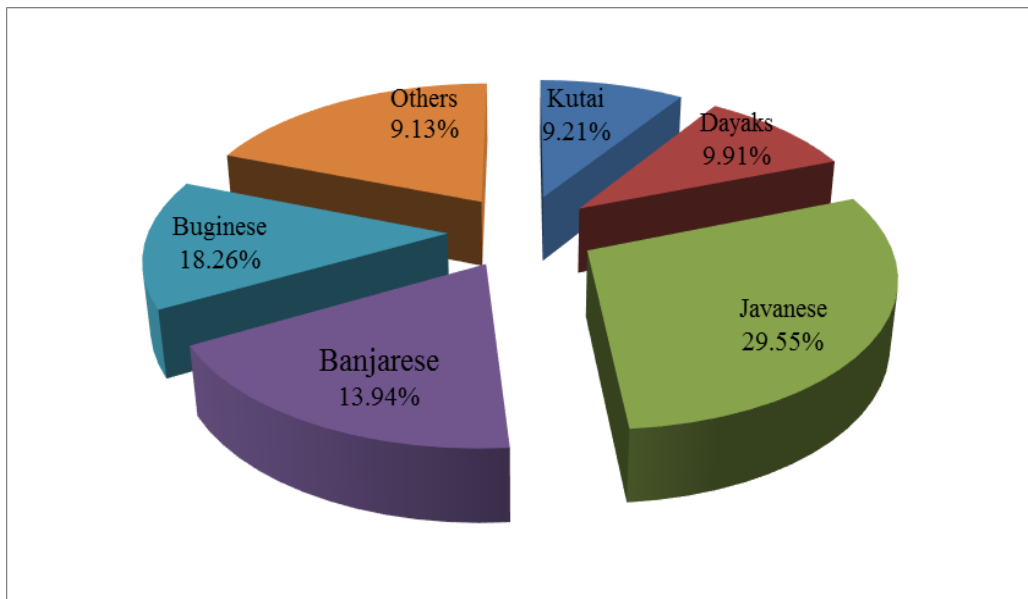
The other major ethnic group to migrate to East Kalimantan were Javanese migrants, starting in the 19th century. As explained by Magenda (1991), the discovery of oil in the 1880s in Semboja, located on the border between Balikpapan and Kutai Kertanegara, had

created a high demand for labour, and many workers from Java began arriving in East Kalimantan from that time to work in the oil industry. The Javanese became the main target of the migration policies of the Dutch colonial government. After the end of the Java War (1825-1830), the Dutch colonial government unlocked economic resources outside Java—including those in East Kalimantan, which accounts for Javanese being sent to the province to work in the oil industry. At first, the labour of the Javanese was contracted by the Dutch government, many of them working interchangeably between the oil industry in Sumatra and East Kalimantan—employees who were economically weak and still under government control. Eventually, many settled in East Kalimantan.

A massive influx of migrants, mainly from the three provinces of East Java, South Kalimantan and South Sulawesi, was also triggered by the timber boom, especially when deforestation became permissible on a large scale. As a result of the issuance of Foreign Investment Law No. 1/1967, forests were heavily exploited, particularly in the years between 1967 and 1970 (Magenda, 1991, p. 69). As Magenda (1991) argues, the timber boom in the 1960s encouraged a large wave of Banjarese and Javanese migrants—mainly peasants who left their villages and migrated to East Kalimantan specifically to work in the timber industry. In general, they worked for timber companies based in Samarinda, Balikpapan and Tarakan. The arrival of these migrants brought about changes in elite formation in East Kalimantan as outlined below, as well as socio-economic and political changes (Magenda, 1991).

The third migration phase took place under central government programs that were part of the transmigration policy (Magenda, 1991). The programs started in the 1950s with the number of migrants from Java reaching 11,400 people per annum (Director General of Transmigration, 2005), and continued into the 1970s when the number of migrants coming to East Kalimantan reached 23,710 annually (Hardjono, 1977). The Five-Year Development VI plan in 1999/2000 resulted in the government building 235 villages in East Kalimantan, with many of these situated in remote areas, accommodating as many as 293,240 migrants from Java (Director General of Transmigration, 2005). With the addition of Javanese to the earlier waves of migrants, the ethnic composition of East Kalimantan was particularly diverse, as shown in Figure 6.1.

Figure 6.1 Ethnic Groups Composition in East Kalimantan



Source: BPS/Indonesia Statistics, 2012

Transmigration patterns in East Kalimantan created centres of economic activity in rural areas through the development and construction of transmigration settlements, including the formation of new ethnic structures that influenced socio-economic and political changes in East Kalimantan. At first, migrants occupied areas set aside by government, which were generally located around plantation and agricultural land. Hard working, strong and resilient, these migrants successfully managed the land provided by the government to produce good living conditions and were able to support both their families in East Kalimantan and those family members remaining in their areas of origin (such as Java). Acknowledged for their perseverance and tenacity, they were able to improve their livelihoods until they eventually constituted important elites in the region. While by definition the majority did not achieve elite status, all members of the community remained engaged in work (as it provided a decent income), their perseverance and tenacity—especially of the migrants who came from Java—having a huge influence on surrounding communities.

Because it was closely related to economic development, migration into East Kalimantan has been of strategic significance. It has been a key component in the demographic dynamics that have helped create a variety of changes in society, ranging from increasing population numbers and population diversity to social change such as work ethos and sociability. The proportion of immigrants in the province reached 80% compared with the percentage of the

local indigenous groups, the Dayak and Kutai, which currently stands at approximately 20% of the total population (see Table 6.1 below). Changes in the province's ethnic composition, especially after the entry of the three major ethnic groups from Java, South Kalimantan and South Sulawesi, have added distinctive nuances to the economic and political structures in the province. Despite immigrants coming from various regions with different cultural backgrounds, they can broadly be understood to be motivated by the same goal, namely to find a job and build a better life than was possible in their respective regions of origin. Competition for work has triggered new types of work as well as encouraging an innovative culture and spirit in a variety of jobs and businesses. In this way, the work ethic of migrants and their becoming part of the province's social and political elite have impacted on the general success of regional development in East Kalimantan.

The resultant ethnic heterogeneity and cultural mix is a unique feature of East Kalimantan. Although their arrival was in order to achieve shared goals such as improved economic outcomes and quality of life and social status, these outcomes were not easy to achieve in the short term. Given the high level of competition between the migrants for getting a job and forging business opportunities, it made sense to identify with migrants from the same ethnic background and to aspire to become part of the bureaucratic, social and political elites within their ethnic communities. This should be regarded as a natural development, given that the job market in East Kalimantan has been dominated by migrants, mainly from Java, South Sulawesi and South Kalimantan, who continue to determine the economic structure of East Kalimantan.

The successive waves of migrants have significantly changed the composition of the population, with the majority of inhabitants in many areas immigrants. In terms of ethnic background, those of Javanese ethnicity are the most dominant group, making up 29.55% of the total population. Those of Buginese-Makassarese ethnicity make up 18.26%, while the Banjarese make up 13.94%. The indigenous people (Dayak and Kutai) represent approximately 19.12%. The remaining 19.13% is made up of people from a range of other ethnic backgrounds. Ethnic distribution across districts/municipalities is presented in Table 6.1.

Table 6.1 Ethnic Distribution across District/ Municipality

District/Municipality	Ethnic Groups					
	Javanese	Dayak	Banjarese	Buginese	Kutai	Others
Paser	30.53	2.70	12.03	20.45	0.32	33.97
Kutai Barat	10.61	57.87	4.90	3.85	16.40	6.37
Kutai Kertanegara	28.55	4.45	13.45	16.00	27.67	9.88
Kutai Timur	25.63	9.97	7.78	16.53	25.24	14.85
Berau	22.12	12.80	8.21	22.28	0.83	33.76
Malinau	3.63	71.27	1.53	3.30	0.05	20.22
Bulungan	20.33	33.13	3.99	13.05	0.22	29.28
Nunukan	6.44	37.43	1.41	43.45	0.06	11.21
Balikpapan	40.03	0.45	15.45	20.50	0.67	22.90
Samarinda	35.16	2.05	27.01	13.15	7.54	15.09
Tarakan	25.54	9.13	7.49	33.57	0.28	23.99
Bontang	36.59	0.60	5.35	28.00	2.77	26.69
East Kalimantan	29.55	9.91	13.94	18.26	9.21	19.13

Source: BPS/East Kalimantan Statistics, 2011, based on 2000 census.

6.3 The Emergence of Local Elites in East Kalimantan

Based on data gathered from various documents and interviews during the course of the research, a number of elites were identified. In terms of the focus on decentralisation and intergovernmental financial transfers used for the regional development policies, the research has identified the stakeholders who play an important role in the decision-making process, namely members of the bureaucratic, social and political elites. Generally, they hold important positions in their respective organisations, such as senior officials of provincial government or provincial leaders in the local parliament, including the heads of parliamentary factions. Other members of the elite include public figures, regional members of the (legislative) budgetary committee council, and leaders in NGOs, local businesses, youth organisations, religious organisations and local custom institutions—such as the Indigenous Youth of East Kalimantan Movement/*Gerakan Pemuda Asli Kalimantan Timur (GEPAK)*—where they wield considerable influence and authority in determining the policy for regional development. These bureaucratic, political, business, customary, religious and social elites are discussed in turn in the following sub-sections.

6.3.1 Bureaucratic Elites

East Kalimantan has ten districts and four municipalities. Within these districts and municipalities there are also sub-districts and villages. At the provincial, district and

municipal levels, there are more than forty departments and other regional government work units. This has created large and complex bureaucracies across the province. Within each regency and city, there are many important positions which in many respects can be seen to overlap with positions at the provincial level. In terms of the focus of this thesis, the result is a large number of high-level government employees occupying senior positions and playing significant roles within local government at provincial and district/municipality levels—a situation that lends itself to the operation of systems of patronage.

The large size of the local government bureaucracy is due not only to the geographical spread of East Kalimantan, but also to the policy of decentralising the public administration sector. The transfer of administrative responsibility to the local level gave local government greater autonomy in reforming their administrative bureaucracy (Evaquarta, 2008), and East Kalimantan has benefited from decentralisation at the provincial and district levels, reforming and creating local administrative offices according to the province's own economic and political needs. But the result is that a number of powerful bureaucrats control local government hierarchies. These bureaucratic elites are listed in Table 6.2 below:

Table 6.2 Regional Bureaucratic Heads Based on Ethnicity

No.	Ethnicity	Roles
1.	Kutai	Governor of East Kalimantan
2.	Banjarese	Vice Governor of East Kalimantan
3.	Dayaks	Mayor of Samarinda
4.	Banjarese	Vice Mayor of Samarinda
5.	Banjarese	Mayor of Balikpapan
6.	Javanese	Vice Mayor of Balikpapan
7.	Kutai	Mayor of Bontang
8.	Javanese	Vice Mayor of Bontang
9.	Gorontalo	Mayor of Tarakan
10.	Javanese	Vice Mayor of Tarakan
11.	Buginese Kutai	Regent of Kutai Kertanegara
12.	Javanese	Vice Regent of Kutai Kertanegara
13.	Dayaks	Regent of Kutai Barat
14.	Javanese	Vice Regent of Kutai Barat
15.	Kutai	Regent of Kutai Timur
16.	Banjarese	Vice Regent of Kutai Timur
17.	Buginese	Regent of Paser
18.	Banjarese	Vice Regent of Paser
19.	Buginese	Regent of Penajam Paser Utara
20.	Javanese	Vice Regent of Penajam Paser Utara
21.	Berau	Regent of Berau

No.	Ethnicity	Roles
22.	Buginese	Vice Regent of Berau
23.	Kutai	Regent of Bulungan
24.	Dayaks	Vice Regent of Bulungan
25.	Buginese	Regent of Nunukan
26.	Dayaks Tidung	Vice Regent of Nunukan
27.	Dayaks	Regent of Malinau
28.	Javanese	Vice Regent of Malinau
29.	Banjarese	Regent of Tanah Tidung
30.	Dayaks	Vice Regent of Tanah Tidung
31.	Banjarese	East Kalimantan's Secretary
32.	Javanese	Head of Regional Development Planning Board
33.	Banjarese	Head of Regional Revenue
34.	Banjarese	Head of Education Agency
35.	Javanese	Head of Kukar Regency Development Planning Board
36.	Banjarese	Governor Assistant 4 of East Kalimantan Province
37.	Kutai	Governor Assistant 1 of East Kalimantan Province
38.	Kutai	Governor Assistant 1 of East Kalimantan Province
39.	Kutai	Governor Assistant 2 of East Kalimantan Province
40.	Javanese	Head of Division of Regional Development Planning Board
41.	Buginese	Deputy Head of Mining and Energy Agency
42.	Javanese	Head of Division of Apparatus of Bappeda
43.	Kutai	Head of Regional Development Planning Board of Samarinda
44.	Javanese	Head of BKKBN of East Kalimantan Province

Source: Expert staff office of East Kalimantan parliament, 2013

The officers listed above represent individuals who occupy various positions in government organisations with the power to execute local government policy (Evaquarta, 2008). Some members of the bureaucratic elite gained their status by being related to person who already occupied a government office, such as governor, regent and mayor. Prime examples include members of the Kutai Sultanate families, such as Awang Faroek Ishak, an East Kalimantan governor, and Syaukani, a former regent of Kutai Kartanegara. This elite status is inherited from generation to generation, with such families trying to maintain their power through strategic placements of their progeny in key administration positions.

Bureaucratic elites usually manage the state sector and guide the process of economic development (Duvall & Freeman, 1983). The data reveals that in the era of local autonomy, political nepotism and dynasty creation have become even more pronounced in East Kalimantan. For instance, the governor of East Kalimantan, Awang Faroek Ishak, prepared his son, Awang Ferdian Hidayat, by installing him as representative of East Kalimantan in the Regional Representative Council (*DPD*) within the central government. Although he was elected by the people in a general election, it is widely accepted that his victory was very

much down to the influence of his father. The same strategy was used by Syaukani HR, former regent of Kutai Kartanegara, who managed to place his daughter Rita Widyasari as Kutai Kartanegara regent in the election for the period 2010-2015. Likewise, the former mayor of Bontang municipality, Sofyan Hasdam, supported his wife, Neni Moerniaeni, as a candidate for the mayor of Bontang municipality at the end of his second term. A fourth example is the former regent of Nunukan, A. Hafid Achmad, who supported his daughter Asmin Laura to run for Nunukan regent. The latter two machinations failed.

6.3.2 Political Elites

As well as bureaucratic elites, the emergence of political elites in East Kalimantan was also encouraged by decentralisation. As noted by Evaquarta (2008), local political elites have emerged due to the transfer of political power to local government as well as the greater role assigned to local communities in electing government leaders. This greater political autonomy has encouraged local figures with economic resources, ethnic supporters and other resources to become involved in political activities, many gaining political positions through local elections.

At the time of data collection, there were 55 parliamentary members, 21 of whom were also successful businessmen, with their firms controlled by family members while they fulfil their roles in local parliament. These figures constitute influential local political elites, occupying political positions within parties (Vergara, 2013). Some of these local political elites are presented in Table 6.3.

Table 6.3 Political Elites in East Kalimantan

No.	Ethnicity	Roles
1.	Buginese	Chairman of East Kalimantan Parliament
2.	Javanese	Deputy Chairman of East Kalimantan Parliament (<i>PKS</i> Party)
3.	Kutai	Chairman of The Budget Committee of East Kalimantan Parliament
4.	Buginese	Chairman of Commission I, East Kalimantan Parliament
5.	Buginese	Member of <i>PDK</i> Faction in East Kalimantan Parliament
6.	Buginese	Chairman of Faction of National Mandate Party
7.	Javanese	Member of East Kalimantan Parliament, from <i>PAN</i> Party
8.	Dayaks	Deputy Chairman of East Kalimantan Parliament (<i>PDIP</i> Party)
9.	Javanese	Chief of Faction of Democrat Party

All the local political elites listed above hold positions of party leader, local parliamentary leader or parliamentary member. Based on biographical information about leading politicians obtained from local parliamentary offices, some of these local political figures are also successful businessmen connected with firms engaged in mining, general contracting and plantations. This highlights the relationship between economic power and an individual's ability to obtain political power, with the risk that their involvement in local political activities may be complicated by their business activities. The risk of local resources being misused is potentially higher given the difficulty of separating their role as politician from their business interests.

6.3.3 Business Elites

East Kalimantan is a resource-rich province contributing more than IDR 300 trillion to national government revenue every year. As outlined in Chapter 1, the province has abundant natural resources, including oil, gas and coal reserves, and is also rich with plantations producing products such as palm oil. This has created wealthy individuals and attracted wealthy people from outside the province to invest in East Kalimantan. Most of these wealthy figures are also involved in politics as leaders and members of political parties.

Business or economic elites refers to individuals owning firms or holding top positions within a company (Beri & Schneickert, 2016). In East Kalimantan, these figures have plantations, oil and coal mines, or contracting companies operating in the province. The ethnicity of some of the business elites identified as playing important roles in East Kalimantan government policy is shown in Table 6.4 below:

Table 6.4 List of Business Elites in East Kalimantan

No.	Ethnicity	Roles
1.	Javanese	1. President Director PT Santiga Utama, Samarinda 2. General Manager Koran Kaltim, Balikpapan.
2.	Kutai	1. Managing Director PT Bantera Bahagia 2. General Contractor 3. Owner of 'Plaza Mulia' Samarinda
3.	Buginese	General Contractor
4.	Banjarese	1. Commissioner of PT ALHASANIE 2. Director of PT Sumber Makmur Raya Perkasa

No.	Ethnicity	Roles
5.	Dayaks	1. Director of PT HDI Kaltim 2. General Manager Samarinda Central Plaza
6.	Javanese	1. Owner of CV Duta Wahana, Samarinda 2. Director of PT Prabhakti, Kaltim
7.	Banjarese	Managing Director of PT BINACO GROUP
8.	Buginese	1. Director of PT Ghifa Mitrtama 2. Director of PT Alam Baru nan Permai 3. Director of PT Legong Raya
9.	Kutai	1. Director of PT Radio Metro Samarinda 2. Director of CV Hakti Ekonomi Mumpuni
10.	Buginese	Managing Director of PT Sapta Mandiri Group
11.	Buginese	Commissioner PT Wahana Wisata Borneo
12.	Buginese	Trading Business
13.	Buginese	Managing Director PT Pelangi Nautika
14.	Buginese	General Contractor
15.	Banjarese	Trading Business
16.	Buginese	1. Managing Director PT Ikrar Balang Nusantara 2. General Contractor
17.	Kutai	General Contractor
18.	Dayaks	1. Managing Director of PT Atha Marth Naha Kramo 2. Managing Director of PT Atha Tours & Travel
19.	Dayaks	Trading Business
20.	Buginese	Director CV Cipta Karya Nusantara
21.	Javanese	1. Commissioner of PT Koperta Sabawana Kalimantan 2. Commissioner of PT Sagabofa Catur Manunggal

Source: Expert staff office of East Kalimantan parliament, 2013

These members of the economic elite, in particular business leaders who are also involved in political parties or who are parliamentary members, exercise substantial influence on local government policies. The powerful influence of business elites over government policies in other contexts has been identified in previous studies: for example, US government policy-making is dominated by individuals who have substantial economic resources, i.e., high levels of income or wealth including those who own business firms (Gilens & Page, 2014). Local business elites often cooperate with local government leaders to secure work on government projects or influence leaders to allocate funds for certain projects that are unlikely to benefit citizens (Transparency International, 2009).

The position of business elites as leading figures in Indonesian society is expected to provide a livelihood for the local people, especially since many people in East Kalimantan still live below the poverty line. Many people subscribe to the trickle-down theory of economics, which argues higher economic growth will eventually trickle down to the poorest

and raise the prosperity of the entire country without the need to worry about the equality of income distribution (Aghion & Bolton, 1997). That is debatable. However, what is beyond dispute is that business opportunities in East Kalimantan, and Indonesia more generally, have provided opportunities for business leaders to strengthen their position as elites with influence over local political policy decisions to the benefit of themselves and their clients and followers. The operation of such systems of patronage better explains why even people living below the poverty line continue to accept systems of inequality not serving the interests of the broader population.

The success of many of East Kalimantan's business leaders was facilitated by past political incumbents in key positions giving them material benefits. It should be noted, firstly, that most business elites in East Kalimantan have managed to create growth from public works, often regional government projects funded by the regional budget (*APBD*). Secondly, they have had access to abundant resources which they have been able to translate into social influence. While the resources that enable entry into the elite are largely economic, the conditions enabling their entry are the legacy of political history and democratic failure.

Business elites serve their own interests through cultivating close relationships with local officials and members of parliament. At local head elections they are adept at exercising leverage to ensure that their favoured candidates win office, with the expectation that they will in turn benefit. As well, they work hand in hand with the local bureaucratic elite (Ratnawati, 2007). Hadiz (2005) highlights the activities of local elites in East Kalimantan who manipulate and utilise the symbiotic relationship between the elite, especially involving business and political elites. However, this situation is not confined to the East Kalimantan context. Previous studies have found that the patron–client relationship is not unique to Indonesia or South East Asia, but can also be found institutionalised in Latin America, Africa and the less wealthy countries of Europe (Scott, 1972).

Most members of the business elites use their wealth to gain political positions or become regional heads. Those business people who do not have direct political ability or inclination often support other elite associates to run for governor, regent, mayor or local parliament. Once elected they can be used to secure support for targeted projects. In the case of political

candidates not widely known among the public, these entrepreneurs can invest a lot of money in supporting candidates who will in time reciprocate by supporting them.

In 2014, many members of the business elite campaigned to become members of the national parliament in the general election. For many, this entailed spending up to about IDR 10 billion to get elected as a member of the central parliament (*Anung, 13 May 2013, detik.com*). Considering the amount of capital spent on the campaign they would have expected a positive business return on their investment after being elected to parliament. Of course, not all who stood for parliament were elected (*Anung, 13 May 2013, detik.com*), so did not realise a return on their ‘investment’, but their attempt to ‘buy’ their way into office is broadly accepted in Indonesia and represents a form of endemic corruption to the democratic process.

Various types of corruption have been organised by business elites, including the common practice of paying back a proportion of money to politicians and bureaucrats in return for being awarded government contracts for projects. In East Kalimantan, for example, each time local elections are held to elect a new governor or regent/mayor, it can be assumed that business groups have supported their own candidates and covered campaign costs. This approach is believed to secure favourable influence over the awarding of local government contracts after their candidate is elected. As an example of this type of corrupt practice, in 2008 the election for East Kalimantan governor became a battlefield for local business groups who stood behind each of the four candidates contesting the position of governor, namely: Awang Faroek-Farid Wajdy, Achmad Amin-Hadi Mulyadi, Nusyirwan Ismail-Heru Bambang and Jusuf SK-Luther Kombong. Each prospective head of region was generally supported by different groups of local and national businessmen, though there is no denying that among such groups of businessmen there are those who tried to exploit the situation and distributed funds to more than one candidate.

6.3.4 Local Customary Elites

As this chapter has shown, East Kalimantan province is ethnically very diverse, with most of its citizens immigrants or descendants of immigrants from other provinces—the indigenous people comprising only a small section of its population. Certain individuals,

referred to here as local customary elites, who have emerged to support the interests of their particular ethnic group, go on to play roles in the political arena. While the political, business and bureaucratic elites previously discussed also come from various ethnic groups, this study does not consider them as ‘ethnic elites’ because their elite standing is not based on the role they play in their ethnic communities or through acting explicitly on behalf of these communities. This study refers to customary elites as people who appeal to ethnic dimensions such as history, culture, language, physical appearance and rituals (Hale, 2004). Customary elites are individuals from an ethnic group who emerge as leaders within their ethnic communities and contribute to local politics and development. These elites act on behalf of their ethnic group’s political and social interests rather than on behalf of all ethnic groups in East Kalimantan. Based on this paradigm, three customary elites have been identified, as depicted in Table 6.5 below:

Table 6.5 Customary Elites

Ethnicity	Roles
Banjarese	Secretary of Banjarese Youth Association in East Kalimantan
Buginese	Head of <i>KKSS</i> (Ethnic Organisation) in East Kalimantan
Javanese	Head of <i>IKAPAKARTI</i> in East Kalimantan

Ethnic elites usually emerge as a consequence of family wealth, such as the possession of land or other traditional economic resources. A participant addressed this issue as follows:

An ethnic figure becomes a leader usually because they have big piece of land or animals such as buffalo and cows. They have a lot of traditional resources and also a large extended family in the villages. Even though sometime they just leave the land without plantation activities, it contributes value to their social identities and supports them becoming a leader within their ethnic group. These benefits sometimes also support them to enter political parties. (E1, interview, 29 May 2011)

Other notable examples of ethnic leaders include individuals with close links to local custom organisations. The ethnic groups in East Kalimantan usually have an organisational framework for launching their political efforts, such as *Kerukunan Keluarga Sulawesi*

Selatan (KKSS), Ikatan Keluarga Jawa (IKAPAKARTI), Kerukunan Bubuhan Banjar, Gerakan Pemuda Asli Kalimantan (GEPAK), Ikatan Putra Daerah Peduli (IPDP), Persekutuan Dayak Kalimantan Timur (PDKT) and other indigenous Dayak and Kutai organisations. These groups support electoral candidates for various positions including district heads. Unlike the other elite groupings discussed in this chapter, customary elites act in a relatively open and transparent manner.

6.3.5 Religious Elites

Indonesia is not a secular country and religious affairs are funded by the central government. Religious leaders are a common phenomenon in East Kalimantan as in other parts of Indonesia. Religious leaders constitute an elite of individuals whose status enables them to influence religious norm-setting processes more effectively than the average believer (Juan & Vüllers, 2010, p. 6). Whereas in the developed world, such as the United States, religious elites are no longer required to provide legitimacy for political rulers and government policies (Hunter, 1987), in East Kalimantan religious elites still play a significant role in legitimising political policy in the local government context. Mostly, they contribute to the social and spiritual development of citizens. As religious affairs are covered by government policies and are funded by the national budget, religious leaders play a significant role in ensuring the success of local government programs in social and religious aspects. As depicted in Table 6.6, this study identified a number of key religious leaders in East Kalimantan.

Table 6.6 Religious Elites and their Roles

Ethnicity	Roles
Javanese	Chairman of Christian Catholic
Javanese	Chairman of <i>Muhammadiyah</i> Organisation
Buginese	Chairman of <i>Nahdlatul Ulama</i> Organisation

Local government regularly allocates funds to support religious activities in East Kalimantan. The funds come from the local government annual revenue transferred by the central government. As a senior bureaucrat explained:

Provincial attention toward religious development has never stopped. Local government allocates funds every year to support all religious activities because this sector directly influences citizens' religious life. Since 2008, fund allocation has been continuously increased. For example, in 2012 local government allocated IDR 12 billion to build and renovate holy houses such as mosques, churches, vihara and temples. We expect this fund to increase citizens' welfare, in particular, related to religious life. (G7, interview 01 June 2011)

Even though budgetary distribution is determined by political rulers and bureaucrats, such as governor, regent and mayor, and parliamentary members, religious elites are often involved in the process of budget allocation. They usually influence parliamentary members affiliated with certain religious organisations to sway the proportion of funds allocated. Further, religious leaders often attempt to influence local government to concentrate development in certain areas where their followers are located.

6.3.6 Social Elites

This study found that a number of people who play significant non-religious roles in the East Kalimantan community have emerged as key social elites. They play roles in mass organisations, such as local youth associations, community development organisations and non-government organisations. One is a local journalist leader. They come from different ethnic groups. This study uses the term social elite (Dávid-Barrett & Dunbar, 2014) to describe individuals who play key roles in community settings through providing clear and positive social integration in different sectors of community life (O'Brien, 2006).

Table 6.7 Social Elites

Ethnicity	Roles
Buginese	Chief of Local Youth Association
Javanese	Chief of Local Newspaper
Banjarese	Director of Local Community Development
Dayaks	Director of Local NGO

Leaders of non-government organisations (NGOs) have been intensively involved in local budget spending. NGO leaders often approach government leaders and high-level bureaucrats to seek financial support, and the National Program for Community Empowerment is primarily delivered by NGOs in East Kalimantan. While the program is legal and is protected by law, the budget and program allocation are often biased, with local government allocations directed to NGOs which supported the government during local elections. This increases tension with other NGOs due to the inconsistent approach to budget allocation.

This phenomenon also applies to other mass organisations, such as the Youth Association. They often engage in intense political bargaining with local government leaders, knowing that support for young citizens is important to the survival of local government leaders. Through building political relationships with certain political rulers or parliamentary members, the Youth Association commands funds to support their youth activities and sports infrastructure.

6.4 Composition of Local Elites

The change from a centralised to a highly decentralised system in Indonesia has impacted on the dynamics of decision-making in regional development, and this is especially true in East Kalimantan. In 2001, when it was given full power to manage its affairs, East Kalimantan province experienced a resurgence of its elite formation based on ethnic diversity and identity. As this section discusses, ethnic immigrants in East Kalimantan became critical bases for elites involved in regional development policy-setting, with ethnic identity used as a political instrument, especially in terms of regional power and resource distribution.

Economic development, natural resources and decentralisation provided new avenues for the emergence of local elites in East Kalimantan. Their emergence was not due to major struggles for common or collective interests (Higley, 2010), such as the struggle for fair and equal financial transfer from central government. In the context of decentralisation in East Kalimantan, all local elites, including bureaucratic, political and social elites, have played important roles in the local government decision-making processes, especially in relation to regional development policies. Most of them hold important positions in their respective organisations, such as senior officials in provincial government bureaucracy, local parliamentary members, or leaders of social organisation including NGOs, local businesses, youth organisations and religious organisations. Among the broader population, it is generally accepted that these individuals exert strong influence and authority over regional development policies.

The power structure in East Kalimantan is generally dominated by these individuals, who together make up the ruling bureaucratic and political elites. They include senior officials of provincial governments, particularly those involved in the executive budgeting committee, such as the provincial secretary, the head of the Regional Development Planning Board (*Bappeda*) and the head of the Regional Financial Management Board (*BPKD*). Less obvious is the influence of social elites, who can be overlooked because their power rests with the number of followers they can galvanise (e.g. in the religious and NGO spheres) even though they also directly influence local government decisions and policy implementation.

In the era of decentralisation, such local elite individuals have worked not only for their own personal interest but also for the benefit of their own group or clients. This is a feature of political patronage, where elites structure resources and power horizontally for their own benefit across East Kalimantan bureaucratic and political institutions (Eisenstadt & Roniger, 1980), and vertically within their supporting groups. This has resulted in rampant nepotism and collusion in East Kalimantan, with political patronage most entrenched in the bureaucratic elite.

After the application of Law No. 22/1999, political movements from various ethnic groups began to emerge as distinct political groups, especially during the process of electing legislative members and district heads. In fact, many local political actors in East Kalimantan

still consciously campaign under an ethnic banner during elections for district heads by making power-sharing agreements. Nearly all districts in the province of East Kalimantan clearly show how effective the use of the ethnic pairing combinations used by political elites can be when dealing with other political entities. For example, indigenous locals might team up with the Buginese ethnic actors and organisations. Gerry Van Klinken (2007, p. 22) illustrates such ‘collaboration’ with the example of a member of a local elite provided with the free rental of buildings owned by local political institutions. It is no secret in East Kalimantan that many business people from different ethnic groups, especially those engaged in the mining sector, become the main financial backers for the regional head candidate before elections take place. Mining entrepreneurs can be the most exuberant sponsors for hunters of power in East Kalimantan (cited in *Okezone Finance*, 26 February 2012).

The multi-ethnic composition of East Kalimantan influences the political stage in terms of local direct elections. This can be seen very clearly in the determination of the composition of candidates for head and vice of regent/mayor or governor and vice-governor. Representation of ethnic groups has always been one of the candidates’ calculations, with pairs of candidates representing different ethnic groups standing a better chance of being elected. According to Aspinall (2011, p. 310), areas with a population of mixed ethnic residents generally prefer to support political candidates who are from their own group or who are allied with a partner from their group.

In summary, since the downfall of the New Order, ethnic power sharing has re-emerged. The population of East Kalimantan is very diverse, so partnerships have to be formed with a coalition of ethnic groups. Since the introduction of Law No. 32/2004, direct election of district heads has been enforced and the issue of ethnicity has resurfaced. In particular, it is used by candidates as a way to capture the votes of targeted ethnic groups, so that power sharing is embodied (literally as well as figuratively) in selecting and establishing a pair of candidates. As well as the strength of supporting a political party, the combination of ethnicities is considered a major factor in the election of district heads. The practice is illustrated in the pairings of regional heads in the following table, with, for example, 1 paired with 2, a governor with vice governor and regent/mayor with vice regent/mayor.

Table 6.8 Pairing of Regional Heads in East Kalimantan based on Ethnicity 2008-2016

No.	The Regional Head of East Kalimantan Province	Name of Elite	Ethnicity	Period
1.	Governor of East Kalimantan	Awang Faroek	Kutai	2008-2013
2.	Vice Governor of East Kalimantan	Farid Wadjdy	Banjarese	
3.	Mayor of Samarinda	Syaharie Jaang	Dayaks	2010-2015
4.	Vice Mayor of Samarinda	Nusyirwan	Banjarese	
5.	Mayor of Balikpapan	Rizal Effendi	Banjarese	2011-2016
6.	Vice Mayor of Balikpapan	Heru Bambang	Javanese	
7.	Mayor of Bontang	Adi Dharma	Kutai	2011-2016
8.	Vice Mayor of Bontang	Isro Umarghani	Javanese	
9.	Mayor of Tarakan	Udhin Hianggio	Gorontalo	2008-2013
10.	Vice Mayor of Tarakan	Suhardjo T.	Javanese	
11.	Regent of Kutai Kertanegara	Rita Widysari	Buginese/Kutai	2010-2015
12.	Vice Regent of Kutai Kertanegara	M. Ghufon	Javanese	
13.	Regent of Kutai Barat	Ismail Thomas	Dayaks	2011-2016
14.	Vice Regent of Kutai Barat	Didik Efendi	Javanese	
15.	Regent of Kutai Timur	Isran Noor	Kutai	2011-2016
16.	Vice Regent of Kutai Timur	Ardiansyah	Banjarese	
17.	Regent of Paser	Ridwan Suwidi	Buginese	2010-2015
18.	Vice Regent of Paser	Mardikansyah	Banjarese	
19.	Regent of PPU	Andi Harahap	Buginese	2008-2013
20.	Vice Regent of PPU	Mustaqim MZ	Javanese	
21.	Regent of Berau	Makmur HAPK	Berau	2010-2015
22.	Vice Regent of Berau	Ahmad Rifai	Buginese	
23.	Regent of Bulungan	Budiman Arifin	Kutai	2010-2015
24.	Vice Regent of Bulungan	Liet Ingai	Dayaks	
25.	Regent of Nunukan	M. Basri	Buginese	2011-2016
26.	Vice Regent of Nunukan	Asmah Gani	Tidung	
27.	Regent of Malinau	Yansen TP	Dayaks	2011-2016
28.	Vice Regent of Malinau	Topan Amrullah	Javanese	
29.	Regent of Tanah Tidung	Undunsyah	Banjarese	2010-2015
30.	Vice Regent of Tanah Tidung	Markus	Dayaks	

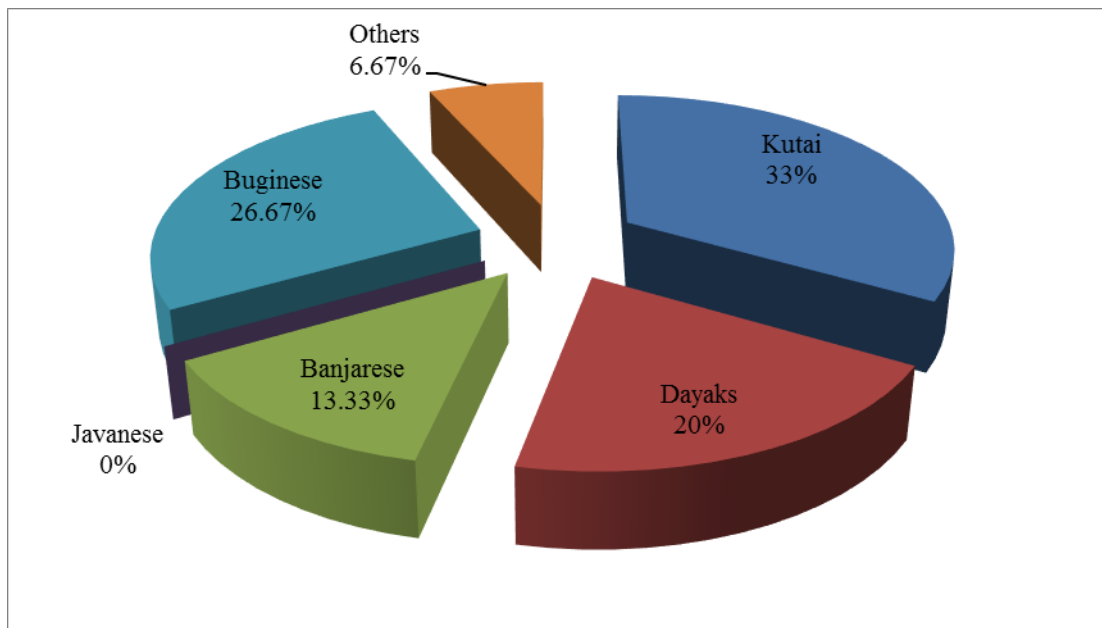
Source: Expert staff of East Kalimantan parliament, 2013

Table 6.8 demonstrates that 73% of regional head candidates have a local indigenous ethnic candidate paired with a candidate of a migrant ethnicity. As a consequence of this practice, despite representing only 20% of the province's population, indigenous ethnic candidates are represented in most of the pairings. Apart from anything else, on a positive note, the practice of pairing points to the continuing ethnic heterogeneity of the province's population.

The heterogeneity of the population in East Kalimantan is also reflected in the formation of elites in government and in the parliament, as well as among the business elites. This is illustrated in the heads of local government based on the results of direct elections in 14

districts /municipalities and the province from 2008 to 2011. As Figure 6.2 below indicates, approximately 33% of regional heads come from a Kutai background, an ethnic group native to East Kalimantan. This figure is more than 10% higher than their proportion of the province's population. The ethnic group with the second highest level of representation is immigrant Buginese, at 26.67%. In third position is the indigenous Dayak ethnic group, at 20%, with those from Banjarese ethnicity occupying 13.33% of positions. While contributing the largest segment of the population in East Kalimantan, there are no regional heads of Javanese ethnicity. Individuals of Javanese background, which is the largest ethnic group with more than 29% of the total population, have a lower representation in the political elite and bureaucracy, both in the regional government and regional parliament. Given that they tended to occupy the lowest occupational levels, it is not surprising that the Javanese are not represented at the level of regional heads. However, their size cannot be denied and the presence of Javanese background candidates is often utilised by the regional head candidates by placing them as a pair candidate for the position of vice regional head. They are always chosen as vice in order to gain the support of the Javanese voters. In general, they are very satisfied with the position of vice regional head, given the history of Javanese coming to East Kalimantan only as company workers, most having migrated under the central government's transmigration program. However, if differentiated according to indigenous and migrant ethnicity, there is an approximate 50:50 split between the number of positions held by those of indigenous ethnicity and those from immigrant backgrounds throughout the 14 districts and municipalities of the province. Thus the ethnic demographics of the population are not reflected in regional head elections.

Figure 6.2 Ethnic Distribution of Regional Heads in East Kalimantan

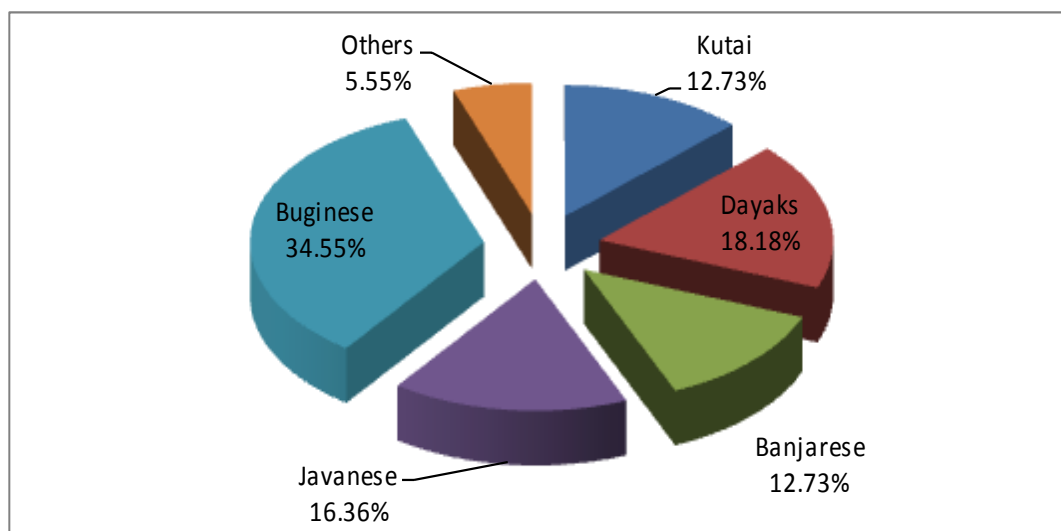


Source: BPS/East Kalimantan Statistics, 2012

The success of the indigenous ethnic group Kutai in being elected to more than 30% of positions during the local head elections was the result of incessant campaigning on the issue of native sons in the lead-up to elections. From the local perspective, the position of immigrant communities in East Kalimantan is considered acceptable if the position of head of the region is held by someone who has an indigenous ethnic background, namely Dayak or Kutai. Admittedly, after regional autonomy in Indonesia was enacted, the effect of the native sons issue was hotly debated in various areas in Indonesia, including East Kalimantan province, with demands from native son organisations that the head of the region must be chosen from the indigenous groups. However, the issue of a native son has gradually faded because of the difficulty of establishing a clear definition of a 'native son'. Diverging perceptions emerged, with some arguing that a native son is one who has a background of ethnic Dayak or Kutai, while others argue that the native sons are people who were born and grew up in East Kalimantan, regardless of ancestry. According to this definition, besides Dayak and Kutai, a native son is someone who comes from ethnic immigrants who have settled more than 25 years or have a bond of marriage with someone from a Dayak or Kutai ethnic background. The debate continues to the present, and a resolution of the issue of who is a native son has not been reached. It is predicted that the issue will not be resolved in the immediate future (*Tribun Kaltim*, *Kaltim Post*, *Samarinda Post*), but the debate itself is premised on the reality of East Kalimantan's ethnic heterogeneity.

The heterogeneity of the East Kalimantan population is reflected in the ethnic background of members of East Kalimantan parliament, where the majority (63.64%) are of major migrant ethnic background, while the combined ethnic Kutai and Dayak control 30.91% or 17 seats. This reduces the ability of locals to secure positive outcomes for indigenous people. Meanwhile, the remaining 5.55% of parliamentary members are from other, minority, ethnic groups living in East Kalimantan. Buginese background immigrants from South Sulawesi represent the largest number of members in the East Kalimantan parliament, with 34.55% or 19 out of the 55 members of regional parliament. This figure shows that community hailing from South Sulawesi is well represented in East Kalimantan politics—a result that can be directly linked back to the Sultanate in the 17th century when the Sultan provided favours to the Buginese in return for their loyalty.

Figure 6.3 Ethnic Background of East Kalimantan Parliamentarians



Source: BPS/East Kalimantan Statistics, 2012

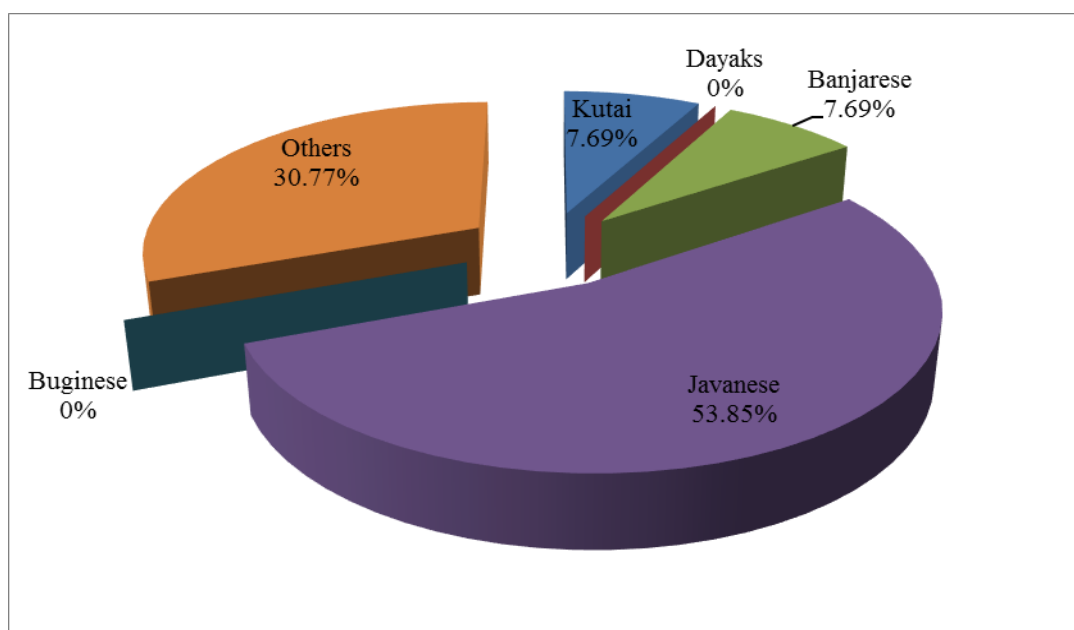
The situation is different when it comes to echelon³³ II heads of department in East Kalimantan's vertical institutions³⁴, where these agencies are directly appointed by the central

³³An echelon is the level of structural positions of civil servants, with echelon I constituting the highest level, while echelon V constitutes the lowest level in the ranks of the eligible civil servants, as stipulated in Government Regulation No. 13/2002.

³⁴According to Law No. 23/2014, regarding Regional Government, vertical institutions are the ministries and/or non-ministerial government institutions that take care of government affairs not handed over to an autonomous region within certain areas in order to de-concentrate from central control.

government in Jakarta. Their authority is almost entirely beyond the intervention of the governor, who is normally local. The governor only acts as a conduit for the recommendation or approval of candidates at echelon II for vertical institutions. As a result, Javanese gain the majority of these positions. Overall, 92.31% are from migrant ethnic backgrounds, with those of Javanese origin holding 53.85% of positions. Those from indigenous ethnic backgrounds represent only 7.69% of appointments. This is due to the appointment to echelon II office being managed by central government ministries (Jakarta).

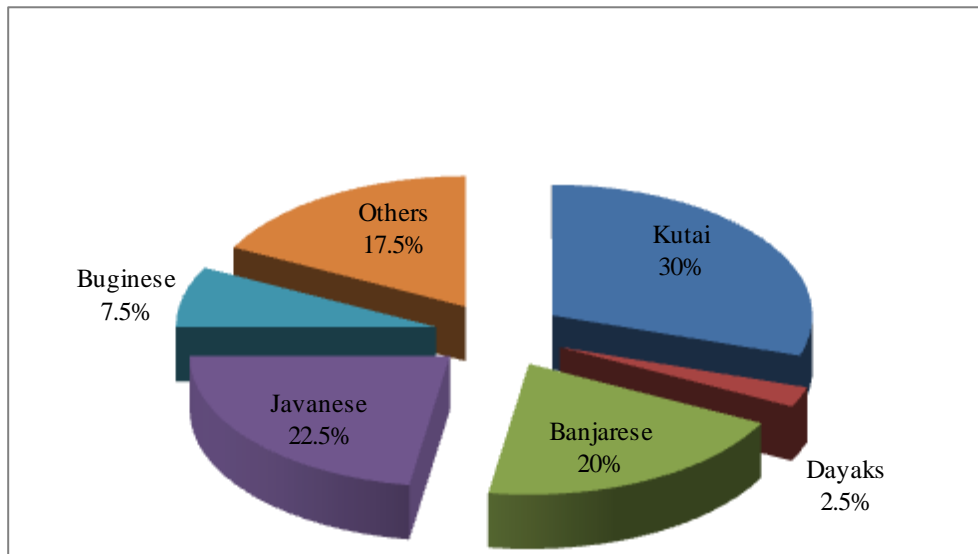
Figure 6.4 Ethnic Background of East Kalimantan's Vertical Institution



Source: BPS/East Kalimantan Statistics, 2012

This contrasts starkly with the ethnic composition of the heads of regional government work unit (*SKPD*) appointments, which are directly under the control of the governor. Many who hold important positions as the heads of these agencies come from the indigenous ethnic backgrounds, especially Kutai. Notably, East Kalimantan's governor comes from a Kutai ethnic background. Data on the appointments of heads of regional government work units (*SKPD*) shows 30% of local agency heads also come from a Kutai ethnic background, followed by those of Javanese ethnicity with 22%, then Banjarese ethnic background employees with 20%.

Figure 6.5 Ethnic Background of East Kalimantan's Heads of Agencies



Source: BPS/East Kalimantan Statistics, 2012

6.5 Elites in East Kalimantan Decentralisation and Democracy

The implementation of decentralisation in Indonesia created a promising opportunity for local government to improve the welfare of local communities, create government accountability, and provide better public services. Decentralisation has given authority to local governments to establish and manage the administrative organisation of each region, with Law No. 32/2004 enabling local government to establish their organisations independently, according to their local needs. With regard to decision-making processes, local government and the regional parliament have the authority to manage the regional development program more autonomously and allocate local budgets independently. Prior to this, local governments were only able to execute development programs under the direction of the central government. But with decentralisation, local government has been able to be more responsive to local issues.

In relation to democracy, decentralisation was expected to bring democratic gains with regard to public policy-making and public participation. According to the Local Autonomy Law No. 22/1999, governors, regents and mayors were fully elected by and accountable to the local parliament. These high-level officials could effectively be dismissed by the local parliament at the end of the term by being denied a renewed position, though the final determination or dismissal of the head of administrative regions through the issuance of the

Decree still rests with the president. The governor still served as deputy head of the central government and autonomous regions, but Law No. 32/2004 balanced the authority of the central government and the authority of local parliament to control the governor. Supervision of autonomous regions by central government is via the governor according to Law No. 32/2004, with every regulation made by the local parliament and the local head directly applicable without the need for central government approval. However, the central government may at any time suspend or cancel the governor's regulation when it is considered contrary to the constitution, the law or the public interest. In the period immediately after the introduction of local autonomy, the governor autonomously exercised a high level of authority but this has diminished since 2004 when local autonomy was revised by Law No. 32/2004.

Article 1 paragraph 5 of the revised autonomy law (Law No. 32/2004) reads as follows: 'Regional autonomy is the right, authority, and the duty of autonomous regions to organise and manage their own affairs and the interests of local communities in accordance with the regulations and legislation'. While, since 2004, the policy of decentralisation and regional autonomy is not solely about the transfer of authority from the central government to local governments, it is this transfer of power to local government that is most important in the context of this research. According to this law, decentralisation represents powers given to local government by the central government to administer the region, with local governments required to maximise their regional resources for the benefit of development in the region.

In theory, then, decentralisation should provide ample opportunity for local people to determine their own destiny without interference from the central government. However, my research data demonstrates that, despite the intention, decentralisation has enabled and encouraged East Kalimantan elites to use their power to further personal or group interests. In the province, the implementation of decentralisation and democracy remain dominated by the ruling elite—and this has been the case for the entire period of decentralisation. As Szücs and Strömberg have theorised, democracy is not only determined by the 'presence or not of the existence of democratic institutions at the local level, but also is determined by the behaviour and the practice of power committed by the elite' (Szücs & Strömberg, 2006, p. 294). In the case of East Kalimantan, it is true that planning and budgeting have always been preceded by community consultation on development meeting processes at the village, sub-

district, district and province levels, generally run in accordance with democratic procedures. But operating in parallel is the work of the network oligarchy constituted by certain elites, such as the head of Regional Development and Planning Board (*Bappeda*) and the regional government secretary representing the interests of oligarchs led by the governor himself. Such elites are more likely to represent interest groups rather than the interests of the community generally (Katorobo, 2005). As Katorobo (2005) suggests, the process will reflect democracy only if the local government (legislative and executive) has a strong political commitment to implement the decentralisation program, promote the involvement of community groups in decision-making, and have a legislative framework that is conducive to supporting constitutional decentralisation. However, if high officials lack such a commitment then democracy is sidelined.

In reality, as my data reveals, governors in East Kalimantan have not created genuine democratic political linkages, but have allowed the democratic process to be hijacked by powerful interest groups. For example, my research has identified that while the *Musrenbang* (*Musyawarah Perencanaan dan Pembangunan*/community consultation on development planning meeting), which was initiated in 2001, is ostensibly part of the democratic process, decision-making remains in the hands of elites. Traditionally, the *Musrenbang* was a consultation process, where no vote was taken. In other (perhaps earlier) contexts, such a process could facilitate consensus outcomes addressing the needs of the entire group, and to that extent could be classed as democratic. But in East Kalimantan it operates merely as an arena or set of procedures used by the elite to push their personal and particular group interests. This interpretation accords with the observation of theorist Robert Dahl (1961), who noted that while there may be democratic processes in place, in the end they are undermined by non-democratic final decision-making engineered by powerful groups.

Another area in which appearing to act in accordance with tradition can mask non-democratic motives is the way elites in East Kalimantan appear to be acting benevolently in maintaining the structure of patronage through social distribution called '*Bansos*' (from the Indonesian words *Bantuan Sosial*). This serves to manage and reduce public anger or community reaction, and reflects how East Kalimantan does not have the democratic foundation or sufficient social capital to build an effective democracy. The reality is that there is no civil society; outside the systems of patronage it does not exist. Strong criticism

against local government policies does not occur because, in general, community organisations are dependent on annual quotas of local government social assistance. Democratic elements have little opportunity to operate outside of existing networking processes, and those in positions of power use their distribution of project contracts and local government social assistance to shore up support.

The regional parliament is relied upon to be the formal guardian of democracy, but, in fact, it could be argued to constitute an oligarchy. Powerful groups participate in distributing local budget allocations in collusion with the local governments. An example of this was provided by an NGO spokesperson, who commented in interview that when the governor suddenly had political ambitions and planned various projects such as toll road and Kaltim Air procurement, regional parliament argued against the governor's plan and rejected it, but after a plenary session the budget was approved by members of regional parliament. The voices of dissenting members in regional parliament who had been opposed suddenly disappeared altogether (S1, interview, 21 May 2011).

East Kalimantan, in fact, does not yet have a strong democratic system because the social basis of democracy such as NGOs and social movements is not strong enough to be able to limit the power the elites have managed to gain. As Putnam et al. in their discussion on social capital have noted, democracy is only possible if there is the basis of democracy within the broader society (Putnam, Leonardi, & Nanetti, 1994). It does not work in a society with a long history of patrimonial traditions, which need to be tempered, if not completely reversed, before democracy can flourish. Obviously, that is a long-term project.

As demonstrated from my interview data, local political parties also play an important role in decision-making at the regional level. The parties are dominated by figures that have links to the networks of power. They are already connected to the governor and departmental heads via social and business links. Even the management of educational institutions such as higher education campuses is an integral part of the elite-based governance process. This author observed the political patronage system at work during a community consultation on development meeting involving discussions on local government programs, with the governor and his elite groups strengthening their oligarchic base by selectively empowering various sections of society. Educational institutions and NGOs that are expected to be playing

a critical role tend to serve the interests of the bureaucracy, rather than supporting the need to straighten out the bureaucracy. This empowers the oligarchy, because the support of educational institutions provides legitimacy for its agenda. For example, prominent professors from one of the most prestigious universities in Indonesia tend to be part of the expert staff of the governor and help smooth the passage of government policy. This is also a role that experts are expected to play in democratic societies such as Australia, but the context is different in Indonesia. Given the comparatively low salaries for professors, it is understandable that they are open to opportunities—which might be indirect, such as serving the interest of the governor—to supplement their income, but given the operation of patronage at every level of Indonesian society, playing this role implicitly undermines democratic processes.

In the context of East Kalimantan, all bureaucratic, social and political elites are stakeholders in regional development and play an important role in decision-making processes, especially in relation to regional development policies. Generally, they hold important positions in their own respective organisations, such as senior officials of provincial government, or part of the provincial leadership of local parliament, including the heads of parliamentary factions. Other members of the elite include public figures, regional members of the budgetary committee council (legislative) and organisational leaders covering NGOs, local businesses, youth organisations, religious organisations and local custom institutions, where these people are accorded strong influence and authority in determining policy for regional development. There are also groups of elites operating at the national level who are able to use their influence in the decision-making process at the local level. These actors wield influence as members of the regional representative council (*DPD*), members of national parliament who represent their region, and national party chairmen.

Based on Pareto's theory of the stratification of elites, we can identify two elite groups involved in regional development decision-making. The first of these groups of elites are decision-makers, who generally hold official positions and are directly involved in the decision-making process. In the East Kalimantan context, this first level of elites is composed of the governor and deputy governor, the chairman of the regional parliament, members of parliament and the regional secretary. This group fulfils the function of regional policy formation, as well controlling regional government work unit (*SKPD*) heads within local

government. The second stratum comprises groups or individuals who have influence or strong sway over the regional decision-making process—in East Kalimantan, leaders of political parties at either the national or local level, as well as NGO, religious and customary leaders, public figures, businessmen and youth leaders. This points to a diverse and dispersed situation, with a complex system of interlocking elites representing different interests and competing loyalties.

East Kalimantan's elite formation can be understood through Dahl's theory concerning the way power works in a pluralistic context, where the direction of change and policy is determined, not only by formal power structures of the elite, but also by the *social forces of society* (Dahl, 1961). These social forces reflect Pareto's categorisation of elites³⁵. Ostensibly, the previously-discussed community consultation on development planning meetings—where, for example, budget allocations were decided through consensus—is analogous to Dahl's explanation that in a pluralist democracy interests are agreed upon through a consensus process. However, as discussed above (see page 131), such meetings are largely irrelevant because it is still the elites who make the decisions after the consultation process.

To understand the influence of elites in the regional policy arena, it must be recognised that different areas of regional policy will be influenced by different categories of elites. For example, regional policies regarding distribution of projects in East Kalimantan are not influenced by customary elites. However, in the case of regional investment policies, it is possible for customary elites to hold the balance of power because they are connected with land ownership. Likewise, in terms of regional budget policies, the NGO blocs are considered to have influence because they raise transparency issues, while in the distribution of development projects this bloc is considered by local government to have no influence because it does not have the capacity for it. Elites and the power they wield cannot be understood as static, but must be viewed in terms of how the exercise of power occurs in the complex network of patronage, with the individuals who constitute the elites building networks that influence decision-making. This is relevant to the explanation of power as a network (Gaventa, 2006). The decision-making process on regional development in East

³⁵Pareto divides society into two broad classes—the upper layer, comprising the governing and non-governing elite, and the second lower level of society, namely non-elite.

Kalimantan is still largely determined by the existing elite network. Formal political structures also support the creation of the elite. Each time local head elections are held changes are made in the structure of heads of agencies or officials that are equivalent with levels of echelon II, III and IV. For example, the governor and deputy governor of East Kalimantan inaugurated 270 officials from echelon II, III, and IV, on 20 December 2013, just three days after they were sworn in as governor and deputy governor of East Kalimantan by the interior minister of the Republic of Indonesia (cited in *Diskominfo*, 23 December 2013). In general, the governor appoints officials from the network's campaign team who supported him to become governor. These local officials effectively become part of the governor's network of patronage, especially in decision-making processes as they lead the regional government work unit (*SKPD*).

While the process of regional development in East Kalimantan appears democratic with regard to the principles of local autonomy, given that decision-making processes are meant to be guided by the community consultation on development planning meetings or *Musrenbang*, the influence of elites over the implementation of regional development policies is definitely not democratic. This is demonstrated by the fact that the final decision over regional development policy in East Kalimantan is still made in a top-down manner by a limited number of elite officials. This is a phenomenon where the elite officially live in a democratic system but apply practices that undermine the democratic model, in particular by dominating decision-making processes to serve their own interests. The procedure on paper is very democratic but the execution is very elitist.

The situation in East Kalimantan is typical of Indonesia more broadly, where the decentralised system is only symbolically democratic, especially in terms of providing solutions to regional development problems. The ruling elites only partly advance the purposes of decentralisation in supporting people to build better lives, and while the patronage-based stratified system of which they are part might serve the immediate interests of their clients and supporters, it cannot solve the deeper issues at the heart of the community's problems. In line with the focus of this thesis, much of the discussion in this chapter has dealt with the formal composition of the East Kalimantan elites and the influence they have over development, but—critical as that aspect is—underpinning (and at times undermining) the capacity of different elites to influence events is the capital owned by

certain elites, with the most influential elites in East Kalimantan optimising their use of capital in the various patronage-based networks to influence policy processes to increase their capital. This is not a recent development, but can be traced back to the Suharto era and before that the Dutch colonial era—and it is not a phenomenon limited to Indonesia. This is an important dimension that warrants further investigation, though it is beyond the scope of this research.

In terms of the role of elites in East Kalimantan, this research has established that the progress of genuine regional development in the province is very slow because there are certain elites that are still able to accumulate power and retain a high degree of authority over a range of decision-making processes from economics to political policies (Hadiz & Bourchier, 2003).

6.6 Conclusion

The discussion of the emergence of elites in East Kalimantan, beginning with the history of the migration of different ethnic groups to the area, helps us to understand the structures and processes by which elites in East Kalimantan continue to exercise power and influence. As the chapter has shown, the elite structure in East Kalimantan reflects the province's immigrant history, and the ethnic dominance of certain elite groupings can only be understood in terms of the long history of migration of groups from other parts of Indonesia to the province. Particular immigrant groups dominate certain important positions, with large numbers of immigrants from South Sulawesi occupying positions as members of parliament, while immigrants from Java and South Kalimantan often dominate local government and various industries in East Kalimantan.

The chapter identified six categories of elites in East Kalimantan province based on their roles: business, political, bureaucratic, social, religious and customary elites. As the chapter has described, the business elites are local company owners. Political elites exercise influence through such roles as party leaders and other functions with the power to influence the political system and determine the success and the failure of the areas they ostensibly represent. The bureaucratic elites occupy the higher level of regional government bureaucracies: governor, regent and mayor, as well as heads of department. Social elites

include NGO and mass organisation leaders. Together with religious organisation leaders and customary elites, they are able to use ethnic identity to influence decision-making processes and contribute to the social, political, economic, religious and cultural life of East Kalimantan according to the politics of patronage. In terms of the overall thesis argument, all the elites discussed in this chapter play critical roles in intergovernmental financial transfer relative to the spheres in which they operate, and in the following chapter we will see how they used these roles in their campaign in 2011 for a greater share of financial resources from the central government, which they would in turn allocate in line with the *modus operandi* of the politics of patronage.

CHAPTER 7 THE ROLES OF ELITES IN INTERGOVERNMENTAL FINANCIAL TRANSFER

7.1 Introduction

This chapter discusses the roles of local elites in attempts to pressure the central government to amend Law No. 33/2004 in order to redress what they regarded as a fundamental imbalance in intergovernmental financial transfer from the central government to East Kalimantan. Their role is discussed in three contexts: 1) the debate to promote the increase of financial transfer, 2) local development and financial allocation planning, and 3) the expenditures involved in the financial transfer. As described in the chapter, the debate between the central government and the government of East Kalimantan regarding financial transfer was about changing the profit-sharing deriving from the province's natural resources. Regarding local development programs and financial allocation, the chapter covers the role of elites in determining the priority programs and how much money should be allocated from the local budget.

The discussion builds on the elite categories identified in Chapter 6, with this chapter providing insights into how those elites play different roles in terms of the three contexts of financial transfer identified above. This will lead into consideration in Chapter Eight of the politics of patronage in terms of the roles played by local elites in the misuse of intergovernmental financial transfer within East Kalimantan.

7.2 The Roles of Elites in Increasing Higher Financial Transfers

The implementation of the decentralisation policy after the fall of the New Order government in 1998 changed the political, administrative and financial landscape at the local level (Bennet, 2010). Since that time, local government, such as in East Kalimantan province, has been able to exercise power and allocate budget according to locally-determined policy. The East Kalimantan government now has the opportunity to obtain greater budget allocation from intergovernmental financial transfer as well as internally from within the province through local own-source revenues/*Pendapatan Asli Daerah (PAD)*.

However, while the province has obtained more autonomy in political, administrative and financial domains, total provincial expenditure has also increased (Shah & Chaudhry, 2004). The province is responsible for its annual expenditure related to local infrastructure and local government employees' salaries. Understandably, when not managed and spent properly, budget expenditure becomes a considerable challenge. Increased intergovernmental transfer and natural resources revenue sharing has not been followed by significant local development (P1, interview, 18 May 2011), even though the province is rich with natural resources, such as oil, gas, mining, forestry, farming and fisheries, which could be contributing more to the development of the province (Ishak & Utomo, 2010).

As a result, local elites in East Kalimantan have put pressure on the central government to increase intergovernmental financial transfer, especially for revenue sharing of natural resources income. The provincial elites soon began to realise the reality that while the province has abundant natural resources the benefits had never accrued to the people of East Kalimantan. As we shall see, this sparked a new debate and increased tension with the central government, with local elites complaining that the central government has continued to unfairly exploit East Kalimantan resources (P1, interview, 18 May 2011).

Local elites and all elements of the public in East Kalimantan united to form a local judicial review team to amend Law No. 33/2004 concerning intergovernmental financial transfer from the central to the provincial government (P5, interview, 24 May 2011). They considered the law as no longer fair for the province because it only allowed the province to receive a small portion from revenue sharing of natural resources.

The imbalance of financial distribution between the central government and the provinces has resulted in dissatisfaction in several regions, especially those rich in natural resources, including the province of East Kalimantan. Considering the natural resources in the province—in 2010, for instance, the province contributed a profit of USD 4.68 billion from exports but its people only gained 0.05% of the revenue in the regional budget (*APBD*) (BPS/East Kalimantan Statistics, 2010)—such a discrepancy intensified the central vs regional debate.

A plan for judicial review was initiated by Vico Januardhy in July 2010 (cited in *Koran Kaltim*, 06 Jan 2011). The advocates for change, who worked under an observer team for regional autonomy and decentralisation, met the executive and parliamentary members in Jakarta to notify them of the plan. The local elites also coordinated with all regents and mayors in East Kalimantan and with the regional parliament (*DPRD*) as well as the governor of East Kalimantan. All parties agreed to the idea of a judicial review and the steps to be taken (cited in *Koran Kaltim*, 06 Jan 2011).

Before taking action for judicial review, four members of the Regional Representative Council (*DPD*)³⁶/senate team from East Kalimantan tried to negotiate with the central government concerning the additional budget for the province in the intergovernmental financial transfer (cited in *Koran Kaltim*, 20 September 2011). This team endeavoured to take action by lobbying and submitting plans for increasing the percentage of oil and gas profit sharing (*Dana Bagi Hasil Minyak Dan Gas*) for the regional government as stipulated in the law No. 33/2004 on central and regional intergovernmental financial transfer. The negotiations and lobbying were dismissed by the central government and the move from the Regional Representative Council/Senate (*DPD*) team did not have a positive result for the regional government and the East Kalimantan people (P5, interview, 24 May 2011).

After 10 years of ineffective lobbying and pressuring the central government to increase financial transfer and natural resources income sharing, East Kalimantan elites decided on a new approach to pressure the central government, accepting that a more effective way to obtain more financial transfer from natural resources income sharing was through a judicial review of the central government Law No. 33/2004 regarding financial balance between central and local government. Their argument was that some articles of the law were no longer suitable for the East Kalimantan context.

As a first step, on 29th March 2011, in the working meeting sessions of local parliamentary members (*DPRD*) with the provincial government of East Kalimantan, it was decided to pursue the plan at a more serious level by bringing the case of judicial review to Indonesia's Constitutional Court (*Mahkamah Konstitusi*, *MK*). It was also decided to take a new conceptual approach. After a long debate involving local parliamentary members and all

³⁶*DPD* is the abbreviation of *Dewan Perwakilan Daerah* (Regional Representative Council /Senate).

local elites, it was decided to appoint the East Kalimantan United People's Assembly/*Majelis Rakyat Kalimantan Timur Bersatu* (MRKTB)³⁷—a consensual local organisation consisting of various local elites. The concept of forming a new institution was also proposed during the debate regarding who would represent the East Kalimantan government in filing a judicial review to the Constitutional Court (Yasin, *Korankaltim*, 5 April 2011). Eventually, the East Kalimantan United People's Assembly received a formal mandate from the provincial government and parliament to work with an initiator team to bring the case to Constitutional Court (MK). It was then agreed in the meeting that full support and appreciation would be given to the efforts made by the judicial review initiator team (cited in *Kaltim Post*, 05 April 2011).

The *MRKTB* was considered a capable community organisation and supported by all elites in East Kalimantan, including NGOs (Ingan, *Korankaltim*, 18 May 2011). The *MRKTB*'s stated vision was of being united to develop East Kalimantan as safe, peaceful, just and prosperous within the framework of the unitary state of the Republic of Indonesia³⁸. In order to achieve the objectives, *MRKTB* would take the following steps:

- a) Strengthening the unity and cohesion of all members of East Kalimantan society without discrimination on the basis of background, tribe, religion, race and group—since all are Indonesians.
- b) Defending the rights of East Kalimantan people to live independently, safely, peacefully, justly and prosperously.
- c) Endeavouring to achieve the improvement of welfare for all members of East Kalimantan society by optimising the use of available natural resources in the sustainable management of resources.
- d) Building a network with the government and other components of society to maintain the peace and order of society in all parts of East Kalimantan.
- e) Maintaining and improving the tolerance and solidarity among fellow citizens with the courage to enforce justice and truth and refusing all forms of tyranny that can disrupt the success of development in East Kalimantan.

³⁷ *Majelis Rakyat Kalimantan Timur Bersatu (MRKTB)* is a community organisation led by Abraham Ingan. The institution was established by notarial act before Ahmad Dahlan, S. H., Number 45 dated 13th January 2011, having domicile in the municipality of Samarinda, East Kalimantan province.

³⁸ *Pasal 4 dan 5, Akta Pendirian MRKTB Nomor 45, tanggal 13 Januari 2011 yang mengatur tentang Visi dan Misi MRKTB, Putusan Sidang Nomor 71/PUU-IX/2011, Mahkamah Konstitusi, 2011.*

- f) Being steadfast in the struggle and being the pioneer for the birth of a new awareness for the development of self-potential in various creative and competitive products in the support for the independence in achieving a prosperous East Kalimantan³⁹.

It is this organisation which would serve as the vehicle for bringing the case of judicial review for Law No. 33/2004 to the Constitutional Court (*MK*). After being formally agreed to in the East Kalimantan parliament in Samarinda, the head of *MRKTB*, Abraham Ingan, and Vico Januardhy representing the initiator team for judicial review immediately established an ad hoc team for judicial review for Law No. 33/2004 concerning the balance of intergovernmental transfer between the central and local governments.

A meeting was held on 30 March 2011 involving all East Kalimantan parliamentary members, the initiator team, Local Youth Association (*KNPI*) and the various elites represented in *MRKTB*. In the meeting, they agreed to form an ad hoc committee for fund raising to support the judicial review of Law No. 33/2004. Rivai, a leading academic from Mulawarman University, was appointed as chair of the ad hoc team, which then prepared a list of 70 representatives of the East Kalimantan elite who were nominated for the ad hoc team. Those nominated included higher bureaucrats from the government of East Kalimantan, local parliamentary members (*DPRD*), prominent regents and mayors, members of districts and municipalities, senior academics, key figures from youth and university student organisations and other local experts (cited in *Koran Kaltim*, 04 April 2011).

On 18th April 2011, the ad hoc team was formally approved by East Kalimantan's governor and members of parliament. The team distributed the agenda to all districts and municipalities. The first step taken by the team was to launch a road show for 10 days until the end of April 2011 in all regencies and municipalities in East Kalimantan. The road show was intended to raise support from all local elites and citizens across the province. By the end of the road show, the team had managed to collect 50 approval signatures directly from key members of the East Kalimantan elite in 14 regencies and municipalities across the province. Their approval, in the form of their signatures on a legal document, was shown to political rulers, senior bureaucrats, youth elites, NGO leaders, community organisations leaders, youth

³⁹*Pasal 4 dan 5, Akta Pendirian MRKTB Nomor 45, tanggal 13 Januari 2011 yang mengatur tentang Visi dan Misi MRKTB (Majelis Rakyat Kalimantan Timur Bersatu).*

organisation leaders, members of local parliaments and the Regional Representative Council/Senate (*DPD*) (cited in *Kaltim Post*, 18 May 2011).

Ingan and Supriadi (2011) provide more details about the attitude of the elites regarding the Court case. Their confidence of winning the judicial review lawsuit strengthened especially after success in bringing the roadshow to all districts and municipalities in East Kalimantan. The ad hoc team continued with the next step by having a seminar on 4th May 2011 in the East Kalimantan governor's office and inviting several experts on decentralisation and public economy policy as the main speakers, such as Dr. Revrison Baswir, MBA, and Prof. Dr. M. Asrul, SH., MH., both from the prestigious University of *Gadjah Mada*. The seminar was attended by representatives from community, youth and student organisations, government officials, regional parliament, public figures and all members of the judicial review team. The theme of the seminar was the question of how to mobilise greater support from public and religious figures, ethnic groups, and the executive and legislative branches of government in East Kalimantan.

In the seminar, 10 key individuals put their signature on the support document for the judicial review of Law No. 33/2004 concerning the balance of intergovernmental financial transfer and natural resources sharing between the central government and East Kalimantan. The elite signatories were a religious figure, a community organisation leader, two ethnic leaders, a local expert, a women's activist, two youth organisation leaders, an NGO leader and a scientist from a local university. The governor and the leader of *MRKTB*, as well as businessmen, also attended the seminar.

Through the process described above, the judicial review effort became a collective movement of the East Kalimantan elites. Previously, they were not united due to differing and at times opposed political and economic interests, with individuals often competing for the wide range of business and political opportunities in the province. However, during the judicial review process, they quickly united and built a coalition to fight for increasing financial transfer from the central government, and played significant roles in pressuring central government to increase the transfer. Members of local parliament provided moral and material support to achieve the objective, parliamentarians donating their salaries to support the judicial review of the law (cited in *Kaltim Post*, 01 April 2011).

Local members of the elite, including ten regents and four city mayors, who were members of the supervisory board in *MRKTB*, collectively contributed IDR 350 million to support the legal action. Two leading businessmen also participated in the fundraising for the action, contributing IDR 250 and IDR 100 million. More financial support came from the community organisation *KOMURA* (*Koperasi Samudera Sejahtera Samarinda*), ethnic association leaders, and university leaders and academic staff.

University academics—an important part of East Kalimantan’s elite structure—showed their support through providing expert assistance. Experts in economics, natural environment and law were actively involved in the legal proceedings by providing their professional and scientific opinion. For example, they prepared documents related to legal action, natural resources and financial data. The process, which took a year, was backed up by local politicians (Yasin, *Humasdprd*, 29 March 2011).

Both local East Kalimantan elite and non-elite wanted to win the legal proceedings in order to increase financial transfer from natural resources profit sharing. They argued that the existing financial transfer from natural resources profit-sharing was unfair, and were expecting that through a judicial review of Law No. 33/2004 the central government would increase the transfer to 30.5%. However, in 2016 East Kalimantan was still receiving only 15% of the profit (cited in *Kaltim Post*, 01 August 2016).

This created a deep sense of injustice for East Kalimantan citizens. One participant who argued that East Kalimantan had been left far behind other regions in Indonesia noted that, despite the provincial Gross Domestic Product (GDP) of IDR 300-500 trillion per year, the level of poverty in East Kalimantan in 2011 was 7.7% compared to the two nearest neighbouring provinces of South Kalimantan and Central Kalimantan, where the GDP was far below that of East Kalimantan province, with IDR 91 and IDR 65 trillion respectively, while the poverty rates were lower than East Kalimantan at 5.29% and 6.56% respectively. Likewise, with the rate of development, which continued to decline from 13.06% in 2008 to 6.35% in 2011 (*Survey Sosial Ekonomi Nasional/SUSENAS* in March 2011; BPS/East Kalimantan, Central Kalimantan, and South Kalimantan Statistics, 2012). A politician from the Golkar party argued that all members of East Kalimantan parliament and many other

parties had come to the same conclusion that East Kalimantan received an unjust portion of the natural resources profit sharing, especially for oil and gas (P1, interview, 18 May 2011), and that the judicial review was the only solution. According to a government leader, East Kalimantan's natural resource wealth should be able to be fully utilised in order to realise the region's development, based on the principle of all elites being united, with legislative and executive supported by all elements of society working together to achieve the welfare of society (G12, interview, 20 June 2011).

With the intention to get higher financial transfer of natural resources profit sharing, the local elites acted. The case was officially submitted to the Constitutional Court by *Majelis Rakyat Kalimantan Timur Bersatu (MRKTB)* on 30 September 2011. The main concern was the request to amend Article 14 points e and f of Law No. 33/2004 (concerning revenue sharing from oil and gas). This law regulates the composition for profit sharing between central and regional government. In the 63 pages of submitted documents, nine plaintiffs represented East Kalimantan and *MRKTB*—elites from different districts and from the members of regional representative council (*DPD*). The document demanded a significant increase in financial transfer of natural resources profit sharing from 15% to 50%.

All categories of East Kalimantan's elites agreed that the judicial review to amend the law was the only way to obtain a more reasonable financial sharing arrangement. One political elite member argued that the struggle for the rectification of this injustice must proceed until the aim was achieved. All argued that the central government was treating East Kalimantan unfairly. Their strong united opposition confirms the observation of Highley (2010) that elites become united when under pressure from external forces, and will stand together in exercising collective power.

After going through the ten round trial hearing, on 12 September 2012 Indonesia's Constitutional Court rejected all claims filed by *Majelis Rakyat Kalimantan Timur Bersatu (MRKTB)*⁴⁰ who were representing East Kalimantan province. The Constitutional Court argued that Article 33 of Indonesia's 1945 Constitution clearly states that all natural resources belong to the central government to be distributed equally to all Indonesia regions

⁴⁰Decision of the Constitutional Court Case Number: 71/PUU-IX/2012 on testing Law No. 33/2004, on the financial balance between the central government and local governments.

and citizens. This means that no province will enjoy a special amount of the resources and finances derived from the resources. Even though the two provinces of Aceh and Papua enjoyed higher financial transfer and resources sharing, they had been given special autonomy due to special conditions.

The Constitutional Court further argued that Article 33 of Indonesia's Constitution states that the natural resources belong to the whole nation-state, not the local provinces, and that the central government has the right to organise their exploitation. If judicial review to Law No. 33/2004 were granted, it argued, it would make for economic instability in Indonesia, especially for poor local government areas without oil and gas. The position of the East Kalimantan elite who had sought the judicial review was that the Constitutional Court's statement represented a political position, which was used as an excuse for not fulfilling the needs of the province⁴¹, and reflected the lack of political will on the part of the central government to share the revenues.

Defeat in the lawsuit was greeted with disappointment within all of East Kalimantan communities. The response of Abraham Ingan, chairman of the People's Assembly of the United East Kalimantan (MRKTB), who had brought the lawsuit for Judicial Review, was very revealing: 'If the Court cannot be relied on anymore, then do not blame us if we will take the path of another way' (cited in *Koran Kaltim*, 23 September 2012). This would seem to imply that funds would be appropriated via less legal means. The governor of East Kalimantan, who was also present at the hearing of the Court ruling, expressed the widely-held view:

Judicial Review by East Kalimantan society is a demand which was very reasonable and not excessive because it is done in a way that was constitutional and elegant. While the central government understands that East Kalimantan is the largest contributor of foreign exchange for the country, the poverty rate is still relatively high, and the uneven development of Kalimantan is still strongly felt, especially in areas that border on being very underdeveloped. The best proof of this can be seen in the areas around the site of exploration and exploitation of natural resources. East Kalimantan society is entitled to more equitable justice. (Faroek, 23 September 2012)

⁴¹Syaparuddin was a secretary of Commission I of East Kalimantan parliament.

East Kalimantan's struggle for justice as an oil and gas producing area had started in February 2011, with the demands to amend Article 14 points e and f of Law No. 33/2004. According to Article 14 point e: 'Revenue from oil produced from the region concerned after tax and other levies in accordance with the laws and regulations shall be divided 84.5% for central government and 15.5% for local government.' According to Article 14 point f: 'Revenue from gas produced from the local government concerned after tax and other levies in accordance with the laws and regulations shall be divided 69.5% for central government and 30.5% for local government'⁴². The arrangement was intended to ensure that a percentage of funds sourced from the national budget (*APBN*) were allocated to regions to finance the region's implementation of decentralisation. However, the leading members of East Kalimantan society—representing the various elite categories identified in Chapter 6—regarded the revenue-sharing formula as imposing a disproportionate burden on the province in its responsibility to implement decentralisation. It was natural for members of the various categories of the elite to lead the push for the review of Law No. 33/2004—after all, they best understood and had experience in governmental and administrative processes, and on that basis were best equipped to challenge the central government. As the East Kalimantan elite, they also had a vested interest in increasing the province's income, and many would have been advantaged in terms of reducing the pressure to raise funds locally. Their stance also reflected the underlying ethos of Indonesian patronage, in terms of which as elite members of society they had a responsibility of ensuring the wellbeing of 'commoners', particularly their followers whose continued loyalty maintained them in their privileged positions. At the same time, gaining a greater share of resource revenue from the central government would also strengthen their capacity to consolidate and extend their influence and power—for example, through distribution of more project funds.

One of the factors triggering conflict between East Kalimantan and the central government was lack of transparency in the management of oil and gas, this emerging as a serious problem driving the conflict to the stage of a lawsuit heard by the Constitutional Court. The Court was supposed to rule impartially for oil-producing regions such as East Kalimantan province. However, the lack of transparency and a clear mechanism by which the central government calculated income due from natural resource products such as oil and gas meant that many continued to question the Court's impartiality. As the natural resource

⁴²Article 14 points e and f of Law No. 33/2004.

managers in the region, the East Kalimantan government was not able to calculate an acceptable value for oil and gas revenue sharing, only receiving the results of the division of natural resources from unilateral decisions by the central government based on inadequate data.

Lack of transparency had been a feature since the beginning of the decentralisation era in 2001. At that time, the lifting (i.e. the extracted resource) reconciliation data presented to the Ministry of Energy was an accumulation of data from a special work unit of the oil and gas producer (*SKK Migas*) obtained from the contractor. Lifting refers to oil and gas production being ready for sale, and the magnitude of lifting will vary with the amount of production because not all new oil and gas production can be sold directly, but still needs to be processed or transported. Despite being in the area, the contractors were never willing to share data with the local government, with the excuse that the data was controlled by a special work unit of the oil and gas producer (*SKK Migas*). As a result, local authorities only received final data passed on unilaterally by the central government⁴³.

Some of the local companies which exploited local resources in East Kalimantan argued that all the financial data was remitted to the central government. As well, the central government maintained that given the many processes that must be followed, it would not be able to provide all the data required by the province. For example, with proof of deposit not being received by the Directorate of Finance in Jakarta, it was not able to accurately count the revenue sharing of oil and gas. Indeed, when asked in the Constitutional Court case where the data was derived from, and why the central government's take from the oil and gas amounted to 84.5% and 69.5% while the producing regions only received 15.5% and 30.5% for oil and gas respectively, the central government spokesmen Machfud Sidik⁴⁴ responded, 'from the sky'. It was perhaps intended to be a provocative throwaway line, but it points to the lack of clarity. Accordingly, the central government's claim was that it was therefore constrained in its ability to accede to East Kalimantan's requests because of local companies withholding information. In terms of power relations, the result was that the local government was denied

⁴³Aji Sofyan is a senior lecturer of Mulawarman University, Samarinda.

⁴⁴Machfud Sidik is a government official with professional experience on fiscal issues, at the Ministry of Finance (MoF) in Indonesia mainly in the field of finance, taxation and intergovernmental financial relations. One of the team members drafting the Law No. 33/2004.

this very crucial data for determining how much it was entitled to under the financial transfer arrangements.

Even though the campaign to get a greater share of the financial transfer from central government failed because the Constitutional Court dismissed the case, the proceedings were successful in attracting central government attention. To this extent, it could be argued that politically the local elites had won their battle—but only to this extent, as the constitution was not changed and the central government has not significantly increased the financial transfer deriving from the profit-sharing arrangements for natural-resource areas regulated by the central government.

The slight increase in financial transfers to local government has not been limited to East Kalimantan, but applies to all provinces in Indonesia. In the fiscal year of 2010, the transfer was IDR 322 trillion of the central government's total expenditure of IDR 1,047 trillion, (30.75%) of the total expenditure of the national budget (APBN). In the fiscal year of 2011, the amount transferred by the central government to all local governments was IDR 412 trillion (31.21%) of the total central government expenditure of IDR 1,320 trillion. In the following fiscal year of 2012, the fund transfer increased to IDR 470.4 trillion or 32.77% of the total national expenditure.

Between 2007 and 2012, central government intergovernmental financial transfer to East Kalimantan doubled in rupiah but remained largely unchanged in terms of percentage. In 2007, the transfer was IDR 4.8 trillion, increasing to IDR 10.6 trillion by 2012 (*DJPK*, 2012). Meanwhile, in the financial year 2008, the total revenue (*APBD*) of East Kalimantan province was IDR 21.9 trillion, which increased to IDR 26.33 trillion in 2011, with most of the annual provincial budget (*APBD*) obtained from financial transfer of natural resources profit sharing (*DBH*) of IDR 13.5 trillion or 61.7% in 2008 and IDR 16.1 trillion or 61.2% in 2011. However, the expenditure remained very low. In 2008 the annual unspent budget (*SilPA*) of East Kalimantan province was IDR 9.4 trillion or about 38.3% of total expenditure. In 2011 the annual unspent budget (*SilPA*) was lower but still relatively large, at around IDR 4.9 trillion or 15.9% of the total expenditure of the 2011 local budget. This showed the failure of the local political rulers responsible for financial management to use available money for local development (Handra, 2012). This was a principal reason why the central government

opposed increasing the transfer formula—with the East Kalimantan government systematically failing to use the available money.

The higher remaining budget every year highlights that a major problem in East Kalimantan was the local elites' attitude towards responsibly spending available finances. Winning their case in the Constitutional Court would not in itself have changed this situation or increased the likelihood of equitable development in the province. What this suggests is that the elite campaign to sue the central government to increase financial transfer was based on a partisan understanding of what constituted benefits for local citizens, and points to a narrow interpretation of what their responsibilities were towards the people whose interests they claimed to safeguard. The inadequacies of their behaviour and capability in terms of the province's financial management can be seen in their involvement in the annual financial planning process, which, as the following section argues, focused on particular group interests and benefits rather than the common interests of all East Kalimantan citizens.

7.3 The Roles of Elites in Financial Planning Allocation

East Kalimantan province regularly allocates the financial resources for each development area proposed in a meeting which involves all elites, such as the provincial secretary, the head of regional development planning board (*Bappeda*), the head of regional financial management board/*Badan Pengelolaan Keuangan Daerah (BPKD)*, heads of department, and other relevant actors. The meeting is the *Musrenbang*, or 'community consultation on development planning meeting'⁴⁵. As discussed in Chapter 5 (see above, pages 136 to 137), it begins at village level and proceeds to provincial level. The final meeting held at provincial level involves politicians, bureaucrats and other elites considered to have a significant role to play in local government decisions, such as ethnic, community and NGO leaders, and businessmen. The final decision is determined by members of parliament and bureaucrats, and is documented in the province's development program *RPJMD (Rencana Pembangunan Jangka Menengah/Medium-Term Regional Development Plan)*.

⁴⁵Community consultations on development planning meeting are held annually from the village level (in January) to the national level (in May). *Musrenbang* outcomes are part of the planning phase of national (APBN) and local (APBD) budget cycles.

A leading bureaucrat interviewed for this research, head of the Regional Development and Planning Board of East Kalimantan Province (G3, interview, 30 May 2011) explained how the regional policy-making process is outlined in the *RPJMD*, starting with statements of principle at the village level as a result of the *Musrenbang*, progressing to the provincial level. The *Musrenbang* process, he noted, was specifically designed to facilitate a medium-term (five-year period) of provincial development planning. The five-year development programs proposed through the *Musrenbang* process are then broken down to an annual basis at the provincial level through the *RKPD* (*Rencana Kerja Pemerintah Daerah*/Regional Government Work Plan). Elites coordinate the process and cooperate in the meetings to determine development priorities and allocate finances. The process involves university elites and NGOs, who provide scientific and practical solutions relating to certain areas of development.

The *Musrenbang* is considered a key element of the local development and financial allocation process because of the way it involves elite and non-elite citizens. Andrea Rigon argues that government institutions need to build partnerships with communities to implement local development programs, and therefore having effective community and government structures to accommodate this partnership is important (Rigon, 2014). The *Musrenbang* *can* (but often does not, for reasons outlined below) play a key role in the community consultation on development planning meeting process at village, sub-district, district and province levels in identifying the resources, issues and alternative solutions, culminating in a list of the proposed program and funding sources.

Mostly, however, final planning documents regarding development and financial allocation at the provincial level contrast with the proposal documents produced through the *Musrenbang* process. This is because of interference by elites at the final stage, with individuals often proposing at this point development programs which serve their own interests. They usually negotiate and cooperate with members of parliament and higher bureaucrats to accommodate alternative programs, with the result that some of the participatory programs put forward by the *Musrenbang* are dismissed. In this context, both formal elites such as members of parliament and government, and informal elites such as businessmen, community groups, and ethnic, religious and NGO leaders get benefits—the

formal elites receiving financial benefits from the informal elites paying them a percentage of the finances allocated to them.

The procedures for determining development priorities and financial allocation in the final stages of the *Musrenbang* process are not clear. An NGO leader interviewed for this research (S1, interview, 21 May 2011) referred to the political and the administrative problems inherent in regional development policy-making in East Kalimantan. A major issue is that elite members of the bureaucracy in the regional development process cannot be counted on to comply with regulations, and in fact the bureaucratic elites tend not to comply with the central government regulations flowing from Law No. 33/2004. One of my research participant gave an example of a community consultation on development planning meeting (*Musrenbang*), which should have been a participatory process, being manipulated by elites to protect their own interests. The supposed community participatory aspect, he argued, is simply not visible in the agreed development programs:

The approval development policies in *Musrenbang* are ridden by elites' interest through political compromise between elites in the local parliament and bureaucrats in local government offices. (S1, interview, 21 May 2011)

A local senior journalist interviewed for the research (S6, interview, 6 June 2011) concurred. The *Musrenbang*, he complained, is only used as an arena by elites to serve their own political interest by supporting their development aspirations for particular electoral districts. The journalist commented:

In the process of *Musrenbang*, there is always a long debate to fight for the aspirations from each electoral district. While people in the electoral district have many aspirations that should qualify for the *Musrenbang* process, the amount of the available budget is relatively limited. Long debate is unavoidable to create compromises among participants. Finally, the budgeted trillions of rupiah are divided into electoral districts, without considering the priority of development planning. (S6, interview, 6 June 2011)

The main issue arising from the *Musrenbang* process is the unfair budget allocation across the districts. The distribution of budget is often influenced by political interests of elites and how much power elites from each district exercise. Competing interest triggers a long debate between government bureaucrats, politicians and other elites. The problem of unfair budget allocation is further exacerbated by the weakness of local government bureaucrats in resisting the power wielded by influential politicians in the budget planning and allocation processes. A deputy chairman of East Kalimantan parliament described the situation as follows:

Debate often occurs in *Musrenbang* because the interests of our electoral districts are not accommodated. This results in an imbalanced situation where some areas are excessively allocated budget, while other areas are not sufficiently allocated. I also acknowledge that the weaknesses of the budget allocation process is due to lack of a grand strategy in the province of East Kalimantan. (P9, interview, 20 June 2011)

A member of the bureaucratic elite from Samarinda municipality (G11, interview, 29 June 2011) voiced major misgivings about the *Musrenbang*, arguing that it was not an effective process in planning development priorities and budget allocation because it merely functions as a formality. For example, the presence of elites from NGOs, universities and community groups seems to produce no positive impact on any of the budget planning processes because most planning proposals tend to be dismissed by politicians and bureaucrats in the final stages of the process.

Dissatisfied elites have even challenged the Regional Development and Planning Office (*Bappeda*) to explore a new format for the regional planning system (S3, interview, 31 May 2011). They have proposed conducting workshops that would test its feasibility and involve more university scientists to support the alignment of the planning with community needs. Dissatisfaction in regard to these weaknesses has been expressed by various parties from NGOs, universities and the general public, as well as some government officials. According to Davis (1971, p. 103), this type of dissatisfaction is a common consequence of public consultation, but the situation in Indonesia represents an extreme case in which trenchant criticism is warranted. A member of parliament suggested in interview that better

coordination and cooperation between bureaucrats and politicians was needed to create harmony and speed up the province's development (P1, interview, 18 May 2011).

Lack of harmony in the development program and budget allocation planning has resulted in inefficiency of the province's financial use and consumption. The province received IDR 28.8 trillion through financial transfer in 2012 but, due to the many competing political interests, the budget was not spent on the right programs. With the population at about 3.5 million, the financial transfer is considered very high, but expenditure on development and citizens' welfare is lower than other provinces with smaller financial transfers, which points to the misuse of the budget by the elites to serve their own interests. This aspect will be taken up in the following section, which focuses on the roles of elites in the province's financial spending and consumption in various development programs.

7.4 The Roles of Elites in Financial Use and Spending

In accord with the argument presented in Chapter 5, the financial transfer of IDR 28.8 trillion in 2012 should have been adequate to fund projects that improved the wellbeing of East Kalimantan's 3.5 million residents. Instead local elites wasted money on low priority projects and did not fully utilise funds available in the local annual budget/*Anggaran Pendapatan dan Belanja Daerah (APBD)*. The implementation of the local autonomy policy after 2001 only served to exacerbate the situation.

The enthusiastic acceptance of regional autonomy and decentralisation opened up new opportunities for East Kalimantan's elites to spend the budget without reference to the medium-term regional development plan (*RPJMD*). They tended to direct funds to exclusive projects such as the construction of luxury office buildings through the use of local budget (*APBD*) allocations for projects. The construction of the Islamic Centre, a religious worship facility, at a cost IDR 400 billion (cited in *Majalah Nasional Kabar Indonesia*, 15 July 2010) rather than funding energy infrastructure, road repairs, and education and health facilities is an example of the questionable use of autonomy funds by local elites.

Another example is the excessive spending of the province's budget to host the National Sports Tournament (*PON*) XVII, which at the time was roundly criticised as designed only to

boost the East Kalimantan government's reputation. The province expended approximately IDR 400 billion during the event using funds redirected from the cancellation of high-priority development projects. In a further example of misdirected priorities, instead of building and repairing the province's main roads and other public infrastructure, local rulers and politicians chose to build the luxury *Bukit Pelangi* government offices⁴⁶ in East Kutai at a cost of IDR 600 billion (cited in *Majalah Nasional Kabar Indonesia*, 15 July 2010). The contract for the project was assigned to local business elites with affiliations to local rulers and politicians (S1, interview, 21 May 2011).

Due to the rampant misuse of financial transfers, it is not surprising that not one of the regencies or cities in East Kalimantan is able to adequately fund infrastructure and social welfare projects. As discussed in Chapter 5 (see above pages 133 to 134), according to 2007 data from the Corruption Eradication Committee (*KPK*), there were 395 cases of corruption involving politicians, businessmen and high-level bureaucrats from 14 districts in East Kalimantan. The province's governor was also alleged to have been involved in various corrupt projects in 2012. About 140 cases were considered serious and handled by the *KPK*, which categorised all East Kalimantan regions as having a high level of corruption (cited in *Majalah Nasional Kabar Indonesia*, 15 July 2010).

A simple example of systemic budgeting failure was provided by Aji Sofyan, a senior lecturer of the Economics Faculty at Mulawarman University Samarinda, who noted that regency/municipality government programs are frequently incompatible with the provincial government's program. He noted that in terms of road construction in the city centre there are two different development budgets: road construction can be funded directly by the regency/municipal government, or through the provincial budget (S4, interview, 31 May 2011). This is incompatible because of the lack of communication and coordination between provincial and district/municipality levels of government.

Exacerbating the incompatibility problem is that high priority development projects are often ignored in financial allocations. For example, the main road in the centre of the capital city of Samarinda was not covered in the 2011 budget allocation. Meanwhile, other roads that

⁴⁶Luxury local government office complex of the East Kutai district located in Sangatta, built when Awang Farook (currently governor of East Kalimantan province) became a regent of East Kutai District.

were still in good condition were allocated funds. This is part of a pattern of political leaders tending to spend the budget on projects that create a positive image of their leadership. This is reflected in the following statement by the East Kalimantan governor, that the reason for the expenditure is to enable:

East Kalimantan to prepare the infrastructure. If we want to promote the East Kalimantan industrial cluster successfully, then we should be able to complete the construction of Trans-Kalimantan roads, and Balang Island's bridge should also be completed, and include the construction of Balikpapan-Samarinda toll roads and seaports Kariangau. Besides that, we also have to upgrade the Balikpapan airport, including a refurbished terminal and the runway extended, then the port of Maloy, renew Berau and Tarakan airports, plus build Samarinda airport. After that we made Kaltim Airlines serve 16 Airports in East Kalimantan. All this is done in order to expand development in East Kalimantan. (G12, interview, 20 June 2011)

However, there were many development programs implemented by local governments, as mentioned above, which became problematic because one of the weaknesses of the governor being a representative of the central government in the region is that often he feels that only he has the power to make a plan and then implement the development programs—without any discussion with the members of the regional parliament (P7, interview, 25 May 2011).

Funds are directed towards monumental project developments that are considered to improve incumbent politicians' re-election hopes. A Youth Association (*KNPI*) leader observed that development policy in East Kalimantan favours exclusive projects (S2, interview, 25 May 2011). District and municipal leaders also allocate their annual financial transfers to exclusive projects in the same way as provincial leaders. Such policies are not popular with the wider population of East Kalimantan (S2, interview, 25 May 2011). As previously noted (see above Chapter 5 pages 126 to 127), in a democratic society politicians theoretically are directly elected by citizens to be responsible for using finances to improve the welfare of citizens, but in Indonesia this is not always the case.

The construction of a 99.3 kilometre toll road from Balikpapan to Samarinda consumed IDR 7 trillion of the provincial budget. The budget was allocated from the central

government financial transfer and should have been spent on priority developments. The toll road was not finished until 2014 despite the large allocation of funds. Similarly, the construction of Samarinda Baru Airport, another project that served the interests of the elite at the expense of infrastructure projects that would benefit the majority of the population, consumed IDR 3 trillion. Kaltim Air is another prestigious project that has been proposed for local budget funding. This shows the determination of local elites, in particular political rulers, to use the financial transfers for their own or supporters' benefit.

In contrast, high priority projects such as roads to connect villages with cities are not effectively funded, even though farmers have demanded the building of roads to enable them access to markets (S5, interview, 06 June 2011). Citizens feel local government policies on financial allocations are unjust (P7, 25 May 2011). It is not just a matter of people's feelings. Overall, development of the province is not keeping pace with the increase in financial transfers from central government, with percentage increases in financial transfers not significantly leading to an increase in local development.

7.5 Conclusion

This chapter has discussed the role of elites in East Kalimantan in the campaign to obtain a higher share of financial transfers from the central government for natural resources profit sharing. It described how local elites pressured the central government through the Constitutional Court to amend Law No. 33/2004 in order to change the distribution formula and increase the financial transfers to the province. As the chapter has argued, what funds are received through intergovernmental financial transfer have not been managed by the local elites in the interests of all local citizens. As the chapter has demonstrated, not only is a significant proportion of available funds not expended, but a large part of the budget which *is* spent is used to benefit the elites and their supporters.

This chapter highlighted how the joining of forces of various categories of elites in 2011 to press for a greater share of central funds available under intergovernmental financial transfers for East Kalimantan was not to serve the general interest of the province's citizens but as a means of maintaining and enhancing their power and influence vis-à-vis their supporters. As previously argued in Chapter 2, the relationship between elites and their

supporters can be understood in terms of the politics of patronage—with four types of patronage identified by Bearfield (2009). The following chapter will discuss how these various patronage arrangements were used by elites to control financial resources in order to maintain and enhance their political power, in line with the theoretical framework presented in Chapter 2.

CHAPTER 8 ‘RUNNING OUT OF SALIVA’: PATRONAGE AND THE ALLOCATION OF INTERGOVERNMENTAL FINANCIAL TRANSFERS

8.1 Introduction

Previous chapters considered the perceptions of East Kalimantan elites on issues of development, particularly the decentralisation policies and intergovernmental financial spending in the province. The prevailing perception was that decentralisation represented a new arena for enhancing the relationship among the elites in advancing their interests and consolidating their influence within the province. This chapter examines elites in terms of their behaviour to safeguard their interests—how they used the politics of patronage to control financial resources and maintain and enhance political power. The analysis is based on the theoretical framework presented in Chapter 2, with Bearfield’s theory used to explore the ways patronage works in East Kalimantan in terms of controlling the allocation of intergovernmental financial transfers.

8.2 Elite Interest in Financial Transfer

As outlined in Chapter 2, patronage refers to the patron-client relationship based on the differential exercise of power and authority that exists between the actors involved (in the current East Kalimantan case study) in the process and application of intergovernmental financial transfer. This characteristically entails mutual obligations. The actors include not only those exercising that power and authority (patrons), but also those upon whom that power and authority are exercised (the clients). What keeps the system of patronage intact is that it is accepted by both sides (patrons and clients) as the way in which society should be ordered.

This section describes how local elites pursue their interests in local financial transfer via the system of patronage. During the budget planning, the elites in East Kalimantan are part of the process, but conflicts arise when they come to decisions on how and to which sectors the budget should be allocated. Parliamentary members, bureaucrats and other elite categories

often compete to allocate the local budget to those areas that will strengthen their patron-based ties with their various constituencies. In effect, the elites frame their own interests as deserving priority over other local development programs. A member of parliament explained the process as follows:

The main barrier in local financial allocation is contested political interest among elites. Individual politicians or groups have their own interests in budget allocation. The allocation has been planned from the grassroots, but in the final meeting between parliament and elites of the executive, the budget draft was countered again. (P3, interview, 19 May 2011)

He continued:

We prioritised agricultural sectors in the budget planning, but in the implementation each district's leader progresses his or her own interests. There are so many particular and personal interests among district leaders, local elites and political parties, especially when local elections are approaching. This leads to a chaotic budget allocation in every instance. (P3, interview, 19 May 2011)

An NGO leader expressed similar disappointment with the budget allocation process:

We already received a huge budget transfer from national sources, but more than IDR 100 billion had not been spent and was left in provincial account. This was because the elites fought for their own interest and failed to manage the funds effectively. Their attitudes are very corruptive in that they manage the public budget for a particular interest. Parliamentary members were in constant conflict with the heads of provincial department and heads of districts. Elites' interest dominated budget allocation. This situation has delayed local development until the end of the financial period. So, why didn't the elites spend energy to support local development? (E2, interview, 24 June 2011)

Even in the provincial bureaucracy, disappointment with ineffective budget management is also a matter of concern. A leader of the provincial planning department/*Badan Perencanaan dan Pembangunan Daerah (Bappeda)* complained:

We had drafted for budget allocation to all districts, but the members of parliament stated blatantly that their interests were not accommodated. They argued that the structure of budget allocation did not cover their programs. We [bureaucrats] do not consider that budget allocation is merely a parliament responsibility. It is very difficult; we have discussed this many times but they always stand like that. (G13, interview, 22 June 2011)

The interviewees' statements point to the persistent tension between the bureaucracy and parliamentary members in determining budget allocation. The parliamentary members tend to ask for special allocations, but in many cases the bureaucracy will block their aspirations through the way they apply the local regulations. The conflict illustrates how elites at local political and government institutions rarely hold similar opinions. The fundamental underlying problem is that neither complies with regional development policies. They tend to express particular interests, motivated by the desire to realise their own benefit rather than allocating budget for development in the public interests.

Given the focus of politicians in the local parliament on their interests rather than the public interest, development projects for community needs are not a priority in the budget allocation. As a politician from the National Mandate Party/*Partai Amanat Nasional (PAN)* observed:

I told them that the local parliament is a political institution that should act on behalf of citizens' interests. But, look, they are fighting for their own interests. As a consequence, many projects to benefit citizens did not get funding. In parliament's meetings we have to debate loudly, sometimes we 'run out of saliva' [long and hard debate]. We thought parliamentarians were all there purely for citizens' benefits, but in the end most of them were pragmatic. They only think of self-interest, not the public. Sometimes, this is not stated directly, but we can feel it. Citizens will punish them in the future. (P7, interview, 25 May 2011)

The observation underlines how debate among politicians ostensibly to determine how best to serve the public interest is actually concerned with how the allocation of local budget would allow them to maintain and strengthen their patronage ties as well as benefit them economically. According to another participant:

There are so many issues not yet agreed between politicians and bureaucrats, as particular political interests are dominant. Each political party struggles for its own benefit rather than for the public. They cooperate 'behind the scenes' [outside the formal mechanism] to control the budget and build power to strengthen their position for the formal meeting. (P1, interview, 18 May 2011)

Patronage practices were even more excessive among politicians of the larger parties, who face pressures from small party politicians and members of the bureaucratic elites. The governor of East Kalimantan, for example, comes from a small party and as a consequence is prone to pressure to play the politics of patronage in intergovernmental financial transfer. According to a high-ranking bureaucrat:

This is the consequence of high cost politics. You know, support from political parties is not cheap. They demand the cash for it. Larger political parties put pressure on local rulers to pay for support. For example, our governor was supported by a small party in the election, but now he has to face pressures from big party politicians to follow their budget allocation strategies. In fact, the main responsibility for budget allocation is on the governor and regency leaders. (G13, interview, 22 June 2011)

To maintain patronage ties, both political parties and bureaucratic elites are obliged to allocate local budget to their clients in exchange for harnessing political supporters. The supporters are mostly local business owners and the leaders of religious, non-government organisations and ethnic groups, these 'lower order' elites demanding that their patrons (politicians and higher bureaucrats) repay their support by material and financial means when they have achieved positions of power. A religious organisational leader spoke in terms of moral and political responsibility:

These are all about moral and political responsibility. They have been in their position because we [success teams⁴⁷] supported them in their election. Our friends in parliament spent a lot of money for the success teams. Higher bureaucrats also spent money to get support from politicians. Now, success teams demand the local budget to be allocated for them, and I consider that there is nothing wrong when politicians and bureaucrats prioritise their clients. (R2, interview, 16 June 2011)

What this comment reflects is the normalisation of what in some other (non-Indonesian) contexts would be regarded as corruption.

The sentiment was repeated by a non-government organisation leader who pointed to ‘the fact’ that members of parliament and government always negotiate and cooperate in utilising the local budget in projects that will serve their own interests and benefits (S7, interview, 28 June 2011).

Though the elites were serving different particular interests in negotiating the allocation of local budget transfer, in fact they were collectively cooperating to regulate the budget for their own purposes rather than for the benefit of the citizens. The debates and different arguments that constituted the negotiations among the elite were basically part of their efforts to pursue and consolidate political patronage. Negotiations over allocation of the local budget is perhaps a good example of patronage as theorised by Eisenstadt and Roniger, who point to how the control of the flow of resources through an exchange of interests expresses and legitimates the power relations implicit in systems of patronage (Eisenstadt & Roniger, 1980).

The extent of patronage politics in East Kalimantan confirms Golden’s (2000) observation that patronage can be characterised as the individualisation of benefits usually allocated in a collective manner. In this study, the various elite elements collectively control and direct local government budgets for their individual benefits through drawing on patronage ties both in the parliament and the bureaucracy. This has resulted in what can accurately be described as collective corruption within local government, that is, a form of crime that involves a sustained and systematic coordination of multiple organisational

⁴⁷A term that refers to a candidate’s promoters and campaigners.

participants (Palmer & Maher, 2006, p. 363). As the cases referred to above show, corruption emerges within elite organisational roles, such as governor, members of parliament, bureaucrats and local organisation leaders. This accords with Golden's (2000) observation that political patronage involves elites such as legislators, bureaucrats and business leaders, who tend to allocate resources for their own benefit rather than for collective wellbeing. One of the implications of the practice is that patronage is used as an instrument to politicise and gain influence over the public sector (Kleibrink, 2015).

As Jiang and Zhang have noted, when patronage networks exist within a system of government, politicians need to maintain collaboration with other potential elites who have the ability to influence policy processes in order to meet their demands. The current research has illustrated how politicians in parliament collaborate with the governor to direct the heads of provincial departments to follow their demands in local budget allocation. This imperative is referred to by Jiang and Zhang as 'horizontal coalition building', as the politicians try to channel more distributive interest in favour to their peers (Jiang & Zhang, 2015, p. 3).

In the following section, I will discuss the research findings in relation to the four types of patronage proposed by Bearfield (2009)—organisational patronage, democratic patronage, tactical patronage and reform patronage—that can be seen at work in East Kalimantan budget allocation and management.

8.3 Organisational Patronage

Local government organisations in East Kalimantan consist of people who have close relationships with local elites. Bureaucratic elites establish connections by appointing their friends and families or political supporters to government posts. One participant protested that local government organisation in East Kalimantan functions in a similar manner to the mafia, describing patronage as follows:

Look at the people in provincial department. They are all mafia. They do not have competence to be a bureaucrat but they got a position because they are close to the Governor. How can they manage budget planning if they do not have capabilities? (G14, interview, 22 June 2011)

Nepotism in local government organisations is common, causing corruption among bureaucratic elites. According to one well-placed participant, such nepotism constitutes a 'psychological barrier' when it comes to determining policy and its implementation:

We experience a great psychological barrier in making decisions regarding budget spending. Look at Mr YSF [central government elite], who has a son who is involved in airport development. He got the project without a bidding process. That budget actually was not for airport development but for another development program. Now the project has stagnated. There other examples, if you want me to reveal them. (P1, interview, 18 May 2011)

The participant added:

The bidding priority is confusing, as I explained before. Nepotism is so chronic. The involvement of bureaucratic elites' sons in government projects is not consistent with the project's planning, as they always change the project focus and direction, and even sometimes to abandon the project for long time in order to get another bigger project. (P1, interview, 18 May 2011)

Another mode of corruption is through depositing the public budget funds in banks. It is not unknown for bureaucrats to postpone the budget implementation in order to receive a benefit in the form of bank interest. In other cases, the inability of local governments to use the budget and the lack of human resources to follow through on implementation results in the budget money being deposited in the local government bank, because although the rate of interest is very low, the local government prefers to save the money rather than use the budget on projects that would broadly benefit the people but be of limited use to the elites (P5, interview, 24 May 2011), the elites cooperating and coordinating with the relevant department to delay the budget distribution. One participant revealed:

The central government transfers the budget to the account of the local government, but they keep the money in the bank account and do not spend. You can calculate how much they will get if they save trillions of rupiah in banks for two or three months? They argue the money is kept in the banks because the planning is not actualised yet. Actually, they cooperate to delay the distribution of money. In fact, citizens are waiting

for the implementation of scheduled programs. Conveniently, by the end of the year, some of the transferred funds cannot be spent because there is not enough time. Now nearly IDR one trillion [AUD 1,000,000.00] has not yet returned to government accounts. (E2, interview 24 June 2011)

Bureaucrats can receive big financial incentives on the basis of performance in policy implementation. The incentives are not actually legal, because they do not follow government regulations. However, the recipients create mechanisms that allow them to get more payments, as described by a member of parliament:

It cannot be denied that there is a huge financial gap between the levels of elite and normal bureaucrat incomes. There is not much difference salary between elites and middle level bureaucrats [normal salary between IDR 7 to 8 million per month], but look at the regional secretary who receives IDR 30 million for various incentives. We members of parliament get IDR 26 million but accommodation costs are not included. They make their own payment mechanism. Some of them work at the same level, but they receive different incomes. The situation triggers jealousy among elites and then the bureaucrats who will get less money. (P3, interview, 19 May 2011)

Through their manipulation of government budgets, bureaucratic elites try to stabilise their power. They implement higher payment schemes as an instrument to facilitate bureaucrat/elite relationships and loyalty within government organisations. This conforms to the pattern described by Arriola (2009), who notes that a regime can achieve a degree of power stability by using state resources to facilitate intra-elite accommodation of mutual agendas. The ruling elites become closer as they enjoy higher incentives through the patronage they practise within their organisations.

The opportunity to practise organisational patronage escalates during local election periods. As outlined in Chapter 6 (pages 174-175), political rulers pretend to reform local government departments through rotations and appointments of new heads of department across the local government jurisdiction. Rather than creating a professional bureaucracy, this practice of 'recycling' is designed to maximise benefits during local elections, such as through the exchange of financial and political support for incumbents. This opportunity is

also used by political, business, ethnic and religious elites, who propose that bureaucrats who have connections with them be posted in certain government departments. Business elites usually demand their connections in bureaucracy hold positions in the Department of Industry or Department of Trade, while religious elites usually insist that their candidates hold positions in the local Department of Religious Affairs. According to one participant:

It is a very odd situation when the local election is approaching. Higher bureaucrats are rotated and replaced by incumbents to seek support for the re-election of the governor. This is exacerbated when the movement of public officials is from a lower level such as school principal upwards to higher levels. For example, a school-teacher gets positioned as the Head of the Local Education Department, though he or she does not have the capability for that position. (S7, interview, 28 June 2011)

Such rotation is a common practice among political rulers supported by higher bureaucrats and local members of parliament. The objective of the system of political rewards is to ensure that the interests of incumbent, bureaucrat, politician and other local elites are preserved.

The appointment of friends and families members within government organisations is another result of such political payback. Some elites work hard to support political rulers in obtaining power. When the political rulers are elected to their position, they have to pay back the support in various ways, including political appointments. The phenomenon has been characterised as a process of reciprocity, with politicians exchanging favours for votes (Finan & Schechter, 2012), with incumbent bureaucrats and political leaders at provincial and district level often receiving strong financial support from the business elites and the political support from religious or ethnic elites—an example of Bearfield's organisational patronage (2009).

In order to effectively control resources and exercise patronage within government organisations, bureaucrats also establish their own NGOs, using the affiliated NGO as an instrument for obtaining government resources. The intention is to further pave the way for collusion in the utilisation of local budgets, though not necessarily to exclusively serve the business interests of the elites playing the system. As one interviewee described a meeting he attended:

In the meeting, I honestly told the department leaders that poverty and famine exist in the areas located about 5 kilometres from our central government office. It was so good when they agreed to allocate local budget to provide human aid programs. You know, I have a human aid support organisation. It is a small NGO which I established with my colleagues to contribute in local development. (G2, interview, 19 May 2011)

The description exemplifies the appointment of friends and family members in government organisations by government officials—a common phenomenon not limited to Indonesia. Gitterman (1982) and Hodder (2015) have provided notable examples from the United States of America and the Philippines, with presidents appointing their friends, family and political supporters in their presidential offices to shore up support. As evidenced by the data from my study, the appointment of bureaucratic elites within East Kalimantan local government was based overwhelmingly on patronage, with appointees entering the elite ranks not necessarily having the capability to manage their jobs in the organisations, which can result in low government performance in decision-making. For instance, the appointment of ‘RMD’ as a head of the Regional Development and Planning Agency (*Bappeda*) without any background in development planning was a powerful contributing factor in East Kalimantan’s weak planning system (P5, interview, 24 May 2011). In contrast, patronage in the United States of America and the Philippines can result in positive outcomes because the appointment of government officials tends to be based on not only nepotism but also merit and capabilities. Positive outcomes in terms of government decision-making in these jurisdictions can include promoting intra-group cohesion and creating discipline in policy-making within the government organisations (Sorauf, 1960).

Other non-government local elites also fabricate NGOs accessing government budgets. Some NGOs are not directly controlled by bureaucrats as mentioned above, but most of them have a close affiliation with bureaucrats and political elites’ families or friends. When elites have a strong relationship with NGOs, they are able to justify their patronage and appropriate government budget for their allies. In addition, when elites appoint their friends and families across local government hierarchies, they are able to pool resources at different levels of organisations and utilise those resources to enrich themselves or associates. This type of patronage has created government budget inefficiencies, because of inappropriate or

excessive salaries and bonuses compared with other organisations working in similar contexts (Gray, 2015). This form of organisational patronage is used to strengthen networks and create strong political ‘machines’ (Bearfield, 2009).

The *raison d’être* of organisational patronage is to enable local elites to build political networks in order to control power and resources. This networking leads to the emergence of what in the literature is referred to as ‘neopatrimonialist’ regimes in which authority is exercised through patronage networks rather than through bureaucratic rules or laws (Titeca, 2006). In other words, the local elites tend to build informal networks within the government bureaucracy, rather than use formal mechanisms to achieve their agendas. As Titeca (2006) argues, elites use political and bureaucratic institutions as instruments for the accumulation of wealth and power not only for themselves as individuals, but also for members of their networks. In this way, the spread and interlocking of the various networks constitutes a powerful bulwark against reform and change.

8.4 Democratic Patronage

Democratic patronage is said to exist when government elites use their discretionary power to convert government resources to serve their own and clients’ interests (Chandra, 2009). This form of patronage manifests as cooperation with the private sector under state regulations. My study has revealed instances of local leaders, such as governor, regents and mayors, applying their discretionary power to appoint local department and other higher echelon bureaucrats. Such patronage enables the elites to control local resources collectively. The effect of this form of patronage has been described as follows by one participant:

Sometimes we are not on the right track when we implement a program because we move on to another program before we finish the first program. But we agree to finish the project later and we do eventually. We have the authority to manage it. We are not worried because our position is protected by the law and it has been regulated and written in our bureaucratic system. So we just use the authority freely to determine how the budget should be spent in a project. (B1, interview, 20 June 2011)

In some cases, even when their authority has been regulated, elites can still manage to misuse power in local budget allocation. This in turn increases levels of corruption, in that misappropriation results in the violation of the rights of all citizens to access vital public services. A member of parliament confided:

Sometimes I don't like it when the local department's performance is not in accordance with regulations. I am sorry, I mean some bureaucrats and people who have personal connection with the governor personally tend to abuse power in order to control the local budget. This is not fair because it has a negative impact on our citizens' lives. I have reminded the elites of this fact in every coordination meeting with governor, regents, and mayors. (B1, interview, 20 June 2011)

The participant went on to describe how bureaucrats cooperated with local business in the government-financed projects to pursue benefits and political gain:

We are controlled and mocked by certain businessman because they have financial power. Look, why would bureaucratic elites follow business elites' interest in determining budget policies in East Kalimantan? There must be some benefits that they get from the business people. Actually, all budget policies are manipulated in this way. (B1, interview, 20 June 2011)

Some members of East Kalimantan's parliament are concerned about bureaucratic elites who dominate and direct government-financed projects for their own benefit through cooperation with private organisations. In some cases, politicians own their own company, which is used to cooperate with bureaucratic elites. The cooperation seems to be practised on an open basis, with benefits to both government members and business, with the aim of accumulating financial benefits for the politician and the bureaucrat. One member of the East Kalimantan parliament who is also a business contractor described his experience as follows:

I thank God I am a contractor as well as a member of parliament. There is not much problem for me in directing the flow and allocation of the local budget. Even though I am not really active in my company now, because I have to consider my responsibilities in parliament, I also have to think how to direct budget to certain project such as road

projects. Look at the toll road project, who gets it? We cooperated with a democrat leader [a political party leader] to allocate the budget for a major road project. (B1, interview, 20 June 2011)

The participant described how he was able to use his influence to win the bid for the toll road project—also the governor's pet project—which, in fact was not really urgent. As a result, the most urgent case, East Kalimantan's main road, has never received enough allocation in the city budget to proceed, right up to the present.

The budget allocation is regulated in the regional regulation/*Peraturan Daerah (Perda)* enacted by members of parliament and the governor. The members of parliament should by law ensure a government-financed project is implemented in accordance with the public benefit, but in fact they tend to control the enactment of the local budget to benefit their own financial interests. One of the research participants defended the situation, declaring:

We do not want companies to lose their businesses, so we make breakthrough programs to help them. We cooperated with the executive to create options regarding how the budget should be allocated to the road project. We understand the money should also be allocated to other development projects, but we tend to focus on the Balikpapan-Samarinda toll road project first. In doing this, the law has to be engineered, so we can access this budget. This is all about a compromise between the parliamentary factions and the executive. Everybody get benefits in the end. (B1, interview, 20 June 2011)

The participant's statement relates to the toll road project, which was not actually included in the local budget regulation for 2011. Even though the budget allocation regulation had been finalised at the beginning of the financial year, and was even approved by the Ministry of Internal Affairs, local members of parliament and the executive revised parts of regulation in order to pursue other development projects for their mutual benefit.

In terms of formal procedure, it is possible to claim that the development projects have been formulated in a democratic way. The planning is started from the lowest level of government hierarchy (village level) through the community consultation on regional

development planning meeting as part of the *Musrenbang* process. As outlined in a Chapter 5, the *Musrenbang* process enables the representatives of citizens to hold an annual meeting to discuss how development in their villages should be funded in the next financial year. The results of the consultative meeting are then brought to the sub-district level to be discussed in a meeting attended by all heads of villages and other elites. Subsequently, the result is discussed at the regency and municipality levels. Finally, all the programs are discussed at the provincial level, where the discussions involve the governor, members of parliament and other elites such as mass organisation leaders.

Local elites often take advantage of the democratic local development consultative meeting by allocating the budget for certain projects at the final provincial level. This intervention serves to cover patronage projects with a veneer of the democracy process, with the budget allocation represented to the people as legal, and for the benefit of citizens. In fact, most of the projects in the final analysis only benefit the elites and their supporters. A parliamentary representative of the Prosperous and Justice party (*PKS*), for example, admitted:

The planning process is started from villages, to sub-districts, districts, and province level. The plans of development are discussed in a good manner with all elites, but when we arrive at the final stage, the governor and politicians would dominate the meetings to assure their own interest. They propose projects, which have been discussed with the private companies. For example, the governor focuses on the projects that would build a positive image. Meanwhile, members of parliament allocate budget to the projects that involve their client companies. The governor argues that the province would not be developed if he did not focus on the projects to maintain his image. Thus, the elites use the democratic *Musrenbang* to obtain their own benefits. This corruption functions as the main obstacle for regional development. (P3, interview, 19 May 2011)

When the *Musrenbang* provincial level consultative meeting is summarised, both provincial bureaucrats and politicians discuss the programs based on local budget availability. Most of the programs, which are proposed from below, are annulled in the final meeting attended by the executive and local parliament. This happens because of both bureaucrats and

politicians pursuing their own interests. A participant from a political party explained the situation this way: Less than 50% of development programs proposed in *Musrenbang* are accommodated in the annual local budget. The members of parliament and bureaucrats ignore citizens' programs. Most of the approved programs belong to those favoured by the politicians and bureaucratic elites, who only consider their 'success teams' (i.e. the teams that voted for them in the local election). Their personal interest and corrupt behaviour have really devastated development programs proposed by citizens (E2, interview, 24 June 2011). Another participant, occupying a high level bureaucratic position, also justified the cooperation of political elites with their clients to leverage local financial allocation for their purposes, while other citizens are not covered by development programs:

I want to think positively, but I cannot do that when I look at the planning. Most of the budget allocations are planned based on political motives. Those budget allocations are set up for politicians' and bureaucrats interest. They add new projects and dismissed projects from *Musrenbang* because they want to fulfil their political promises to voters. (G13, interview, 22 June 2011)

The Joint Circular Head of National Planning Board/*Badan Perencanaan dan Pembangunan Nasional (Bappenas)* and the Minister of Interior Guidelines Number: 1354/M.PPN/03/2004050/744/SJ on *Musrenbang* and Planning Regional Participatory assume a 'bottom up' planning concept. However, the reality in East Kalimantan province is that the *Musrenbang* operates only as a formality, a showcase forum, with the policy position taken rarely reflecting the needs of the people in the region. The result is still a compromise in terms of accommodating the personal and group interests of competing elites. The budget planning process as it operates is full of manipulation, with regional projects controlled by a handful of elite allies, monopolising power, both in the legislature and executive. Regional policy, such as it is, has been corrupted to provide benefits to a handful of entrepreneurs who enjoy the resources of regional economic power.

According to politicians, this type of patronage is practised because the cost of democracy is expensive. The cost was described by a participant as follows:

My friends in parliament spend a lot of money during the election campaign. They have to finance their party and their voters. How can they pay all that? They have to get a

return from the local budget. They may get it legally or illegally, but it is very costly. (G2, interview 19 May 2011)

The participant's assertion relates to the cost of government-funded projects in East Kalimantan in which the project's prices are marked up and the local government funding is not spent on proper development programs for the citizens. As a result, even though East Kalimantan receives the third largest intergovernmental financial transfer from the central government, the poverty rate according to government statistics is still high at 7.66% and infrastructure languishes. Compared with other provinces which get a lower amount of financial transfer, East Kalimantan's development lags behind.

8.5 Tactical Patronage

Tactical patronage is applied by the elites as a means of bridging political divides or for gathering of support for a particular policy or program. Political divisions relate to aspects of geography—such as urban and rural—the character of the economy—agricultural and industrial—and social stratum—rich and poor (Bearfield, 2009). For example, distribution of a state's resources might focus on swinging communities rather than 'locked-in' partisan ones (Caldeira, 2012). In this section, I will argue that a proportion of the local budgets are tactically allocated to specific groups for the purpose of winning their support. As an example, in Samarinda, the local budget was not allocated according to the city's development priorities, but rather as determined by the particular interests of the politicians. According to a leading bureaucrat:

We consider that the budget should be distributed fairly to meet the urgent needs of local development and that all the proposed projects should be within budget capacity. However, in the meeting between the heads of department and members of parliament, our parliamentary colleagues added other programs, which were specifically targeted for their constituents. For example, they added development projects which were not even a priority. Sometimes they even forced us to eliminate urgent projects and replace them with their own projects. It was very difficult to voice our objections. (G2, interview, 19 May 2011)

Regardless of a region's defined priorities, power sharing between regional members of parliament and government remains dominant in regional development decision-making processes. One NGO leader commented:

The planning process is often problematic, because both the local government and the local parliament have always broken the rules of participatory community (*Musrenbang*). Since decentralisation and the era of direct elections, these two institutions always get involved through their mutual interests, which eventually transacts as political compromises in the use of local budgets. For example, when the governor had political ambitions with a wide range of projects to be implemented that had been widely published locally, at the same time the politicians in the local parliament directly criticised and even rejected the governor's various projects. There was strong opposition to the project of the governor's only at the beginning, because at the end, when the plenary session on the local budget met for approval, the tone of strong opposition from some politicians in the local parliament suddenly dimmed and was even lost altogether. This I would call 'political farce'. The local budget should get lined up with the voters. (S1, interview, 21 May 2011)

In the process of budget allocation political elites demand a financial customisation to benefit their targeted clients. A member of local parliament explained:

I encouraged my parliament to synchronise our development programs with the executive leaders. We clustered our development program based on our voters' areas (Dapil). Why do we need to do that? I want the local development budget to develop linkage with our voters' clusters. (B1, interview 20 June 2011)

The 'clusters' here refer to groups not necessarily already aligned with the members of parliament, but whose support and loyalty is being sought.

Political elites feel that they have a moral and political debt to their clients. As argued throughout this thesis, there is very little evidence of them broadening their thinking to treat all East Kalimantan citizens equally and fairly. The following statement from a member of parliament articulates without any discomfort this moral and political debt:

I thank God for providing me with this responsibility [member of local parliament]. I have a responsibility to pay for all this. The main thing that I have to do is to show commitment to my voters. I need to make political decisions that focus on my voters and work hard to allocate the budget according to my constituents' agendas. Many of my voters and supporters, such as ethnic and religious leaders as well as businessmen, come to me to talk about this. (B1, interview 20 June 2011)

Even though being responsible to certain voters at the expense of others is legal in the Indonesian political system, this should not extend to directing the local budget exclusively to particular constituents' areas. Critics recognise this as unjust behaviour, even within the Indonesian system. This is not only because politicians' decisions in parliament should be based on the interests of *all* citizens (Gilens & Page, 2014), but also because to cover their responsibility for the voting areas they represent, politicians are already allocated money from a special fund called the '*reses* budget'⁴⁸. Politicians can use this budget to support their voters or to develop engagement with the voters. This is meant to ensure that every decision made in the parliament is on the basis of equality for all citizens. However, this is not the view of individual politicians. According to one:

There are two things that we need to consider when we allocate the regional budget: first, we prioritise budget for the villages and sub-districts that we will visit during *reses* time [parliament break time], and secondly we prioritise the voter areas. We receive our special quota in the local allocation. For example, last year there were IDR 50 billion to improve road quality, but we split this figure into two (each IDR 25 billion) for our constituents in Samarinda and the other back to the local government. The government has its own priority, but we also have our own development target. (P3, interview, 19 May 2011)

Political elites in East Kalimantan also focus their strategy on the appropriation of poverty reduction program funds, especially in order to develop support from among ethnic leaders. For example, a local youth ethnic leader (*GEPAK*) described how local members of

⁴⁸The *Reses* is budget which is allocated to each politician that can be used to support their constituency areas in various development projects.

parliament with the help of the bureaucrats distributed aid for a cattle project to their organisation:

The government had 100 cows project which should be distributed to the poor, but our friend [a member of parliament] helped us to get 50 cows. However, we only received 25 cows though we had to sign the document for 50 cows. They [parliamentary and bureaucrat elites] played a bit dirty. I was a member of the governor's party success campaign team. (E2, interview 24 June 2011)

This case related to the economic improvement programs funded by the local budget for marginalised community groups. The cattle aid program was established to focus on the low income groups, but in this case the political and bureaucrat elites, as well as the ethnic leader, collaborated to deflect the grant to the favoured ethnic community. The distribution of cows is another example of patronage in operation, which resulted in the corruption of the process of the local government poverty alleviation program. This tactical distribution of funds results in significant injustice within local government budget allocation, since the poor people supposed to get the benefits from the funds are abandoned to meet the particular interest of the political, bureaucrat and ethnic leader elites. A religious organisation leader justified this kind of redistribution to more advantaged groups with the following observation:

I witnessed some mosques in Samarinda requesting financial aid from the local budget. At the beginning, the members of parliament rejected an allocation of the budget for mosques, but then we approached the head of the department for citizens' welfare in the governor's office and also the members of parliament. Finally, we got IDR 100 million for each mosque and funds for the Islamic boarding schools. Actually, this is a kind of 'thank you' money from them. (R2, interview 16 June 2011)

The statement sums up how and why the system works the way it does, and points to the tactical and strategic moves made by religious leaders, bureaucrats and politicians in allocating budget to secure grassroots support. Together they work to direct funds to both moderate and more extremist religious groups, even though it is not part of the remit of the local budget. Normally, budget related to religious affairs is directly allocated by the central

government through the Ministry of Religious Affairs. This is an example of the current political situation in Indonesia, where religious elites of both moderate and more extreme persuasions have the power to influence government decision-making because they have the people behind them to deliver votes.

In line with the findings of Bearfield (2009), the various statements from interviewees illustrate how tactical patronage can be used to win political support from certain groups or areas by providing preferential treatment that does not apply equally to all groups. The distribution of resources as described above serves the strategic interests of the patron, to secure personal client loyalty and cement a social bond (Seymour, 2014). As this research has shown, patrons (politicians and bureaucrats) do not only secure loyalty and forge social bonds, but also develop long-term political support in order to maintain power. Local politicians and government elites are able perform these roles only if the local political systems are stable. One of the means of ensuring stability is the ability of elites to allocate the local budget to targeted programs and projects. In this way, the patrons build power and the clients receive the rewards (Titeca, 2006). However, this equation does not apply equally to all ethnic groups, which—unlike the situation in Uganda discussed by Titeca—is a major factor in the politics of patronage in East Kalimantan (as discussed in Chapter 6).

8.6 Reform Patronage

There is a long tradition of the discourse of ‘reform’ being applied to win votes. More than sixty years ago, Banfield and Wilson (1963) provided examples of politicians applying the reform agenda to their campaign rhetoric. In Indonesia there is a similar pattern, with reform politicians and bureaucratic elites campaigning on the basis of the need for reform of public organisations to address issues of bureaucratic misuse such as corruption, collusion and nepotism (*Korupsi, Kolusi dan Nepotisme*, or *KKN*). However, the rhetoric of reform rarely translates into reform of practice. Usually, government proposals for a reform agenda through the establishment of rules and regulations only benefit particular actors. Flinders and Geddes (2014) provide an example of this in relation to Britain, when the British government initiated bureaucratic reform by reducing around 3,700 ministerial appointments to make the public organisation more efficient and effective (Flinders & Geddes, 2014). The result, as

noted by Flinders and Geddes, was not as promised by the ‘reformers’—with there being little improvement in either efficiency or effectiveness.

In East Kalimantan, local elites have practised patronage through manipulating the reform agenda and the popular demand for development projects. This has sparked criticism among public figures and some senior district government officials who have seen through the rhetoric and criticised the unnecessary construction of ‘*proyek mercusuar*’ (exclusive projects) such as airports, hotels and regional government offices. According to a member of the East Kalimantan parliament:

The Projects do not benefit the whole community, but only certain elites and the projects may not directly increase people’s prosperity. The government just seeks popularity through the exclusive projects in urban areas, but at the same time they ignore poverty in the rural areas. (P2, interview 18 May 2011)

While unnecessary and likely to exacerbate social disadvantage, such projects are presented as part of a vision for social and economic reform. According to one critic:

The governor outlined his vision to reform education systems, health services, infrastructure, agriculture, and water systems at the beginning his leadership, but that is all yet to happen. I think his promise to reform is given merely to make us support him. All those reform agenda proposals were still on paper, while he focused on his own political interests. (P2, interview 18 May 2011)

This view was echoed by others interviewed in the course of this research. One complained of the governor’s vision to reform aspects of public services in East Kalimantan as mere ‘lip service’:

The governor outlined his vision and mission to reform government services before 2011, but still those promises have never been implemented. He forgot his reform agendas. Now citizens regard him as a liar and just paying lip service to make people happy. (P1, interview 18 May 2011)

A member of parliament from the Prosperous and Justice Party/*Partai Keadilan Sejahtera* (PKS) recognised the governor as a smart man able to use reform agenda issues for ‘wrapping up’ his business benefits:

The governor says that a new airport project will contribute to the transportation system. Look, there is no flight company which wants to use the airport because the distance is very short between airports. Actually, he has a company which is involved in that project. This is all about business. He is very smart to wrap his business profit within the air transportation reform agenda. All people were hypnotised to believe that the project is important. He also convinced central government to support the project. All of us were upset with the project because too much of the budget was spent, while the important development projects such as road infrastructure, education and health were not effectively financed. (P3, interview 19 May 2011)

The airport was not in the initial budget allocation planning, but—as the Prosperous and Justice Party member of parliament identified—when the governor proposed his ‘vision’ for the air transport system, the project replaced other development projects for public services for the community, such as provision of health facilities, education and road infrastructure. The governor’s motives were twofold: his interest in representing the exclusive projects as part of an agenda for reform in order to increase his popularity, as well as to generate benefits for his political and business associates. Another interviewee expressed his concern as follows:

The governor is very interested in the *mercusuar* [exclusive] development projects such as toll road, twin bridges, airport and sport stadium. Those projects absorb too much local budget, while in fact the projects provide few direct benefits to the citizens who are living below the poverty line. (S7, interview 28 June 2011)

The core of these criticisms is that the governor masked the exclusive development projects as part of his reform projects agenda, with other important and authentically reform development projects not included in the local budget allocation. A supporter of the

governor—a leader of a Dayak NGO and member of the governor’s success team—deflected the criticism in the following words:

Local government’s attention in local development is very low. The evidence we can see is the slow improvement of East Kalimantan basic infrastructure such as the main road. The government tends to use budget for building the exclusive projects. They said that they reform our infrastructure. In fact, they generate business benefits for their groups. We see that most of the development projects are *mercusuar* (exclusive), and do not focus on our basic needs. (E2, interview 24 June 2011)

However, as this chapter has demonstrated, the same criticism could be—and often was made of the governor.

The so-called reform agenda also links in with government bureaucracy. The proposed government reform as outlined in the Medium-Term Regional Development Plan/*Rencana Pembangunan Jangka Menengah Daerah (RPJMD)* was supposed to address organisational efficiency and effectiveness, but, according to some critics, in fact the governor and heads of department used the agenda to double their income. The extra income took the form of incentives given to improve the performance of the bureaucrats, but according to a number of interviewees their performance and discipline remained low. One critic complained:

The governor proposed bureaucratic reform as the way to achieve good governance and better bureaucrat job performance. The government increased their income above the basic salary, but they never come to the office on time or improve the services. Each head of department should take responsibility for that, but they did not pay attention. Look, for example, they don’t even attend the morning briefing. (G13, interview, 22 June 2011)

The morning briefing is part of government protocol where all the government officials and their leaders gather before they start working. In this meeting, the head of department provides regular instructions and guidelines regarding public service tasks. The practice of attending the briefings was accepted as evidence that an employee was eligible for additional incentives, so not attending could in fact deny officials the opportunity to gain an incentive

(cited in *Antara Kaltim News*, 11 September 2014). However, in terms of the more important outcome of improving service provision, not having regular morning briefings means that the government's performance is neither monitored nor improved. This is part of the reason why substantial or significant reform tends not to occur. While the particular reform of morning briefings might not have been used, other provisions of the reform agenda was used as a way to increase 'bureaucrats' income, and gain further promotions, in line with Article 27 paragraph 7 point a of the Regional Government Regulation No. 13/2008 regarding East Kalimantan's financial management, and the Regulation of East Kalimantan Governor No. 2/2014, concerning additional income of civil servants in the government of East Kalimantan province.

Under Regional Government Regulation No. 10/2006, the political elites in parliament could also take advantage of the reform agenda, increasing salaries beyond basic salary levels approved by the central government. They would maintain that supposed improvements were part of a public reform and therefore they were eligible to get more incentives.

The situation in East Kalimantan was in line with the findings of the Director General of Local Autonomy Ministry of Internal Affairs, who said that most of the provinces in Indonesia spent between 40% to 60% of their budget for the salaries of government employees (Sumarsono, 2016). The regencies in Aceh, for example, allocated more than 80% of the local budget for employees' salary (Rahman, 2012). The inescapable problem this gives rise to is that the funds available for local government expenditure for public projects are extremely limited. As a result, citizens do not receive better basic services in areas such as education and health—which, with sad irony, is the very *raison d'être* of the reform agenda.

On the basis of interviews conducted for this research, it is clear that local bureaucratic elites are more interested in *mercusuar* (exclusive) projects rather than programs to support citizens' basic life. Bureaucratic elites tend to focus on patronage manoeuvres for achieving popularity for maintaining their power, with populist politics used to cultivate public support. The label 'populist' is used here to emphasise how these elites use rhetoric to present their partisan actions as in fact defending the interests of the common people against the privileged elite (Acemoglu, Egorov, & Sonin, 2013). In relation to the examples given in this chapter, I argue that the bureaucrats and political elites mask the allocation of budget for prestigious

projects as a response to popular need—whereas in fact, they use the politics of patronage to allocate budget for projects that favour their allies and supporters, which both expresses and gives rise to corruption.

Prior to decentralisation in Indonesia, the New Order regime maintained tight control over economic and financial resources. Financial interests in the regions were mediated by the New Order regime serving as the central government. The central government elites, in particular Suharto as president, controlled business people from various groups, including indigenous and non-indigenous entrepreneurs such as Chinese businessmen from mainland China. The system of oligarchy thus created basically conformed to the pattern of patronage emanating down from the apex of the political order, that is, Suharto as president and ruler of the New Order regime. With his enormous power, Suharto became the protector and sustainer of the ‘new order’ on which business (which usually meant business cronies) depended for survival. This manifested itself in the provision of various facilities to favoured business groups, such as licenses, monopolies, subsidies and soft loans disbursement, to accelerate the growth of business power at the heart of the Indonesian economy. Hadiz refers to this as a form of ‘capitalist oligarchy’ (Hadiz, 2005). In the Indonesian context, it can also be seen as a distorted and brutalised version of the longstanding politics of patronage taken to its logical extreme.

The capitalist oligarchical feature noted by Hadiz can be seen in the case of the airport project outlined previously, which was an opportunity to collect fees from business. The government designed the airport to boost local prestige, but in so doing sacrificed the budget being available for popular empowerment, such as improved agriculture. In this case, the bureaucracy in fact had little room for building patronage, as the people did not have the resources to pay them off, and the high echelon government officials were likely to ask for special illicit payments from business. Mauro (1998) argues that corrupt governments often find it easier to collect bribes on some expenditure items than through other means. As a result, government elites tend to focus on the kind of projects where they enjoy considerable discretion in how to allocate the spending.

The research findings have demonstrated that reputation and prestige are needed for local bureaucrats and politicians to secure and maintain power. Reputation depends on the

judgments of the citizens as to the skill of bureaucrats in running the government. As we have seen, the approval rating of bureaucrats in their provincial leadership roles in East Kalimantan is inextricably linked to the politics of patronage, in terms of the political and bureaucratic elites winning popular backing to their ability to persuade citizens that they are benefiting or receiving favourable treatment from the patronage arrangements. This accords with the claim of Simon and Ostrom (1988) that reputation and prestige are essential for elites to protect their position and to win allies within government.

This section has argued that the local government agenda of reform in East Kalimantan is less about increasing local government efficiency and service performance than providing an opportunity for elites to appoint their clients through nepotism and collusion within the bureaucracy. At the same time, bureaucrats have been able to increase their salaries and incentives in the name of reform—‘reform’ being used to consolidate and extend the practice of patronage. In Banfield and Wilson’s terms, the reform agenda is nothing more than campaign rhetoric (Banfield & Wilson, 1963). As the reform agenda is implemented, new self-serving regulations regarding salary and incentives are also enacted through the cooperation of bureaucrat elites and politicians (Flinders & Geddes, 2014).

8.7 Conclusion

The findings included in this chapter demonstrate how elites have pursued self interest in East Kalimantan budget allocation. In the 2013 election (discussed in Chapter 5), the focus of the local elites was on their self-interest, as they went about practising the politics of patronage within the local government bureaucracy. As argued in this chapter, local elites used organisational, democratic, tactical and reform patronage to maintain their control over the local budget in order to realise individual benefits and maintain their power within the East Kalimantan bureaucracy and other political institutions.

The chapter has also shown how East Kalimantan’s elites expanded their patronage-based positions of power and influence by creating coalitions between the regional government and the regional parliament as a means of increasing the opportunity to gain more resources and to limit political barriers to their preferred process of budget allocation. On the one hand, this enabled them to build more cohesion in practising their roles as political patrons—as argued

by Sorauf (1960)—while on the other hand, this cohesion resulted in rampant collusion and corruption within provincial government through the strong networks embedded in all levels of government (Jordan, 2002). As the elites came closer to each other so too the politics of patronage became even more common practice.

As a result, intergovernmental financial transfers in East Kalimantan province are prone to misuse by the local elites—and as a direct result of this, local infrastructure and economic development is neglected. This means that, in the long run, the local citizens' welfare is more difficult to achieve.

CHAPTER 9 CONCLUSION

9.1 Introduction

This thesis examined the roles of elites in intergovernmental financial transfer within the Indonesian province of East Kalimantan. In previous chapters I discussed the emergence of local elites and the various roles they play in intergovernmental transfer from the central government to East Kalimantan. I also discussed how the local elites play the politics of patronage in allocating and expending the East Kalimantan budget. A focus of the research was the emergence of local elites from various local ethnic groups following the implementation of decentralisation. The research also focused on how local elites operate in various formal and informal institutions in the province, with the institutions becoming the arenas in which they exercise patronage politics to control intergovernmental transfer funds and local resources as a key means of maintaining their power and influence.

In this concluding chapter, I discuss the most significant findings of the research. I show how the findings have matched the research questions posed in Chapter 1. This is followed by consideration of the importance of this thesis in the context of its practical and theoretical contribution. The final section covers the limitations of the research and provides suggestions for future research.

9.2 Main Findings

The principal finding of the research is that the politics of patronage explains local elites' exercise of power and influence in East Kalimantan in relation to intergovernmental financial transfers. What we have seen is that when local elites are at the centre of local power and able to control the allocation of funds, they have the means to accommodate clients' and supporters' expectations and demands by directing financial and other resources to them.

Sorauf (1960) argued that the politics of patronage could become an incentive system to maintain elites' cohesion and discipline as a means of supporting successful policy-making and implementation. My findings indicate that Sorauf's theory might be applicable to some

degree in East Kalimantan. I found that while the local elites do have strong cohesion when they exercise patronage politics, their cohesion is mostly directed to misuse of local finances for their mutual benefit. More importantly, their cohesion in patronage politics has increased their power to control not only financial but also natural, political and social resources. This impedes local public access to the province's financial and other resources. As a result, local citizens, in particular those who live at the bottom of the social and political order, live in unjust conditions, with little or no prospect of their basic right to equitable access to resources being fulfilled.

A related finding was that financial and other local resources become critical patronage assets for local elites. Controlling these resources enables elites to recruit their affiliates for public sector jobs and thus enhance their control over policy-making (Kleibrink, 2015). At the same time, patronage allows elites to reward loyal supporters or clients (Eisenstadt & Roniger, 1980) and to create dependent public employees. The research found local elites within East Kalimantan province were more likely to support financial decentralisation reforms if they could use them to increase their own patronage resources. For example, local elites were strongly united when they battled in the Indonesian Constitutional Court to sue the central government to obtain a larger proportion of revenue sharing. They strongly supported the process because it would have provided them with a greater opportunity to exercise patronage politics through control of greater financial resources.

The research found that an important reason why intergovernmental financial transfer in East Kalimantan failed to meet regional development objectives and overcome social injustices was that governing⁴⁹ and political elites from the central, provincial, district and municipal spheres constitute a durable—if at time amorphous—coalition in exercising patronage politics at the regional level. In other words, they share local resources and distribute them tactically according to their consensual patronage politics. The research found that reaching consensus often took place outside local formal institutions. For example, elites held political meetings outside the normal operation of parliament and government offices late at night to restructure the local financial allocation and state funded projects. They cooperated regularly through formal and informal channels and exchanged information

⁴⁹By 'governing' elites, I refer to the executive arm of government, in contrast with the 'political' elite such as members of parliament.

during negotiations on local financial allocations and local project development. These ties are channelled through mutually accepted brokers (e.g. businessmen, NGOs, ethnic and religious leaders, political supporters and social leaders). I refer to these brokers as ‘informal elites’ because they are outside the provincial bureaucratic and political systems. The formal elites (political rulers, higher bureaucrats and politicians) and informal elites⁵⁰ agree on the distribution of patronage appointments in the public sector at the regional level.

However, governing and political elites from the centre and periphery do not constitute durable coalitions when they operate in formal institutions such as in parliament meetings and in informal coordination meetings with bureaucrats. They cooperate only on certain issues through formal channels and only to a limited extent exchange information during negotiations on local financial allocation mechanisms. There is a lack of trust, coordination and cooperation within formal situations and institutions between those elites, in particular during their formal meetings. But whether informally behaving as a coalition or acting independently, bureaucrats and political elites often monopolise the distribution of financial resources and appointments in the public sector organisations at regional level. The result is unfair and unequal allocation of local financial and state-funded development projects to citizens and areas. Table 9.1 provides a summary of the roles of the local elite groups.

Table 9.1 Summary of Local Elite Roles in Patronage Politics in East Kalimantan

Elites	Roles
Political Elites	Develop political relationships with other elites and provide political justification for certain policies. When other elites misuse local budget for state-funded projects, the political elites effectively provide political support to assist the projects.
Bureaucratic Elites	Bureaucratic elites mostly focus on providing administration clearance for misusing government finances. They are not directly involved in executing government-funded projects at the operational level, but they supply documents to those elites who are involved in the projects. The bureaucrats get a return in the form of financial or political gain to keep them in their positions or to get promoted to higher levels.

⁵⁰The term formal and informal elites is adopted from Alatas et al. (2013), with formal local elites operating in formal local government institutions such as the local government offices and parliament, while informal elites operate in non-statutory institutions such as religious organisations, ethnic groups and NGOs.

Elites	Roles
Business Elites	Business elites often approach higher bureaucratic elites or political elites to obtain support to be awarded government-funded projects. This type of collusion and interaction results in inefficiency in government projects. Project costs tend to be higher and some of the projects are often directed to a sector that benefits both business and elites rather than citizens.
Social Elites	Social elites, such as NGO and community organisation leaders, often put pressure on governing and political elites to direct budget for their benefit. These leaders have many followers and they use this as leverage to exert social pressure when they approach governing and political elites.
Religious Elites	Religious elites have mass followers whom they are able to mobilise for social and political pressure. Their power can be used to pressure governing and political elites to get access to local government financial allocations.
Ethnic Elites	Ethnic elites have strong ties to their communities, with members of ethnic communities being very loyal supporters for the success of key figures within their groups. This emotional tie is often exploited by the elites in their quest for political or bureaucratic power. When they are in power, they use it to access and allocate resources for their community or areas.

The research found that all elites took advantage of their roles in building coalitions across local government institutions. At times, the local elites were simply following the preferences of dominant groups because they owed them political support resulting from local election deals. However, some of them also acted independently by collaborating with some segments of what might be described as an elite ‘ruling class’ in socioeconomic terms against other segments—by exercising the state’s coercive power, or by otherwise manipulating social pressures as argued by Crone (1988) (see Chapter 8). The possession of such power has enabled the elites to misuse the intergovernmental financial transfer mechanism over the last five years.

9.3 Addressing Research Questions

Chapter 1 proposed five research questions, which were answered in the findings chapters (Chapters 5, 6, 7 and 8). Table 9.2 provides a summary of the five research questions and their answers:

Table 9.2 Research Questions and Answers

No	Question	Answer
1.	Who are the local elites and how do they emerge in East Kalimantan province?	I found local elites emerged from different ethnic groups who migrated to East Kalimantan, a province rich in natural resources. The economic boom triggered the emergence of elites, including political, business, bureaucratic, social, ethnic and religious leaders.
2.	What role do the local elites play in intergovernmental fund transfer in East Kalimantan, and what are the implications for how those funds are spent?	The local elites play the following roles: a. Political elites play roles as politicians in parliament and political parties. b. Bureaucratic elites play roles in various positions within the provincial bureaucracy. c. Business elites play roles as the local government business contractors and business clients. d. Social elites play roles as community-based organisation leaders or as key individuals such as NGO leaders, senior journalists and local education experts. e. Religious elites play roles as religious organisation leaders with mass followers. f. Ethnic elites play roles as ethnic group leaders exercising considerable power, in particular in major ethnic groups such as Javanese, Banjarese, Buginese/Makassarese.
3.	In what ways do local elites use patronage politics to control resources and power in East Kalimantan?	Local elites use patronage politics to control resources (intergovernmental transfer funds) in four ways: a. Local elites play patronage politics in government organisations (organisational patronage). b. Local elites play patronage politics in the democratic processes (democratic patronage) using democratic activities, such as citizens' meetings (<i>Musrembang</i>), to justify financial allocations while in fact ensuring that most of the allocations benefit the elites. c. Local elites play patronage politics through the tactical distribution of intergovernmental transfer funds to their clients (political supporters and their areas). The social, religious and ethnic elites are the main supporters of local politicians and higher bureaucrats. They demand a 'return' for their support—a political debt that needs to be repaid by the political rulers and politicians. d. Local elites play patronage politics through reform

No	Question	Answer
		agendas (reform patronage), proposing various reforms in local government development projects. While local government funded projects were implemented (such as the toll road and airport projects), in fact the projects involved political and bureaucrat affiliates' companies.
4.	How does the role of local elites in East Kalimantan affect the pattern and implementation of intergovernmental fund transfer in support of provincial development?	The roles of local elites (politicians, higher bureaucrats, business, social, religious and ethnic elites) were practised through cooperation and coordination within various local government institutions, mediated by patronage politics. Most of the patronage politics were exercised informally rather than through formal institutional means. While the elites coordinated and cooperated in informal meetings and achieved agreement on budget allocation, the agreement was often subsequently revoked.
5.	To what extent and in what ways do East Kalimantan local elites misuse intergovernmental financial transfer?	As the politics of patronage is rampant and extensively exercised by local elites in various local government institutions, the opportunity to spend intergovernmental transfer funds for their own purposes also is correspondingly high. This causes significant misuse of the local budget. For example, since 2001 the trend of intergovernmental transfer funds has increased from year to year, but local development is incommensurate with the increased funds. Data shows that intergovernmental transfer has increased 400% since 2008 but the local development index has not significantly moved. In addition, many important project developments (such as East Kalimantan Main Roads) remain untouched, slowing economic development.

9.4 Research Contribution

This study was carried out to produce knowledge that is scientifically and practically useful (Corley & Gioia, 2011; Van De Ven & Johnson, 2006). With the findings from this research, it is hoped that the Indonesian government will have the information and the incentive to improve systems for controlling local elites' use of patronage politics in East Kalimantan intergovernmental financial transfers—and that scholars can build on the findings to investigate other aspects of the politics of patronage and test the applicability of these case study findings to other parts of Indonesia and beyond.

9.4.1 Contribution to Theory

Whetten (1989) suggests that a study should contribute to theory development through understanding what factors (variables, concepts, constructs) can be used to understand social, political and individual phenomena and how they are related. Within these terms, the contributions of this study to the theory are:

- This study draws from political theory to understand elites' roles in intergovernmental financial allocation and expenditure within a local government context. The theoretical framework is adapted from existing fields of political, anthropological and social inquiry. The theoretical components of the original frameworks were considered and adapted in accordance with the local intergovernmental financial context. The adaptation was intended to provide a deeper understanding of how the mechanism of intergovernmental financial transfer operates in East Kalimantan—of how different elites operate within a politics of patronage model to control local finances.
- This study also contributes to a deeper understanding of other elite roles in the Indonesian local government context. As well as identifying new categories of elites involved in intergovernmental financial transfer, the study also extended knowledge by demonstrating how the elites operated in both formal and informal settings. This categorisation was not found in previous studies dealing with local government financial arrangements.

A further theoretical contribution is the identification of the ways in which various categories of elites coordinate and cooperate informally and formally to structure and control local government financial allocations and expenditures. These findings shed light on how patronage politics played by local elites has contributed to unequal access to many local resources, with citizens living at the top of the social and political order enjoying more resources, while marginal citizens experience daily difficulties. As the study demonstrates, even though the province receives high intergovernmental financial transfers in terms of rupiah compared with other provinces, its development in terms of infrastructure and service provision lags significantly behind other provinces receiving lower funds from intergovernmental financial transfers.

Table 9.3 summarises the categories of patronage arrangements analysed in the thesis, in terms of which East Kalimantan elites exercise control over intergovernmental financial transfers.

Table 9.3 Summary of Patronage Politics in East Kalimantan Intergovernmental Financial Transfer

Type of Patronage	Sub-Elements of Patronage	Modus Operandi
Organisational Patronage	<ul style="list-style-type: none"> - Appoint political supporters in higher bureaucratic position - Appoint family members 	Key positions within the provincial bureaucracy are occupied by a group of employees affiliated to political rulers, politicians and other elites. This has created circles of cronyism within local government organisations resulting in collusion and corruption.
Democratic Patronage	<ul style="list-style-type: none"> - Business elites cooperate with political elites to pressure bureaucrats to structure government financial allocation for certain projects - Bureaucrats cooperate with businessmen to implement government-funded projects - Bureaucrats and politicians have affiliated companies or NGOs 	<ul style="list-style-type: none"> - Government finances are directed to projects which have been agreed to between politicians and bureaucrats. - Bureaucratic elites clear the way (such as through preparing documents) for business elites to be awarded government funded projects. - NGOs and companies which have an affiliation with the political and bureaucrat elites (whether through family or friends) implement government-funded projects.
Tactical Patronage	<ul style="list-style-type: none"> - Politicians allocate finances to political supporters and home areas - Bureaucrats direct government funded projects to elites (Businessmen) 	<ul style="list-style-type: none"> - Government funds are mostly allocated to clients' areas for projects which often are not urgent, while priority development areas are neglected. - Business elites who affiliate with bureaucratic elites enjoy access to more government funds through various projects. This increases corruption and collusion, which affects project quality.
Reform Patronage	<ul style="list-style-type: none"> - Political rulers propose reform agendas - Reform projects are funded with local budget and benefit the local elites - Local elites support the reform projects to receive benefits 	<ul style="list-style-type: none"> - More exclusive projects are implemented to boost elites' popularity, even though the projects are not development priorities. - Elites take financial advantage from the proposed reform projects, reducing local government capability to fund projects demanded by citizens. - More elites are involved in implementation of prestigious projects on which local government finances are spent rather than on basic citizen's needs.

9.4.2 Contribution to Practice

It is hoped that the findings of this study will add impetus to and provide information for local government organisations committed to solving common problems related to the misuse of the local budgets, such as through corruption and collusion. This study provides practical knowledge for how central and local government institutions might coordinate and cooperate to eliminate those challenges.

- My study contributes guidance for central and local government organisations on how they should implement strategies to reduce the misuse of the local budget by elites within local government. For example, the patronage politics played by local elites in distributing local budget and state-funded development projects to their clients might be reduced through the enactment of stronger regulations to control local financial allocation and expenditure. Central government might need to exercise strong and transparent supervision when they transfer a financial resource to local government in order to limit and reduce the loss of government budget.
- This study provides practical knowledge and lessons regarding how to reduce patronage politics in the process of intergovernmental financial transfer. For example, previous studies (e.g. Bearfield, 2009; Gray, 2015) found that local rulers and political elites traded patronage positions as acts of prestige and loyalty in the organisations and created inappropriate or higher schemes of salaries and bonuses compared with other organisations in a similar context. The research findings provide insights to both central and local governments on how to curb those practices. Central and local governments may, for instance, fill higher bureaucratic positions such as local department leaders through a fair and transparent process, resulting in a more professional and accountable appointment of bureaucratic elites.

9.5 Limitations

This empirical study was carried out in a local government area which has experienced inefficiency in local financial allocation and expenditure due to the patronage politics played

by local elites. It has demonstrated how the elites in local government coordinate and cooperate through patronage politics to structure and control local resources. It provides evidence on how elites in East Kalimantan exercise patronage politics which impact local development and citizens' welfare, with a rich data base validating conclusions about the extent and impact of the politics of patronage played by elites in intergovernmental financial transfer. This has contributed to understanding and in-depth learning (Stake, 1995, 2006) of patronage politics exercised by local elites in the local financial system.

While the study was confined to the particular province of East Kalimantan, I would argue that it is able to produce what Stake refers to as '*naturalistic generalizations*' (Stake, 1978, p. 6), with outcomes that can be used for '*generating understanding*' (Stenbacka, 2001, p. 551) applicable in similar contexts of local government beyond this single case study. The study is a product of '*lived experience*' (Murphy & Yelder, 2010, p. 65) arrived at through the engagement of the researcher with East Kalimantan stakeholders, which it is hoped will encourage similar studies in other provinces to guide and inform practical reform in Indonesia.

As a result of the in-depth nature of the case study, the findings can potentially contribute valuable theoretical and practical knowledge for both government and community. Of course, there are limitations—as in any study—related to the theory of patronage politics being investigated in one province only. As argued by Stake (2006), the benefits of case studies can be limited if carried out with fewer than four cases, and other Indonesian provinces have certainly experienced inefficiency in financial allocations and unjust outcomes due to the politics of patronage. My hope is that this East Kalimantan case study will generate further case studies and provide a stronger basis for generalisation for Indonesia.

I found through this research that local elites in East Kalimantan have engaged in the politics of patronage to structure intergovernmental financial transfer to serve their own purposes. The study has shown how formal elites inside local government institutions, such as the bureaucracy and local parliament, cooperate and coordinate with informal elites outside local government institutions to access financial resources—with both informal and formal elites actively involved in the politics of patronage within various local government institutions to misuse the local government budget.

The involvement of informal elites, such as business, social, religious and ethnic elites, in the misuse of local government budget through the politics of patronage is an important finding of this research. The lesson that needs to be heeded and acted upon is that deficiencies in local government financial affairs are caused not only by elites who formally control local government institutions, but also by elites who are not within formal government circles. Future research is required to focus on further understanding the roles and contributions of these informal elites within broader local government financial systems if we are to create better local government financial systems and fairer wealth distribution across local government for social and political order.

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Appendix 1 Documentary Data Collected During Field Research in East Kalimantan

No.	Content	Form	Source	Purpose
1	Minutes of Constitutional Court 1-9, 2012	Laws	Constitutional Court Jakarta 2012	Analytical Purpose
2	Constitutional Court Verdict (East Kalimantan Elites and Central Government) 2012	Laws	Constitutional Court Jakarta 2012	Analytical Purpose
3	Debate Between East Kalimantan's elites and Central Government 2010-2012	Publication	Newspapers (Tribun Kaltim, Sapost, Kaltim Post, Kompas)	Analytical Purpose
4	Clipping of East Kalimantan Judicial Review 2011-2012	Publication	Newspapers (Tribun Kaltim, Sapost, Kaltim Post, Kompas)	Analytical Purpose
5	The Regional Budget (APBD) Provinsi Kalimantan Timur 2000 – 2012	Statistics	http://www.djpk.depkeu.go.id/	Analytical Purpose
6	Regulation of East Kalimantan Governor 2010-2013	Laws	http://www.kaltimprov.go.id/	Original Purpose
7	KU-APBD East Kalimantan 2011	Publication	Secretary of East Kalimantan Parliament	Analytical Purpose
8	Budget Optimization and Acceleration of the Implementation of the National			
9	Development Priority Programs 2010 (Governor and Regents/Mayors Meeting)	Publication	Governor Office	
10	Standard Operating Procedure of East Kalimantan Parliament Control 2011	SOP	East Kalimantan Parliament Office	Analytical Purpose
11	Standard Operating Procedure of East Kalimantan Parliament Plenary Session 2011	SOP	East Kalimantan Parliament Office	Original Purpose
12	Standard Operating Procedure of East Kalimantan Parliament Local Budget Draft 2011	SOP	East Kalimantan Parliament Office	Original Purpose
13	Standard Operating Procedure of East Kalimantan Parliament Local Regulation 2011	SOP	East Kalimantan Parliament Office	Original Purpose
14	Recess Compilation of East Kalimantan Legislative Member 2010	Survey	East Kalimantan Parliament Office	Original Purpose
15	East Kalimantan Government Financial Statistics 2002-2010	Statistics	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
16	Classification Clipping of Decentralization Issues 2010-2011	Publication	Centre For Strategic and International Studies, Jakarta	Analytical Purpose
17	Local Autonomy Clipping 2009-2010	Publication	Centre For Strategic and International Studies, Jakarta	Analytical Purpose
18	General Allocation Fund (Dana Alokasi Umum) 2001-2012	Statistics	http://www.djpk.depkeu.go.id/datadjpk/51/	Analytical Purpose
19	Special Allocation Fund Dana Alokasi Khusus 2001-2012	Statistics	http://www.djpk.depkeu.go.id/datadjpk/55/	Analytical Purpose
20	Revenue Sharing Natural Resources Dana Bagi Hasil SDA 2001-2012	Statistics	http://www.djpk.depkeu.go.id/datadjpk/57/	Analytical Purpose
21	Revenue Sharing Tax Dana Bagi Hasil Pajak 2001-2012	Statistics	http://www.djpk.depkeu.go.id/datadjpk/56/	Analytical Purpose
22	Financial Statement of East Kalimantan Government 2009	Report	East Kalimantan Financial Bureau	Analytical Purpose
23	Evaluation of The Implementation of Medium Term Regional Development Plan 2009-2013	Report	Regional Development and Planning Board	Original Purpose
24	Let's recognize Kaltim	Publication	Magazine	Source Purpose
25	Jendela Informasi Masyarakat	Publication	Magazine	Source Purpose
26	Membangun Kaltim	Publication	Magazine	Source Purpose
27	Warta Kesbangpol, Media Publikasi	Publication	Magazine	Source Purpose
28	Publikaltim, Media Publikasi DPRD Kaltim	Publication	Magazine	Source Purpose
29	Suara Rakyat	Publication	Magazine	Source Purpose
30	A brief of East Kalimantan Parliament	Publication	Regional Parliament of East Kalimantan	Original Purpose
31	The profile of East Kalimantan Parliament members	Publication	Regional Parliament of East Kalimantan	Original Purpose
32	Work Plan of East Kalimantan Parliament 2011	Publication	Regional Parliament of East Kalimantan	Analytical Purpose
33	Regional development data of East Kalimantan Province	Statistics	Regional Development and Planning Board	Analytical Purpose
34	Kaltim in figures 2001-2013	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
35	The profile of East Kalimantan provincial government employees	Publication	Regional Personnel Board	Source Purpose
36	Kaltim 50 years, hope and pride	Publication	Regional Library Office	Source Purpose
37	Action Plan for Corruption eradication	Publication	Criminal Offence Corruption Office	Source Purpose
38	Indicators of economics 2010	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
39	Final remarks of East Kalimantan Parliament on East Kalimantan RAPBD 2010	Report	Regional Parliament of East Kalimantan	Analytical Purpose
40	East Kalimantan economic Report 2010	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
41	Labor force of East Kalimantan Province 2002-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
42	Draft of PPA 2010	Report	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
43	Priority and Budget Allocation 2010	Report	Regional Development and Planning Board of East Kalimantan	Analytical Purpose

No.	Content	Form	Source	Purpose
44	KU-APBD 2010-2011	Report	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
45	Financial Memorandum of Local Budget Draft (RAPBD) 2010	Report	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
46	Community Welfare Indicators 2010	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
47	The analysis of East Kalimantan income distribution	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
48	East Kalimantan PDRB by sectors 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
49	The Research report on people social economy	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
50	Important indicators of East Kalimantan social economy 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
51	East Kalimantan economic indicators 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
52	East Kalimantan PDRB by utilization 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
53	East Kalimantan PDRB by sectors 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
54	The draft of East Kalimantan KU-APBD 2011-2012	Report	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
55	PUBLIKALTIM (Media Informasi dan Komunikasi DPRD Kaltim)	Publication	Magazine	Source Purpose
56	Bumi Etam	Publication	Magazine	Source Purpose
57	Regional Regulation on Organization structures	Laws	Governor Office	Analytical Purpose
58	Working Plan of East Kalimantan Government 2005-2009	Publication	Governor Office	Analytical Purpose
59	Working Plan of East Kalimantan Government 2009-2013	Publication	Governor Office	Analytical Purpose
60	Concept of East Kalimantan productivity development	Publication	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
61	Final Report of Good Local Governance document	Publication	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
62	Official news of East Kalimantan statistic 2010 on labor force	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
63	Official news of East Kalimantan statistic 2010 on Regional development	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
64	Official news of East Kalimantan statistic 2010 on export and import	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
65	Official news of East Kalimantan statistic 2010 on labor force	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
66	Official news of East Kalimantan statistic 2010 on export and import	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
67	Official news of East Kalimantan statistic quarterly 2010 on economic growth	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
68	Welfare Indicator of East Kalimantan 2010-2012	Statistics	East Kalimantan Statistics Bureau	Analytical Purpose
69	New Vision of East Kalimantan 2025	Publication	Mayor of Bontang Municipality	Source Purpose
70	A brief history of East Kalimantan	Publication	Secretariat Governor Office	Original Purpose
71	The report of BPK audits on East Kalimantan financial accountability 2009	Report	Audit Board of East Kalimantan	Analytical Purpose
72	The report of BPK audits on East Kalimantan financial accountability 2010	Report	Audit Board of East Kalimantan	Analytical Purpose
73	The report of BPK audits on the usage of financial balance 2010	Report	Audit Board of East Kalimantan	Analytical Purpose
74	The report of BPK audits on East Kalimantan financial accountability 2010	Report	Audit Board of East Kalimantan	Analytical Purpose
75	Strategic plan for education 2009-2014	Report	Education Board of East Kalimantan	Analytical Purpose
76	Medium Term Regional Development Plan of East Kalimantan 2009-2014	Publication	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
77	Long Term Regional Development Plan of East Kalimantan 2005-2025	Publication	Regional Development and Planning Board of East Kalimantan	Analytical Purpose
78	Supporting Infrastructure for Investment in East Kalimantan 2012	Statistics	Regional Investment and License Board of East Kalimantan	Analytical Purpose
79	Revenue Profile of East Kalimantan	Statistics	Local Revenue Agency East Kalimantan Province	Analytical Purpose
80	Statistics of East Kalimantan Plantation 2010	Statistics	Plantation Agency of East Kalimantan	Analytical Purpose
81	Website of East Kalimantan Government	Publication	http://www.kaltimprov.go.id/	Source Purpose
82	Website of Local Personnel Agency	Publication	http://kaltimbkd.info/	Source Purpose
83	Website of Regional Development and Planning Board of East Kalimantan	Publication	http://www.bappedakaltim.com/	Source Purpose
84	Regional Licensing and Investment Board Website	Publication	http://bppmd.kaltimprov.go.id/	Source Purpose
85	Data of Ethnicity	Statistics	East Kalimantan Statistics Bureau & B. Magenda	Analytical Purpose
86	Local Heads Election Data	Survey	General Election Commission of East Kalimantan	Analytical Purpose
87	Law 32/2004 regarding Local Government	Laws	Ministry of Home Affair	Original Purpose
88	Law 33/2004 regarding Balancing Fund Between Central and Local	Laws	Ministry of Home Affair	Original Purpose

Appendix 2 Consent Form

CONSENT FORM FOR PARTICIPANTS INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:

We would like to invite you to be a part of a study into the impacts of intergovernmental transfer on regional development in East Kalimantan province. Following the implementation of decentralisation in Indonesia, this study will examine how the provincial governments under the decentralisation policy formulate and execute their policies, especially those related to the planning and budget allocation to regional development, such as infrastructure development, education, health, and income level in East Kalimantan province. It will explore the attitudes and interests of decision-makers within the provincial government and other local stakeholders about regional development and how the political and bureaucratic elites give the main priorities in regional development planning.

The information provided will be used for this study, if however, you request your identity be kept confidential, your request will be respected.

CERTIFICATION BY SUBJECT

I,
of

Certify that I am at least 18 years old* and that I am voluntarily giving my consent to participate in the study: the impacts of intergovernmental transfer on regional development in East Kalimantan province, Indonesia being conducted at Victoria University by: Associate Professor Dr. Richard Chauvel, the principal researcher.

I certify that the objectives of the study, together with any risks and safeguards associated with the interview have been fully explained to me by Mr. Ahyar Muhammad Diah, the student researcher.

I freely consent to participate in the interview and I have agreed that the interview be recorded.

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide may be kept confidential, however, as a public figure known to be concerned with this issue I am requesting my views and thoughts, as expressed in the interviews, be identified as mine. I reserve the right to have material de-identified or have my identity suppressed should I request this after having relevant passages of the thesis draft sent to me.

Signed:

Date:

Any queries about your participation in this project may be directed to the researcher Associate Professor Dr. Richard Chauvel 61-3-99194048 If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781

Appendix 3 Consent Form (Indonesian Version)

FORMULIR PERSETUJUAN UNTUK PESERTA YANG TERLIBAT DALAM PENELITIAN

PEMBERITAHUAN KEPADA PESERTA:

Kami mengundang Bapak/Ibu untuk berpartisipasi dalam penelitian tentang dampak transfer antara pemerintah pusat dan daerah (Dana Perimbangan) terhadap pengembangan regional propinsi Kalimantan Timur, Indonesia. Penelitian ini akan mengkaji bagaimana pemerintah provinsi dibawah sistem desentralisasi membuat perencanaan dan pengalokasian anggaran pembangunan regional, terutama yang terkait dengan pembangunan infrastruktur, pendidikan, kesehatan, dan taraf pendapatan masyarakat di daerah Kalimantan Timur. Penelitian ini bertujuan untuk mendorong para pengambil kebijakan dalam lingkup pemerintah daerah dan pemangku kepentingan lainnya terhadap pembangunan regional dan bagaimana para elit politik dan birokrat pemerintahan memberi prioritas utama dalam perencanaan pembangunan daerah.

Informasi yang diberikan akan dipergunakan untuk penelitian ini, dan apabila Bapak/Ibu meminta untuk dirahasiakan identitasnya, permintaan Bapak/Ibu akan dihormati

PERNYATAAN PESERTA

Saya,
dari

Menyatakan bahwa umur saya lebih dari 18 tahun * dan saya memberikan persetujuan untuk berpartisipasi secara sukarela dalam studi : Dampak transfer antara pemerintah pusat dan daerah (Dana Perimbangan) terhadap pengembangan regional propinsi Kalimantan Timur, Indonesia yang sedang dilaksanakan di Victoria University oleh: Associate Professor Dr. Richard Chauvel, sebagai peneliti utama.

Saya menyatakan bahwa tujuan penelitian ini dan segala resiko dan perlindungan terkait dengan wawancara ini telah dijelaskan sepenuhnya kepada saya oleh Saudara Ahyar Muhammad Diah sebagai mahasiswa peneliti.

Saya dengan sukarela menyetujui keikutsertaan saya dalam wawancara dan saya telah menyetujui bahwa wawancara ini akan direkam.

Saya menyatakan bahwa saya mempunyai kesempatan untuk tanya jawab dan saya memahami bahwa saya dapat mengundurkan diri dari penelitian ini sewaktu-waktu dan hal ini tidak akan membahayakan saya dalam bentuk apapun

Saya sudah diberitahukan bahwa informasi yang saya berikan dapat dirahasiakan, akan tetapi sebagai tokoh masyarakat yang memahami permasalahan ini, saya meminta gagasan dan pandangan saya sebagaimana yang saya sampaikan didalam wawancara untuk diidentifikasi dengan diri saya. Saya mempunyai hak untuk tidak diidentifikasi atau identitas saya disembunyikan. Sekiranya hal ini akan saya lakukan, saya akan meminta setelah bagian tesis yang relevan dikirimkan ke saya.

Tanda tangan:

Tanggal:

Setiap pertanyaan terkait dengan keikutsertaan Bapak/Ibu di dalam proyek penelitian ini dapat ditujukan kepada peneliti utama :

Associate Professor Dr. Richard Chauvel

61-3-99194048 Sekiranya Bapak/Ibu mempunyai pertanyaan atau keberatan dengan cara Bapak/Ibu diperlakukan, Bapak/Ibu dapat menghubungi Sekretaris Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 Telepon (03) 9919 4781

Appendix 4 Information to Participants

INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled The Impacts of Intergovernmental Transfer on Regional Development in East Kalimantan, Indonesia.

This project is being conducted by a student researcher, Ahyar Muhammad Diah, as part of a PhD study at Victoria University under the supervision of Associate Professor Dr. Richard Chauvel from School of Social Science and Psychology, Faculty of Arts, Education and Human Development.

Project explanation

This study proposes to examine the transfer of funds between central and provincial governments in allocating to the regional development in resource rich East Kalimantan. It will assess the extent to which the regional governments use their powers, greatly expanded under the regional autonomy laws, by giving priority to regional development, in order to improve the quality of life of their constituents.

This study will explore the attitudes and interests of decision-makers within the local governments and other local stakeholders toward regional development issues, especially the development of infrastructure, unemployment, education, poverty, health and income level, as well as examine the priority regional development policies have for local political and bureaucratic elites.

What will I be asked to do?

Each participant will be asked some questions relevant to the positions they hold in relation to regional development and the policy taken by regional government in the development budget allocation priorities in East Kalimantan province. (list of questions is attached). It is expected that each interview will take between 30 to 60 minutes.

What will I gain from participating?

Each participant will have the opportunity to propose their ideas that may give contribution in seeking alternative solutions to regional development problem in East Kalimantan. The contribution of each participant will be recognised in the acknowledgement page, if they agree to this reference.

How will the information I give be used?

The information provided by all participants will contribute to discussions promoting better social development in East Kalimantan, including alternative solutions for acceleration of infrastructure development, unemployment, education, poverty, health and income level in East Kalimantan.

What are the potential risks of participating in this research project?

The issues to be investigated in this research, especially local government policies on socio-economic development and the regional development particularly infrastructure development, unemployment, education, poverty, health and income level, are widely debated issues in the community. Views differ considerably, and you may upset persons who employ you or otherwise supervise your work.

However, your identity will be kept confidential unless you expressly inform me using a consent form that you want to be identified.

All the informants, public figures and others, will be asked whether they want their name to be used in connection with the information provided in interviews. Their wishes will be respected.

How will this research project be conducted?

This proposed research will be mainly qualitative, a case study approach. Data collection will be drawn from multiple sources of information, including interviews and documents. The primary data will be obtained through in-depth interviews, especially “Elite interviewing”. The interview data will be gathered by using tape recordings. The interviews will be held in the Indonesian language and the transcripts will be translated as necessary.

Secondary data will be gathered by utilizing “documentary research” approach. There are a wide variety of documentary sources, including laws, official statistics, regional government regulations, regional government plans, accountability reports and documents related to local government budgets. In addition, the content of the mass media and the internet may also become sources to assess the responses of local people or local stakeholders towards the regional government’s performance. Interpretive approach will be utilized to describe and interpret the documents.

Who is conducting the study?

1. Principal Researcher
Associate Professor Dr. Richard Chauvel
School of Social Science and Psychology
Phone number: 61-3-99194048
2. Student Researcher
Ahyyar Muhammad Diah
Phone Number: 61-3-99194444

Any queries about your participation in this project may be directed to the Principal Researcher listed above.

If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781.

Appendix 5 Information to Participants (Indonesian Version)

PEMBERITAHUAN KEPADA PESERTA YANG TERLIBAT DALAM PENELITIAN

Bapak/Ibu diundang untuk berpartisipasi

Bapak/Ibu diundang untuk berpartisipasi dalam proyek penelitian yang berjudul: The Impacts of Intergovernmental Transfer on Regional Development in East Kalimantan, Indonesia/Dampak Transfer Antara Pemerintah Pusat dan Daerah (Dana Perimbangan) Terhadap Pengembangan Regional di Provinsi Kalimantan Timur, Indonesia.

Proyek penelitian ini sedang dilaksanakan oleh seorang mahasiswa peneliti bernama Ahyar Muhammad Diah sebagai bagian dari studi PhD di Victoria University dibawah bimbingan Associate Professor Dr. Richard Chauvel dari School of Social Science and Psychology, Faculty of Arts, Education and Human Development/Jurusan Ilmu Sosial dan Psikologi, Fakultas Sastra, Pendidikan dan Pengembangan Manusia.

Penjelasan Proyek

Studi ini dimaksudkan untuk mengkaji transfer dana antara pemerintah pusat dan pemerintah propinsi dalam mengalokasikan pada pembangunan regional di daerah yang kaya sumber daya alam, Kalimantan Timur. Penelitian ini akan mengkaji seberapa jauh pemerintah daerah memanfaatkan kewenangan luas yang diberikan melalui Undang-Undang Otonomi Daerah dengan memberi prioritas pada pembangunan regional agar dapat meningkatkan kualitas hidup masyarakat lokal. Penelitian ini akan melihat sikap dan kepentingan para pengambil kebijakan dalam lingkup pemerintah daerah dan pemangku kepentingan lainnya terhadap isu pengembangan regional khususnya masalah pembangunan infrastruktur, pengangguran, pendidikan, kemiskinan, kesehatan dan pendapatan masyarakat, dan juga untuk melihat kebijakan prioritas para elit politik dan pejabat pemerintah lokal.

Apa yang akan saya lakukan?

Setiap peserta akan diberikan beberapa pertanyaan yang terkait dengan jabatan yang mereka pegang dalam kaitannya dengan pengembangan regional dan kebijakan yang diambil oleh pemerintah daerah dalam prioritas pengalokasian anggaran pembangunan di daerah Kalimantan Timur. (daftar pertanyaan terlampir). Direncanakan setiap wawancara akan mengambil waktu sekitar 30 sampai 60 menit.

Apa yang akan saya dapatkan dengan berpartisipasi?

Setiap peserta mempunyai kesempatan untuk menyampaikan gagasan/ide yang dapat memberikan kontribusi dalam mencari solusi alternative terhadap permasalahan pembangunan regional di Kalimantan Timur. Penghargaan atas sumbangsih dari masing-masing peserta akan dicantumkan di "halaman pengakuan" sekiranya mereka menyetujuinya.

Bagaimana Informasi yang saya berikan akan digunakan?

Informasi yang disampaikan oleh semua peserta akan memberikan kontribusi terhadap upaya pengembangan masyarakat ke arah yang lebih baik di Kalimantan Timur, termasuk di dalamnya solusi

percepatan pembangunan infrastruktur, pengangguran, pendidikan, kemiskinan, kesehatan dan pendapatan masyarakat di daerah Kalimantan Timur.

Apa potensi resiko dengan keikutsertaan saya dalam proyek penelitian ini?

Permasalahan yang akan diteliti dalam penelitian ini, terutama terkait dengan kebijakan pemerintah daerah dalam pembangunan regional khususnya pembangunan infrastruktur, pengangguran, pendidikan, kemiskinan, kesehatan dan pendapatan masyarakat merupakan isu yang ramai diperdebatkan oleh khalayak. Perbedaan pandangan yang tajam memungkinkan orang lain, seperti pimpinan atau orang yang mempekerjakan Bapak/Ibu akan merasa terganggu. Terkait dengan hal ini, identitas Bapak/Ibu akan dirahasiakan kecuali Bapak/Ibu menyatakan kepada saya dengan menggunakan “consent form”/formulir persetujuan bahwa Bapak/Ibu bersedia diidentifikasi. Semua informan, tokoh masyarakat dan yang lainnya akan ditanya apakah mereka berkenan apabila nama mereka dicantumkan dalam kaitannya dengan informasi yang mereka sampaikan dalam wawancara. Keinginan mereka akan dihormati.

Bagaimana proyek penelitian ini akan dilaksanakan?

Penelitian ini akan lebih bersifat kualitatif dengan menggunakan pendekatan studi kasus. Data akan dikumpulkan melalui beberapa metode, diantaranya wawancara dan dokumentasi. Data primer akan didapatkan melalui “in-depth interview”/wawancara mendalam dengan metode “elite interviewing”/wawancara elit. Wawancara akan dilakukan dengan menggunakan alat perekam suara. Wawancara akan menggunakan bahasa Indonesia dan transkrip wawancara akan diterjemahkan ke dalam bahasa Inggris seperlunya.

Data sekunder akan dikumpulkan dengan menggunakan pendekatan “documentary research”/penelitian dokumen. Ada beberapa sumber dokumen, misalnya undang-undang, dokumen statistic resmi, peraturan daerah, dokumen rencana pemerintah daerah, laporan akuntabilitas dan dokumen anggaran pendapatan dan belanja daerah. Selanjutnya, informasi dari media cetak dan internet juga akan digunakan untuk melihat tanggapan masyarakat lokal atau pemangku kepentingan lokal terhadap kinerja pemerintah daerah. “Interpretive approach ” akan digunakan untuk menjelaskan dan memberikan interpretasi terhadap semua dokumen.

Siapa yang akan melaksanakan penelitian ini?

3. Peneliti utama
Associate Professor Dr. Richard Chauvel
Jurusan Ilmu Sosial dan Psikologi. School of Social Science and Psychology
No. Telepon: 61-3-99194048
4. Mahasiswa Peneliti
Ahyyar Muhammad Diah
No. Telepon: 61-3-99194444

Semua pertanyaan terkait dengan keikutsertaan Bapak/Ibu dalam proyek penelitian ini dapat dialamatkan kepada Peneliti Utama sebagaimana tersebut di atas.

Sekiranya Bapak/Ibu mempunyai pertanyaan atau keberatan dengan cara Bapak/Ibu diperlakukan, Bapak/Ibu dapat menghubungi Sekretaris Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 telepon (03) 9919 4781.

Appendix 6 Ethics Approval



**VICTORIA
UNIVERSITY**

**A NEW
SCHOOL OF
THOUGHT**

MEMO

TO Dr Richard Chauvel
School of Social Sciences & Psychology
Footscray Park Campus

DATE 29/03/2011

FROM Dr Anthony Watt
Chair
Arts, Education & Human Development Human Research
Ethics Subcommittee

SUBJECT Ethics Application – HRETH 11/2

Dear Dr Chauvel,

Thank you for submitting your application for ethical approval of the project entitled:

HRETH 11/2 The Impact of Intergovernmental Transfers on Regional Development in East Kalimantan, Indonesia

The proposed research project has been accepted and deemed to meet the requirements of the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)', by the Chair, Faculty of Arts, Education & Human Development Human Research Ethics Committee. Approval has been granted from 1/04/2011 to 31/03/2013.

Continued approval of this research project by the Victoria University Human Research Ethics Committee (VUHREC) is conditional upon the provision of a report within 12 months of the above approval date (by **1/04/2012**) or upon the completion of the project (if earlier). A report proforma may be downloaded from the VUHREC web site at: <http://research.vu.edu.au/hrec.php>

Please note that the Human Research Ethics Committee must be informed of the following: any changes to the approved research protocol, project timelines, any serious events or adverse and/or unforeseen events that may affect continued ethical acceptability of the project. In these unlikely events, researchers must immediately cease all data collection until the Committee has approved the changes. Researchers are also reminded of the need to notify the approving HREC of changes to personnel in research projects via a request for a minor amendment.

If you have any further queries please do not hesitate to contact me on 9919 4119.

On behalf of the Committee, I wish you all the best for the conduct of the project.

Kind regards,

Dr Anthony Watt

Chair

Faculty of Arts, Education & Human Development Human Research Ethics Subcommittee

Appendix 7 Questionnaire (Indonesia-English Version)

The Impacts of Intergovernmental Transfer on Regional Development in East Kalimantan Province, Indonesia

Daftar Pertanyaan	List of Questions
1. Propinsi Kalimantan Timur terkenal sebagai daerah yang kaya sumber daya alam. Tetapi ironisnya, daerah ini masih dihadapkan pada persoalan pengembangan daerah yang buruk. Apa pendapat anda mengenai hal ini?	1. East Kalimantan province is widely known as a wealthy region, in terms of natural resources endowment. Unfortunately, this region still facing regional development problems. What is opinion about this?
2. Setelah pelaksanaan otonomi daerah, anggaran yang ditransfer melalui dana perimbangan dari pemerintah pusat ke pemerintah Kalimantan Timur terus meningkat dari tahun ke tahun, menurut anda apakah ini memadai digunakan untuk pembangunan daerah di Kalimantan Timur?	2. After implementing the local autonomy, the balancing funds transfer from central to East Kalimantan government increased from year to year. What is your opinion about using the balancing funds for regional development in East Kalimantan province?
3. Karena propinsi Kalimantan Timur adalah termasuk daerah kaya sumber daya alam, apakah menurut anda propinsi ini berhak lebih makmur dari pada daerah lain di Indonesia?	3. East Kalimantan has plenty natural resources in Indonesia. Whether the province should be more prosperous than other regions in Indonesia? What is your opinion?
4. Jika secara khusus anggaran propinsi Kalimantan Timur ditingkatkan karena pertimbangan memiliki kontribusi yang besar terhadap negara, bagaimana pendapat anda terhadap daerah lain?	4. If in particular, East Kalimantan's budgets is increased given the potential level of economic contributions to the nation. What is your opinion with another regions in Indonesia?
5. Apa pendapat anda tentang target pemerintah yang ingin dicapai dalam rencana pembangunan jangka menengah (RPJM) dan rencana pembangunan jangka panjang (RPJP) khususnya yang terkait langsung dengan pembangunan daerah?	5. What is your opinion about the regional government targets in medium terms of development plan (RPJM) and long terms of development plan (RPJP) which is directly related to regional development?
6. Menurut anda bagaimana seharusnya strategi pembangunan daerah yang baik untuk dijalankan?	6. What do you think about regional development strategy which is suit to run well?
7. Secara khusus menurut anda bagaimana hubungan gubernur dengan bupati dan walikota serta DPRD dalam upaya pengembangan daerah?	7. In particular, what is the relationship between governor, regents, mayors and local parliaments in regional development effort?
8. Apa pendapat anda tentang peranan pemerintah daerah dalam pengembangan	8. What is your opinion about the role of the regional governments in regional

daerah termasuk pengembangan ekonominya?	development including its economic development?
9. Peran yang bagaimana seharusnya Pemerintah Daerah lakukan?	9. What sort of roles should the regional governments play?
10. Apakah pemerintah daerah sudah menjalankan peran itu dengan baik?	10. Have the regional governments played their role properly?
11. Apa sesungguhnya pengertian pengembangan daerah menurut anda?	11. How do you define regional development?
12. Apa pendapat anda tentang data kemiskinan dan angka pengangguran yang masih tinggi, infrastruktur dan pendidikan serta fasilitas kesehatan yang masih buruk?	12. What is your opinion about the data of poverty & unemployment rate, infrastructure, education and health facilities?
13. Apa pendapat anda tentang indikator pembangunan daerah yang digunakan oleh BPS dalam pengembangan daerah?	13. What do you think about the regional development indicators used by Central Statistic Agency in determining poverty & unemployment rate, infrastructure, education and health facilities?
14. Angka kemiskinan dan pengangguran masih relative tinggi, apa sesungguhnya penyebabnya menurut anda?	14. The poverty and unemployment levels are still relatively high, What do you think contribute to that?
15. Apa anda melihat bahwa pengembangan daerah yang lamban di Kalimantan Timur sebagai salah satu akibat dari maraknya korupsi di Indonesia atau lemahnya perencanaan pembangunan itu sendiri?	15. Do you see that the slow move of regional development in East Kalimantan is one of the corruption affects in Indonesia or the lack of development planning it self?
16. Apakah program pemerintah daerah telah sejalan dengan visi dan misi daerah?	16. Do you think the regional government's programs have been in accordance with the regional vision and mission?
17. Apakah program pengembangan daerah penting menurut anda?	17. Do you think the regional development programs are important?
18. Dalam pengalokasian anggaran, apakah pengembangan daerah sudah menjadi program prioritas pemerintah daerah dalam perencanaan pembangunan daerah?	18. In budget allocation, have the regional development programs become the regional government priority?
19. Apa pendapat anda tentang program-	19. To what extent, according to your opinion

program pengembangan daerah yang dilaksanakan Pemerintah Daerah?	the regional development programs have been done by regional government?
20. Menurut pendapat anda, apakah Pemerintah daerah sudah membelanjakan APBD secara efektif dan efisien?	20. Do you think the regional government has spent the local budget effectively and efficiently?
21. Menurut anda, apakah program pemerintah sudah menunjukkan keberpihakan kepada pengembangan daerah khususnya dalam perencanaan pembangunan?	21. Do you think the regional government has proposed pro regional development programs? Especially in regional development planning?
22. Apa pendapat anda tentang proses dan mekanisme pengambilan kebijakan?	22. What is your opinion about decision-making process and mechanism?
23. Apa ada proses dan mekanisme yang tidak sesuai dalam proses pembentukan kebijakan dan pelaksanaan program pengembangan daerah?	23. What problems do you see in arrangement and implementation of regional development programs?
24. Apa pendapat anda tentang hubungan gubernur, bupati/walikota dan DPRD dalam menyelesaikan persoalan pengembangan daerah?	24. What do you think about relationship between governor, regents/mayors and its local parliaments in solving problems of regional development ?
25. Menurut pendapat anda, apakah benar isu pengembangan daerah selalu menjadi obyek eksploitasi politik para politisi?	25. Do you think it is true that regional development issue always become an object of exploitation of politicians?
26. Bagaimana pendapat anda tentang kinerja instansi pemerintah daerah yang terkait langsung dalam pengembangan daerah?	26. What do you think about the achievement of government agency particularly those responsible for regional development program?
27. Apa pendapat anda tentang sinergi pemerintah pusat dan daerah dalam pengembangan daerah?	27. What do you think about the cooperation between central and regional governments in regional development?

Appendix 8 Relevant Laws and Government Regulations

Laws, Government Regulations and Other Regulations	Concerning
Law No. 22/1948	Regional Government
Law No. 22/1948	Regional Government states the Government of the Republic of Indonesia
Law No. 25/1956	The Formation of autonomous regions of West Kalimantan, South Kalimantan and East Kalimantan
Law No. 32/1956	The financial balance between central and regional governments
Law No. 1/1967	Foreign Investment
Law No. 3/1972	Transmigration
Law No. 47/1999	The Formation of Nunukan, Malinau, Kutai Barat and Kutai Timur Districts and Bontang Municipality
Law No. 25/1999	Fiscal Balance between Central and Regional Government
Law No. 22/1999	Regional Governments
Law No. 7/2002	The Formation of Penajam Paser Utara District
Law No. 33/2004	Fiscal Balance between Central and Regional Government
Law No. 32/2004	Regional Governments
Law No. 25/2004	National Development Planning System
Law No. 34/2007	The Formation of Tanah Tidung District
Law No. 28/2009	Local Taxes and Levies
Law No. 23/2014	Regional Government
Government Regulation No. 13/2002.	The Ranks of Echelon of Civil Servants
Government Regulation No. 10/2006	Financial Management of Regional Parliament
Government Regulation No. 110/2007	Fiscal Needs
Regional Regulation No. 15/2008	Regional Long-Term Development Plan and The Medium-Term National Development Plan
Government Regulation No. 13/2008	East Kalimantan's Financial Management
Interior Ministry Regulation No 22/2011	Preparation Guidelines for Regional Budget
Regional Regulation No. 12/2013	Mineral and Coal
Governor Regulation No. 2/2014	Additional Income of East Kalimantan Civil Servants
Governor Regulation No. 977/K.48/2014	Salary and Incentives